Insights into China’s Developing Country Status

MA Tao

As the international status of China as a rising power has been growing rapidly in the past 40 years, along with remarkable achievements in economic growth, China’s developing country status has been questioned by some Western developed countries. In January 2019, the US submitted to the WTO General Council the proposal An Undifferentiated WTO: Self-Declared Development Status Risks Institutional Irrelevance (WT/GC/W/757), presenting data arguing that China and some other developing countries had advanced to such an extent that they should be limited from being eligible for special and differential treatment and should give up their developing country status. During the WTO General Council meeting at the end of February, China and other developing countries hotly debated this issue with the US. China insisted that developing countries were confronted with mounting external tensions and their legitimate rights and interests in some international organizations and agreements had been constantly challenged. Against this background, it is critical to clarify China’s ongoing status as a developing country. Only after the real divide between China and developed countries has been clarified can China’s status as a developing country be secured.

Reasons why China is still a developing country

Since the reform and opening up, China has enjoyed greater economic

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power and rising international status. It became the world's second largest economy in 2010 and the world's largest merchandise trading country in 2013. Currently, it is the world's second largest military spender and has also increased spending in foreign aid and foreign investment. Hence, some western countries have started to question China's status as a developing country. As countries around the world develop dynamically, it is of utmost importance to factually and objectively assess the current stage of China's development. Considering China's current development stage and various key indicators, China is still a developing country and lags significantly behind developed countries.

Weaknesses and gaps actually exist despite remarkable economic growth

After 40 years of reform and opening up, China has experienced tremendous economic growth, and its overall economic strength and GDP ranks among the top in the world. Since its entry into the WTO, China has become the world's factory as its foreign trade is booming and more foreign investors target China. Meanwhile, the scale of Chinese enterprises "going out" is gradually increasing. By 2018, the value of China's foreign trade totaled USD4.62 trillion, a year-over-year increase of 12.6%; the value of China's foreign direct investment totaled USD129.83 billion, a year-over-year increase of 4.2%. Thus far, China is undergoing the transition from "Made in China" to "Designed in China" through industrial restructuring and upgrading.

However, China ranks low when looking at the per capita index. It ranked 70th in terms of GDP per capita at USD8,827, below the world's average of USD10,722; far behind Luxembourg at the top of the ranking with GDP per capita of around USD104,000, behind the US with GDP per capita of USD59,532, and behind South Korea with GDP per capita of USD29,743. In 2015, in terms of researchers in R&D per million people, the number in China was 1159, below the world's average of 1473, and below the 4313 in the US and 7113 in South Korea, indicating a big gap between China and the above developed countries in building pools of technical talent.

China is a big developing country in need of balanced development. Regional imbalances and inadequacies long caused by unequal development opportunities in the past have been exposed. In 2016, GDP per capita of high-income regions was twice that of upper-middle-income regions in China while GDP per capita in Beijing was four times that of Gansu Province. By the end of 2017, there were still 30.46 million poor people living in rural areas. Thanks to fast and more balanced economic growth in China, the gap in economic development across regions has been narrowed somewhat but is still large compared with the balanced economic growth in developed countries. 2016 data also revealed the wide income gap between urban and rural residents. In terms of income level nationwide, per capita disposal income of urban residents was 2.72 times that of rural residents. This is closely associated with the urbanization rate of 57.35% in China.

In addition, a comparison between China and the US and South Korea shows a sharp divide between China and developed countries in terms of economic, social, and industrial development. China, as a developing country, faces a long and uphill journey before catching up with developed countries. The comparison results and development trends are elaborated below.

Despite increased international responsibilities and rising international status, China needs to have more say

China has never evaded its international responsibilities consistent with its capacity and level of development. In light of China's growing contributions in major international organizations, China will assume more international responsibility as its strength increases. For example, China's contribution to the UN budget will probably increase from 7.921% to 12.005% between 2019 and 2021. Early 2016, after the International Monetary Fund (IMF) quota reform took effect, China became the third largest contributor to the IMF after the US and Japan. In April 2018, China's voting rights at the World Bank (WB) rose by 1.26 percentage points to 5.71%, making it the third most influential member state after the US and Japan. As the world's second largest economy and the world's biggest trader of goods, China has actively contributed to world economic growth since the global financial crisis and enhanced its comprehensive power and capacity to handle international affairs. Correspondingly, China will shoulder more responsibilities in international organizations dealing with international affairs.

Furthermore, China has more say and greater agenda-setting ability today. In recent years, more international conferences have been held and more initiatives announced in China, providing golden opportunities for enhancing China's agenda setting ability and gaining the initiative and say in establishing international rules. For example, China has made notable contributions to the Belt and Road Initiative (BRI), the conclusion of the Trade Facilitation Agreement, the development and cooperation among the BRICS countries (Brazil, Russia, India, China and South Africa), and the operation of multilateral cooperation mechanisms. Currently, China plays an irreplaceable role in effectively handling many international affairs and actively engages in world governance at regional and global levels. Against the background of constantly changing international rules and in response to the evolving global landscape and the demands of developing countries, it is necessary to reform and improve existing international rules to establish new agendas and new rules, during which China can enhance its agenda setting ability and gain more say in the international arena.

On the one hand, China has more say (quota); on the other, the US and other major developed countries have the final say in certain international organizations. Although China has become the third largest contributor to the IMF and the WB, it still lags way behind the US and Japan. China is also excluded from trade and investment agreements dominated by some developed countries due to their anti-globalization measures, revealing that China needs to further develop its ability to negotiate and bargain with developed countries.

Special and differential treatment is a right China enjoys as a developing country

Since the middle of the 20th century, China and other developing countries have been reasoning with developed countries and arguing for special and differential treatment. Some of the most impressive results include the Generalized System of Preferences (GSP), operated by developed countries, and the parallel exploitation of the international seabed area and its resources, stipulated by the United Nations Convention on the Law of the Sea. However, developed countries always try to push some developing countries to forego WTO developing country status based on rising economic status, adding ambiguity and uncertainty to the notion of developing country under the WTO system.

While China as a developing country assumes more international responsibilities, it should still enjoy special and differential treatment in international organizations and agreements. For example, the special and differential treatment as a cornerstone of the WTO allows developing countries more preferential treatment than developed countries in terms of market access, rules observation, and obligation implementation. Similarly, the principle of common but differentiated responsibility reflected in the Paris Climate Change Agreement requires members to act upon their own national conditions and capacity. China, India, and other developing countries should increase their emission reduction targets in light of respective national circumstances and gradually meet absolute emission reduction or limitation targets; while the US, European countries, and other developed countries continue to take the lead in emissions reduction by implementing absolute quantified emission reduction targets and providing developing countries with funding support. In this regard, the special and differential treatment enjoyed by developing countries under the WTO system is a part of multilateral trade history and rules and a right China as a developing country should have.

Both special and differential treatment and common but differentiated responsibility are preferential treatments given to developing countries after they have assumed their due responsibilities and obligations. As its responsibilities in international organizations, including the UN, IMF, and the WB, increase, China, as a developing country, deserves preferential treatment including greater market access, nonreciprocal market protectionism, and technical assistance to reduce the risks and problems it is facing amid increasing economic globalization, strengthening the endogenous power of China's economic growth, and effectively alleviating poverty and improving people's lives. In fact, special and differential treatment helps achieve common prosperity by not only stimulating the accelerated advancement of developing countries but also by bringing opportunities and profits to developed countries. Facing the classification of developing countries and graduation in the GSP put forward by developed countries, China firmly adheres to the principle of special and differential treatment.

Changing trend of China's developing country status shown in economic and social indicators

The US is a typical developed country in the world. South Korea is classified by the United Nations Conference on Trade and Development (UNCTAD) and the WTO as a developing country but classified as a developed country by the WB and IMF. Here, we look at six basic economic and social indicators to compare China, the US, and South Korea to analyze China's current international status and development trend in the future. The chosen indicators take into consideration the gap in capacity between developing and developed countries. From this viewpoint, China is still a developing country confronted with structural problems, a lack of balance, and sustainability. Thus, per capita indicators can reflect a country's real capacity better than aggregate indicators.

GNI (gross national income) per capita

In the World Development Report 2018, the WB uses GNI per capita to classify the world's 217 economies into four income groups: low income, lower-middle income, upper-middle income, and high income. In this report, there are 31 low-income economies with a GNI per capita of USD1,005 or less; 53 lower-middle-income economies with a GNI per capita between USD1,006 and USD3,955; 56 upper-middle-income economies with a GNI per capita between USD3,956 and USD12,235, and 77 high-income economies with a GNI per capita more than USD12,235.

The WB's statistics show that by 2017, GNI per capita was USD28,380 (current USD) in South Korea, USD58,270 in the US, and USD8,690 in China. According to the above-mentioned classification criteria, the US and South Korea are already high-income countries while China is an upper-middle income country. Judging from these concrete values, there is a wide gap between China and the other two countries. Due to its large population base and other special reasons, it is projected that China needs another 51 years (around 2068 taking 2017 as the current year) to catch up to the GNI per capita of the US. Although the GNI per capita in 2017 of South Korea was lower than that of the US, it was far higher than that of China. Meanwhile, South Korea's annual percentage growth rate of GDP per capita was also higher than that of China. Therefore, calculated mathematically, China's per capita GNI will never catch up to that of South

Korea. If the indicator of GNI per capita is used to measure its development stage, China as a developing country faces a bumpy and uphill journey over the long term.

GDP per unit of energy use

GDP per unit of energy use reflects the efficiency of energy use in a country's economic growth, that is, GDP per unit of energy use (PPP USD per kg of oil equivalent). The WB database contains the indicator of GDP per unit of energy use by country. In 2014, GDP per unit of energy use was 6.0USD per kg of oil equivalent in China, 6.4USD per kg of oil equivalent in South Korea, and 7.9USD per kg of oil equivalent in the US. The world's average level was 8.3USD per kg of oil equivalent. GDP per unit of energy use of all three countries was below the world's average level. The average growth rate from 1990 to 2014 was 4.3% in the world, 3.9% in the US, 2.2% in South Korea, and 6.7% in China. We can see that China's GDP per unit of energy use is relatively low but its growth rate is higher than the world's average and that of the US and South Korea, indicating that economic activities in China are significantly improving the efficiency of energy use and gradually approximating the level of middle-high-income countries (6.98 USD per kg of oil equivalent in 2014). Based on the exponential smoothing method and data of 2014 for reference, China will overtake the GDP per unit of energy use of the US in 11 years (around 2025) and that of South Korea in 2 years (around 2016 taking 2014 as the current year).

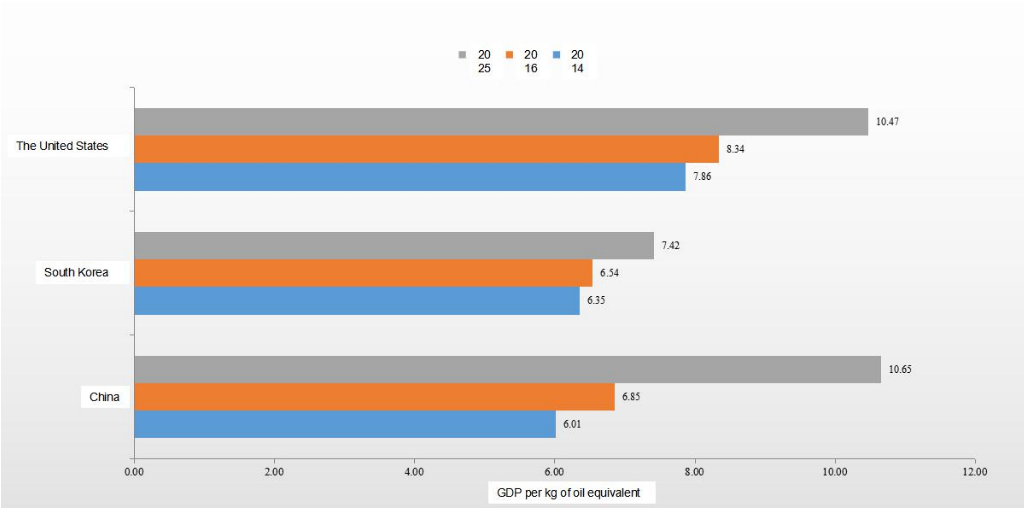

Figure 1 Trend in the changing GDP per unit of energy use in China, the US, and South Korea

Data source: the World Bank WDI database.

Note: predicted values for the years 2016 and 2025

The rate of urbanization

Commonly, the rate of urbanization is used to measure the percentage of urban population in total population. The World Development Indicators (WDI) captures countries' urban populations (% of total). In 2017, the rate of urbanization was 57.96% in China, 81.50% in South Korea, and 82.06% in the US, indicating a wide gap between China and the other two countries. For the period between 1990 and 2017, the average growth rate of urbanization was 2.95% in China, 0.37% in South Korea, and 0.32% in the US. Based on the exponential smoothing method and data of 2017 for reference, China will reach the urbanization level of South Korea in 19 years (around 2036 taking 2017 as the current year) and that of the US in 24 years (around 2041); the specific values and development trend are shown in Figure 2. Since the current urbanization rate and the growth rate of urbanization over the past 30 years in the US and South Korea have been approximately the same, it is likely that the urbanization rate of China will overtake that of the US and that of South Korea around 2031 at a high speed.

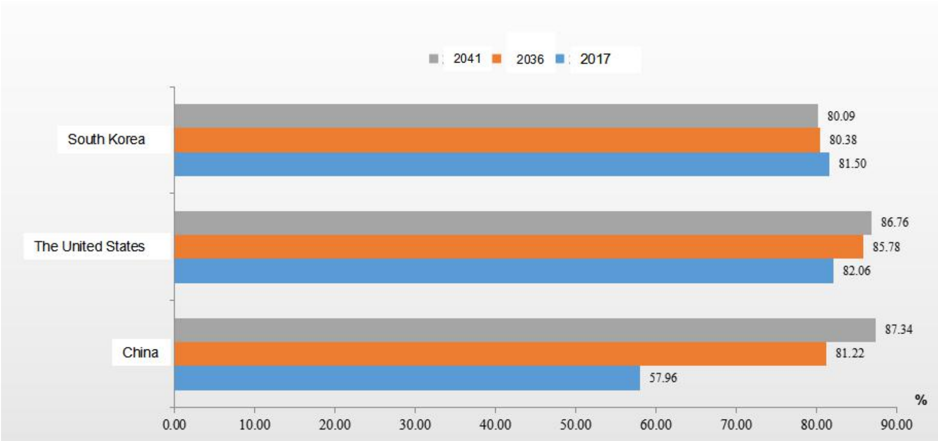

Figure 2 Trend in the changing rate of urbanization in China, the US, and South Korea

Data source: the World Bank WDI database.

Note: predicted values for the years 2036 and 2041.

Human Development Index (HDI)

The United Nations Development Program (UNDP) created the HDI to rank countries into four tiers of human development. While the WB uses per capita income as the only indicator, HDI is a statistical composite index of life expectancy, education, and per capita income indicators to assess the level of human development in countries. Among 188 countries and territories, 51 countries with an HDI value above 0.800 are considered to have very high human development; 54 countries with an HDI value between 0.700 and 0.799 are considered to have high human development; 42 countries with an HDI value between 0.550 and 0.699 are considered to have medium human development; and 41 countries with an HDI value below 0.55 are considered to have low human development (UNDP, 2016).

According to the UNDP's HDI ranking for 2017, China ranked 86th (HDI value 0.752) in the high human development category. The US ranked 13th (HDI value 0.924) and South Korea ranked 22nd (HDI value 0.903), both in the very high human development category. Between 1990 and 2017, China's HDI value increased by 1.51% on average, while the average growth rate was 0.27% for the US and 0.8% for South Korea. Based on the exponential smoothing forecasting method and data of 2017 for reference, China will overtake South Korea in 51 years (around 2068 taking 2017 as the current year) and the US in 58 years (around 2075) to rank in the very high human development category. Since the HDI value in South Korea increased more rapidly than that in the US, it will take less time for China to overtake the US than South Korea.

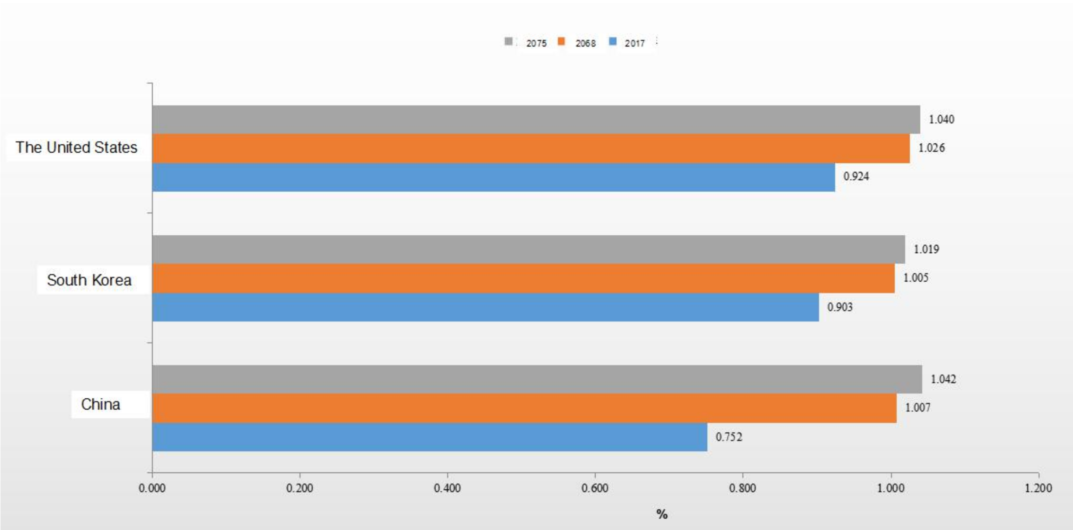

Figure 3 Trend in the changing HDI value in China, the US, and South Korea

Data source: the UNDP database

Note: predicted values for the years 2068 and 2075

Global Competitiveness Index (GCI)

The GCI was introduced by the World Economic Forum in 2005 and consists of a set of institutions, policies, and factors that determine the level of productivity of a country. The GCI analyzes the competitiveness of the world's economies along 12 pillars: legal and administrative structure, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation.

According to the GCI 2017-2018 rankings for 137 economies, the US ranked 2nd, one position up from the prior year's report. South Korea remained in the same position and ranked 26th, and China ranked 27th, one position up from the prior year. The trend indicates that the GCI score of the US will change very slightly; the score of South Korea will decrease slightly; and the score of China will increase slightly. Across 12 pillars, China leads the market size pillar, ranking 1st, and ranked 17th in the macroeconomic environment pillar, but ranked low in the remaining 10 pillars, with the lowest being 73rd in technological readiness pillar, showing that China still lags too far behind the US in technological readiness, financial market development, and some other indicators.

Value added (% of GDP) by industry

Industrial restructuring reflects a country's trajectory of economic growth and level of progress. When comparing contribution of three industries' added value to GDP in China, the US, and South Korea, secondary industry in China contributes much more to GDP than in the US and in South Korea. Further, the value added of the tertiary industry in the US and South Korea was, respectively, about 30 and 10 percentage points higher than that in China. The development of the tertiary industry alone highlights the large divide in industrial structure between China and the other two countries.

The contribution of these three industries to GDP in China is changing structurally. Most noticeably, the value added of the tertiary industry is steadily increasing while that of the secondary industry is gradually decreasing. South Korea’s industrial structure is basically stable with the value added of its tertiary industry remaining around 60%, although starting to decline slightly. The value added of the tertiary industry in the US remains high and tends to be stable while that of its primary and secondary industries tends to be slightly lower. In terms of the value added of the tertiary industry between 2006 and 2016, it grew, on average, by 2.14% in China, by 0.37% in the US, and shrank by 0.076% in South Korea. Following these speeds, the value added of the tertiary industry in China will overtake that in the US in 26 years (around 2042 taking 2016 as the current year) and overtake that in South Korea in 6 years (around 2023). Table 1 shows the timing when the value added of the tertiary industry in China will overtake that in the US and in South Korea and the corresponding value added.

In the agriculture sector, since China’s entry into the WTO, China lost all of its non-tariff measures for agricultural products, leaving tariffs as the only way to protect its national market. Since tariffs in China are set at a low level and provide very limited protection for China’s agricultural sector, China sticks to its developing country status as non-agricultural sectors and service industries are hardly affected by this status. In the manufacturing and service industries, China has achieved rapid progress in recent years, and some industry branches have gained competitive advantages in the global market.

Table 1 Three industries' value added in China, the US, and South Korea and development trend (% of GDP)

	The United States			South Korea			China		
Year	Primary industry, value added (% of GDP)	Secondary industry, value added (% of GDP	Tertiary industry, value added (% of GDP	Primary industry, value added (% of GDP	Secondary industry, value added (% of GDP	Tertiary industry, value added (% of GDP	Primary industry, value added (% of GDP	Secondary industry, value added (% of GDP	Tertiary industry, value added (% of GDP
2042	-	-	88.32	-	-	58.54	-	-	89.48
2030	-	-	84.49	-	-	59.08	-	-	69.41
2023	-	-	82.33	-	-	59.39	-	-	59.84
2016	0.86	18.91	80.23	2.20	38.60	59.20	8.6	39.8	51.6
2015	0.97	19.49	79.54	2.31	37.98	59.71	9.0	40.5	50.5
2014	1.17	20.34	78.49	2.33	38.06	59.61	9.1	43.1	47.8
2013	1.33	20.23	78.45	2.34	38.41	59.25	9.3	44.0	46.7
2012	1.15	20.06	78.79	2.46	38.07	59.47	9.4	45.3	45.3
2011	1.27	20.14	78.59	2.52	38.38	59.1	9.4	46.4	44.2
2010	1.07	19.85	79.08	2.47	38.27	59.26	9.5	46.4	44.1
2009	0.95	19.73	79.31	2.59	36.68	60.73	9.8	45.9	44.3
2008	1.05	20.10	77.85	2.51	36.28	61.21	10.3	46.9	42.8
2007	0.98	21.54	77.48	2.71	37.01	60.28	10.3	46.9	42.8

2006	0.93	21.69	77.38	2.99	36.86	60.15	10.6	47.6	41.8

Data source: National Bureau of Statistics of China, the World Bank, and other international organizations.

Note: data after the year 2016 are predicted.

Conclusion and policy recommendations

Judging from the six basic macroeconomic and social indicators, China still lags behind the US and South Korea, and this gap is more obvious in terms of per capita indicators and wider in terms of financial market development and technological readiness on the global competitiveness index. It will take years before China extricates itself from developing country status and reaches the level of developed countries. Thus, China should take a five-pronged approach to the developing country status as follows.

First, China should stick to the developing country status to take on international responsibilities effectively and receive preferential treatment in the corresponding development stage. Nevertheless, from China's entry into the WTO, the special and differential treatment it receives has been reduced significantly and restricted by developed countries. The US and European countries have been confronting China, India, and other members in terms of developing country status and special and differential treatment, and are unlikely to compromise in the short term. Since the basis for applying special and differential treatment to developing countries has never changed, China should stick to the principle of special and differential treatment in international organizations and agreements.

Second, China should prudently consider proposals put forward by developed countries relating to “classification” among developing countries and “graduation clause” in the GSP. These proposals are intended to reduce possible threats and restrict or reduce the preferential treatment granted to developing countries after they achieve growth. China should keep a close eye on the progress of re-classifying developing countries and actively address these challenges.

Third, as its responsibilities in international organizations, including the UN, IMF, and the WB, increase, China, as a developing country, deserves preferential treatment including more market access, nonreciprocal market protectionism, and technical assistance to reduce the risks and problems it is facing amid increasing economic globalization, strengthening the endogenous power of its economic growth, and effectively alleviating poverty and improving people’s lives. In fact, special and differential treatment helps achieve common prosperity by not only stimulating the speed of advancement in developing countries but also by bringing greater opportunities and profits to developed countries.

Fourth, developing country is not a shield for China to evade international responsibilities, nor is it a tool to get preferential treatment. It is the current stage of development China is facing, and the goal is to complete this stage in the future. China needs to strengthen its hard power and soft power in the macroeconomy, in social development and industrial transformation and upgrading to enhance capacity building, and locate and fill the gaps between it and developed countries to catch up with and surpass these developed countries.

Fifth, China should strive for the established goal without being affected by developed countries' re-classification proposals and continue to increase the speed and improve the quality of its economic growth. Facts show that there is a wide gap between China and developed countries in terms of per capita income, level of development, economic structure, balance of regional development, and global competitiveness. In the process of catching up with developed countries, China as a responsible developing country, should assume its international responsibilities and, at the same time, never give up the preferential treatment it is due.