The Heritage Foundation

ISSUE BRIEF

No. 5308 | MARCH 22, 2023

MARGARET THATCHER CENTER FOR FREEDOM

The U.S. Must Challenge China's Status as a Developing Country in International Organizations and Treaties

Brett D. Schaefer

KEY TAKEAWAYS

The U.S. should ensure that economically competitive nations, such as China, do not profit from benefits and different standards intended to assist poor nations.

China is no longer poor, but it maintains "developing country" status in international organizations and treaties, allowing it to benefit from special provisions.

The U.S. should seek to restrict developing country benefits in international organizations and treaties to countries categorized as lower-middle-income or below.

By any measure, China is a strong economic power. Yet, China is treated as a developing country in international organizations like the United Nations. This status allows China to benefit within these organizations and in many treaties from provisions meant to benefit poor, developing nations that would otherwise struggle to meet their obligations.

China *was* a low-income country, but it no longer is. The U.S. should take steps to ensure that these benefits do not aid wealthy powerful nations like China, but target poor nations as intended. In addition, the U.S. should ensure that China does not benefit from treaty provisions and other measures that advantage its economy over those of the U.S. and other developed nations.

The Heritage Foundation | 214 Massachusetts Avenue, NE | Washington, DC 20002 | (202) 546-4400 | heritage.org

China's Economic Shift

China's economic evolution has been remarkable. In 1990, China was a low-income country with a per capita gross national income (GNI) of $330 and, with a GNI of $374 billion, accounted for less than 1.7 percent of world GNI.[1] Chinese imports and exports were roughly 1 percent of global trade, and foreign direct investment (FDI) inflows and outflows were a similarly small fraction of global FDI.

Today, China's economy rivals or surpasses the economies of developed countries. According to the World Bank, China had the second-largest economy in the world in 2021 with a GNI of $16.8 trillion, trailing only the U.S. at $23.5 trillion, and accounted for 17.7 percent of world GNI.[2] When converted to purchasing power parity, China claims the top spot, surpassing the U.S.

With a GNI per capita of $11,880 in 2021, China ranks in the top third of all U.N. member states and just $45 under the average world GNI per capita.[3] This places China in the upper end of the "upper-middle-income" group of countries as defined by the World Bank—nearly in the high-income group, which starts at $13,205 GNI per capita.[4] However, this number is understated, as the World Bank does not include data for Hong Kong and Macao—both high-income territories—in its data for China.[5]

China is also one of the world's most economically active countries, with imports of $3.09 trillion and exports of $3.55 trillion in 2021 according to the World Bank. These imports and exports accounted for 11.47 percent of world imports and 12.75 percent of world exports.[6] Chinese outward flows of FDI in 2021 totaled $128 billion (8 percent of the global total) and inward flows of FDI in 2021 totaled $333 billion (21 percent of the global total).[7] China has made foreign investment a national priority through its Belt and Road Initiative. A comprehensive dataset by AidData tabulates "13,427 projects worth $843 billion financed by more than 300 Chinese government institutions and state-owned entities across 165 countries in every major region of the world."[8]

China has also shifted from development-assistance recipient to donor. Although data is scarce because Beijing considers its aid allocations to be sensitive, reports indicate that Chinese assistance is significant, rivalling that provided by many Organization for Economic Co-operation and Development (OECD) donor nations. A 2022 International Monetary Fund paper cited a Chinese white paper reporting $41.6 billion in assistance provided between 2013 and 2018.[9] The China Africa Research Initiative at Johns Hopkins reports Chinese aid at roughly $3 billion per year, with nearly half going to African nations,[10] which would place it in the upper third of OECD nations—roughly equivalent to Australia, Denmark, and Spain in terms of official development assistance.[11]

In short, China may have deserved classification as a developing country three decades ago. But no longer.[12] Economically, China is a power equivalent to countries considered developed by the U.N. and the World Bank. In practice, it has shifted from petitioner to provider in terms of assistance and investment.

Gaming the System

Despite its economic stature, China is still classified as a developing country for U.N. statistical purposes.[13] This status conveys financial benefits to China. For instance, when allocating the costs of the organization among the member states, the U.N. applies several discounts for developing countries, including an adjustment for debt and low per capita income. For China, these discounts reduce its regular budget assessment by more than two percentage points, which lowers its annual regular budget assessment. After other adjustments are taken into account, China's regular budget assessment was more than $48 million lower in 2023 than it would be if based solely on its share of world GNI.[14] In fact, most of the benefits of these relief measures, intended to help poor nations, went to wealthy "developing" nations like Brazil and China that the World Bank classified as upper-middle-income.[15]

In addition, as a "developing" country, China benefits from more lax treatment in several treaties. Since the adoption in 1992 of the Rio Declaration on Environment and Development and the U.N. Framework Convention on Climate Change (UNFCCC), the U.N. has incorporated the principle of Common but Differentiated Responsibilities and Respective Capabilities into its environmental treaties. For instance, the UNFCCC states:

> The Parties should protect the climate system for the benefit of present and future generations of humankind, on the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities. Accordingly, the developed country Parties should take the lead in combating climate change and the adverse effects thereof.[16]

This principle is applied by separating nations into different groups with differing obligations. The UNFCCC, for instance, assigns developed countries and economies in transition (former Soviet nations) to Annex I.

Annex II consists of those OECD members listed in Annex I and requires them to assist non-Annex I countries (developing countries) in reducing greenhouse gas emissions and adjusting to the impact of climate change. This principle has been applied to subsequent environmental agreements, such as the Kigali Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer. Sometimes nations are specifically identified in annexes, sometimes they are more broadly categorized as "developing" and "developed" nations.

China is considered a developing country for the purposes of these treaties and, thereby, can benefit from provisions in these agreements meant to assist developing nations in meeting their obligations. For instance, the Kigali Amendment requires developed nations to phase down by 85 percent production and consumption of hydrofluorocarbons by 2036, but adds 10 years to that deadline for developing nations, including China.[17] The Paris Agreement specifically notes that "[t]his Agreement will be implemented to reflect equity and the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances" and that developed country parties are obligated to provide financial resources to developing countries for implementation of the agreement.[18] The recently negotiated High Seas Treaty similarly calls for the benefits arising from activities addressed by the treaty to "be shared in a fair and equitable manner," provide capacity-building and the transfer of marine technology, and financial support to developing nations.[19]

Similarly, China has declared itself a developing country in the World Trade Organization (WTO), which grants "special and differential treatment" to developing nations, such as longer transition periods to implement some WTO commitments and commitments from developed countries to increase trading opportunities for developing countries.[20] In late 2021, China announced that it would remain a developing country in the WTO but would forego some benefits of that status. The timing and extent of implementation was unclear.[21] China's own subsidies and market interventions in areas such as agriculture—which China wishes to continue[22]—have been harmful to other developing countries.[23]

Recently, there has been an attempt to extend this principle beyond environmental agreements. For instance, the World Health Organization's (WHO's) "zero draft" of a new treaty on pandemic prevention, preparedness, and response, called WHO CA+, includes the concept of "common but differentiated responsibilities" among nations.[24] The U.S. opposes this language, but it is still unclear if it will be included in the final draft.[25] If the language is retained, China will likely benefit from treaty provisions committing developed nations to incentivize transfer of technology and know-how to developing countries, support waiving intellectual property rights to grant the use of intellectual property to developing countries, and ensure "equitable distribution" of pandemic-related products to developing countries.[26]

Recommendations for the United States

While China may have merited treatment as a developing country in the early 1990s when the principle of common but differentiated responsibilities was established, it no longer does. Specifically, the U.S. should:

- **Seek adjustment to the relief measures in the U.N. Scale of Assessment.** The U.N. scale of assessment allocates the expenses of the U.N. regular budget among the member states. Many U.N. specialized agencies also use the scale as the basis for their own assessments. The basis for the assessment is a nation's share of world GNI, but several adjustments are made to arrive at the final assessment including reductions for debt (for all countries except high-income countries) and low per capita income. These adjustments, known as relief measures, were originally intended to benefit poor developing countries facing challenges in meeting their assessments. However, middle-income countries that have ample resources to meet their obligations currently benefit most from these relief measures. This is especially the case for upper-middle-income countries like China. The U.S. should seek to restrict application of relief measures to lower-middle-income, low-income, and least-developed countries (LDCs) defined by the World Bank and the U.N., that is, those with a per capita GNI below $4,255 per year.[27]

- **Oppose language in any treaty that applies "common but differentiated responsibilities" to upper-middle-income countries.** Considering the remarkable pace and level of development not just in China but in many developing countries, the whole concept of "common but differentiated responsibilities" needs reconsideration. In any current or future treaty negotiations, the U.S. should demand that references to "common but differentiated responsibilities" be restricted to countries of lower-middle-income, low-income, and LDC status. In addition, the Senate should only grant advice and consent for ratification of any treaty with such language if it is accompanied by a reservation or condition that the treaty precludes treatment of China as a developing country or defines developing countries as lower-middle-income countries, low-income countries, and LDCs. The increasingly common practice of treaties prohibiting reservations and exceptions[28] will require the U.S. to demand that this definition or clarification be explicit in the treaty text. Unless this is done, the U.S. should not ratify or otherwise enter into an agreement with different obligations or treatment of the parties based on level of development.

- **Seek to restrict developing-country benefits in other international organizations and treaties to countries categorized as lower-middle-income or below.** In addition, the U.S. should seek clarification in international organizations and treaties that differentiate between developing and developed countries to "graduate" China to the same category as the U.S. and other developed countries so that they are on an even playing field in terms of obligations and economic treatment. There is precedent for applying such adjustments in international organizations. For instance, the World Bank "graduates" countries from eligibility for International Development Association (IDA) grants when they exceed a certain per capita income level. China graduated from IDA eligibility in 1999.[29] The World Bank also has a graduation policy for the International Bank for Reconstruction and Development (IBRD) starting well below the threshold for high-income countries.[30]

Similarly, the WTO phases out preferential treatment for nations that graduate from the status of "least developed country."[31] The WTO does not, however, have a definition of developing county, relying instead on self-selection. The U.S. should propose that the WTO define "developing country" as lower-middle-income and low-income countries as categorized by the World Bank. For treaties, the process can be more rigid. Sometimes clarifying eligibility for preference or different treatment as a developing country might be possible as part of the process for ratifying an amendment or protocol to an existing treaty,[32] but other cases may require seeking formal amendment of treaties in force. The first step in this process, as has been proposed in legislation,[33] is establishing a baseline by demanding that the Department of State report on current or prospective treaties that apply different standards for the enforcement or obligations based on the development status of the member states.

Conclusion

China has a well-established record of manipulating the international system to its benefit and continues to use its historical status as a developing country to its benefit—even though it is an economic power rivaling the U.S. While China is the main concern, other relatively wealthy nations similarly benefit from measures intended to assist poor nations. The concept of "common but differentiated responsibilities" needs reconsideration and limitation to ensure that it targets nations that truly need special consideration. It is incumbent on the U.S. and like-minded countries to push back and ensure that wealthy, economically competitive nations like China do not profit from benefits and different standards intended to assist poor nations.

Brett D. Schaefer is Jay Kingham Senior Research Fellow in International Regulatory Affairs in the Margaret Thatcher Center for Freedom at The Heritage Foundation.

Endnotes

1. The World Bank, "DataBank: World Development Indicators," https://databank.worldbank.org/source/world-development-indicators (accessed March 16, 2023).
2. Ibid.
3. Ibid.
4. The World Bank, "Data: World Bank Country and Lending Groups," https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups (accessed March 16, 2023).
5. The World Bank and other international organizations consider these territories to be part of China but report the territories' economic data separately. The World Bank does not list Taiwan as a separate country, but also does not include its economic data in the overall data for China. Taiwan's economic data is, however, included in the world aggregate. The World Bank, "DataBank: World Development Indicators (Metadata: People's Republic of China)," DataBank, https://databank.worldbank.org/source/world-development-indicators (accessed March 16, 2023), and The World Bank, "Data: Where Are Your Data on Taiwan?" https://datahelpdesk.worldbank.org/knowledgebase/articles/114933-where-are-your-data-on-taiwan#:~:text=Taiwan%2C%20China%2C%20is%20not%20listed,the%20high%2Dincome%20countries%20aggregate (accessed March 16, 2023).
6. The World Bank, "DataBank: World Development Indicators."
7. Organization for Economic Co-operation and Development, "Foreign Direct Investment Statistics: Data, Analysis and Forecasts," data download for January 2023, https://www.oecd.org/daf/inv/investment-policy/FDI-in-Figures-January-2023.xlsx (accessed March 16, 2023).
8. AidData, "AidData's Global Chinese Development Finance Dataset, Version 2.0," https://www.aiddata.org/data/aiddatas-global-chinese-development-finance-dataset-version-2-0 (accessed March 16, 2023).
9. Pierre Mandon and Martha Tesfaye Woldemichael, "Has Chinese Aid Benefited Recipient Countries? Evidence from a Meta-Regression Analysis," International Monetary Fund *Working Paper* No. WP/22/46, February 2022, p. 4, https://www.imf.org/-/media/Files/Publications/WP/2022/English/wpiea2022046-print-pdf.ashx (accessed March 16, 2023).
10. China Africa Research Initiative, "Data: Chinese Global Foreign Aid," Johns Hopkins School of Advanced International Studies, http://www.sais-cari.org/data-chinese-global-foreign-aid (accessed March 16, 2023).
11. Organization for Economic Co-operation and Development, "Data: Net ODA," https://data.oecd.org/oda/net-oda.htm (accessed March 16, 2023).
12. China has defended its status, arguing that many Chinese remain in poverty, but many developed nations also have large internal income disparities among different regions or populations.
13. The U.N. Statistical Division notes: "There is no definition of developing and developed countries (or areas) within the UN system. However, in 1996 the distinction between 'Developed regions' and 'Developing regions' was introduced to the Standard country or area codes for statistical use (known as M49). These groupings were intended solely for statistical convenience at the time and did not express a judgement about any country's or area's stage of development." The classification, however, is used in many parts of the organization. See, for instance, United Nations, "World Economic Situation and Prospects 2023," January 25, 2023, Statistical Annex, Table C: Developing Economies by Region, p. 118, https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-2023/ (accessed March 16, 2023).
14. United Nations, "Report of the Committee on Contributions," 81st session, A/76/11, June 7–July 2, 2021, p. 36, https://www.un.org/en/ga/contributions/previousrpts.shtml (accessed March 16, 2023), and United Nations General Assembly, "Proposed Programme Budget for 2023," A/77/672, December 30, 2022, p. 7, https://documents-dds-ny.un.org/doc/UNDOC/GEN/N23/006/67/PDF/N2300667.pdf (accessed March 16, 2023).
15. United Nations, "Report of the Committee on Contributions," 81st session, p. 21.
16. United Nations Framework Convention on Climate Change, "Article 3: Principles," p. 4, https://unfccc.int/resource/docs/convkp/conveng.pdf (accessed March 16, 2023).
17. Nicolas D. Loris and Brett D. Schaefer, "The Kigali Amendment Offers Little Benefit to the Climate, Great Cost to the U.S. Economy," Heritage Foundation *Backgrounder* No. 3309, April 30, 2018, https://www.heritage.org/environment/report/the-kigali-amendment-offers-little-benefit-the-climate-great-cost-the-us-economy.
18. United Nations, "Paris Agreement," Article 2, 2015, https://unfccc.int/sites/default/files/english_paris_agreement.pdf (accessed March 16, 2023).
19. United Nations General Assembly, "Draft agreement under the United Nations Convention on the Law of the Sea on the conservation and sustainable use of marine biological diversity of areas beyond national jurisdiction," March 4, 2023, Articles 11, 14, 43–45, and 52, https://www.un.org/bbnj/sites/www.un.org.bbnj/files/draft_agreement_advanced_unedited_for_posting_v1.pdf (accessed March 16,2023).
20. World Trade Organization, "Special and Differential Treatment Provisions," https://www.wto.org/english/tratop_e/devel_e/dev_special_differential_provisions_e.htm (accessed March 16, 2023).

21. For instance, in June 2022, China's minister of commerce, Wang Wentao, stated, "China's status as the world's largest developing country remains unchanged. As we uphold China's position as a developing country, we will approach special and differential treatment voluntarily and practically, in keeping with the principle of balanced rights and obligations and in line with the level and capacity of China's economic development." World Trade Organization, "Statement by H.E. Mr. Wang Wentao Minister of Commerce," WT/MIN(22)/ST/35, June 12, 2022, https://www.wto.org/english/thewto_e/minist_e/mc12_e/statements/ST35.pdf (accessed March 16, 2023).
22. Emma Farge, "Exclusive: Envoy Says China Will Forego Many 'Developing Country' Benefits at WTO," Reuters, December 10, 2021, https://www.reuters.com/markets/commodities/exclusive-envoy-says-china-will-forego-many-developing-country-benefits-wto-2021-12-10/ (accessed March 16, 2023).
23. Kristen Hopewell, "The Impact of China's Trade Policies on Global Development: Agriculture and Fisheries Subsidies," Wilson Center, June 1, 2022, https://www.wilsoncenter.org/publication/impact-chinas-trade-policies-global-development-agriculture-and-fisheries-subsidies (accessed March 16, 2023).
24. World Health Organization, "Zero Draft of the WHO CA+ for the Consideration of the Intergovernmental Negotiating Body at Its Fourth Meeting," February 1, 2023, https://apps.who.int/gb/inb/pdf_files/inb4/A_INB4_3-en.pdf (accessed March 16, 2023).
25. "We do not support 'common but differentiated responsibilities and capabilities.' This concept is not appropriate in the context of pandemic PPR [prevention, preparedness, and response]. We look forward to seeking common ground to best ensure universal application while also ensuring capacities are strengthened so that countries can meet their obligations." U.S. Department of State, "Statement by Ambassador Pamela Hamamoto World Health Organization (WHO) Fourth Meeting of the Intergovernmental Negotiating Body (INB)," February 27, 2023, https://www.state.gov/statement-by-ambassador-hamamoto-who-fourth-meeting-of-the-inb/ (accessed March 16, 2023).
26. Brett D. Schaefer and Steven Groves, "Why the U.S. Should Oppose the New Draft WHO Pandemic Treaty," Heritage Foundation *Issue Brief* No. 5306, February 27, 2023, https://www.heritage.org/sites/default/files/2023-02/IB5306.pdf.
27. For 2023, low-income economies are defined as those with a GNI per capita of $1,085 or less in 2021 and lower-middle-income economies are those with a GNI per capita between $1,086 and $4,255. World Bank, "Data: World Bank Country and Lending Groups."
28. For instance, Article 25 of the WHO CA+ states, "No reservations or exceptions may be made to this WHO CA+ unless expressly permitted by other articles of this WHO CA+." By itself, these types of prohibitions should offend the Senate as an infringement on its constitutional authority and past practice of granting advice and consent with relevant reservations, understandings, and declarations.
29. The World Bank, "IDA Graduates," https://ida.worldbank.org/en/about/borrowing-countries/ida-graduates (accessed March 16, 2023).
30. Organization for Economic Co-operation and Development, "IBRD Graduation," https://www.oecd.org/dac/transition-finance-toolkit/IBRD-graduation.pdf (accessed March 16, 2023).
31. World Trade Organization, "Graduating from Status of Least-Developed country (LDC)," https://www.wto.org/english/tratop_e/devel_e/graduation_ldc_status_e.htm#:~:text=Path%20to%20graduation&text=Ten%20are%20WTO%20members%3A%20Angola,two%20are%20Kiribati%20and%20Tuvalu (accessed March 16, 2023).
32. See, for instance, the amendment offered by Senator Mike Lee (R–UT) to the resolution of Advice and Consent to the Ratification of the Kigali Amendment: Office of Senator Mike Lee, "Purpose: To Ensure that the People's Republic of China Is Not Treated as a Developing Country," 117th Cong. 2nd Sess., https://www.lee.senate.gov/services/files/F8A09C96-F764-4F5E-88DB-880824ED5B0B (accessed March 16, 2023).
33. See S. 308, Ending China's Developing Nation Status Act, 118th Cong., 1st Sess., https://www.congress.gov/bill/118th-congress/senate-bill/308?q=%7B%22search%22%3A%5B%22china+developing+country%22%5D%7D&s=1&r=1 (accessed March 16, 2023), and H.R. 1107, PRC Is Not A Developing Country Act, 118th Cong., 1stst Sess., https://www.congress.gov/bill/118th-congress/house-bill/1107?q=%7B%22search%22%3A%5B%22H.R.+1107%22%5D%7D&s=1&r=2 (accessed March 16, 2023).