The developing country status of China and India at the WTO is largely justified

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Outlook

Summary

The present paper attempts to clarify the issue of self-determination of the WTO status of each Member as a developed country or developing country (DC), which has been challenged mainly by the US, followed by the EU, against China and India.

In her inaugural speech of 13 February 2021, the WTO new Director General, Dr Ngozi Okonjo-Iweala, said she wanted to take the WTO preamble seriously: "*The preamble of the Marrakesh Agreement states that the objectives of the WTO are to raise living standards, ensure full employment, raise incomes… The WTO is about people! It's about decent work!*". And, on 26 April 2021, she said that one of her three priorities will be to tackle agricultural subsidies, mostly given by developed nations including the US and the EU. It is why this paper makes its comparisons on a per capita basis of six WTO Members: four Western Members – USA, EU28, Canada, Japan –, China and India in 2019 and 2020, on five issues: income and wages; social performance; environmental performance; trade performance and agricultural support.

On all these issues China and India are justified to claim their developing country status. In few words: 1) the US per capita income at PPP (purchasing power parity) was in 2019 3.6 times higher than that of China and 9.3 times higher than that of India; 2) the Inequality-adjusted Human Development Index of the US and EU was 22% larger than that of China and 44% larger than that of India; 3) the cumulative CO_2 emissions of the US was twice that of China and 8.3 times that of India while those of the EU were 1.8 times that of China and 7.7 times that of India; 4) per capita US exports of all products were 2.4 times larger than those of China in 2020 and 21.7 larger than those of India and per capita US food exports were 9.5 times higher than those of China and 17.3 times higher than those of India; 5) the total agricultural support per agricultural working unit (AWU) was 8.3 times that of China for the US and 2.3 times for the EU28, and it was 11.1 times that of India for the US and 3.1 times dia for the EU28.

However, this justification of China's and India's status as developing economies should not be seen as an endorsement of many other aspects of their policies both internally – particularly in terms of democratic functioning and the denial of human rights, especially of Muslims in both countries – and externally, notably the development of Chinese economic imperialism with the Silk Road, especially the risk of economic dependence on Africa through the debt problem.

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Introduction

The present paper attempts to clarify the issue of self-determination of the WTO status of each Member as a developed country or developing country (DC), which has been challenged mainly by the US, followed by the EU, against China and India, by comparing available official data of six WTO Members: four Western Members – USA, EU28, Canada, Japan –, China and India in 2019 and 2020.

In her inaugural speech of 13 February 2021, the WTO new Director General, Dr Ngozi Okonjo-Iweala, said she wanted to take the WTO preamble seriously: "*The preamble of the Marrakesh Agreement states that the objectives of the WTO are to raise living standards, ensure full employment, raise incomes, expand production and trade in goods and services, and seek the optimal use of the world's resources in accordance with the objective of sustainable development. The preamble says it all! The WTO is about people! It's about decent work! Let's put its overarching objective at the forefront as the driving force behind everything we seek to achieve for the multilateral trading system… The WTO's work in new or innovative areas does not mean that traditional topics such as agriculture are forgotten. Agriculture is particularly important for many developing and least developing countries. Improving market access for export products of interest to these countries is of paramount importance, as is dealing with trade distorting domestic support. The growing domestic support entitlements of Members must be addressed to level the playing field, so as to provide opportunities for small scale farmers*"[1]. And, in a videoconference organized by the European Commission on 26 April 2021, "*Okonjo-Iweala said that one of her three priorities for this year will be to tackle agricultural subsidies, which are mostly given by developed nations including the US and the EU… She said Beijing wants to see progress on agricultural subsidies, which currently represent around €1 trillion and could double by 2030. "I would like to look at subsidies across the board" and see how "from all perspectives we are creating a level playing field" the WTO chief said*"[2].

Taking Dr Ngozi Okonjo-Iweala seriously that WTO is about people, comparisons will be made essentially on a per capita basis. These analyses will cover five issues: income and wages; social performance; environmental performance; trade performance and agricultural support. On all these issues China and India are justified to claim their developing country status. To facilitate the reading of the paper, all detailed tables are transferred in Annexes.

I – Macro-economic indicators of the US, EU28, Japan, Canada, China and India

As macroeconomic indicators for the EU28 are not available but only for the Eurozone, we use the data for the three main countries: Germany, France, United Kingdom (UK), together with the US, Japan, Canada, China and India. Table 1 shows that the US per capita income at PPP (purchasing power parity) was in 2019 3.6 times higher than that of China and 9.3 times higher than that of India. In per capita nominal GDP the US level was 5.8 times higher than that of China and 31.2 times that of India. And the US average wage at PPP was 3.4 times higher in 2019 than in China and 8.1 times than in India.

[1] https://www.wto.org/english/news_e/news21_e/dgno_15feb21_e.pdf

[2] https://www.euractiv.com/section/economy-jobs/news/wto-chief-targets-eus-farm-policy-as-part-of-global-discussion-on-subsidies/

Employment in agriculture (without forestry and fishing) was 18.1 times higher in China than in the US in 2019 and 40.4 times higher in India.

Clearly those macro-economic indicators justify the developing country status of China and India at the WTO.

II – Social performance

Table 2 rests mainly on the UNDP (United Nations Development Programme)'s Human Development Index (HDI) which is a statistic composite index of life expectancy, education and per capita income, used to rank countries on human development. The Inequality-adjusted Human Development Index (IHDI) is the actual level of human development accounting for income inequality. The unweighted average HDI of the 6 developed countries of 0,926 in 2019 (which was also that of the US and of the three EU countries) was 21.7% larger than that of China and 43.6% larger than that of India. And the US IHDI was 26.4% larger than that of China and 70.1% than that of India.

In fact the US income distribution is more unequal than in China and India if we compare the income share of the 1% richest and of the 40% poorest: in the US the 1% richest gets 20.5% of national income while the 40% poorest get 15.4%, a gap of 5.1% between the two. In China the 40% poorest get 17.2% of national income and the 1% richest 13.9%, a gap of 3.3% between the two. And, if in India the 1% richest gets 21.3% of national income (more than in the US) against 18.8% for the 40% poorest, the gap between the two is of only 2.5%. At least, apart from the US the two indicators of income inequality are lower in the other 5 Western countries than in China and India.

Even if the US life expectancy at birth and maternal and infant (less than one year old) mortality rates in 2019 are significantly higher than in the three EU countries, Canada and Japan, they are much lower than in China and India. The US maternal mortality at birth was 65.5% of that of China and 14.3% of that of India and the US infant mortality rate was 75.7% of that of China and 18,7% of that of India.

Again these two sets of indicators on income and health inequalities justify their developing country status at the WTO.

III – Environment performance

Table 2 shows first the amount and share of each country (and EU28) in global cumulative greenhouse gas (GHG) emissions in CO_2 equivalent since 1751 and then in total and from agriculture emissions in 2019.

For cumulative emissions the US 24.82% share was twice that of China and 8.3 times that of India while the EU28 22% share was 1.8 times that of China and 7.7 times that of India.

For 2019 the US total GHG was of 49% that of China and twice that of India and, per capita, 2.3 times that of China and 9.6 times that of India. For the EU28 the total GHG was 35% that of China and 1.4 times that of India and, per capita, 92% that of China and 3.8 times that of India.

For the GHG emissions of agriculture in 2019 the US level was 57% of that of China and 60% that of India but, per capita, il was 2.5 times higher than that of China and India. For the EU28 the EU emissions were at 60% of those of China and 64% of those of India but, per capita, they were 1,7 times higher than those of China and India.

Clearly on climate change China and India can claim their developing country status.

<u>IV – Trade performance of the US, EU28, Japan, Canada, China and India: 2019&2020</u>

For the sake of simplification the data are presented here with one decile figure (two in the annexes) and for 2020 only (2019 data are also available in the annexes) and we will not comments the data on trade of food + agricultural raw materials (only in the annexes) as they are not much higher than those on food only.

Table 4 compares the exports of the main Western countries with those of China and India in 2019 and 2020 for total products and food products, and derives them per capita. If the US total exports accounted for only 55% of those of China in 2020, per capita they were 2.4 times larger, and if they were 5.2 times larger than those of India, per capita they were 21.7 times larger. If the EU28 total exports accounted for only 81.6% of those of China, per capita they were 2.3 times larger, and if they were 7.7 times larger than those of India, per capita they were 20.6 times larger.

If the US food exports were 2.1 times higher than those of China, per capita they were 9.5 times higher, and if they were 4.5 times higher than those of India, per capita they were 17.3 times higher. If the EU28 food exports were 2.3 times higher than those of China, per capita they were 6.5 times higher, and if they were 4.7 times higher than those of India, per capita they were 12.5 times higher.

So that the overwhelming higher per capita exports of all products and food of US and EU28 over those of China and India justify clearly their developing country status at the WTO. But what about the comparison of imports and trade balances?

Table 5 shows that the US total imports were 1.2 times higher than those of China, and, per capita, they were 5.1 times higher, and if they were 6.5 times higher than those of India, per capita they were 27.3 times higher. If the EU28 total imports were 1.1% higher than those of China, per capita they were 3.2 times higher, and if they were 6.3 times larger than those of India, per capita they were 16.9 times higher.

If the US food imports were 1.03 times higher than those of China, per capita they were 4.4 times higher, and if they were 8.2 times higher than those of India, per capita they were 27.3 times higher. If the EU28 food imports were 1.01 times higher than those of China, per capita they were 2.9 times higher, and if the EU food imports were 8.2 times higher than those of India, per capita they were 22.0 times higher.

Even if it is highly questionable theoretically to consider that higher per capita imports of the US and EU are a sign of their development and, conversely, that the lower per capita imports of China and India are a sign of their underdevelopment, the WTO Agreement prioritizes market access for developing Members: "*Recognizing further that there is need for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their* *economic development*", and even more the Agreement on Agriculture: "*developed country Members would take fully into account the particular needs and conditions of developing country Members by providing for a greater improvement of opportunities and terms of access for agricultural products of particular interest to these Members*". On the other hand it is clear that the overwhelming higher exports of the US and EU have given them the capacity to import more so that China's and India's lower per capita imports than the US and EU should justify their developing country status at the WTO.

Table 6 on the trade balance (exports of table 4 minus imports of table 5) shows that China is the only of the 6 countries to have a large positive balance for all products in 2019 as in 2020 (Japan also in 2020). On the contrary China has the largest deficit in food trade: 2.9 times that of the US in 2019 and 5 times in 2020.

Hence the US deficit for all products of $975 bn in 2020 was 1.8 times higher than the China surplus of $530 bn but per capita the US deficit of $2,946 was 7.9 times higher than the China surplus of $371. The US deficit of all products was 10.5 times higher than that of India and, per capita, it was 43.9 times that of India! The EU28 deficit of all products of $188 bn was 35% of the China surplus and, per capita, the EU deficit of $366 was 22% higher that the China surplus of $300. The EU deficit was twice higher than that of India and, per capita, it was 5.5 times higher.

For food products (as well as for food + agricultural raw materials) Canada and India were the only of the 6 countries to have a surplus in 2019 and 2020 (the EU has a deficit because of fish and preparations). The US food deficit of 17.9 bn in 2020 was only 19.9% of that of China and, per capita, the US food deficit was 13.5 % lower. Compared to India food surplus of $14.4 bn (despite its large number of undernourished people!), the US food deficit was 1.3 times lower than the India surplus and, per capita, it was 5.3 times lower. The EU28 food deficit was only 4.0% of that of China but, per capita, it was 11.2% that of China. The EU28 food deficit was 29.5% lower than the India food surplus and, per capita, the EU food surplus was 71.2% higher than the Indian surplus.

To conclude the trade comparison, the larger US and EU deficits than the China surplus for all products, even per capita, does not plead for China status of developing country but the contrary plays for trade in food products where the per capita US deficit is lower than that of China, and the EU food deficit is much lower than the Indian surplus, which pleads for their developing country status, the more so as the share of agriculture in GDP and employment is much higher than in the US and EU.

IV – Comparison of the agricultural supports of the 6 countries in 2019

Despite the theoretical and operational limitations of OECD indicators of agricultural supports, as they are used worldwide let us compare their levels in the major Western economies – USA, EU28, Canada, Japan – with those of China and India.

The OECD most significant indicator is the TSE (total agricultural support) per agricultural working unit (AWU), from which we exclude the MPS (market price support) as it concerns essentially import protection, particularly since 2014 when all explicit export subsidies were eliminated. In 2019 the US TSE-MPS was at $92.966 bn which, divided by 2.363 million (mn) AWU, implied an average subsidy of $39,342 per AWU. At the same time the EU28 TSE-MPS was of $97.237 bn which, divided by 8.954 mn AWU, implied an average subsidy of $10,860 per AWU. And China TSE-MPS was of $93.386 bn which, divided by 211.780 mn AWU, implied an average subsidy of $4,747 per AWU. In other words the subsidy per AWU was 8.3 times that of China for the US and 2.3 times for the EU28. And the TSE-MPS per AWU was 11.1 times that of India for the US and the 3.1 times for the EU28.

We could argue that we should delete the US domestic food aid but in that case we must do the same for India but here we have a problem of inconsistency between the data of OECD and the notifications made to the WTO for the US as for India: if the US domestic food aid was notified at $94.618 bn in the WTO green box for 2018-19, the OECD data show that the US non-commodity specific transfers to consumers from taxpayers for domestic food aid were of $40.192 bn in 2019. And if India has notified to the WTO $17.212 bn of Public stockholding for food security purposes for 2019 in the green box, the OECD data show that the same non-commodity specific transfers to consumers from taxpayers were of $16.932 bn in 2019 but jumped to $58.148 bn in 2020! But China notified only $1.149 bn of domestic food aid for 2016.

If we exclude from the US TSE-MPS the $40.192 bn the subsidy per AWU falls to $52.744 and the US (TSE-MPS)/AWU falls to $22,333 so that the US agricultural subsidy was still 4.7 times larger than that of China and 6.3 times larger than that of India. In the same way if we exclude from the Indian TSE-MPS its domestic food aid of $16.932 its (TSE-MPS)/AWU falls to $2,730 so that the US agricultural subsidy was 8.2 times that of India. On the other hand the EU28 domestic food aid is very low because most EU members have large social security benefits (of which minimal wages) and, furthermore, most EU direct payments are not notified to the WTO as they are allegedly decoupled and non-trade distorting.

Furthermore SOL has shown that the absurd Agreement on Agriculture (AoA) methodology to assess the domestic food aid can be applied to the US instead of notifying it in the green box, so that, for 8 products only – three cereals (wheat flour, corn flour, rice), three meats (beef, pork, poultry), dairy in milk equivalent and eggs – the US should have notified to the WTO $12.785 bn in 2012 for the product-specific AMS of its domestic food aid. This would have been 5.5 times larger than the Indian corresponding AMS for rice plus wheat! Yet it is India which is condemned by the WTO rules while the US notifies all its domestic food aid in the green box![3]

Conclusion

It is clear that on the five issues – levels of income and wages; social performance; environment performance; trade performance and agricultural support – China and India are entitled to claim a status of developing country availing of a special and differential treatment (SDT) under WTO rules. Many other reasons plead for this status, which can be seen in other SOL's papers below.

However, this justification of China's and India's status as developing economies should not be seen as an endorsement of many other aspects of their policies both internally – particularly in terms of democratic functioning and the denial of human rights, especially of Muslims in both countries – and externally, notably the development of Chinese economic imperialism with the Silk Roads, especially the risk of economic dependence of Africa through the debt problem.

[3] *Reconciling the views on a permanent solution to the issue of public stockholding for food security purposes*, SOL, September 8, 2017: https://www.sol-asso.fr/wp-content/uploads/2017/10/Reconciling-the-views-on-a-permanent-solution-to-the-isssue-of-public-stockholding-for-food-security-purposes-1.pdf

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