The U.S. Economic Policy toward China: From the 'Ending China's Developing Nation Status Act' and Beyond

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Abstract

With China already facing efforts by U.S. Congress to remove its developing country status, the G7 has also adopted countermeasures to counter China's economic coercion against democratic countries. As the conflict between democratic countries and China continues to intensify, investment risks in China continue to increase, and foreign capital has moved out of China and been invested in Taiwan, Japan, and other Southeast Asian countries. Under the trend of global supply chain restructuring, China's export sector will continue to decline, and China's unemployment problem will become increasingly serious. In addition, China's digital platform operators are subject to increasingly strict supervision. Therefore, the availability of high-paying jobs created by digital platform operators has also been sharply reduced. Consequently, domestic demand in China will decrease, and as a result, the possibility that the Chinese economy will fall into a vicious circle will become greater.

In this international environment, Taiwan must also continue to increase its linkage with the U.S., Japan, the European Union, and other Southeast Asian countries to improve and to enhance the resilience of its economy.

Keywords: Unfair Trade, Economic Coercion, Debt Trap, Common Prosperity, Economic Resilience.

On March 27, the U.S. House of Representatives passed the "The Ending China's Developing Nation Status Act" with 415 votes to zero, directing Secretary of State Antony Blinken to remove the People's Republic of China (PRC) "developing country" status in international organizations.

Figure 1. The U.S. House of Representatives Passed the "The Ending China's Developing Nation Status Act" on March 27, 2023

Source: Depositphotos.

The legislation reads: "It should be the policy of the United States—

(1) to oppose the labeling or treatment of the People's Republic of China as a developing country in any treaty or other international agreement to which the United States is a party;

(2) to oppose the labeling or treatment of the People's Republic of China as a developing country in each international organization of which the United States is a member; and

(3) to pursue the labeling or treatment of the People's Republic of China as an upper middle-income country, high income country, or developed country in each international organization of which the United States is a member."[1]

The U.S. House of Representatives believes that China's status should be reclassified from a developing country to an upper-middle-income country, a high-income country, or a developed country, and proposes a mechanism to implement it. The bill states that China is not a developing country, which is also consistent with former U.S. president Trump's view in 2018 that China has engaged in unfair trade practices.

I. Can the World's Second-Largest Economy Still Enjoy the Status of 'Developing Country'?

China joined the World Trade Organization (WTO) as a developing country in 2001. Twenty years after securing membership, Li Chenggang, China's ambassador to the WTO, said in an interview with *Reuters* at the end of 2021 that China is still a "developing country" in the WTO. However, after its accession to the WTO, China has consolidated its status as the world's factory, and its gross domestic product has also increased year by year, becoming the world's second-largest economy.

1. The Benefits that China Derives from Its Position as a Developing Country Can be Divided into Two Categories:

First, when China became a member of the WTO and was classified as a developing country, it already enjoyed better preferential treatment than other developed countries in terms of tariff concessions. That is, the WTO allows developing countries to impose higher tariffs on imports and enjoy low tariffs on exports when they engage in bilateral trade with developing countries. This also allowed China to take advantage of its demographic dividend to gain market share and caused many manufacturers in developed countries to shift their manufacturing to China and thereby contribute to unemployment in developed countries. This accounted for President Trump's claim that China was stealing American manufacturing jobs.

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1. Thalif Deen, "US Legislators Strip China of Developing Nation Status," April 3, 2023, *Global Issues*, <https://www.globalissues.org/news/2023/04/03/33478>.

Second, China enjoys low-interest loans from the World Bank while creating "debt traps" for other developing countries through such mechanisms as the Belt and Road Initiative (BRI).[2] Rep Young Kim, the promoter of the aforementioned Act, said that "China has that special label, so they are using it to take advantage of its organizations like the World Bank, and they get special low-interest rates and they use those loans as a backstop to allow them to invest in like expand their Belt and Road Initiatives, investing so much in the infrastructures in those developing countries and no developing countries that, you know, invest so much money and billions of dollars to set up the debt trap for other developing countries."[3] That is, even after it became the world's second-largest economy (after the United States), China still used the status of developing country to extract the benefits from developing and developed countries. U.S. Treasury Secretary Janet Yellen has called out Beijing for the "barriers" China has imposed to ending the major copper producers' debt crisis and noted that it has "taken far too long already to resolve."[4]

Before the U.S. accused China of unfair trade policies and stealing foreign technology, many research institutions were optimistic that China would surpass the United States to become the world's largest economy, even though China's economy was affected by its internal Covid-19 epidemic prevention last year and the Party's intervention in private enterprises. In December 2022, the Japan Center for Economic Research (JCER) released its 8th Medium-term Asian Economic Forecast, which projects GDP growth for 18 countries and regions in the Asia-Pacific region, from 2022 through 2035. In it, JCER pointed out that "China's GDP will not surpass that of the U.S." [5]

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2. Jessie Yeung, "China gave huge loans to some countries. Now it's spending billions to bail them out," March 28, 2023, *CNN*, <https://edition.cnn.com/2023/03/28/economy/china-rescue-lending-belt-and-road-study-intl-hnk/index.html>.
3. "GOP rep. warns China is taking advantage of its 'developing country' classification: 'Level the playing field' ," March 26, 2023, *Fox News*, <https://www.foxnews.com/media/gop-rep-warns-china-taking-advantage-developing-country-classification>.
4. Edward A. Burrier, "Four Takeaways from Treasury Secretary Yellen's Trip to Africa," February 1, 2023, *The United States Institute of Peace*, <https://www.usip.org/publications/2023/02/four-takeaways-treasury-secretary-yellens-trip-africa>.
5. "China's GDP will not surpass that of the U.S.-- Taiwan set to overtake Japan in 2022 in terms of GDP per capita," December 15, 2022, *The Japan Center for Economic Research*, <https://www.jcer.or.jp/english/chinas-gdp-will-not-surpass-that-of-the-u-s>.

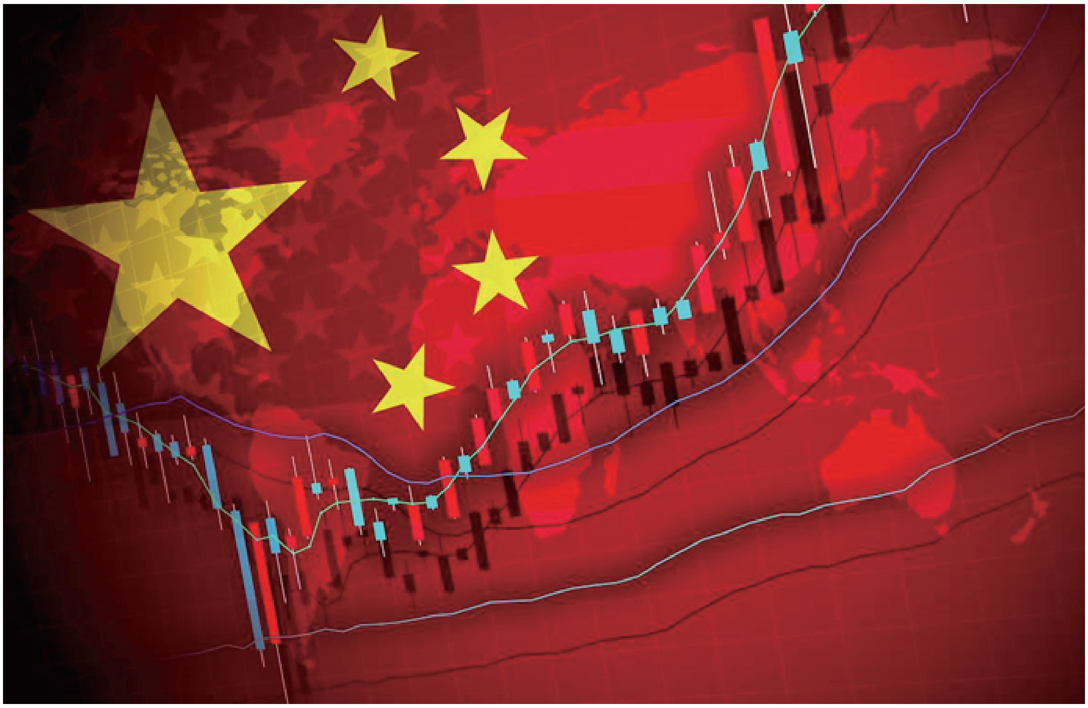

Figure 2. China, the World's Second-Largest Economy

Source: Depositphotos.

2. The Impact of the Lockdown and the Withdrawal of Foreign Capital

Stabilizing employment, protecting people's livelihood and preventing risks have always been important goals for China. On this basis, former Premier Li Keqiang also proposed an economic growth target of 5.5% in last year's government work report (GDP growth was 3% in 2022). Given that China also forced Shanghai into a lockdown last year to control the Covid epidemic, it will not be easy for the Chinese government to achieve its economic targets: Shanghai is an important city driving China's economic development and has made a great contribution to China's economic growth. Therefore, Shanghai must be one of the cities with good governance in China. The infrastructure, medical services, financial and transportation services provided by this type of city also tend to be better than in other cities in China. At the same time, it can also promote the development of other surrounding cities. In addition to the impact on the manufacturing industry, the slowdown in Shanghai will draw down the flow of people, goods, and money, which in turn will have an impact on the huge service industry, manufacturers, and employees nationwide.

Due to the uncertainty from the Chinese government, *Forbes* has reported that "A poll taken last June by the European Chamber of Commerce in China noted that one-quarter of its members currently operating in China were considering closing and moving their operations elsewhere. Half complained that doing business in China had become too politicized. This contrasts radically with a similar 2019 poll that showed widespread enthusiasm about the prospects for business in China." [6] Bettina Schoen-Behanzin, vice president of the European Chamber, noted that "[t]he only thing predictable about China was its unpredictability, and that is poisonous for the business environment."

The Chinese government emphasizes the importance of both internal circulation and external circulation. If international trade and interactions are cut off, China will have to depend solely on internal circulation and will not be in a position to resolve the economic problems China is facing. Due to the escalating confrontation between China and major democratic countries, it will not be easy for China to rekindle the kind of attraction that fueled its economy for decades. That is, if foreign capital is not reinvested in China, the employment created by exporting sector will disappear. As a result, domestic consumption will significantly decrease, creating a vicious circle.

Despite being the world's second-largest economy, many international organizations continue to regard China as a developing economy, which does not reflect the impact of Chinese economic influence on the world. This is an important reason why the U.S. House of Representatives unanimously passed a bill directing the Secretary of State to strip the PRC of its "developing country" status within international organizations.

6. Milton Ezrati, "Not Everyone, But Many Firms Are Preparing To Leave China," April 3, 2023, *Forbes*, <https://www.forbes.com/sites/miltonezrati/2023/04/03/not-everyone-but-many-firms-are-preparing-to-leave-china/?sh=3b131c002590>.

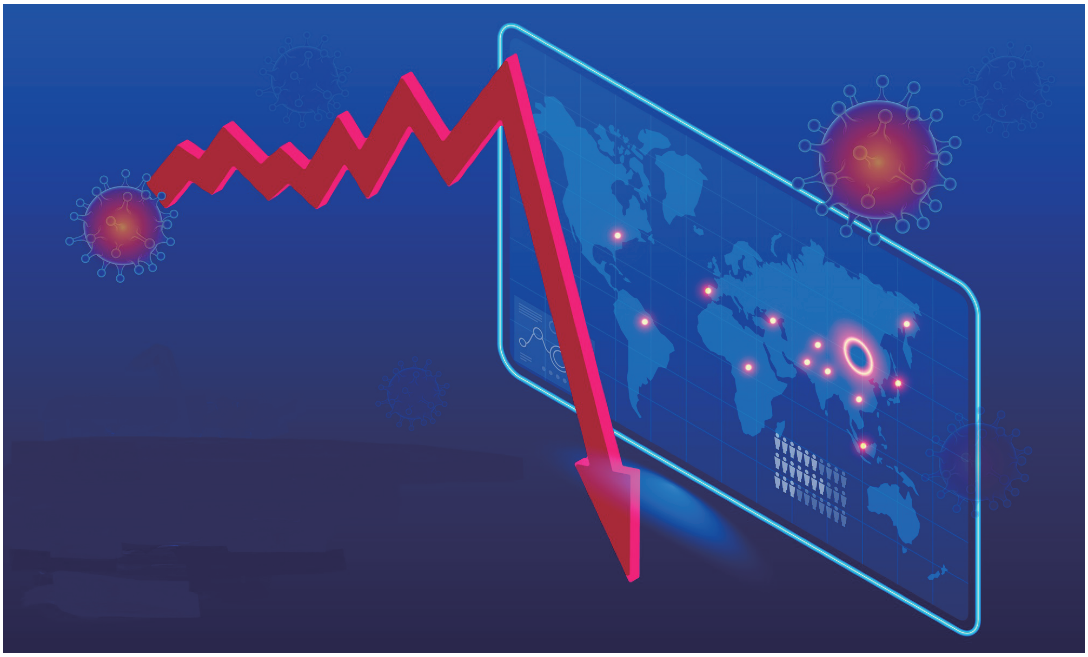

Figure 3. China's Economy Was Affected by Its Internal Epidemic Prevention and the Party's Intervention in Private Enterprises

Source: Depositphotos.

II. China Has Failed to Fulfill Its Promises to the WTO

At the end of 2021, China pointed out that 20 years after joining the WTO, it would commit to independent tax reduction, reform of its foreign trade management system, and the establishment of a socialist market economic system. However, the actual situation is very different from China's official statement.

The Chinese government uses a large amount of subsidies and allows technology theft to help its companies dump low-price products in the international market or engage in predatory pricing. The practices not only destroy market mechanisms, but have also caused the closure of manufacturers in several countries, resulting in massive unemployment. This is the main reason why the U.S. government leveled accusations of unfair trade against Chinese manufacturers in 2018 and imposed high tariffs on imported products from China. Phase one agreements on procurement, intellectual property rights, mandatory technology transfers, and exchange rate mechanisms have also not been implemented. The founder of Mobius Capital Partners, Mark Mobius, told *Fox Business* in an interview on March 2 that investors should "be very, very careful" in China, after revealing that he cannot get his money out of the country. "I have an account with HSBC in Shanghai. I can't take my money out. The government is restricting flow of money out of the country," he added. [7]

China's attitude towards capital controls is bound to become stricter amid a gradually declining economy and the restructuring of international supply chains. When professional investors on Wall Street publicly issue warnings about investing in China, it shows that the Chinese government has very strict control over funds. Mobius also pointed out that "Now you have a government which is taking golden shares in companies all over China. That means they're going to try to control all of these companies … So I don't think it's a very good picture when you see the government becoming more and more control-oriented in the economy." [8] If this is the case, then it is contrary to China's statement that it is reforming its foreign trade management system. China's attractiveness to foreign investment will therefore likely continue to decrease.

In 2020, the Chinese financial technology company Ant Group was originally scheduled to be listed on Shanghai A-shares and Hong Kong H-shares (IPO, initial public offering) at the beginning of November. Chairman Jing Xiandong and President Hu Xiaoming were suddenly interviewed by the People's Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission, and the State Administration of Foreign Exchange. Subsequently, Ant Group canceled its IPO schedule, and Jack Ma also announced in early 2023 that he would give up control. After the strict supervision of digital platforms and the adoption of common prosperity measures, the Chinese economy under Xi's administration is completely different from the socialism market economic system

7. "Investor Mark Mobius says he cannot get his money out of China," March 6, 2023, *CNN*, <https://www.reuters.com/markets/billionaire-investor-mark-mobius-says-he-cannot-take-money-out-china-fox-2023-03-05/>.
8. "Investor Mark Mobius says he cannot get his money out of China."

Figure 4. Ant Group Is Affected by Strict Restrictions and Common Prosperity Policies

Source: Depositphotos.

promoted by Chinese leaders such as Deng Xiaoping, Jiang Zemin, and Hu Jintao in the past, and it also deviates from the spirit of the WTO.

Since 2020, in order to protect consumer data and maintain market competitiveness, China has taken strict supervision measures against many digital platform operators (such as the aforementioned Ant Group) led by Alibaba. At the end of June in 2020, it even launched a cybersecurity investigation into Didi Group, which had made an IPO in New York. These practices inevitably have a great deterrent effect on enterprises in China. The Chinese government emphasizes maintaining market competition order and creating a competitive environment, but its measures have had a completely opposite effect in reality. For all enterprises, the future China will only have national order, and the practice of Common Prosperity will only further establish a national order.

At the 10^{th} meeting of the CCP Central Financial and Economic Commission on August 17, 2021, China emphasized the need to expand the proportion of middle-income groups, increase the income of low-income groups, and rationally adjust high incomes to promote social fairness and justice. The Chinese people are making solid progress toward the goal of common prosperity. The policy direction of Common Prosperity, however, has caused panic among many business owners and is causing many China companies, such as Alibaba and Tencent, to donate large sums of money in response to "Common Prosperity."

III. Enterprises Can Go to China for Exchanges, but They Should Not Continue to Downplay the Risks of Doing Business in China

When the U.S. House of Representatives fully recognizes that China is no longer a developing country, the Chinese government will inevitably encounter difficulties with more democratic countries in many international organizations. Whether China can continue to enjoy the benefits of a developing country is also uncertain. The Taiwanese private-sector businesses that continue to rush to China should pay more attention to subsequent changes about China. They ignore changes in the international environment, such as the PRC losing its developing nation status at their own peril, as this will have a great impact on the profits of export-oriented industries.

China's international market position is declining, while both Taiwan's economic strength and geopolitical importance continue to increase. Many enterprises have been hurt by underestimating China's business risks in the past, such as Taiwan's large department stores. For example, Far Eastern department store lost US$300 million on its investment in China in 2016. Also, Shin Kong Mitsukoshi was deceived by Chinese shareholders and lost US$430 million in 2007. In 2021, Far East Group was also sanctioned by China for donating to Taiwan's ruling Democratic Progressive Party. Businesses that invest in China risk incurring huge losses, which will affect the rights and interests of the company, the parent country, and shareholders.

IV. China's Economic Coercion Proves It Is Not a Developing Country

Starting in July at the earliest, the Japanese government will impose tighter restrictions on the export to China of manufacturing equipment for cutting-edge semiconductors, which are essential to the development of supercomputers and artificial intelligence. Following the example set by U.S. export controls, the EU is also preparing to adopt export controls on semiconductors, impose restrictions on private sector investment in Chinese tech companies, and enact rules intended to block China from dominating Europe’s renewable energy market.

During the Hiroshima G7 Summit on May 20, member states issued a statement on the topic of “economic resilience and economic security” (G7 Leaders’ Statement on Economic Resilience and Economic Security) which proposes to establish a Coordination Platform on Economic Coercion to provide early warning and rapid information sharing. Although China was not mentioned in the above statement, the

Figure 5. The G7 Summit in 2023

Source: President Joe Biden, “G7 Summit 2023,” May 20, 2023, *Facebook*, <https://www.facebook.com/photo.php?fbid=787457366714562&set=pb.100063509179160.-2207520000.&type=3>.

U.S. National Security Advisor also emphasized de-risking rather than decoupling with China. It is worth noting that the United States, the European Union, Japan and other developed countries, as well as the G7, had significantly different attitudes toward China than in the past. This shows that China's practice of weaponizing economic tools to coerce the economies of other country has received high attention. The Chinese government has weaponized agriculture goods to coerce some countries, such as Australia, Lithuania, and Taiwan; China's economic coercion has therefore proved to the world that it is no longer behaving like a developing country and no longer deserve this status and the economic advantages that come with it.

V. Taiwan's Future Amid De-Sinicization

Amid China's economic coercion, diversifying the export market and improving the economic resilience of Taiwan's industries will be an important direction to avoid its products becoming hostage to China's coercive policy. In 2021, China and Hong Kong accounted for 42.3% of Taiwan's exports; in 2022, it has dropped to 38.8%. From January to April 2023, the proportion of exports to China and Hong Kong has dropped to 35.2%. Therefore, Taiwan's exports to China have already been reduced. According to statistics from the Ministry of Economic Affairs' Investment Commission, in 2011, Taiwanese businessmen invested US$14.6 billion in China, but in 2021, only about US$5.8 billion remained. In the same year, Taiwanese businessmen invested US$5.8 billion in ASEAN and India, which shows that China is no longer the largest base for investment for Taiwanese companies. [9]

The Taiwanese government will continue to engage in the U.S.-Taiwan Initiative on 21st Century Trade, to enhance industrial corporation between Taiwan and Japan, to implement the New Southbound Policy, and to increase investment in Central and Eastern European countries. By diversifying investment and trading partners and following the trend of global supply chain restructuring, Taiwan will strengthen its economic resilience.

9. Investment Commission MOEA, "Statistics Chart: Investment to Mainland China," June 5, 2023, accessed, *Investment Commission MOEA*, <https://www.moeaic.gov.tw/business_category.view?lang=en&seq=3>.