China’s Challenge Towards To A High Income Society:
Lessons From International Experiences

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I, What’s the type of China’s Development Trip;

II, What are the challenges as China towards to high income society.

III, What China can learn from international experiences.
From Poverty Trip to Development Trip. In the past 40 years, the ratio of low income population in global population has reduced from 71% to 12%; The ratio of middle income population has improved from 17% to 72%.

Source: Based on World Development Indicators
There are two different middle income trap. Type one is low middle income trap, that is, those countries have stagnated in the period from 4000 to 7000 international dollar. Type two is high middle income trap, that is, those countries have been stagnated in the period from 9000 to 11000 international dollar. It means that Type one countries can’t across stage of development based on high factor inputs (high land input, high labor input and high investment). Type two countries have been slowdown towards to stage of development based on innovation and the third industry.
High-tech Manufacturing and Service Industry Dominant Stage (Mass Consuming Stage)

Heavy Industry Dominant Stage (Mature Stage)

Light Industry Dominant Stage (Pre-Taking Off; Taking-Off)

Agriculture Dominant Stage (Traditional Society)

I: Poverty Trap

II: Low and Middle Income Trap (4000-7000 International dollar)

III: High to Medium Income Trap (9000-11000 International dollar)
3\ China has overall acrosed the low middle income trap and towards to across the high middle income trip. But because China is a big economy, and exists huge region difference, the east coast regions has been in the stage of high middle income trip, most of the mid-west regions are in the period of low middle income trap and poverty trap.
China’s growth patterns in different development stages

The stall speed when falling into Trap II, 4000–7000 international dollars

China’s GDP per person reaches 7800 international dollar in 2010, surpassing the upper limit of the window period of Trap II

Window period of Trap III

the growth patterns in different development stages of the successful countries

the growth patterns in different development stages of those falling into the trap II

Resources: from Maddison’s *The World Economy: Historical Statistics*
China’s Challenge one: The potential economic growth rate will decreased from high-speed growth to middle-speed growth: from 10% to 7%. How to handle the fiscal, banking, employment risks as growth speed is over shooting
Compared with the high speed of economic growth in the past stages, China's potential economic growth rate will slow down in a few years.

Resources: National Bureau of Statistics and Development Research Center of the State Council
China’s Challenge two: China’s labor and land endowment can’t support “the world manufacturing factory” based on cheap labor and low-cost land. As professor Caifang’s studies, China has in the Lewis’s turning point, wage level of peasant workers increased rapidly. As for land, in past 30 years, Chinese typical land system, that is, the local government requisitioned farmer’s land by low price and provided low-cost land to enterprises. It has resulted in the loss of high quality cultivated land, the huge waste of land use and serious land security.
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单位新增建设用地国内生产总值占用
单位新增建设用地二三产业增加值
单位新增建设用地固定资产投资
China’s Challenge Three: The development pattern over depends on land has resulted in the conflict between government and farmers. It has endangered social and political stable. Chinese traditional growth pattern over depends on land, high investment depends on high land consumption, high export and high speed industrialization depends on low cost land supply, and high speed urbanization depends on land income and land mortgage. From 1999 to 2009, the ratio of land transfer income to local fiscal income is 0.44:1.
The unfair allocation of land income has resulted in farmers’ dissatisfaction. Group incidents by land requisition have become the first cause of land disputes caused by land requisition. Most cases of land requisition are easily triggered by the conflict between government and farmers.
各省涉及征地冲突案例数
农民的反应方式分布

- 阻止项目/破坏施工：39
- 围攻政府/武力对抗：35
- 静坐示威：15
- 围堵道路：13
- 拒绝合作：13
- 向法院起诉：12
- 自焚自杀：11
- 报警：3
- 举报：2
政府的反应方式分布

出动警力: 62
抓捕: 43
打入: 38
黑社会: 23
妥协: 35
不予理睬: 24
法院判决: 14
株连处理: 10
分化处理: 6
开枪: 2
Lesson one. Deepening factor market reform to decrease the income inequality. As T. Sicular’s paper presents, the new issue of China’s income inequality is asset income. The main factor resulted in the inequality is the inequality is access to resources. In China, The government controlled resources and allocated them by power to the relative interest groups, then the interest groups use resources by market transaction. For example land....
Lesson Two: the role of government in human capital investment. The main challenge of income inequality is the income difference between urban citizens and farmers’ workers (nong min gong). China’s majority of manufacturing workers are post-80s and 90s. They only accept educational training to universities, but most of them have to move to the factories. It means that they must be trained again if their wages can be risen. The central and local government must invest in them more to moved them from farmers’ workers to manufacturing class.
with the advancement in the development stages, the focus of government functions shift to the construction of human resources, the proportions of related expenditure in GDP have risen accordingly.

Social expenditure includes OAS, medical security, heritage security, workplace safety, unemployment insurance, expenditures aims at promoting employment and positive policy in the labor market, family assistant and housing security.

Resources: from OECD’s Social expenditure: Aggregated data and Statistic Data on International Economy and Society (in Chinese), and Maddison’s The World Economy: Historical Statistics.
Avoiding the high welfare expenditure in the low development stage. From Latin American States, this is the main cause resulted high inflation and the unstable macro economy. Over expenditure on high welfare in low development stages can hardly improve production rate, thus cause budget deficit and inflation, which in turns ask for higher welfare commitment, in the end it forms a vicious circle.
the Proportion of Governments’ social expenditure in GDP in the Four Development Stages

Brazil’s development stagnates, however, its social expenditure has risen perpendicularly

Japan, Korea, Brazil, Chile

Resources: from OECD’s Social expenditure: Aggregated data and Statistic Data on International Economy and Society (in Chinese), and Maddison’s The World Economy: Historical Statistics
Annual Average Inflation Rate in the Past Half Century (1960-2010) of the Six Countries

<table>
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<th></th>
<th>Brazil 410 trillion</th>
<th>Argentina 2.7 trillion</th>
<th>Mexico 11,000</th>
<th>Japan 4</th>
<th>Korea 173</th>
<th>China 5.7</th>
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Resources: from *World Development Indicators*
Improving social mobility to achieve opportunity equity. Increasing the middle income class; reforming higher education; farmer workers involved in cities…