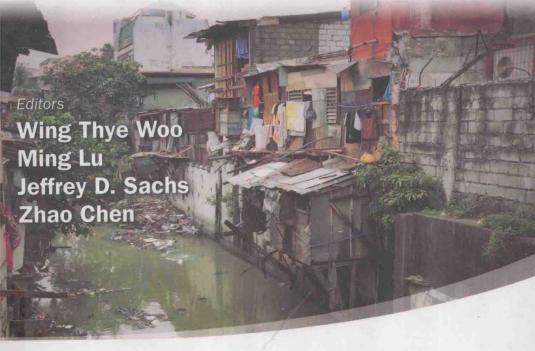
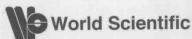


Escaping the Middle-Income Trap by Not Doing More of the Same









A NEW ECONOMIC GROWTH ENGINE FOR CHINA

Escaping the Middle-Income Trap by Not Doing More of the Same



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A NEW ECONOMIC GROWTH ENGINE FOR CHINA

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Foreword

Shangli Lin

Vice-President, Fudan University

Although China has become the second largest economy in the world and a middle-income country in the process, the challenges that China faces are more daunting than ever. From all aspects of the domestic and foreign situation, China has now reached a critical juncture in its development. Unless China is able to overcome the difficulties in undertaking further reforms in the next ten years, China would be caught in the middle income trap and be unable to become a modern country. The future course of China's economic development is also of great concern to the rest of the world because the socio-political-economic conditions in China will have significant impact on global economic prosperity and on global political harmony.

Fudan University is one of the best universities in China, and has deep research strength in the social sciences. Because Fudan University is located in Shanghai, which is a pioneering city in the reform of China's economy, Fudan is dedicated to conducting pioneering research on all the important issues in China's development. Among the major efforts by Fudan in this direction is the current building up of the Fudan Institute of Development Studies to promote creative research in the social sciences and to provide better analytical support to accelerate China's reforms and development.

The year 2012 is a critical year in determining the overall strategic direction of China's future policies. It is therefore most timely that the School of Economics at Fudan University and the Earth Institute at Columbia University have worked closely together to prepare this comprehensive report on China's economic priorities. This team of leading international economics experts is led by Wing Thye Woo (Distinguished

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Professor at Fudan University, Director of the East Asian Program in the Earth Institute of Columbia University, Executive Director of the Penang Institute, and Professor at the University of California, Davis), Ming Lu (Professor of Economics at Fudan University), Jeffrey D. Sachs (Professor of Economics and Director of Earth Institute at Columbia University, and Special Advisor to the United Nations Secretary-General), and Zhao Chen (Professor of Economics at Fudan University). This report contains an integrated economic policy agenda that achieves optimality in economic management by ensuring consistency among short-term demand management, medium-term supply growth, and long-term sustainable development. This economic action plan encapsulates the ambitious objective of Fudan University to promote development studies in China through the mobilization of wisdom from a worldwide network of the best scholars on each topic.

As the Fudan University's Vice-President in charge of the Institute of Development Studies, I am especially pleased by the high quality of this book. I am confident that the simultaneous publication of this book in English and Chinese will spread the valuable achievements of the Columbia-Fudan research team and improve the economic development practices in China.

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A New Economic Growth Engine for the 21st Century: Change Out Not Scale Up the Present Policy Regime

The Major Types of Middle-income Trap That Threaten China

Wing Thye Woo

1. A New Stage in China's Economic Development but Will This be the Permanent Stage?

The World Bank reclassified China as an upper middle-income country in July 2011. The deductive character of logic leaves no doubt about what is the next stage in this classification scheme: a high-income country or, to be exact but awkward, a lower high-income country. The international experience with economic growth, however, advises strongly against the temptation to predict the date of China's advent into high-income-hood by making a straightforward projection from China's growth path in the past 33 years. By straightforward projection, we mean a prediction that is based on the assumption that future growth rates of China's GDP per capita would resemble its past growth rates in a predictable way, with the straight-line projection being an extreme example. The more common straightforward projection is to build in an incremental slowdown to the average growth rate of the recent period such that the Chinese growth rate would converge to the U.S. growth rate by the time that China achieves parity in the standard of living with the United States.

The case against the straightforward projection is summarized in Table 1 which shows the GDP per capita (in 1995 PPP US\$) of 65 countries in 1913 (the eve of World War I), 1964 (the year of the Tokyo Olympics, which marked the entry of the first Asian economy into high-income status), and 2008 (the last year in Maddison's, 2010, dataset on historical statistics); and the income ranking of these countries in the

Table 1. GDP per capita: Level and Rank in Selected Years for 65 Economies.

1913 = eve of World War I, 1964 = Year of Tokyo Olympics,

2008 = latest year in Maddison (2010)

	GDP per capita		Rank out of 65 countries			Annual growth rate in 1870–1913	
	1913	1964	2008	1913	1964	2008	period
Albania	811	1,616	4,149	56	49	52	1.83
Algeria	1,163	1,806	3,520	40	46	55	1.49
Argentina	3,797	5,926	10,995	10	18	28	3.28
Australia	5,157	9,849	25,301	2	7	6	1.39
Austria	3,465	7,567	24,131	13	15	13	1.90
Belgium	4,220	8,341	23,655	7	13	15	1.37
Brazil	811	2,472	6,429	55	44	42	0.39
Bulgaria	1,534	3,657	8,886	29	29	34	1.84
Burma	685	612	3,104	61	65	57	0.94
Canada	4,447	9,999	25,267	5	6	7	2.97
Chile	2,988	4,638	13,185	16	23	26	2.58
China	552	645	6,725	64	63	40	0.12
Colombia	1,236	2,675	6,330	37	39	43	NA
Czechoslovakia	2,096	5,372	12,925	22	20	27	1.80
Denmark	3,912	10,560	24,621	9	4	10	2.05
Egypt	902	1,166	3,725	48	59	53	1.00
Finland	2,111	7,307	24,344	20	17	12	1.88
France	3,485	8,819	22,223	12	12	17	1.89
Germany	3,648	8,822	20,801	11	11	19	2.10
Ghana	781	1,414	1,650	57	53	62	1.76
Greece	1,592	4,141	16,362	28	27	24	1.81
Hong Kong	1,279	4,327	31,704	33	26	1	1.92
Hungary	2,098	4,388	9,500	21	25	33	2.00
India	673	821	2,975	62	62	58	0.71
Indonesia	874	993	4,428	51	60	51	1.26
Iran	1,000	2,526	6,944	44	42	39	1.00
Iraq	1,000	3,115	1,049	45	35	65	1.00
Ireland	2,736	4,986	27,898	17	21	5	1.32
Italy	2,564	7,487	19,909	18	16	20	1.64
Jamaica	608	2,904	3,668	63	38	54	0.39
Japan	1,387	5,668	22,816	30	19	16	1.93
Jordan	1,000	2,981	5,702	46	37	45	1.01

Table 1. (Continued)

1913 = eve of World War I, 1964 = Year of Tokyo Olympics,

2008 = latest year in Maddison (2009)

Only these 65 countries in Maddison (2009) had GDP per capita data in 1913

	GDP per capita			nk out o countri		Annual growth rate in 1870–1913	
	1913	1964	2008	1913	1964	2008	period
Lebanon	1,350	2,534	4,453	32	41	50	1.43
Malaysia	900	1,728	10,292	49	47	30	0.93
Mexico	1,732	3,594	7,979	26	32	38	2.90
Morocco	710	1,381	3,465	60	55	56	0.71
New Zealand	5,152	10,418	18,653	3	5	23	1.55
Nepal	539	626	1,134	65	64	63	0.93
Netherlands	4,049	9,437	24,695	8	10	9	1.17
North Korea	869	1,253	1,122	53	57	64	1.11
Norway	2,447	8,316	28,500	19	14	3	1.80
Peru	1,032	3,465	5,388	43	33	46	NA
Philippines	988	1,600	2,926	47	51	60	1.40
Poland	1,739	3,622	10,160	25	31	31	1.86
Portugal	1,250	3,718	14,436	35	28	25	0.76
Romania	1,741	2,258	4,895	24	45	47	1.91
S. Korea	869	1,390	19,614	52	54	22	1.11
Singapore	1,279	2,541	28,107	34	40	4	1.92
South Africa	1,602	3,450	4,793	27	34	49	1.91
Spain	2,056	4,515	19,706	23	24	21	1.63
Sri Lanka	1,234	1,320	4,895	38	56	48	1.13
Sweden	3,073	10,618	24,409	15	3	11	2.50
Switzerland	4,266	14,191	25,104	6	1	8	2.17
Syria	1,350	3,637	8,360	31	30	36	1.43
Taiwan	732	1,679	20,926	58	48	18	0.87
Thailand	841	1,249	8,750	54	58	35	0.99
Tunisia	883	1,589	6,103	50	52	44	1.02
Turkey	1,213	2,496	8,066	39	43	37	1.18
UK	4,921	9,568	23,742	4	8	14	1.32
Uruguay	3,310	4,858	9,893	14	22	32	1.27
USA	5,301	12,773	31,178	1	2	2	2.37
Venezuela	1,104	9,562	10,596	41	9	29	2.03
Vietnam	727	895	2,970	59	61	59	1.11
W. Bank & Gaza	1,250	1,603	2,178	36	50	61	1.56
Yugoslavia	1,057	3,019	6,686	42	36	41	1.74
World	1,524	3,130	7,614				1.71

 $\it Memo$: The unweighted average of the growth rates of the above 65 countries in 1870–1913 is 1.53%