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Leap Over Middle-income Trap And Achieve Inclusive Growth

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Mr. Chairman,Ladies and Gentlemen,

I'm deeply honored to be here,the beautiful city of New Delphi, attend the Conference and exchange views with leaders and experts in the field of economy and finance from all over the world.Today,I'd like to share my opinions on how China can leap over middle-income trap and achieve inclusive growth.

I.The reason why many developing countries fall into"middle-income trap" is very sophisticated,but boils down to the problem of systems and mechanisms as well as development pattern

The concept of "middle-income trap" was first proposed by the World Bank in 2007 in its report of East Asia Economic Development.It means countries with per capita GDP at USD3,000 to USD5,000 range are easy to get trapped and failed to catch a high-income status which starts at a level of USD10,000.Due to the countries' failure in transformation of economic development model and innovation in existing systems and mechanisms,the conflicts accumulated in rapid economic growth period will break out altogether,and thus lead to insufficient economic growth

momentum, long-term economic stagnation, wandering, or volatility.

To Judge from the world's economic development process after the World War II, many developing countries had been stuck in the so-called "middle-income trap", among which some Latin American and South-East Asian countries are typical examples. These countries had entered the stage of middle-income in 1970s, but still hovered in the middle phase over twenty or thirty years' efforts. The countries falling into middle-income trap have lots of features in common, such as the polarization of the rich and the poor, corruption-prone, excessive urbanization, shortage of social public services, employment difficulties, democratic chaos, social unrest, lack of faith, financial fragility, and so on.

The reason why these countries fell into " middle-income trap " is the mixed results of economic, social, political and other factors. The inducements are very complex, but the ultimate causes are as follows: Firstly, the systems and mechanisms fail to innovate continuously with economic development, and thus find it difficult to adapt to the new requirements of the higher stages of economic development , causing various social contradictions' accumulated or even intensified. Secondly, patterns of economic development fail to transformed correspondingly , so the bottlenecks restricting economic development are still hard to be broken and the

economic growth becomes lack of impetus.

II. Chinese economy is confronted with the risk of being stuck in the “middle-income trap”

According to the standard of the World Bank, with per capita GDP exceeding USD3,000, China has developed into middle-income status. After 30 years of reform and opening up, the long-term growth impetus driving by factor inputs, demographic dividend, technical progress, system transformation and so on, has been weakening, with a variety of characteristics and problems once occurred in the “middle-income trap” countries emerging. It proves that China has been confronted with the risk of being stuck in the “middle-income trap”.

As we know, an economy's growth rate is the function of labor force, capital and total factor productivity. A large number of researches on Chinese economic growth over the last 30 years indicate that, compared with relatively small contribution of labor force with only 0.7%-2.8% and larger contribution of total factor productivity with 3.5%-3.8%, capital has made the largest contribution to economic growth with 3.2%-5.1%. However, growth rates of the above-mentioned 3 factors will be slowing down in the future.

Firstly, it's demonstrated by census that growth rate of Chinese labor force in recent years has been decelerating. Furthermore, UN predicts that the average growth rate of Chinese labor force in the next 10 years will be merely 0.23%, much lower than the average growth of 1.28% in the past 20 years. What's more, due to the decreasing supply of labor force, the cost of labor force keeps rising and imposes further restrictions on the growth of labor force supply. In this regard, the contribution of "demographic dividend" to economic growth will be gradually receding.

Secondly, both saving ratio and capital formation have been reducing. Nowadays the aging of Chinese population has been highlighted. The proportion of savers (age ranging from 35 to 59 years old) to total population is decreasing year by year, and the family saving ratio will reduce with the social security net's gradually improving, resulting in the declining of investment rate and capital formation. Meanwhile, with increasing cost and decreasing marginal rate of return, strain of "bottlenecks" from land, energy, capital and other factors is becoming increasingly conspicuous, making the contribution of capital to economic growth unsustainable.

Thirdly, the improvement of total factor productivity is largely drawn from structural adjustments which are driven by technological advancements and institutional reforms. From the perspective of technological advancements,

although China has caught up with developed economies by technology imports and imitations in the past three decades, technology introduction is becoming more and more difficult with the technological gap shrinking. It's hard for indigenous innovation to make a significant boost in short term due to insufficiency of research capability as well as human capital. From the perspective of institutional reforms, China had made great progress in economic restructuring over the past 30 years. Deeper reforms would be much more difficult, particularly when the vested interests have accumulated powerful influence. As a consequence, it's impossible for total factor productivity to benefit as much as that in the past 30 years from structural adjustments.

In addition, the characteristics and problems peculiar to the "middle income trap" countries have been emerging in China. The people's livelihoods as well as other social issues are becoming the potential risks for sustainable development of China's economy. For instance, the imbalance of income distribution, dual structure in urban and rural areas, regional disequilibrium as well as the growing income disparity among different industries and different groups have become more serious. Another example is just like "excessive urbanization", which has been worsening environmental pollutions, traffic jams, public service insufficiencies, slums, crimes, and so on. More worrisome, many problems which have been widely criticized are

still remaining, such as extravagant housing prices, rising inflations, food securities, social insurance inadequacies, corruptions and infringing civilian rights, etc.. The mass incidents might be triggered if problems mentioned above were exacerbated, which would result in social instability.

III. Inclusive growth is China's strategic choice across the middle-income trap.

In my opinion, the so-called inclusive growth mainly comprises two dimensions. The first dimension is public-sharing. On the one hand, individuals and enterprises can fully enjoy the right to participate in economic development, regardless of their origin difference or asset size, regardless of their property characteristics or business scale. On the other hand, individuals and enterprises can reasonably share in the fruits of economic development, regardless of their assets size or business scale. It can be seen from the first dimension that, the factors of social exclusion must be eliminated through the reform of social systems and mechanisms so as to achieve the inclusive growth. All the people can benefit from economic development, as is necessary to mitigate various social contradictions, to promote social stability and harmony. And the second dimension is sustainability. We need to focus on the long-term development of the economy, maintaining a balanced and rational economic structure as well as a sustainable momentum, instead of relying too much on investment

and export to stimulate the economic growth. We also need to promote the establishment of emerging industry system, instead of excessively depending on traditional and basic industries. In addition to this, we need to enhance energy conservation and environmental protection, and realize the harmonious development between economy, society and nature, instead of improperly emphasizing the exploitation of natural resources. It can be seen from the second dimension that, the inclusive growth not only focus on the pace of economic development, but pay more attention to the transition of developing pattern. According to the combination of the above two dimensions, the systems and mechanisms as well as developing pattern which will lead to the middle-income trap, can be virtually eliminated through achieving the inclusive growth. Therefore, the inclusive growth is China's strategic choice across the middle-income trap. Specifically, the ways to realize the inclusive growth are as follows:

Firstly, we need to further transform the functions of the government, in order to build up the institutional basis for the inclusive growth. Government should make improving people's wellbeing as the starting point and ultimate goal of all the work, and improve social security systems in all levels including elementary educations, medical and health services, pension insurances, unemployment insurances, etc., as well as increase funds for social service systems, to ensure that all the people could fairly enjoy the

improving public-services. Through adjusting income distribution, government should gradually raise the proportion of national income distributed to individuals, and increase the proportion of wages and fiscal revenues in the primary distribution of income, striving to coordinate increases in people's incomes with economic development and increases in workers' pay with improvements in labor productivity. By the means of taxes, transfer payments, etc., government should gradually decrease discrepancies in levels of people's incomes between urban and rural areas, among different regions, different industries and different social classes. Through improving the system of labor market access and employment, government should create equitable opportunities to find jobs or start their own businesses for the entire workforce. Government should gradually return to the position of providing common products and public services including institutions, regulations, policies, and so on, strengthen the fairness of policies and institutions, eliminate the institutional discriminations, make up for the deficiencies of systems, and establish the institutional basis for the inclusive growth according to the principle of fairness, justice and public-sharing.

Secondly, deeper reform and transformation need to be carried out to provide the safeguard of systems and mechanisms for inclusive growth. For instance, we need to deepen price reforms in the field of production factors

and resource products, correct the distortion of resource-factors price caused by various systems and mechanisms, establish a pricing mechanism which can actually reflect resource scarcity, the relationship between supply and demand and economic externality, and make markets and pricing mechanism the basic approaches to allocate resources. We need to deepen enterprise reform, diversify the structure of enterprise ownership, develop private economy and reduce the barriers on market access or exit, so that enterprises with different ownership structures or different types can fairly participate in market competition and share market profits. We need to advance the reform of land market and improve policies of rural land expropriation to contain the over-expansion of urban areas, to protect the rights and interests of farmers and raise the utilizing efficiency of land, to reduce the dependence of local governments on land-related incomes and to alleviate farmers' dissatisfaction. We need to accelerate the reform of household registration system, and gradually abolish the dual household registration system to realize a unified household registration management system between urban and rural areas and ensure an effective mobility of labor force under the guidance of market signals.

Last but not least, we need to transform the pattern of development to provide continuous dynamics for inclusive growth. As dynamic factors mentioned above which will affect the growth of Chinese economy in the

future, inputs of labor force and capital will be facing rigid constraints, which leads the previous factor-driven pattern of economic development hard to maintain. Therefore, an efficiency-driven pattern focusing on improve the total factor productivity is the orientation of China's economic restructuring. First, to develop a connotative and intensive development pattern, such as vigorously developing circular economy, ecological economy and low-carbon economy, is essential to improve the marginal contribution of factor inputs. Second, to adjust the economic structure, such as expanding the contribution of domestic demand, especially consumption demand, to economic growth, vigorously pushing forward optimization of industrial structure and promoting the structure of imports and exports to move toward high-end trade., is indispensable to further release productivity and enhance production efficiency. Third, to encourage innovation and improve the capability of independent innovation, such as improving an technology innovation mechanism which is enterprise-centered, market-oriented and integrated of teaching, studying and research, increasing public education expenditures and enhancing the modern education system to establish a human resource system that can satisfy the needs of economic and social development to different levels, different types and different knowledge structures, establishing support system for industrial innovation and fostering the industrialization of major achievements of science and technology and industrial cluster development to pushing forward

technology progress. Fourth, to propel system innovation, which has been elaborated above, here no longer repeated.

Ladies and gentlemen, the above-mentioned contents are just my viewpoints about how China can avoid middle income trap and achieve the inclusive growth.

Thanks!