The High-income Trap
In East Asia

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The Middle Income Trap

- Middle income economies are those with a gross national income per capita between $1,026 and $12,475
- High income economies are those with a gross national income per capita of over $12,476 (World Bank 2017)
- There is no consensus on what constitutes “middle income trap”
- Middle income economies which have remained in such status for over 42 years are regarded as having fallen into the middle income trap (Felipe, Abdon, and Kumar 2012)
Escaping the Middle Income Trap

• Only 13 among the 101 middle-income economies in the 1960s successfully transitioned to high-income economies by 2008 (World Bank 2012)

  • Equatorial Guinea, Greece, Ireland, Israel, Mauritius, Portugal, Spain, Puerto Rico, Japan, Hong Kong, Singapore, South Korea, and Taiwan

• Japan and the four Asian tigers maintained high growth during their middle income transition by relying on exports, moving from low to high value-added products

• But all have begun to exhibit signs of severe domestic structural problems
The High Income Trap

• Prolonged global monetary easing and fiscal stimulus, leading to asset inflation and rising housing prices
  • Housing affordability (median housing price divided by the annual median household income) has become extreme - Hong Kong: 18.1; Taipei: 15.5; Seoul: 7.7; Singapore: 4.8 (Demographia International Housing Affordability Survey 2017)
  • Household indebtedness is unsustainable: South Korea: 88%; Taiwan: 83%; Hong Kong: 67%; Singapore: 60% (ratio (Bank for International Settlements 2015, National Statistics R.O.C. 2016)

• Generational injustice has exacerbated
  • Older generations enjoy better job prospects and more secure retirement systems
  • Younger generations do not have affordable housing
More Symptoms of the High Income Trap

• Slower growth
  • Stagnant real wages
  • Fewer jobs especially for unskilled workers and younger generations

• Aging Society

• Increasing inequality
Slower Growth Rate

Sources: For Taiwan, National Statistics R.O.C; World Bank
Aging Population

- Low net birth rate and aging population place burdens on welfare entitlements
- Median age on the rise (CIA World Fact Book 2016)
  - Hong Kong (44)
  - South Korea (41)
  - Taiwan (40)
  - Singapore (40)
Aging Society Amidst Declining Fertility

Net Birth Rate, 1990 - 2015

Sources: For Taiwan, National Statistics R.O.C; World Bank
Increasing Inequality

Gini Coefficient for 2015/2016 – A Comparative Perspective

<table>
<thead>
<tr>
<th>Country</th>
<th>Gini Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>0.539</td>
</tr>
<tr>
<td>United States</td>
<td>0.479</td>
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<tr>
<td>China</td>
<td>0.465</td>
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<tr>
<td>Singapore</td>
<td>0.458</td>
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<tr>
<td>Taiwan</td>
<td>0.338</td>
</tr>
<tr>
<td>South Korea</td>
<td>0.295</td>
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</tbody>
</table>

Note:
For Taiwan and South Korea, data for 2015, others, 2016

Sources:
Census and Statistics Department, Hong Kong SAR
U.S. Census Bureau
National Bureau of Statistics of China
Department of Statistics, Singapore
National Statistics, R.O.C.
National Statistical Office, Republic of Korea
Increasing Inequality


Note:
For Hong Kong, the earliest data reflects 1981
For the latest official record:
Hong Kong & Singapore - 2016, Taiwan & South Korea - 2015

Sources:
Census and Statistics Department, Hong Kong SAR
Department of Statistics, Singapore
National Statistics, R.O.C.
National Statistical Office, Republic of Korea
Such Problems Produce Social Repercussions

- Problems arising from economic integration have had negative consequences in high income countries.
- As the economies become less competitive, social tension has risen and there is a backlash against globalization.
- The perception of the causes of such economic dislocation vary from economy to economy and often include:
  - Trade
  - Investment
  - Immigration
And Produce Political Consequences

• There is a high level of dissatisfaction with the establishment
• There is an emergence of separate identity among young people
• These trends produce extreme preferences especially when globalization threatens that sense of identity
• Extreme political leaders and policy options become more appealing in a divided society
• The political repercussion of socio-economic problems in high income economies in East Asia differ depending on the political system and economic structure
Political Consequences Differ

• Korea: young people supported the impeachment of the previous Park administration which they viewed as corrupt
• Taiwan: young people opposed the previous KMT administration which they viewed as colluding with businesses and mainland China and supported new political parties
• Hong Kong: young people want more democracy and more autonomy from China and have founded localist parties
• Singapore: young people remain pragmatic towards current political structure, but are demanding more political competitiveness and check and balance
Taiwan and Hong Kong are Similar in that they Blame China Rather than Globalization

- Young people believe that China presents mixed economic opportunities (unevenly distributed benefits) but severe challenges to autonomy and identity
- They are skeptical about indiscriminate socio-economic or political integration with China
- Their instrumental concerns include specific economic woes, such as inequality and environmental damage
- Their concerns also include fundamental value differences with China that are harder to bridge such as democracy, freedom of speech and social justice and increasingly international recognition and respect
Conclusion

• While these four high income economies share similar problems, the causes can be a combination of international structural change as well as mismanagement in public policy.

• This has led to these societies become increasingly polarized with new political candidates and parties emerging.

• Young people are participating more actively in politics but are not necessarily embracing existing parties.

• Solutions to address such socio-economic problems have been elusive, for example, Japan.
Conclusion (Continued)

• As high income economies fall behind in innovating, middle income economies like China are moving up the value chain
• Most solutions to create more efficiency and productivity are technology-specific which may cost jobs not create them
• Solutions must differ depending on context, but predicated on creating a social consensus which is increasingly difficult
  • Taiwan’s and Korea’s democratic system are still evolving
  • Hong Kong must operate within One Country Two Systems
  • Singapore’s one-party dominance is being challenged