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China's "New Normal" and Its Quality of Development

Jin Han, Haochen Guo and Mengnan Zhang

Additional information is available at the end of the chapter

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Abstract

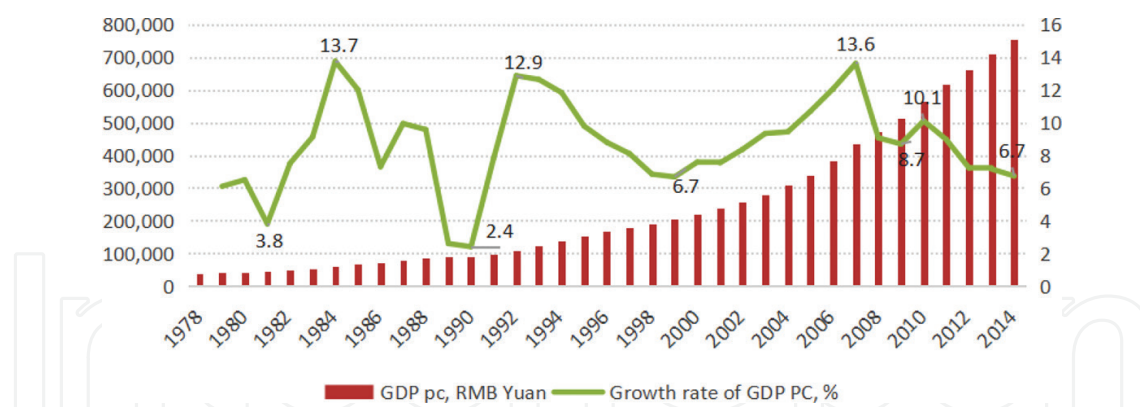
China's new normal means a new higher stage of development, when an alternative is to improve the quality of economic development instead of accelerating growth rate by expansion policies. And the quality of development is the quality of living of most people. This study is to examine the current situations of China's quality of development by comparing China's human development index, inequality indices (Gini, quintile, and Palma), and development potential (human capital index) with the developed countries in Europe, North America, and Oceania, as well as countries with typical traits, such as the Latin American countries, Japan, and Czech Republic; further to put forward China's policy focuses in the new normal stage according to the concluded research results.

Keywords: China's new normal, human development index (HDI), inequality, human capital index (HCI), quality of life

1. China's new normal—a new higher stage

China's new normal is original from the slowdown of the GDP growth rate in recent years. **Graph 1** shows three obvious slowdowns since 1979. The three slowdowns are all accompanying with economic upheavals and big inflations, only the last and current one induces a new concept, "New Normal."

In May 2014, President Xi Jinping put forward the "new normal of China's economy," and described a series of new performances of China's economy. On December 5, 2014, the Politburo meeting of the Communist Party of China formally advocated to "take the initiative to adapt to the economic development of the new normal." Since then, the Chinese economy has entered a "new normal" stage.



Graph 1. Per capita GDP growth China 1979–2014 (1978 constant). Data source: Chinese statistics yearbook 2015: 3–1, 3–5.

Generally, the “new normal” has two characteristics: the first is about the slowdown from high-speed growth to high-middle-speed growth; the second is about the transformation of growth pattern from scale extensive growth to quality and intensive growth [1]. For the future strategy of Chinese government, there seem also two main streams: one is focusing on the growth speed, while thinking the transformation of growth pattern is given, for they think China need to sustain a growth speed to cross the middle-income trap that is the first priority of China [2–5]; another is to focus on the transformation of growth pattern and growth quality, while keeping the high-middle-speed growth even middle-speed growth [1, 6, 7]. We stand for the second view.

The speed slowdown of China’s economic growth is not a bad thing. First, the growth rate from the high-speed down to high-middle-speed is suitable for China. China’s GDP growth rate of 6.9% and per capita GDP growth rate of 6.3% in 2015, are still high enough in the context of the world (the world average of GDP growth rate is 2.5%, 2015). Second, the slowdown is beneficial from the consideration of the limit of natural resources and serious environmental problems of China, as the environment could no longer sustain the long lasting high-speed growth, even if it is further lower; after all, the ecological environment is the precondition of a country’s sustainable development. Third, as a common sense, high-speed growth is apt to bring economic upheaval, and destroy the stability of development. Hence, in long run, keeping a high-middle-speed is better than high-speed for the sake of stable sustainable development.

Moreover, the speed slowdown is a good signal that indicates China has been entering a new stage of development, when an alternative is to improve the quality of economic development instead of accelerating growth rate by expansion policies. And the quality of development is the quality of living of most people; i.e., we can pay more attentions to most people’s quality of life, as like a developed country’s performances.

In brief, China’s new normal means a new higher stage of development with the pursuit of a developed country. This study is to examine the current situations of China’s quality of development by comparing China’s human development index, inequality indices (Gini, quintile, and Palma), and development potential (human capital index) with the developed countries in Europe, North America, and Oceania, as well as countries with typical traits, such as the Latin American countries, Japan and Czech Republic; further to put forward China’s policy focuses in the new normal stage, so to catch up with the developed countries in quality of development.

2. Material and methods

For comparing the quality of development, we arrange here with representative countries, comparable indicators and methodologies.

2.1. Countries considered

China is a large developing country with the largest population and large land mass in the world, and with socialist nature as its Constitution expressed. The countries as comparing counterparts, we choose mainly concerning: (1) well developed (at least its HDI higher than China's); (2) relative competent size of territory and population; and (3) representative in different regions and social models. By data testing, 14 countries have been selected as reference countries as follows.

The four countries, Norway, Denmark, Sweden, and Finland, are all Nordic countries, well developed with long-term stable sustainable qualified development, as generally accepted model of ideal society on the globe currently, the "Nordic model," which have more socialist component, such as generous social welfare and equal opportunity for public services to each family and individual all over the country.

These two countries, Germany and Switzerland, are high developed market economies with more socialist-natures in the "Rhine model," as major roles in mainland Europe with long-term stable qualified development and good performance in equality aspect.

The two countries, USA and UK, are well-developed market economies, natured as typical capitalist market in the "Anglo-Saxon model," and once the super powers in different ages.

The country of Australia is on the Oceania, tightly related with China in commercial intercourse; well-developed capitalist economy with sound social welfare as well.

The country of Japan is the next neighbor of China, the first and most developed economy in Asia, and has good performance generally but in depression for a long time in recent years.

The country of Czech Republic is a former socialist country located in central-eastern Europe, with the history of a member of former Soviet Union alliance, and keeps the most equal society record; not well developed but with very high value of human development index (Rank 28 in 2014 in nearly 200 countries).

The three countries, Argentina, Mexico, and Brazil, are also developing countries but capitalist natured in Latin America, ranking forefront of the world in inequality.

2.2. Indicators and methods

The chapter is to examine China's "new normal" state by comparing related indicators with 14 other countries typically scattered in the world (except Africa). Considering the paper's international angle, we make comparability and internationalism as the prime principles when selecting indicators utilized. Therefore, all indicators and data as follows are from UNDP, (<http://hdr.undp.org>) [8], the exception sources will be marked in addition at the right point.

2.2.1. Human development index (HDI)

The HDI represents a broader definition of well-being and provides a composite measure of three basic dimensions of human development: health (a long and healthy life), education (knowledge), and income (a decent standard of living) [9]. HDI is the most comparable and available indicator for measuring quality of life among countries.

2.2.2. Inequality indices (Gini, quintile, and Palma)

The World bank emphasizes, “To begin to understand what life is like in a country—to know, for example, how many of its inhabitants are poor—it is not enough to know that country’s per capita income. The number of poor people in a country and the average quality of life also depend on how equally—or unequally—income is distributed” [10]. The **Gini Coefficient** is the most frequently used inequality index as “the mean difference from all observed quantities” [11]. However, the Gini does not capture where in the distribution the inequality occurs. For this reason, other two indicators, quintile ratio, and Palma ratio, are also chosen in the paper, which are more clearly reflect the high income and low income gap, successfully excluding the influence of middle income people.

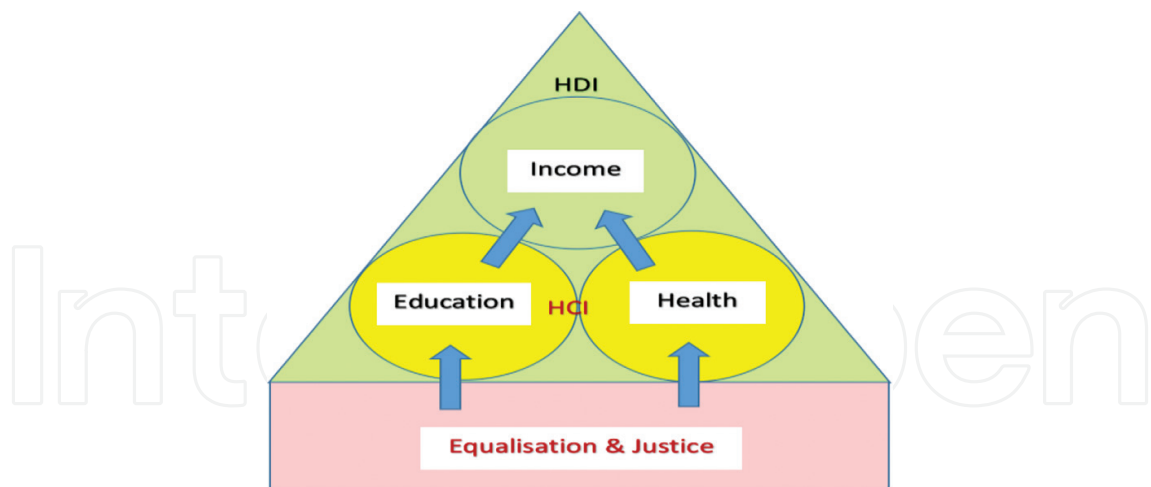
The **quintile ratio** (20:20 or 20/20 ratio) compares how much richer the top 20% of populations are to the bottom 20% of a given population, which is actually a part of the Gini Coefficient that prevents the middle 60% statistically obscuring inequality, meanwhile highlighting the difference between two poles.

The **Palma Ratio**, meaning the ratio of the top 10% of population’s share of gross national income (GNI), divided by the poorest 40% of the population’s share of GNI—could provide a more policy-relevant indicator of the extent of inequality in each country, and may be particularly relevant to poverty reduction policy. It is based on the work of Chilean economist Jose Gabriel Palma who found that the “middle classes” tend to capture around 50% of national income, while the other half is split between the richest 10% and poorest 40% [12].

2.2.3. Human capital index (HCI)

“A nation’s human capital endowment—the skills and capacities that reside in people and that are put to productive use—can be a more important determinant of its long-term economic success than virtually any other resource. This resource must be invested in and leveraged efficiently in order for it to generate returns—for the individuals involved as well as an economy as a whole” [13].

Graph 2 is drawn to show the relations among human development index and its three components, human, capital, and equality. Here, we emphasize that the HDI includes HCI, which account for two-thirds of HDI, even though education and health are not the whole HCI, but at least the major aspects; education and health are both capabilities residing in people, which is directly related to a person’s income and in social level to both quantity and quality of economic development; Equalization and justice are important complement of HDI, which also have promoting effects on people’s education and health by its benefiting mostly to the general public. That is, HDI, HCI, and equality are interrelated and tend to promote along the arrow directions, which constitute and cooperate the quality of development/quality of life.



Graph 2. The promoting relations of equality, human capital, and human development.

All data used are registered in official sources. The international data for comparing among countries are from international organizations, UNDP. The method used in the chapter is mostly comparative analysis approaches with statistical graphs and tables.

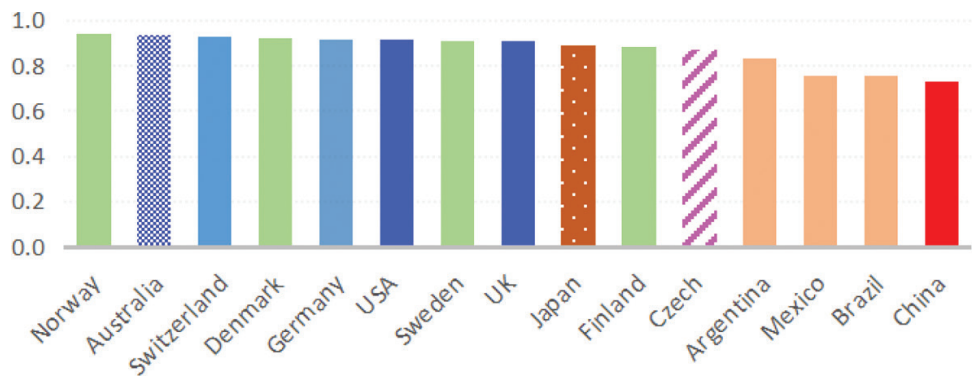
3. Experimental

Here, we examine for comparing China’s quality of development with the representative countries by using the three serials indicators; and conduct comprehensive comparative analysis and evaluation.

3.1. Human development and living quality

3.1.1. HDI overall status

Graph 3 shows the level of human development index of the 15 countries selected with various colors, which implies the overall quality of development and quality of life of different country groups. China is at the bottom of the row, ranked 90th in the world, and approximately accounts for 77% of the highest valued country, Norway; 79% of the United States, the typical capitalist country; and 82% of Japan, Asia’s most developed country. That means we have a long distance to go in quality of life.



Graph 3. HDI in world context 2014.

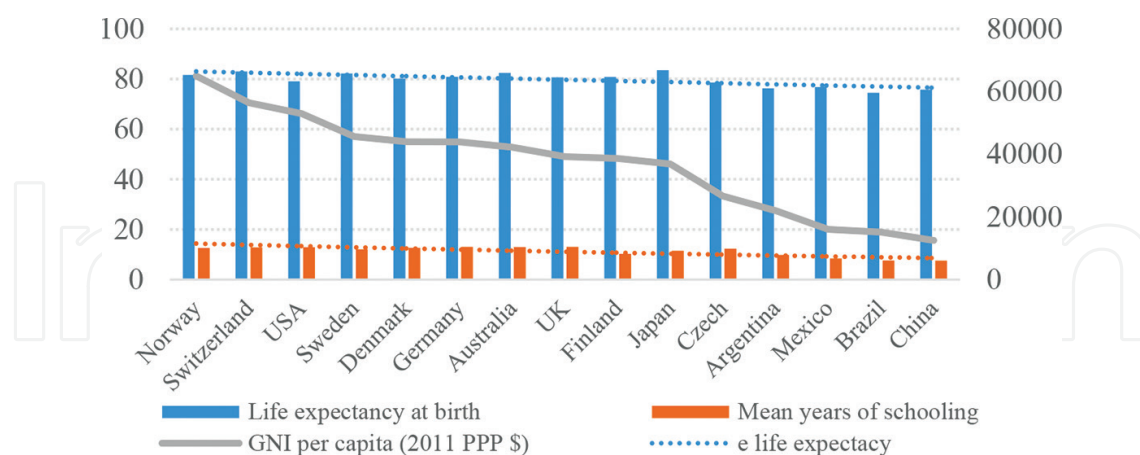
Table 1 shows the overall level of HDI of four level groups, and the world and the developing countries. China, the second biggest economy in the world, is nearly 20% less than the level of the first 50 countries, and just at the average level of the world in quality of life.

Groups	HDI	China %
Very high human development	0.896	81.1
High human development	0.744	97.7
Medium human development	0.630	115.4
Low human development	0.505	144.0
World	0.711	102.3
Developing countries	0.660	110.2

Table 1. Overall level of human development in different groups 2014.

3.1.2. HDI components

In Annex **Table 1**, we make HDI and its component indicators in order respectively and make a sum rank in order to see the influence of each component. From Annex **Table 1** and **Graph 4**, we notice first that the general pattern does not change: (1) the upper ranked 8 countries are still upper but with changed ranks; (2) the lower seven countries are lower by the same rank with HDI order; (3) China retains at its bottom position by reordering, including total rank and almost all component cases (life expectancy of China is the only factor that does not row at the extreme bottom, which might somehow show off the medical condition or Chinese traditional medicine).



Graph 4. Components of HDI by GNI order 2014.

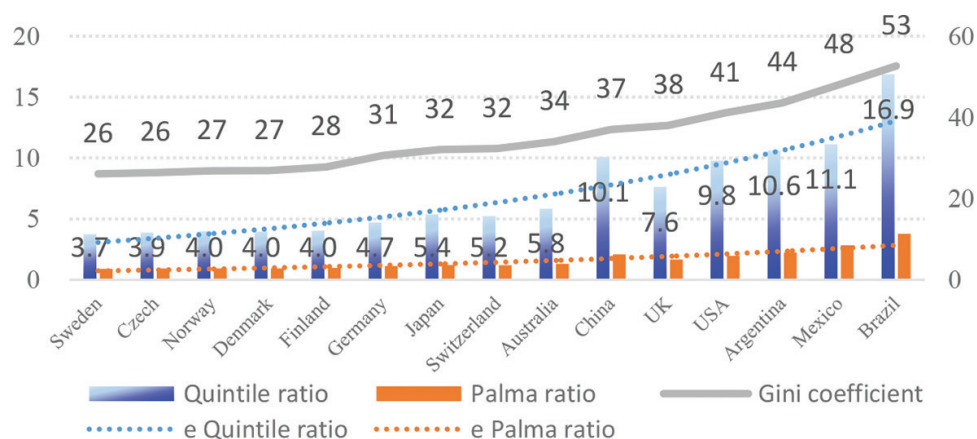
Moreover, we find some prominent features in Annex **Table 1** and **Graph 4**: (1) Both Germany and UK's re-ranks are upper by the same factor, "mean years of schooling" showing social sustainability, which imply the labor force and the civilized residents endowed by education; UK in Anglo-Saxon model with capitalist nature, has the similar pattern (8:1:8) with Germany (6:1:6) in "Rhine model," but far from the pattern of USA (10:4:3); Czech Republic (with similar

pattern 11:8:11) rows upper also by its "mean years of schooling," which means education gains much attention in Czech as well. (2) Australia (3:3:7) has almost the opposite pattern with USA, but with better momentum of development in practical economy than USA. (3) The life expectancy order of Japan is at the first, which might reflect Japanese life style is very healthy.

3.2. Inequality

Equalization and justice are important complement of HDI, so we here analyze income inequality standing for measuring social equality and justice, although which is far from comprehensive but essential and quantitative. According to the data of the National Bureau of Statistics, China's Gini coefficient has ever peaked to 49.1 in 2008, began to decline since 2010, to 46.9 in 2014, along with policy's functioning.

Graph 5 shows that, in the Gini coefficient case, China (2014) performs better than the three Latin countries and the two typical capitalist countries, USA and UK. However, the quintile ratio that shows the polarization in income distribution by the top 20% to the bottom 20%, has different performance: China's value of quintile ratio is only better than that of the three Latin countries but worse than USA and UK, and far worse than other countries included; The Palma ratio, the richest 10% of population's share of gross national income divided by the poorest 40%'s share, provides support to the quintile's case.



Graph 5. Income inequalities by Gini order 2014.

From the computing results in **Table 2**, we can see more clearly that China's polarization in income distribution, i.e., the highest income group to the lowest, excluding the influence of middle income people is conspicuous worse than the Gini performance with the influence of middle income populations included, by observing the deviations from the average of the 15 countries considered.

Of course, the income inequality in three Latin countries show much worse cases than in China; and their polarization is even much worse than their Gini case as well. That is probably the reason why the Latin countries could not performance better with so much endowment of natural resources. Therefore, equality and social justice in China as institutional environment given by the government should improve continuously for the sake of promoting the living quality of the people.

HDI rank total	Country	Indicators of income inequality		
		Quintile ratio	Palma ratio	Gini coefficient
14	Sweden	3.75	0.90	26.08
28	Czech	3.88	0.93	26.39
1	Norway	4.00	0.93	26.83
4	Denmark	3.96	0.94	26.88
24	Finland	4.04	0.98	27.79
6	Germany	4.72	1.14	30.63
20	Japan	5.39	1.22	32.11
3	Switzerland	5.23	1.21	32.35
2	Australia	5.85	1.32	34.01
90	China	10.08	2.08	37.01
14	UK	7.64	1.67	38.04
8	USA	9.79	1.96	41.12
40	Argentina	10.62	2.25	43.57
74	Mexico	11.13	2.84	48.07
75	Brazil	16.87	3.77	52.67
15 countries	Average	7.13	1.61	34.90
% deviation to average	China	41.41	29.29	6.04
	Argentina	49.00	40.03	24.83
	Mexico	56.11	76.27	37.72
	Brazil	136.59	134.55	50.90

Table 2. Fifteen countries' comparison of income inequality by Gini Order 2014.

In addition, China is a socialist country as its Constitution expressed, and in case any adverse effect happens, it is very necessary for China to have higher pursuit in equality and social justice, e.g., reach to 35/7/1.5 (Gini/quintile/Palma), equivalently the average level of listed 15 countries, close to the level of UK (38/7.6/1.7) or Australia (34/5.9/1.3), as the minimum pursuits in 5–10 year, from 37/10/2, the currently level of China by the inequality index.

3.3. Human capital

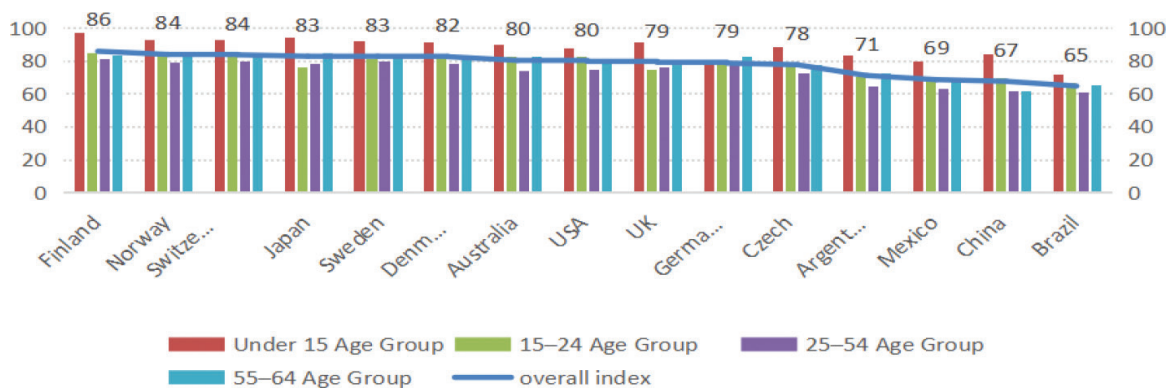
Generally observing the history and experiences of all developed countries, it is common nature that every country pays enough attention to two factors: labor force and ecological environment, which are two bases of a human society. We here focus on labor force only for which is the most active factor for social economic development, though ecological environment is a big problem in China.

A group of American economists, such as Gary S. Becker, T. W. Schultz, George J. Stigler, Milton Friedman, etc., advocate the concept “human capital” to describe the quality of labor

force [14]. Now, that the concept of human capital has been widely spread and accepted, and for the sake of comparing the quality of labor force internationally, we take the advantage of data availability to use it, even though we are a bit shy to treat labors as capital.

3.3.1. Human capital index and its aging structure

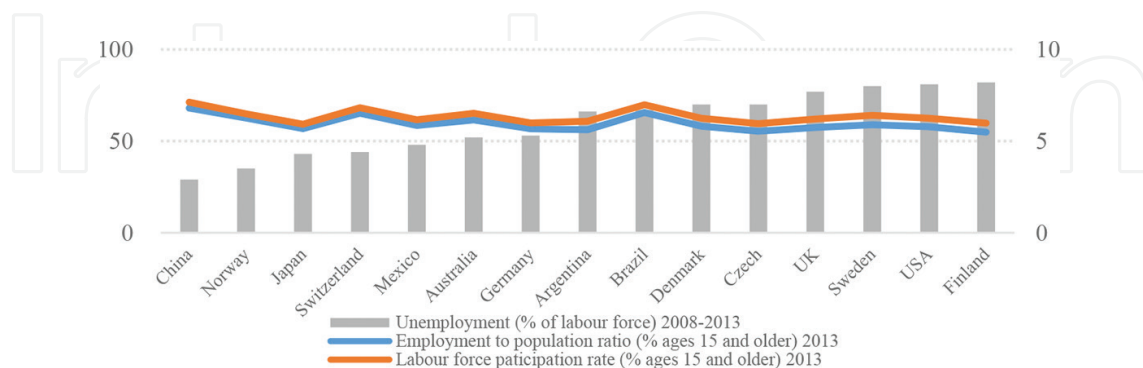
From **Graph 6**, we can see that China's human capital level rows at the lowest position in the other 14 countries, and upper than Brazil. In aging structure, it seems a common problem currently for all other 14 countries but China. In fact, the aging issue in China is becoming a problem because of China's one-child policy which lasted 35 years. So, it becomes urgent to promote the quality of labors, if given the labor force participation and employment rate.



Graph 6. Human capital index and its structure by overall order 2015.

3.3.2. Labor force participation and employment

China has no doubt the best performance both in labor force participation and employment (**Graph 7**). Then, we see the quality of labor, for "education and training are the most important investments in human capital" [14].



Graph 7. Employment and labour force participation by unemployment order

3.3.3. Education efficiency

From 15-year-old students' performance in 2012, we find that the quality of labor force in China is worth optimistic for the future. But on second thought, Chinese is so diligent and

smart that China should have the highest quality of development, but China's HDI is at the 90th position, just at the middle level of the world. Why? There might be many reasons involved, may we have another paper to discuss the issue for the limit of article length.

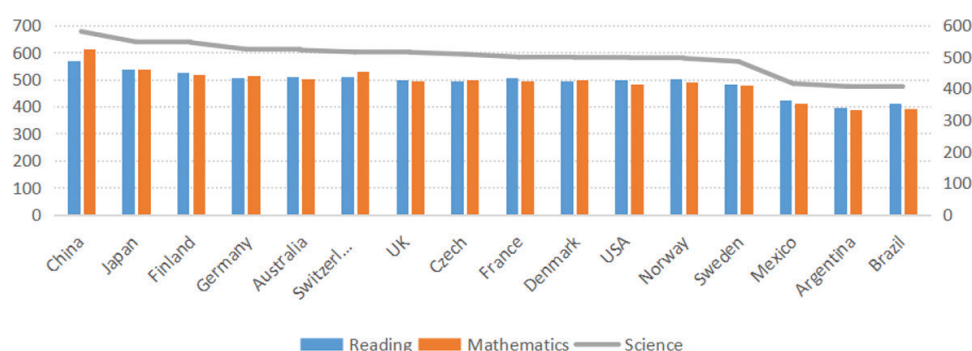
4. Results and conclusions

From what has been discussed above, we conclude the following results:

- (1) Equalization and justice are important complement of HDI; The HDI includes HCI; The two major parts of HCI, education and health, are both capabilities residing in people, which directly related to a person's income and in social level to both quantity and quality of economic development, and directly benefited from equalization and justice; Hence, HDI, HCI, and equality are inter relatedly constitute and cooperate the quality of development/quality of life. (**Graph 2**) The economy (income) is the business of market, while the education and health of labors and the income distribution should be supervised and guaranteed by the government; that is to say that the quality of life should be achieved by the combination of government and market.
- (2) The overall level of HDI in China is nearly 20% less than the level of the first 50 countries, and just at the average level of the world in quality of life. Among the selected 15 countries, China is at bottom of the row, ranked 90th in the world, and approximately accounts for 77% of the highest valued country, Norway; 79% of the United States, the typical capitalist country; and 82% of Japan, the Asian most developed country. That means we have a long way to go in quality of life (**Table 1, Graph 3**).
- (3) Both Germany and UK have best performance in "Mean years of schooling," which implying the labor force and the civilized residents endowed by education; UK in Anglo-Saxon model with capitalist nature, has the similar pattern (8:1:8, means rank of health/education/economy) with Germany (6:1:6) in "Rhine model," but far from the pattern of USA (10:4:3); Czech Republic (with similar pattern 11:8:11) rows upper also by its "Mean years of schooling," which means education gains much attention in Czech as well. Australia (3:3:7) has almost the opposite pattern with USA, but with better momentum of development in practical economy than USA. China should not take the model of USA, but learn more from Germany, UK and Australia, and Czech, that is, pay more attention to education for a civilized society in the future (**Annex Table 1**).
- (4) In the Gini coefficient case, China (2014) performs better than the three Latin countries and the two typical capitalist countries, USA and UK; China's quintile ratio is only better than that of the three Latin countries but worse than USA and UK; The Palma ratio provides support to the quintile's case. That is, China's polarization in income distribution is conspicuous worse than the Gini performance with the influence of middle income populations included. Hence, we should concern more of the low income groups (**Graph 5, Table 1**).
- (5) The income inequality of three Latin countries shows much worse cases than in China, and their polarization is even much worse than their Gini case as well. Serious inequality cannot bring a developed economy from the lesson of Latin countries. Therefore, equality

and social justice in China as institutional environment given by the government should improve continuously for the sake of promoting the living quality of the people (**Table 1**).

- (6) China is a socialist country as its constitution expressed, and in case any adverse effect happens, it is very necessary for China to have higher pursuit in equality and social justice, e.g., reach to 35/7/1.5 (Gini/quintile/Palma), equivalently the average level of listed 15 countries, close to the level of UK (38/7.6/1.7) or Australia (34/5.9/1.3), as the minimum pursuits in 5–10 years, from 37/10/2, the currently level of China by the inequality index (**Table 1**).
- (7) China's human capital Index row at the lowest position among the countries, only better than Brazil's (**Graph 6**). But as the positive factor of HCI, China has the best performance in all 15 countries both in labor force participation and employment (**Graph 7**). From 15-year-old students' performance in education efficiency in 2012, the quality of labor force in China is worth optimistic for the future (**Graph 8**). Therefore, China has its advantages in human capital, and furtherly in the potential of development.
- (8) It is possible to achieve better growth speed while we are focusing on the quality of development.



Graph 8. Education quality by order of science 2012 (Performance of 15-year-old student).

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JEL classification: E6, F5, F6, O15, O5

Annex

HDI order origin	Country	HDI	HDI order	Life expectancy at birth (year)	LE order	Mean years of schooling (year)	SY order	GNI per capita (2011 PPP \$)	GNI order	Total score	Score order	Country
1	Norway	0.94	1	81.6	5	12.6	7	64992.34	1	13	2	Norway
2	Australia	0.93	2	82.4	3	13	3	42260.61	7	13	2	Australia
3	Switzerland	0.93	3	83	2	12.8	5	56431.07	2	9	1	Switzerland
4	Denmark	0.92	4	80.2	9	12.7	6	44025.48	5	20	8	Denmark
6	Germany	0.92	5	80.9	6	13.1	1	43918.54	6	13	2	Germany
8	USA	0.91	6	79.1	10	12.9	4	52946.51	3	17	5	USA
14	Sweden	0.91	7	82.2	4	12.1	9	45635.5	4	17	5	Sweden
14	UK	0.91	8	80.7	8	13.1	1	39267.19	8	17	5	UK
20	Japan	0.89	9	83.5	1	11.5	10	36926.92	10	21	9	Japan
24	Finland	0.88	10	80.8	7	10.3	11	38694.77	9	27	10	Finland
28	Czech	0.87	11	78.6	11	12.3	8	26660.28	11	30	11	Czech
40	Argentina	0.84	12	76.3	13	9.8	12	22049.59	12	37	12	Argentina
74	Mexico	0.76	13	76.8	12	8.5	13	16055.97	13	38	13	Mexico
75	Brazil	0.76	14	74.5	15	7.7	14	15174.97	14	43	14	Brazil
90	China	0.73	15	75.8	14	7.5	15	12547.03	15	44	15	China

Annex 1. Component comparison of Human human development development 15 countries 2014.

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