According to World Bank data, only a handful of economies have risen from middle- to high-income status since 1960, when economic catch-up growth in many developing economies took off. Examples include South Korea, Singapore, Israel and Ireland. Some countries that were high income in 1960 remain so today, such as Denmark and Japan. Others, like Myanmar and North Korea, have stayed poor. Many countries have stayed at middle-income status for decades, seemingly unable to reach high-income status. How does China compare to these other countries stuck at the middle-income level?

One key factor that may account for the disparate development paths of countries is education. According to the OECD, in 2015 the average share of workers—people aged 18–65—that completed secondary education in countries that graduated to high-income status was 72 per cent when they were still at middle-income status. But in countries that have failed to exit middle-income status the share is much lower—36 per cent on average.

Having a large supply of educated workers ensures that enough talent exists to meet and drive demand for high value services, thereby sustaining growth. When too many unskilled workers are squeezed out of upgraded industries their wages stagnate, curtailing demand and hampering growth. This eventually leads to serious social problems, such as higher rates of unemployment and increased crime and social unrest.

Education attainment metrics help reveal China’s potential future development and growth trajectory. The share of uneducated workers in China’s labour force is larger than that of virtually all middle-income countries. According to 2010 census data, there are roughly 500 million people in China between the ages of 18 and 65 without a senior high school diploma, which is 74 per cent of the labour force. This makes China the least educated middle-income country in the world.

Recognising the critical need for secondary education, China’s government has expanded access to high school throughout the country. High school attainment among the youngest cohorts in the labour force is close to 80 per cent. But hundreds of millions of less educated people will remain in the labour force for the next 30 years. The government will face huge challenges trying to either retrain workers or provide a social safety net. The quality of China’s expanded secondary education is also uncertain. Almost all low-skilled labour comes from rural areas where school and health systems are under-resourced. Many of China’s new
secondary school graduates attended poor quality vocational schools. Systemic shortfalls in early childhood education and health in rural areas may also render many young people unprepared to learn complex skills as they age. A systematic review and meta-analysis found that 45 per cent of children in rural schools across China have delayed cognitive development before they reach the age of five.

Investments during the first years of life in a safe home environment with sufficient learning opportunities, healthy nutrition and responsive caregiving are crucial for healthy child development. But a study published in 2017 on passive parenting and early child development in rural China shows that parental investments in cognitively stimulating activities—such as a game of peekaboo or storytelling—and healthy child feeding practices are low. This type of underinvestment in quality early childhood development jeopardises the skill development of China’s future labour force.

The risks of a stagnating China would reverberate far beyond its shores. China’s sheer size—one-fifth of the world population—means what happens there will have outsized implications for foreign trade, global supply chains, financial markets and growth around the globe. There are political perils, too. An economically insecure China may turn to nationalism to boost legitimacy. No assessment of China’s growth is complete without considering the implications of China having hundreds of millions of underemployed people in its economy for the foreseeable future.

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