

CHINA'S DEVELOPMENTAL POTENTIAL AND MIDDLE INCOME TRANSITION

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Executive Summary

1. According to the latest World Bank classification, China has upgraded from lower-to upper-middle income economy group in 2009. Rapid income transition has improved Chinese living standard. China's current goal of development is to advance to an advanced economy.
2. Besides the criterion using absolute US dollar, a dynamic definition of income transition illustrates that the transition is a co-movement of a country's economic level relative to developed economies. In this context, threshold ratio is usually used to evaluate income classification.
3. Based on this method, with the fastest transition speed, China is the least possible country to fall into the middle income trap under current conditions.
4. China's 2015 GDP per capita reached an equivalent level of Taiwan in 1983 and South Korea in 1986. Taiwan used 10 years with 8.2% annual growth rate to accomplish middle-income transition and South Korea used 15 years at 6.7% growth rate.
5. If China continuously grows at a similar level as what South Korea did in 1986-2001, China possibly will transform itself into a high income economy in about 15 years' time.
6. Recent concern about China's falling into the middle income trap has gained wide attention due to its continuing slowdown since the early 2010s. Thorough structural reform has been proposed by the Chinese central government to create new growth engines. However reforming the whole economic structure is a time-consuming process.
7. Latest provincial data shows that inland provinces' real growth rate generally performed better than coastal areas'. Inland China is a powerful engine to spur China's economic growth in the near future.

8. Inland China has surpassed coastal areas in terms of labour supply and manufacturing investment, showing that China's industrial base is moving inland. China would do better to rely on inland China's manufacturing adoption from coastal areas than to rely on the latter's industrial upgrading for its future growth.
9. Inland China's growth potential will be the country's new growth engine that propels it to the next phase of growth before coastal China accomplishes its industrial upgrading and economic restructuring, and facilitates China's move towards the high-income group.