



Looking Ahead: China Becoming a High-Income Economy

Nearly four decades of reform and opening-up shows that China is one of the few successful cases of development. First, sustained high growth became a reality in China. China's GNP grew by 32.19 times from 1978 to 2016 at constant prices, that is, an annual increase of 9.6%, of which the annual GDP growth hit 9.9% and 7.8% from 1978 to 2010 (high-speed growth) and from 2011 to 2016 (moderately high-speed growth) respectively on average.

Second, China has achieved leapfrog development from an extremely low-income level to upper-high-income. In 1978, China's GNI per capita was less than half of the average of low-income countries and ranked close to the bottom of the world. According to statistics provided by the World Bank, China ranked 175th among 188 economies with available statistics, 13th from the bottom and amongst the last 6.9%, indicating a typical least developed country; by 1990, China ranked 178th among 200 economies with available statistics, 22nd from the bottom and amongst the last 11.0%, by which China basically resolved the subsistence challenge for its population¹; in 2000, China ranked 141st among 207 economies with

¹ Report of the 14th CPC National Congress pointed out that the subsistence problem has been basically resolved for 1.1 billion people, as China is striding toward a moderately prosperous society. Jiang Zemin: *Quickening the Pace of Reform, Opening-up and Modernization Construction, Aiming for Greater Victories of the Cause of Socialism with Chinese Characteristics—Report at the 14th CPC National Congress* (October 12, 1992).

available statistics, 66th from the bottom and amongst the last 31.9%, marking the country's entrance into the lower-middle-income bracket with a moderately prosperous society shaped in general²; by 2015, China ranked 96th among 214 economies with available statistics, 44.6% from the top as the country stepped into the upper-middle-income phase and is at a critically strategic stage to build a moderately prosperous society in all aspects. The basic plan for the next step is to enter the high-income phase and successfully become a high-income country within the next decade through overcoming the "middle income trap".

5.1 INCOME GROUP CLASSIFICATION OF CHINA'S PROVINCIAL REGIONS

Based on the World Bank statistics, we have conducted an analysis of countries and regions with population over 1 million from 1995 to 2015 using absolute income method (GNI per capita in US dollars, statistics based on *Atlas* method) and relative income method (PPP, international dollar in 2011), aiming to understand China's development track from a low-income to a moderately high-income level from the perspective of international development. Statistics of 1995, 2005 and 2015 have been chosen with data samples spanning 20 years.

5.1.1 *Absolute Income Method*

According to the absolute income method, in 1995, the aggregate population of low-income countries (GNI per capita below 765 US dollars) accounted for 57.0% of the world population; that of lower-middle-income countries (GNI per capita between 765 and 3035 US dollars) accounted for 18.2% of the world population; that of upper-middle-income countries (GNI per capita between 3035 and 8955 US dollars) accounted for 8.6% of the world population while that of high-income countries (GNI above 8955 US dollars) accounted for 16.2% of world

² Report of the 16th CPC National Congress pointed out that the people's livelihood has basically achieved the historical leap forward from basic subsistence to a moderately prosperous society. Yet the moderate prosperity currently achieved is at a low level, incomplete and imbalanced. Jiang Zemin: *Building a Moderately Prosperous Society in All Aspects and Opening a New Chapter in the Cause of Socialism with Chinese Characteristics—Report at the 16th CPC National Congress* (November 8, 2002).

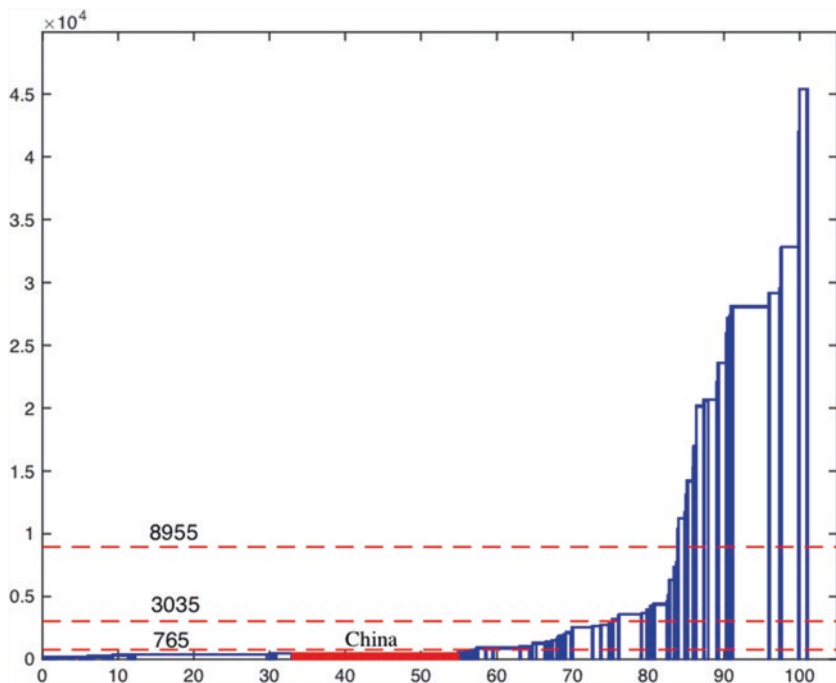


Fig. 5.1 Groups of countries by income 1995 (*Atlas* method). (Note: The horizontal axis represents the population proportion of countries of various income levels (ranked according to per capita GDP); the vertical axis represents per capita GDP (based on *Atlas* method); income levels indicated by the dotted lines are the threshold value of income groups—low-income countries, lower-middle-income countries, upper-middle-income countries and high-income countries.)

population. In 1995, China was categorized as a low-income country with GNI per capita of 540 US dollars, accounting for 38.4% of the total population of low-income countries (see Fig. 5.1).

According to the absolute income method, in 2005, the aggregate population of low-income countries (GNI per capita below 825 US dollars) accounted for 36.6% of the world population; that of lower-middle-income countries (GNI per capita between 825 and 3465 US dollars) accounted for 35.2% of the world population; that of upper-middle-income countries (GNI per capita between 3465 and 10,725 US dollars)

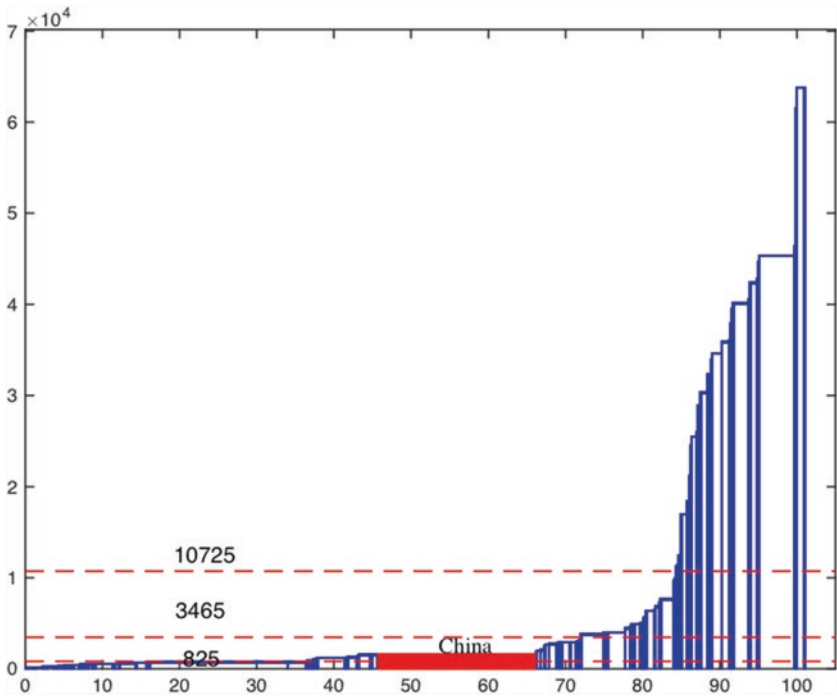


Fig. 5.2 Groups of countries by income 2005 (*Atlas* method). (Note: Indications of the horizontal axis, vertical axis and dotted lines are identical with Fig. 5.1)

accounted for 8.6% of the world population while that of high-income countries (GNI above 10,725 US dollars) accounted for 12.5% of world population (see Fig. 5.2). In 2005, China was categorized as a lower-middle-income country with GNI per capita of 1760 US dollars, accounting for 57.9% of the total population of lower-middle-income countries.

According to the absolute income method, in 2015, the aggregate population of low-income countries (GNI per capita below 1045 US dollars) accounted for 8.4% of the world population; that of lower-middle-income countries (GNI per capita between 1045 and 4125 US dollars) accounted for 40.7% of the world population; that of upper-middle-income countries (GNI per capita between 4125 and 12,735 US dollars) accounted for 37.7% of the world population while that of high-income countries (GNI above 12,735 US dollars) accounted for 16.2% of world

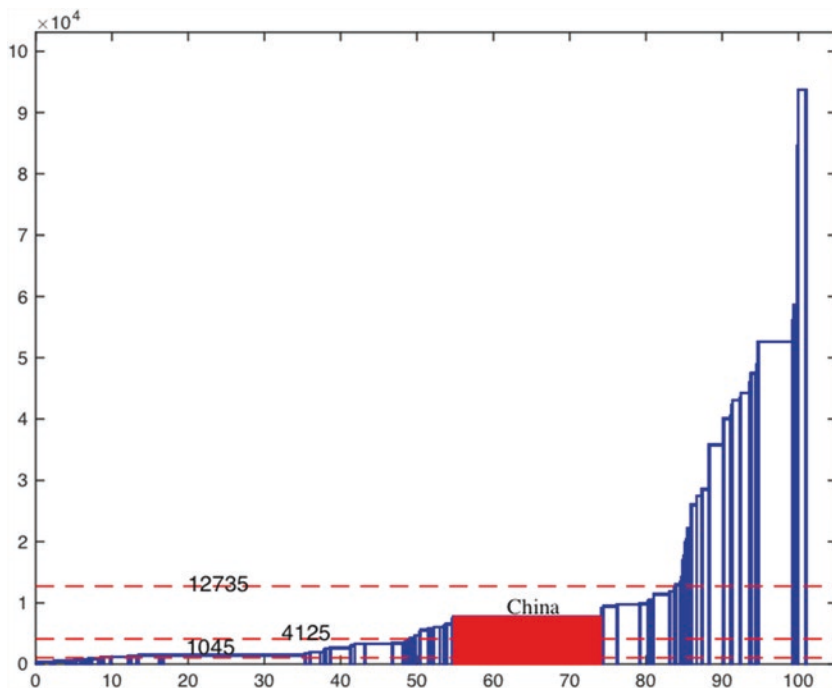


Fig. 5.3 Groups of countries by income 2015 (*Atlas* method). (Note: Indications of the horizontal axis, vertical axis and dotted lines are identical with Fig. 5.1)

population (see Fig. 5.3). In 2015, China was categorized as an upper-middle-income country with GNI per capita of 7930 US dollars, accounting for 51.3% of the total population of upper-middle-income countries.

5.1.2 Relative Income Method

Based on the relative income method, in 1995, the aggregate population of low-income countries (per capita GDP at constant prices of 2011 below 5% of the U.S.) accounted for 9.2% of the world population; that of middle-income countries (per capita GDP at constant prices of 2011 between 5% and 40% of the U.S.) accounted for 74.2% of the world population while that of high-income countries (per capita GDP at constant prices of 2011 above 40% of the U.S.) accounted for 16.6% of the world

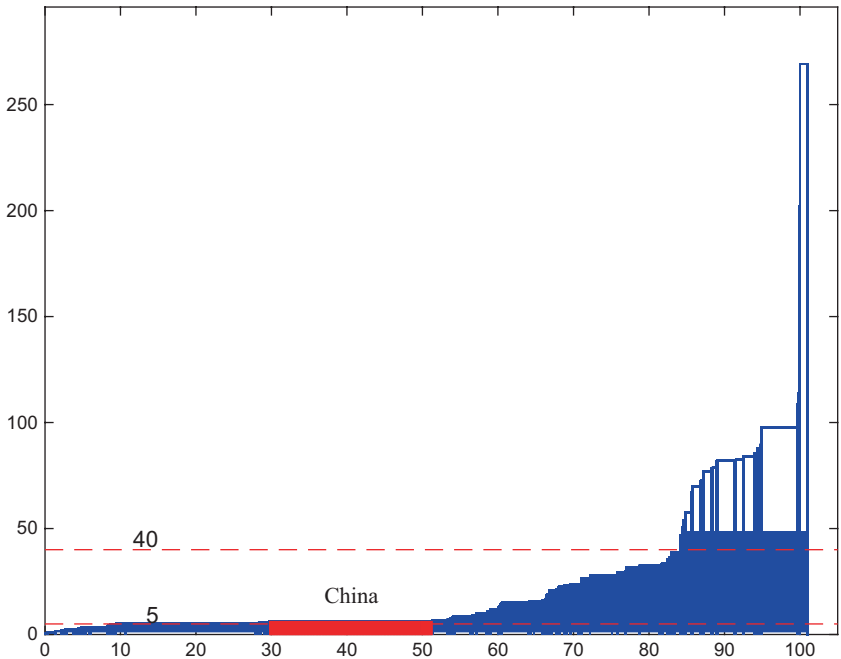


Fig. 5.4 Per capita GDP of countries in 1995 relative to that of the U.S. (Note: The horizontal axis represents the population proportion of countries of various income levels (ranked in the order of per capita GDP); the vertical axis represents the percentage of per capita GDP (PPP, in international dollar in 2011) in relation to the U.S.; the dotted lines correspond to 5% and 40% respectively, representing the threshold value of low-income countries, middle-income countries and high-income countries according to the relative income method)

population (see Fig. 5.4). Based on the relative income method, China's per capita GDP in 1995 was 6.5% of the U.S., slightly above the 5% threshold of low-income countries.

Based on the relative income method, in 2005, the aggregate population of low-income countries accounted for 11.1% of the world population; that of middle-income countries accounted for 72.9% of the world population while that of high-income countries accounted for 16.0% of the world population. According to the relative income method, China's per capita GDP in 2005 was 11.5% of the U.S., an increase of 5 percentage points compared to 1995, during which China ranked among

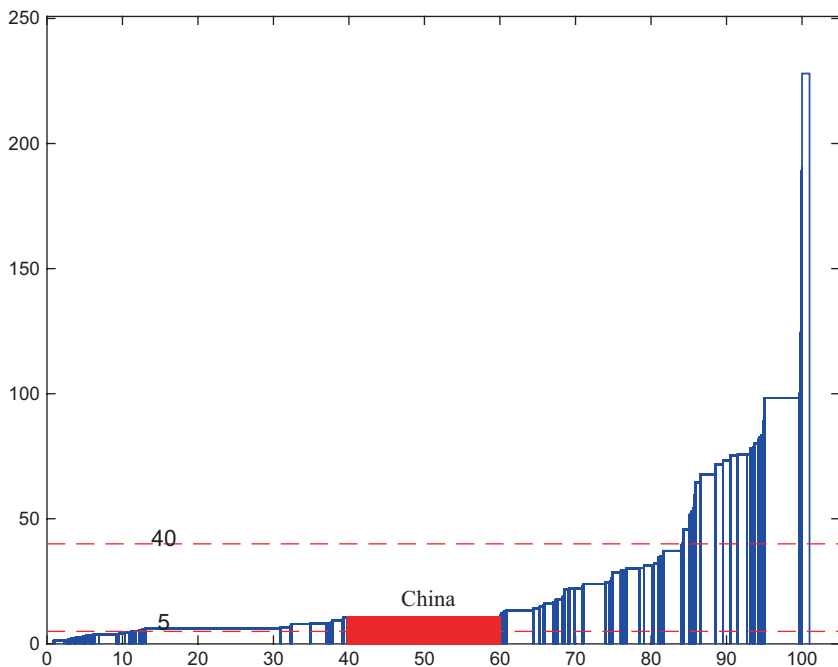


Fig. 5.5 Per capita GDP of countries in 2005 relative to that of the U.S.

middle-income countries. Between 1995 and 2005, the convergence coefficient of per capita GDP between China and the U.S. was 5.9% annually (see Fig. 5.5).

Based on the relative income method, in 2015, the aggregate population of low-income countries accounted for 8.9% of the world population; that of middle-income countries accounted for 72.2% of the world population while that of high-income countries accounted for 18.9% of the world population (see Fig. 5.6). Based on the relative income method, China's per capita GDP in 2015 was 25.4% of the U.S., an increase of 13.9 percentage points compared to 2005, indicating that the gap of per capita GDP significantly narrowed down between China and the U.S. despite China remaining a middle-income country. Between 2005 and 2015, the convergence coefficient of per capita GDP between China and the U.S. was 8.2% annually, which was higher than that between 1995 and 2005,

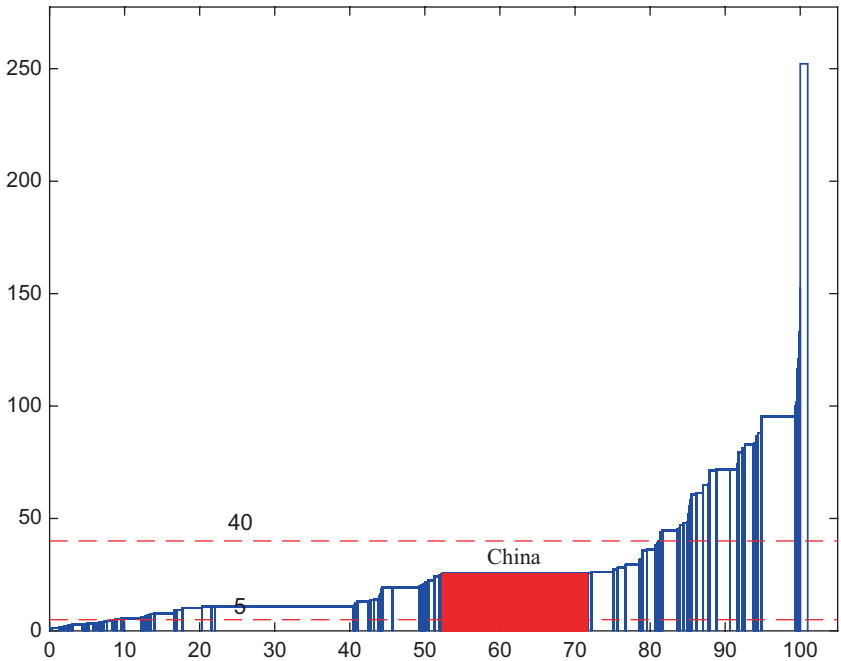


Fig. 5.6 Per capita GDP of countries in 2015 relative to that of the U.S.

indicating that despite the slowdown in growth of per capita GDP during this period, China had quickened its pace in catching up with the U.S. in per capita income.

5.2 A REGION-BY-REGION STATISTICAL ANALYSIS OF OVERCOMING THE “MIDDLE INCOME TRAP” IN CHINA

Showing the most significant regional disparity in the world, China is referred to as “one China, four worlds (i.e. four income groups)”, which is part of the basic reality of China. Nevertheless, rather than remaining static, such a pattern is changing dynamically, constantly leaping toward a higher level. Therefore, understanding China’s gradual transition from a low-income country to a high-income one would also require putting this process in various regional contexts. Based on the amount of US dollars of



Fig. 5.7 Income groups by region (1995)

per capita GDP (*Atlas* method) and the threshold of income groups announced by the World Bank every year, we have illustrated the income groups that various regions in China belonged to between 1995 and 2015.

In 1995, Shanghai was the only Chinese city in the upper-middle-income group, while coastal regions in Eastern China, the three provinces of Northeast, Inner Mongolia, Xinjiang, Hubei and Chongqing reached lower-middle-income level, and other parts of Central and West China all belonged to low-income regions (see Fig. 5.7). Therefore, from a holistic view, China was an economically backward country in 1995 in relative terms.

In 2005, Shanghai, Beijing and Tianjin all crossed over the upper-middle-income threshold while all other regions except for Guizhou, which remained in the low-income group, were amongst the lower-middle-income ranks (see Fig. 5.8). Therefore, in 2005, China worked its

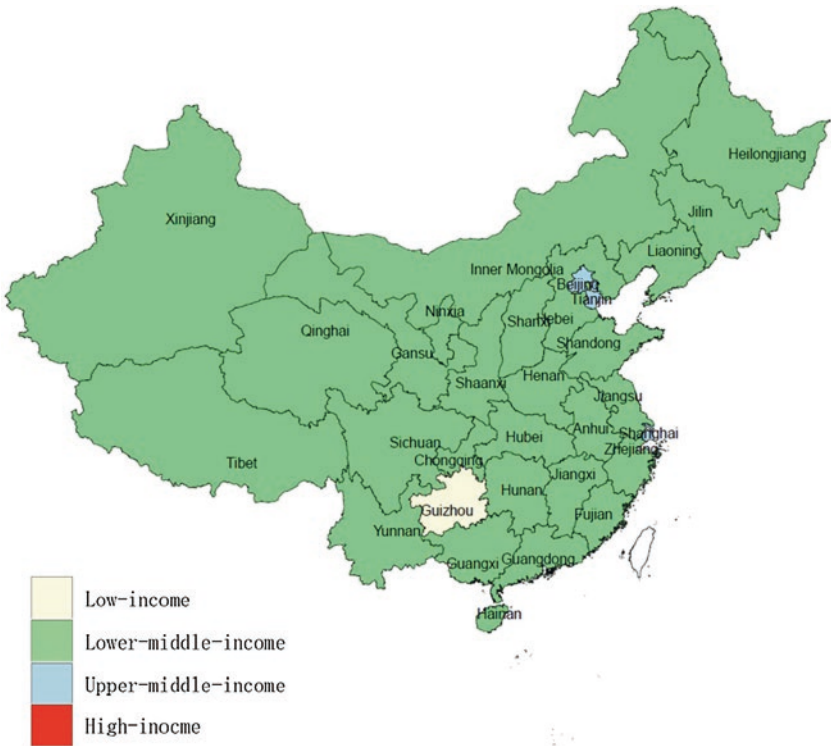


Fig. 5.8 Income groups by region (2005)

way into the lower-middle-income group on the whole, showing remarkable improvement as compared to 1995.

In 2015, five regions in China secured their positions in the high-income group, namely Beijing, Tianjin, Shanghai, Jiangsu and Zhejiang, while all other regions in China crossed over the upper-middle-income threshold (see Fig. 5.9). Additionally, per capita GDP of Inner Mongolia, Liaoning, Fujian, Guangdong and Shandong exceeded 10,000 US dollars, adding up to 507.8 million permanent residents which accounted for 36.9% of the Chinese population (1.3746 billion), equal to the total population of the EU (509.9 million) and 1.58 times of the total population of the U.S. (321.4 million). The population in the rest of the 21 provinces, municipalities and autonomous regions also entered the upper-middle-income stage, accounting for less than two-thirds of the population. This means that over one-third of China, mostly the coastal regions, has successfully overcome the “middle income trap” and entered high-income

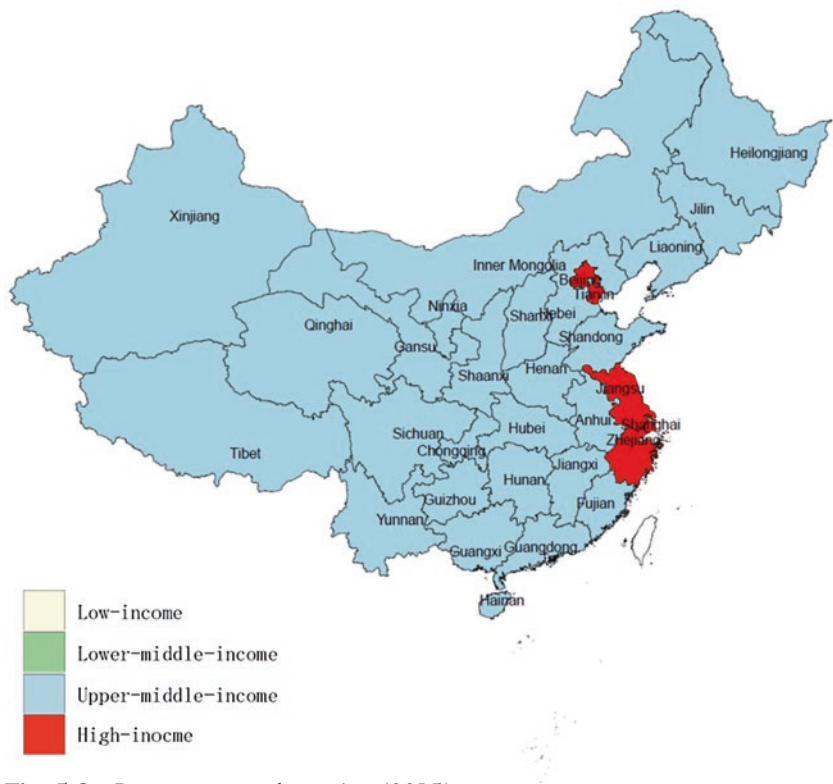


Fig. 5.9 Income groups by region (2015)

stage, which is expected to ignite the momentum for the entire country to sail through the middle-income stage and cross the high-income threshold.

Seen from the changes in income groups based on per capita GDP from 1995 to 2015, all regions maintained the momentum of progressing toward the higher-income group, while no province remained in the low-income or lower-middle-income stage, which was consistent with the trend of changing regional disparity in economic development. From the perspective of regional disparity in economic development, the relative difference coefficient of per capita GDP saw an increase from 64.0% in 1995 to the peak value of 75.1% in 2004 before a continuous decrease of up to 43.5% in 2014, reflecting a tendency of continuous convergence (see Fig. 5.10). This also indicates that overall, relatively backward regions in China are catching up with relatively developed regions, with economic development gaps narrowing down and a more balanced development among regions. If such trend is to continue, economic development across

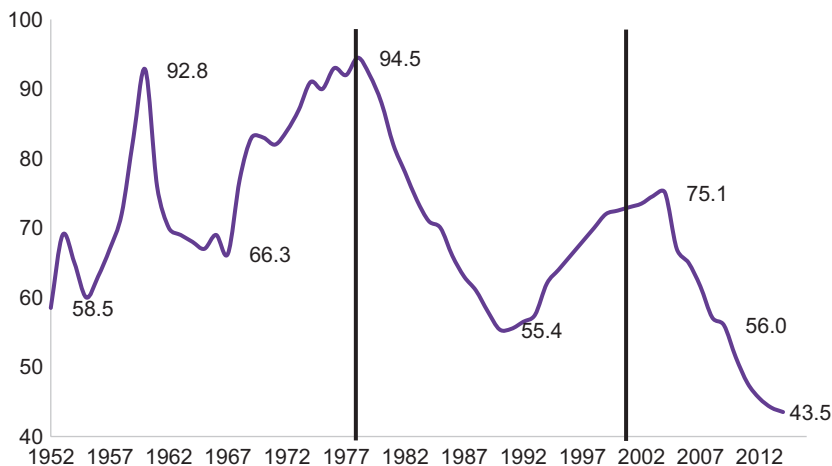


Fig. 5.10 Relative difference coefficient of per capita GDP across regions (1952–2014)

regions in China shall make their way toward the high-income level together with the overall development of China's economy, and regions currently struggling in underdeveloped economy shall gradually earn their positions in the high-income group.

Such trend is also attributable to the strategy of balanced regional economic development implemented in the new millennium. For over a decade, the masterplan of development of Western China, rejuvenation of the Northeast, rising of Central China and pioneering role of Eastern China has taken shape, which, in the context of an increasingly open economy and more efforts in infrastructure improvement of landlocked regions, has enabled the development of coastal regions to boost the development of other regions, with Beijing, Tianjin, Shanghai, Jiangsu and Zhejiang entering the high-income group while other coastal regions and Inner Mongolia are ready for the crossover as well. This will drive other regions currently in the middle- and upper-middle-income groups to leap into the higher-income bracket, which is comparable to the opening and economic take-off of the eastern region in boosting the opening-up and soaring economy of the entire country.

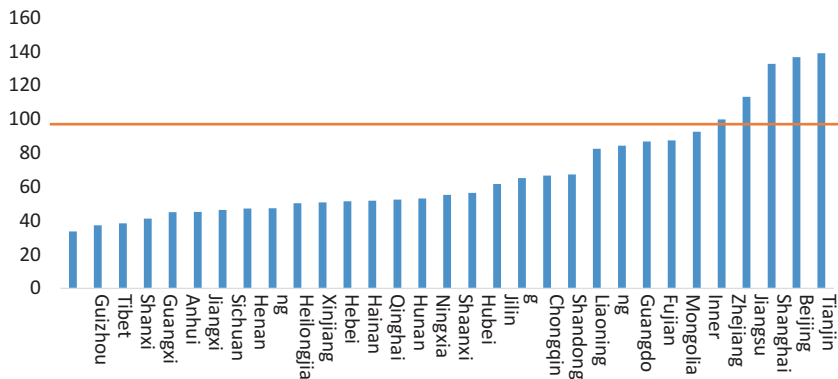


Fig. 5.11 Per capita GDP of various regions as a percentage of high-income threshold (%) in 2015. (Note: Based on China's per capita GDP (international dollar value) in 2015, the international dollar value of per capita GDP of various provinces is calculated based on the relative value of per capita GDP against national per capita GDP; these values of provincial per capita GDP are divided by the high-income threshold value to calculate the percentage of per capita GDP of various regions in comparison with the high-income threshold)

Fourthly, a new pattern of “four zones and three strategies” has been shaped in recent years with China's design and implementation of three key strategies, namely the Belt and Road Initiative, the coordinated development of Beijing, Tianjin and Hebei and the Yangtze River Economic Belt. They have invigorated the dynamism of the four zones while building channels for their connectivity, releasing tremendous momentum for the integration of zones, regions and countries. These trends will also help regions in China to overcome the “middle income trap” and step into the high-income group sooner or later.

Of course, the journey toward the high-income bracket is not a synchronized process for all regions in China. Seen from the percentage of per capita GDP (PPP, in international dollar, 2011) of various regions in 2015 in comparison with the high-income threshold value (Fig. 5.11), there exists remarkable regional disparity in the gap between such threshold values, indicating the overall regional characteristics of China in its efforts to advance toward a high-income country.

5.3 FORECAST AND OUTLOOK FOR CHINA'S OVERCOMING OF THE "MIDDLE INCOME TRAP"

The essential precondition to overcome the "middle income trap" is economic growth. Since the 12th Five-Year Plan period, China has been experiencing economic slowdown due to the external impact of the international financial crisis, especially the subsequent global economic downturn. As China's economy steps into the "new normal",³ its growth rate shows a decrease compared to approximately 10% at the turn of the century yet still maintained a 7.8% growth during the 12th Five-Year Plan period.

The goal of overcoming the "middle income trap" has been clearly stated in the 13th Five-Year Plan for Economic and Social Development. To this end, the anticipatory economic growth target is set at above 6.5% in light of the goal defined at the 18th CPC National Congress (GDP shall double by 2020 on the basis of 2010), changing growth speed, structural optimization and changing growth drivers in the context of the "new normal" of economic development, which is expected to contribute to the growth of better quality and higher efficiency.

Considering the natural population growth of approximately 0.5%, the anticipated growth rate of per capita GDP would exceed 6% during the 13th Five-Year Plan period, so an analysis of China's per capita GDP can be conducted at different growth scenarios according to the World Bank's criteria of income groups (*Atlas* method). China's estimated GNI per capita in 2015 was 7930 US dollars according to the World Bank, and the following provides three forecasts of the growth rate of China's GNI per capita, where the conservative forecast is 5%, the neutral forecast is 6% and the optimistic forecast is 7%. In all three scenarios, China's GNI per capita would range between 10,121 and 11,122 US dollars by 2020, close to the high-income threshold and between 12,917 and 15,600 US dollars by 2025, crossing the threshold of high-income countries (see Fig. 5.12).⁴

Based on the *Atlas* method, we may back-calculate the economic growth rate required for China's GNI per capita to reach the high-income threshold as in 2015 (12,745 US dollars). Figure 5.13 shows the average growth rates required for China to cross over the high-income threshold in any year between 2020 and 2025. It is expected that China will enter

³ Refer to Angang Hu (2015) for the description of the "New Normal" of economy.

⁴ According to the criteria defined by the World Bank in 2015, income per capita of 12,735 US dollars (based on *Atlas* method) is the threshold of high-income countries.

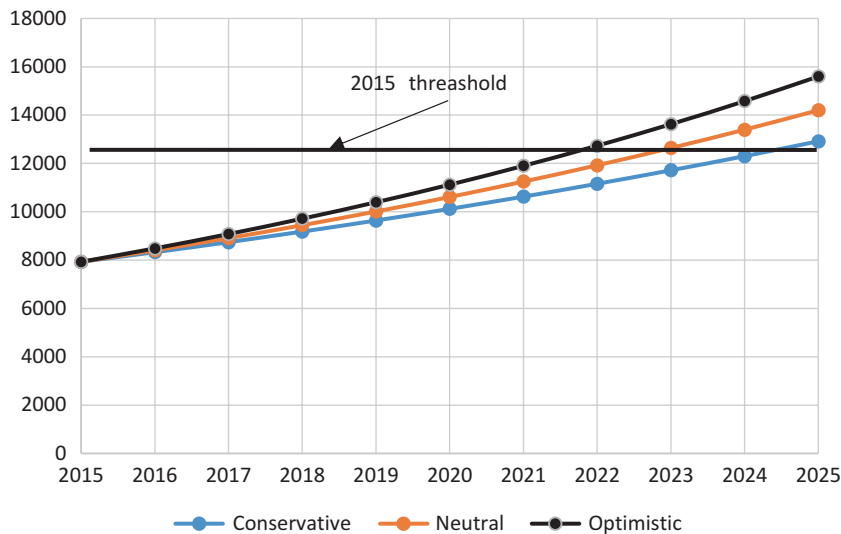


Fig. 5.12 China's GNI per capita (2010–2025)

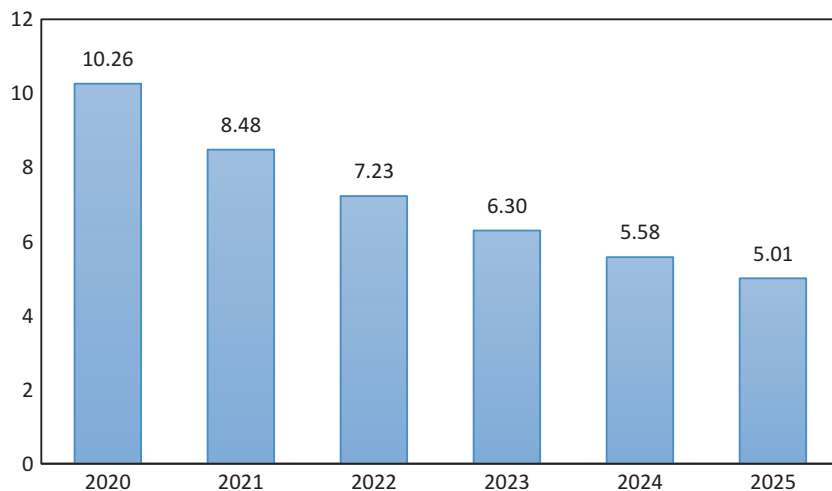


Fig. 5.13 Average growth required of China to cross the high-income threshold in various years (2020–2025)

the high-income group by 2025 provided that the growth rate of per capita GDP remains above 5% during the 14th Five-Year Plan period. In addition, as China strides toward the ranks of high-income countries, its GDP will also overtake that of the U.S. based on the exchange rate method. It will be another milestone after China's GDP exceeded that of the U.S. based on the PPP method in 2014.

Based on the calculation method of relative income, the World Bank has provided the relative criteria of per capita GDP (PPP, international dollar in 2011) as compared to the U.S. in purchasing power parity, where countries whose per capita GDP is below 5% of that of the U.S. are categorized as low-income countries while those with per capita GDP above 40% of that of the U.S. are recognized as high-income countries. According to the World Bank database, in 1990, China's per capita GDP accounted for 4.11% of that of the U.S., and increased to 8.05% in 2000, 19.29% in 2010 and 25.75% in 2015. In terms of the difference in growth rate of per capita GDP, China was ahead of the U.S. by an average of 8.45 percentage points from 2005 to 2015, of which the difference was 6.02 percentage points from 2010 to 2015. Likewise, three assumptions have been made for China's efforts to catch up with the U.S. in per capita GDP, that is higher by 5%, 6% and 7% compared to the U.S. between 2016 and 2025, corresponding to the conservative estimation, neutral estimation and optimistic estimation, respectively. Based on the assumption of the three scenarios, China's per capita GDP (PPP) will exceed 40% of that of the U.S. by 2022 to 2024, ranking among high-income countries based on the relative income criteria (Fig. 5.14). In other words, China shall be able to overcome the "middle income trap" before 2025.

The above forecasts show that China's per capita GDP will approach the level of high-income countries as the country celebrates its first centenary (i.e. in 2021), in either absolute or relative terms, indicating that the 13th Five-Year Plan period (2016–2020) is a key stage for China to overcome the "middle income trap". The 14th Five-Year Plan period (2021–2025) is when China shall complete its transformation from a middle-income country to a high-income one. This leads to the conclusion that the 13th and 14th Five-Year Plan periods are a key phase for China to overcome the "middle income trap", which also represents the core targets and development measures in understanding and implementing both Five-Year Plans.

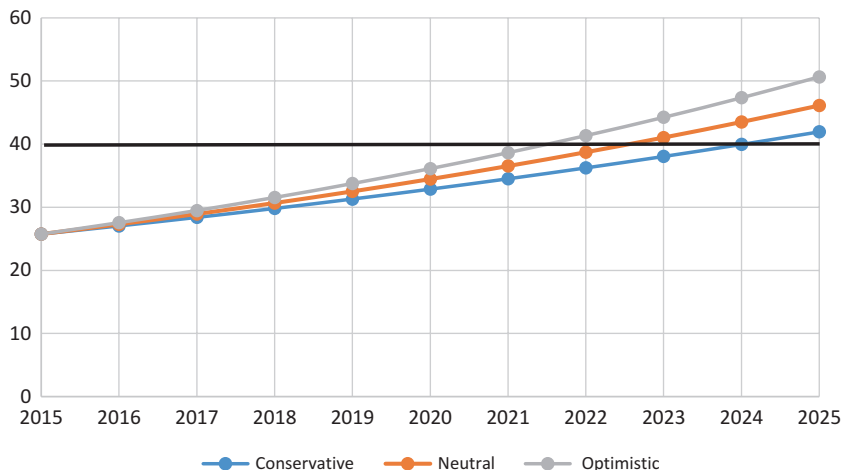


Fig. 5.14 China's per capita GDP relative to the U.S. (2015–2025)

5.4 FORMATION OF THE CHINESE PATH

In retrospect of China's modern history, since the Opium War, the country has undergone over 100 years of humiliation by big powers, internal unrests and endless sufferings of the people, with neither basic conditions nor capabilities to explore the Chinese path of development based on the needs and will of its people. From 1949 to 1978, after three decades of arduous efforts exploring the Chinese path as an independent nation, from 1978 to around 2022, dedication and perseverance of two generations are transforming a country amidst poverty and backwardness into a country overcoming the “middle income trap” and securing its position among high-income countries, making the great rejuvenation of the Chinese nation a reality for the first time.

A review of the world economic development since the 1960s shows that overcoming the “middle income trap” is indeed a major challenge for developing countries. As the above analysis indicates, based on nearly four decades of socialist development since the reform and opening-up, China sees its socialist institutional system maturing, accommodating China's

reality while taking the initiative to address challenges posed by changing external conditions. China's development since the founding of the country in 1949 testifies to its evolution from an underdeveloped country struggling in the dire fate of poverty and weakness to a socialist power achieving its goal of building a moderately prosperous society through hardships in pursuit of socialist modernization. This is a remarkable achievement not only in the history of the Chinese nation but also in the development of mankind. Such a brilliant feat is attributable fundamentally to the fact that China has persevered in choosing its development path on its own initiative based on the country's reality and people's desire for development.

Since the early years after the founding of new China in 1949, the Communist Party of China has never ceased its exploration for the country's unique development path. The first generation of central collective leadership represented by Mao Zedong were the designers, pioneers and practitioners of the Chinese path. For example, the people's congress system was established rather than the parliamentary system of the West or the soviet system of the former Soviet Union; the system of multi-party cooperation and political consultation under the leadership of the CPC was created rather than two or multiple parties ruling in turn as seen in the West or the single-party system in the former Soviet Union; a multi-ethnic unified country with regional ethnic autonomy in place rather than federalism in the U.S. or the former Soviet Union. The facts since the founding of new China in 1949 proves that these fundamental political systems are suitable for China's reality as a heavily populated country with vast territory, significant regional differences and rural-urban disparity; they are in line with the historical path and future trend of development as a unified and powerful nation featuring both diversity and solidarity.

The trials and practices of the Chinese path are not without frustrations and setbacks, which have been more attributable to internal determinants than to external factors. For example, in the late 1950s and early 1960s, the radical ups and downs in economic development due to the Great Leap Forward and the three years of natural disasters almost nullified the good start of the First Five-Year Plan. Subsequently, a decade of havoc of the Cultural Revolution from 1966 to 1976 inflicted major damages to the fundamental systems of the country and heavy loss on the Party and the nation, causing China to miss the golden opportunity to catch up with developed countries. An overview of the development of the world economy in the wake of World War II leads to the observation that the period

between 1950 and 1973 was a golden era of world economic development with rapid growth recorded in all major developed countries. Although the growth of China's per capita GDP during this period was not far from the world's average, such growth indicated a major economic underperformance considering China's growth potentials. From a longer historical perspective, had it not been for these major setbacks, China would have highly likely already crossed the high-income threshold. The root cause of such frustrations includes two dimensions: first, an unrealistic path of development, such as the Great Leap Forward that taught China a hard lesson; second, failure in grasping the basic contradiction in the country's development by emphasizing on "politics as priority" and "class struggle" while ignoring the basic contradiction between the growing material and cultural demand of the people and underdeveloped productivity.

As the saying goes, "a fall into the pit, a gain in your wit", the failure in Mao Zedong's late years provided experience and lessons for his successor, Deng Xiaoping, who was both a participant and practitioner of the Chinese path initiated by the first generation of leaders and an heir to this path dedicated to its rectification, exploration and re-innovation. As the chief designer of China's reform and opening-up, he was driven by a sense of urgency as he witnessed the backwardness of China after the Cultural Revolution; meanwhile, as a victim of this political and social havoc, he truly understood the dire consequences of damages done to the nation's fundamental system and the importance of rebuilding the institutional system. Refusing to pour new wine into the old wineskins, Deng Xiaoping objectively commented on Mao Zedong's historical contribution, safeguarding the authority of the Party. Rejecting the doctrine of "two whatevers", he re-established the ideological direction to seek truth from facts, opening up the path of socialist modernization with Chinese characteristics constituting three major factors: modernization, socialism and Chinese characteristics. Modernization is to initiate change in the underdeveloped country which, of course, places economic development at the core; socialism refers to the goal of common prosperity and development for the wellbeing of all; Chinese characteristics indicate that socialist development must proceed from China's reality and that the Chinese path of development shall be shaped with an innovative mind.

Since the reform and opening-up, "economic development at the core" has been at the central position in the basic line of the primary stage of socialism, which essentially secured China's stability in development and enabled the country to survive the trials of international political storm. In

the late 1980s and early 1990s, a wave of abandoning the socialist path for the capitalist path engulfed the former Soviet Union and former socialist countries in Eastern Europe, all of which suffered from economic recession, significant deterioration of people's wellbeing to various extents and even division of the nation. Undoubtedly, such transition was an erroneous move and the internal and external political vicissitudes during this period posed a daunting challenge at China's stability and development at the time. However, rather than taking the wrong turn by changing its nature and abandoning its system, China unswervingly adhered to the leadership of the Party, and did not retrace its steps to the rigidity and isolation of the past. Rather, China renewed its efforts in firmly pressing ahead with the cause of the reform and opening-up, clarifying the direction for its economic transition and opening a new chapter of building a socialist market economy.

More than 20 years have passed since the beginning of the 1990s, almost equivalent to one generation's time. In retrospect, the significant indication of China's firm position at this critical historical moment is self-explanatory for the country's development in over two decades that followed. It can be safely stated that China would have possibly missed some major opportunities for development had it not been for the country's pursuit of both socialism and market economy with Chinese characteristics. Such conclusion can be easily drawn with reference to what Russia experienced in the 1990s. With its entry into WTO at the turn of the century, China took an unprecedented active role in economic globalization. By 2013, China had become the world's biggest trading country in goods. Moreover, China overtook Japan in becoming the world's second largest economy in 2010 (based on exchange rate). If calculated by PPP, China ranked the biggest economy in 2014, replacing the U.S. The vision of the first generation of leadership in the early years of new China finally came true.

The fundamental reason for China's enormous achievements in building socialism with Chinese characteristics is that the Party has firmly stood with the people, incorporating the historical mission of the Party with its affinity to the people, proactively explored the Chinese path in line with China's reality, fundamental interests of the people and the general trends of global development. China's practice in development since the reform

and opening-up is the Chinese path.⁵ In a sense, the secret for China's feat since the reform and opening-up is no other but China's perseverance in its own course of development, dedicated to an unceasing exploration into building socialism with Chinese characteristics. From the 13th to the 18th CPC National Congress, "socialism with Chinese characteristics" has remained the key phrase in the theme of every report. The targets, tasks and safeguard mechanisms identified for building socialism in each development stage represent not only unrelenting efforts in pursuing the socialist path but also stage-specific innovations in the form of socialism in practice. As President Xi Jinping stated, "this is the correct path found by the Chinese people after long and arduous efforts in exploration".⁶

Not only securing China's development, the Chinese path also constitutes an important pillar in the development of the world, which is reflected in China's contributions to the world economy in the wake of the Southeast Asian financial crisis in 1998 and the global financial crisis triggered by the U.S. sub-prime mortgage crisis in 2008. The Southeast Asian financial crisis sweeping across Southeast Asia in 1998 reduced numerous Southeast Asian countries as well as neighboring countries including South Korea and Russia into economic recession to various degrees. Likewise, China's firm position and pledge that RMB will not devalue played a key role in stabilizing the economy in East and Southeast Asia.

Amidst the global financial crisis in 2008, China again became the cornerstone of the stability of the world economy. The global impact of this economic crisis might be second to none in the post-war world, its scope and severity comparable to the Great Depression between 1929 and 1933, with the world economy still not yet fully recovered from this havoc up to now. Objectively speaking, despite the fact that China was also victimized by this global financial crisis with symptoms of economic downturn, it still played a pivotal role in stabilizing the global economic growth. According to the World Bank statistics, at constant prices in US dollars in 2010, the annual contribution of China's economic growth to the world economy reached 30.5% during the 12th Five-Year Plan period, overtaking the U.S.; China ascended to the first place in the world with the contribution of

⁵ Deng Xiaoping made the statement of pursuing our own course and building socialism with Chinese characteristics in the opening address of the 12th CPC National Congress.

⁶ Xi Jinping's speech at the meeting with foreign delegates attending the Twenty-First Century Council Beijing Conference on November 2, 2013.

17.8% for the U.S. and 4.4% for the euro zone during the same period.⁷ Also, China's contribution increased by 16.3 percentage points compared to 14.2% annually during the 10th and 11th Five-Year Plan periods.

President Xi Jinping pointed out at the G20 Saint Petersburg Summit (the eighth meeting of the G20 heads of state) the impact of China's economy on the world economy:

China, with close integration of its economy and the world, more stability in economic operation, higher quality of growth and more sustainable growth, is in the interest of the world economy in the long run; China has the conditions and abilities to achieve a sustainable and sound economic development and create for other countries an even broader market and more development space.

In fact, China's contribution to the world economic growth overtaking that of the U.S. has already become "normal". At constant prices in US dollars in 2010, the GDP of the U.S. in 2015 was 16.6 trillion US dollars while that of China registered at 8.91 trillion US dollars, that is, the GDP of U.S. was 1.86 times of China's GDP which indicates that as long as China's economic growth is above 1.86 times of the U.S., China's contribution to the world economic growth would overtake the U.S. The long-term trend of economic growth of the U.S. shows that over 2.5% growth would be deemed impressive. Despite the forecast of further slowdown in China's future economic growth, in the next 15 years, that is by 2030, there is still a high probability that China's average economic growth would exceed 5%, meaning that it would be normal for China's contribution to the world economic growth to overtake that of the U.S., which would be of significant impact on world economic landscape. In this sense, the Chinese path is of global significance.

It goes without saying that China will continue confronting various challenges in pursuing the Chinese path ahead, as the path is exactly shaped and improved by taking on such challenges. Nevertheless, it would be unwise to hold the Chinese path in suspicion or even allege that China is about to collapse. For over two decades, the scaremongering forecast of the collapse of China has never ceased in the international community, yet such cry-wolf assertions would not change their nature of pseudo-preposition. Likewise, the theory that China has fallen into the "middle

⁷ During the 12th Five-Year Plan period, in terms of annual contribution rate, the contribution rates of China's economic growth respectively reached 28.6%, 31.7%, 32.5%, 29.7% and 30.0% from 2011 to 2015; while that of the U.S. economic growth were respectively 11.8%, 20.4%, 15.2%, 19.6% and 21.9% during the same period.

income trap” has been looming over the international arena, which is as much of a pseudo-preposition as the previous assertion. Be it the “poverty trap” when China was struggling as a low-income country, or the “middle income trap” encountered in the middle-income stage or even the “high income trap” in the future when China ranks among high-income countries, development is always accompanied by challenges while progress is never without traps, yet China has successfully overcome each trap in its journey from extremely-low-income to low-income level, then to lower-middle-income and upper-middle-income level, eventually crossing the high-income threshold. With three decades of reform and opening-up, both the CPC central committee and the general public are growing in rationality, maturity and wisdom, therefore China will by no means stray into the “middle income trap”.

The next step in China’s development is to achieve high-income level and gradually attain the goal of common prosperity.⁸ Despite the considerable gap between China and developed countries in the Western hemisphere as well as Japan in terms of economic development level when China leaps over the “middle income trap”, China is on track to maintain the high speed in catching up with developed countries provided that its economic transformation proves successful and that an innovation-driven development model is in place. Take South Korea as an example, the country’s per capita GDP exceeded 40% of that of the U.S. in 1994 for the first time (PPP, international dollar in 2011), followed by its membership in OECD in 1996 when its per capita GDP was around 44% of that of the U.S., which may be regarded as a milestone of South Korea to preliminarily make it as a moderately developed country. In 2015, South Korea’s per capita GDP increased to 65.2% of that of the U.S., by which the country fully deserved its position as a moderately developed country. This also shows that South Korea maintained a considerably high speed in catching up with the U.S. after crossing the threshold of high-income countries. Therefore, if China’s per capita GDP reaches 5% of annual growth between 2016 and 2030, by the year 2030, it will be on par with South Korea in per capita GDP in 2007 and 2008 (approximately 28,200 US dollars). In this sense, it is highly possible that China will, on the whole, rank among moderately developed countries between 2030 and 2040, fulfilling the third step of Deng Xiaoping’s “three-step strategy” ahead of time.

⁸ Hu Angang, Yan Yilong, Wei Xing: *China in 2030: Towards Common Prosperity*, Beijing, China Renmin University Press, 2011.

5.5 THE GLOBAL SIGNIFICANCE OF CHINA'S OVERCOMING OF THE "MIDDLE INCOME TRAP"

In September 2000, the Millennium Development Goals (MDG) were announced by the United Nations, covering global development goals in eight areas. Jiang Zemin, Chinese president at the time, pointed out at the United Nations Millennium Summit that "the economic globalization that we need is one that features win-win, equality, fairness and co-existence among all countries, and the key to promoting common development of mankind is to establish a new international economic and social order characterized by justice and rationality". From 2000 to 2015, China actively responded to the initiative of MDGs and successively mapped out and implemented the 10th, 11th and 12th Five-Year Plans, achieving not only key economic and social development goals in China but also MDGs, and becoming the top performer in MDG fulfillment in the developing world with excellent achievements. Meanwhile, China has also actively engaged in South-South cooperation, assisting over 120 developing countries in MDG implementation, which has been unanimously recognized by the international community. During this period, China also completed its journey from a low-income country to an upper-middle-income one, driving the total population of upper-middle-income countries up to 2.594 billion.

In September 2015, 193 member countries of the United Nations officially approved the Sustainable Development Goals (SDG) on the UN Sustainable Development Summit held at the UN headquarters in New York. Sustainable Development Goals aim at thoroughly addressing development issues in social, economic and ecological dimensions by taking comprehensive measures from 2015 to 2030, gearing toward sustainable development. President Xi Jinping gave a speech titled *Towards a Mutually Beneficial Partnership for Sustainable Development* at the Summit, encouraging the international community to step up cooperation in the joint implementation of the Post-2015 Development Agenda, with an aim to achieve a win-win outcome. To this end, President Xi Jinping made the following four proposals: to build up capacity for development, improve the international environment for development, optimize the partnership for development and to strengthen the coordination mechanisms for development. Meanwhile, he announced to the international community that China will continue to strike a balance between justice and its own interests by putting justice before such interests, contributing

China's strength to realize the sustainable development goals.⁹ China has incorporated the 17 sustainable development goals into the 13th Five-Year Plan in order to drive the implementation of these goals. It is anticipated that with China ranking among high-income countries by 2025, China will make greater contributions to sustainable development proposed by the UN. We believe that China's striding toward a high-income country shall produce the following positive impact on world development.

First, China as a high-income country will dramatically enhance the current global economic landscape, thus producing positive impact on shaping a more reasonable and equitable international political and economic order. From a global perspective, the population in low-income, middle-income and high-income countries respectively totaled at 8.9%, 72.2% and 19.9% (relative income method) in 2015, representing an olive-shaped pattern of demographical distribution. Apart from those in the Western hemisphere, countries that genuinely ascended from middle-income to high-income level or joining the "developed world club" were very few in number, while most countries stumbled into the "middle income trap" to varying degrees and were unable to overcome it, which is exactly why Robert Zoellick, former president of the World Bank, pointed out that China's experience in the transition from a lower-middle-income society to a high-income one is of reference value for other middle-income economies.¹⁰ China's entrance into a high-income society from the middle-income group will bring significant changes to the pattern of demographical distribution of low-income, middle-income and high-income countries in the world. By that time, the total population of high-income countries will exceed approximately 40% of the world population, which will be a major contribution to world development as such

⁹Including the following: China will establish an assistance fund for South-South cooperation, with an initial pledge of 2 billion US dollars to support developing countries in their implementation of the Post-2015 Development Agenda; China will continue to increase investment in the least-developed countries, aiming to attain a level of 12 billion US dollars by 2030; China will write off the debt on outstanding intergovernmental interest-free loans due by the end of 2015 owed by designated least-developed countries, landlocked developing countries, and small island developing countries; China will establish an international development knowledge center for studying and exchanging between countries on the theories and practice of development best-suited to their respective national conditions; China will propose a discussion on establishing a global energy internet to facilitate efforts to meet global power demand with clean and green alternatives.

¹⁰Xinhuanet, September 13, 2010, Beijing.

transformation is conducive to building an international governance system better suited for the appeals and demands of the vast developing world.

Besides, a high-income China will not only benefit the wellbeing of the Chinese people but also bring positive impact on the economic development of other countries through China's foreign trade and outbound direct investment. Evolving into a high-income country on the whole, China will gradually become the world's largest importer, generating trade and employment opportunities for developing countries and emerging economies. Calculated on the current dollar, China's import value of goods and services accounted for merely 0.88% of the world's import, followed by increases to 2.83% in 2000, 7.49% in 2010 and 9.87% in 2015, making China the second largest importer of goods and services after the U.S. (whose import value of goods and services accounted for 13.44% of the world's total). In particular, China has become the engine for world trade growth in the aftermath of the global financial crisis in 2008.

Between 2010 and 2015, the nominal growth of China's import of goods and services calculated on current dollar registered at 10.9%, higher than that of the U.S. (8.7%) and the world average (8.3%). It has to be pointed out that China harbors enormous potential for import. In 2015, the average percentage of import in goods and services in GDP was 25.8% globally, yet only 18.6% in China. With China's economic transition from an investment-driven growth to a consumption-driven growth, it is expected that China will become the world's No.1 importer of goods and services with total import exceeding 4 trillion US dollars.¹¹

Furthermore, China is a major player in direct outward investment, with outward FDI reaching 145.7 billion US dollars in 2015 and the accumulated outward investment amounting to 1.0979 trillion US dollars in total, its share in accumulated global outward FDI increasing from 0.4% to 4.4%.¹² It is predicted that China's total outward FDI will range from 3 to 5 trillion US dollars between 2016 and 2025. Especially with the implementation of the Belt and Road Initiative, China will become the most important source of FDI for the developing world. Both the trend of international trade and the momentum of FDI show that China will be a

¹¹ China's GDP growth in US dollars is assumed to be 6% between 2016 and 2025, and import is estimated to account for 20% of GDP by 2025.

¹² Data source: Ministry of Commerce, PRC, National Bureau of Statistics, State Administration of Foreign Exchange, 2016, *2015 Statistical Bulletin of China's Outward Foreign Direct Investment*, China Statistics Press.

powerhouse for world economic and trade growth as it becomes a high-income country, creating enormous job opportunities for its trading partners and investment destinations.

Thirdly, China will contribute Chinese strength and Chinese wisdom to the world's green development as it evolves into a high-income country. As the biggest developing country and the most influential emerging economy in the world, China should not neglect its national conditions as well as the global trend and follow the path of "black development" traditionally pursued by Western countries in their industrialization; instead, China must seek its own path of green development in line with the global trend of green industrialization. Since the 11th Five-Year Plan, China's green development strategy has evolved in clarity, with the green development concept and path with Chinese characteristics explicitly stated in the 13th Five-Year Plan. In June 2007, the Chinese government formulated *China's National Climate Change Programme*, which was the first national plan specializing in combatting climate change in the developing world. Since then, China's top leadership over two terms (Hu Jintao and Xi Jinping) successively expanded China's position and commitment in tackling climate change.¹³

Regarding China's participation in the global governance of climate change, from Copenhagen Climate Change Conference to the Paris Conference, China is a key driver in the global governance of climate change, perhaps even playing an indispensable and pivotal role. In particular, China's active efforts represented a major contribution to reaching the Paris Climate Agreement at Paris Climate Change Conference in December 2015. In June 2016, China published *Enhanced Actions on Climate Change: China's Intended Nationally Determined Contributions*,

¹³ In September 2009, President Hu Jintao stated China's position concerning climate change for the first time at the UN Climate Change Summit, pledging that China will step up efforts to conserve energy and improve energy efficiency and strive to reduce carbon dioxide emissions per unit of gross domestic product (GDP) by a considerable margin by 2020 from the 2005 level. In November of the same year at the executive meeting of the State Council, the proposal was made to reduce carbon dioxide emissions per unit of GDP by 40% to 45% from the 2005 level, which is incorporated in the mid- to long-term plan of national economic and social development. On November 12, 2014, President Xi Jinping and Barack Obama, then President of U.S., signed *U.S.-China Joint Announcement on Climate Change*, stating the two countries' respective post-2020 actions on climate change, in which China intends to achieve the peaking of CO₂ emissions around 2030 and to make best efforts to peak early and intends to increase the share of non-fossil fuels in primary energy consumption to around 20% by 2030.

establishing the goals of nationally determined actions up to 2030: to achieve the peak of carbon dioxide emissions around 2030 and make best efforts to peak early; to lower carbon dioxide emissions per unit of GDP by 60% to 65% from the 2005 level; to increase the share of non-fossil fuels in primary energy consumption to around 20%; and to increase the forest stock by around 4.5 billion cubic meters from the 2005 level, thus making another remarkable contribution to the global governance of climate change after mapping out the intended action plan by 2020 at the 2009 Copenhagen Climate Change Conference.

Moreover, China announced its contribution of 20 billion RMB to initiate the “China Climate Change Fund for South-South Cooperation” in order to assist other developing countries with capacity building in climate change finance. Currently, taking proactive steps to address climate change is identified as a key strategy for China’s national development, with pressing ahead with the low-carbon development strategy being prioritized on China’s development agenda and pinpointed as a major binding target in the Five-Year Plan. Therefore, it can be concluded that as the world’s biggest emerging economy, China has become an initiator, innovator and forerunner of global governance of climate change and global green development. China’s implementation of the green development strategy has not only carved out a new path of leap-frog development for China but also demonstrates worldwide significance by providing reference and inspirations for the development of other developing countries. In contrast, the future trend of climate change policies of the U.S. may constitute the biggest uncertainty in the global governance of climate change. For instance, Donald Trump signed an executive order of “energy independence” at the onset of his presidency which contained multiple articles on the restriction of clean energy, even to the extent of repealing the climate policies inaugurated by the Obama administration.

Fourthly, China will become a major innovator as it strides toward the high-income group and produce significant spillover effect on world development. Currently, the strategy of innovation-driven development has been placed at the top of China’s development agenda, and China has developed multiple action plans for innovation-driven development to boost the transition from “Made in China” to “Created in China”. By the time China ranks among high-income countries, it will have become the global center of technological innovation and a pioneering innovator in a multitude of high-tech areas. While shaping itself into an innovative country, China will play a proactive role in promoting international cooperation in technological innovation for global progress in science and

technology. It must be pointed out that all major innovation projects planned by China pursue the wellbeing of mankind and sustainable development of the world as their goals, an embodiment of the mission of advancement in science and technology—serve all.¹⁴

Fifthly, while pursuing its target of becoming a high-income country, China will continue to promote common prosperity and the development of mankind on top of eradicating poverty by 2020, which is not only an embodiment of China's efforts in facilitating shared development but also an important example for developing countries to achieve development for the benefit of all. UNDP statistics show that China's Human Development Index (HDI) in 1980 was at a lower-medium level of 0.423. But China has become a high HDI country with the figure rising to 0.719 in 2014. This indicates that China, though not yet a high-income country, ranks high in human development. It is expected that by 2025, China's HDI will exceed 0.80, of which over two thirds will be contributed by education and health indicators. Undoubtedly, the Chinese experience in advancing human development is of referential value for the vast developing world. During the last two decades (1995–2015), China has made two leaps: from a low-income country to a lower-middle-income one and from a lower-middle-income country to an upper-middle-income one. Moreover, China also crossed the threshold for high human development level. By 2020, China will have built a moderately prosperous society in all respects and thoroughly eradicated poverty. China shall rank among high-income countries and attain a higher level of human development by 2025, contributing Chinese strength and Chinese wisdom to world economic growth, global green and innovation-driven development as well as win-win development of the world for the wellbeing of all.

¹⁴In *National plan on Scientific and Technological Innovation During the 13th Five-Year Plan*, key core technologies including core electronic devices, high-end generic chips, fundamental software, integrated circuit equipment, broadband mobile communication, CNC machine tools, oil and gas development, nuclear power, water pollution abatement, GMO, research and development of new pharmaceutical products, prevention and control of contagious diseases are listed as National Science and Technology Major Projects; aero-engines and gas turbines, deep sea space stations, quantum communication and quantum computing, brain science and brain-like intelligence technology, national cyberspace security, deep space probing and in-orbit services and maintenance systems for spacecraft are listed as Major Science and Technology Projects; independent innovation in seeds, clean and efficient use of coal, smart grid, integrated space and terrestrial information network (ISTIN), big data, intelligent manufacturing and robots, R&D and application of key new materials, comprehensive environmental management of Beijing, Tianjin and Hebei, healthcare, and so on are listed as major projects.

The achievements made and to be made by China show that on the basis of safeguarding the country's independence, ensuring political stability, proceeding from basic national conditions and adhering to independent development, China has not only achieved four decades of high economic growth but has also continuously enhanced people's livelihood through improving the socialist market economic system with Chinese characteristics and strategic guidance of national development planning, releasing the innovation potentials of market players while actively engaging in economic globalization. Through continuous fine-tuning of the social policy system featuring inclusive development, the achievements of economic development are intended to benefit all members of society, reflecting shared development. Through improving the institutions and mechanisms of sustainable development, the country's development is by and large steered on the track of green development. Through implementing the rule of law in all respects, comprehensively strengthening Party discipline and improving the democratic system with Chinese characteristics, constant progress is made in the country's governance capacity and governance system, thereby realizing the target of political development, which in turn will become the cornerstone for economic development and social stability.

China's success in overcoming the "middle income trap" and in becoming the world's biggest high-income country would not only make a pivotal and positive difference in the wellbeing of nearly 1.4 billion Chinese population but also have a far-reaching impact and profound significance for world development, since it will more than double the population in high-income countries from the current 1.187 billion (16.6% of the world population) to 2.637 billion, with an increase of 1.45 billion by 2030. More importantly, China will never seek hegemony even when it becomes a high-income country and the largest economy in the world; instead, it shall facilitate "win-win development" and "shared development" of China and the rest of the world through expansions in foreign trade, outward FDI, development assistance and aid and so on.

As the biggest developing country in the world, China has explored a path of development with Chinese characteristics since the reform and opening-up,¹⁵ completing the process of transformation from a country

¹⁵The State Council Information Office of the People's Republic of China issued the white paper *The Right to Development: China's Philosophy, Practice and Contribution*, December 1, 2016, Xinhua News Agency, December 1, 2016, Beijing.

with the largest population living in absolute poverty to the world's biggest upper-middle-income country, that is the largest moderately prosperous society on track to rank among high-income countries by successfully overcoming the “middle income trap”. China's development shows that the development path with Chinese characteristics is visibly different from the development model in the West. Its path of development has not only broken free from blind faith in the “Western model” but is also a transcendence from such model characterized by democracy and neo-liberalist economy paraded in the West. What China has undergone in the past has set an example for the rest of the world, and it is well expected that China will make even more profound and positive changes to world development in its ongoing efforts toward a high-income country, becoming a powerhouse for global sustainable development.

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