risks, but also because of political ones. But most experts that the advanced development of the territory in the Crimea will be the main tool for enhancing the region's economy. They cite the example of the "Asian tiger economies ", Singapore, Hong Kong and Taiwan, which became advanced countries in Asia within a few decades.

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HOW CAN CHINA AVOID THE MIDDLE-INCOM TRAP

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Goal: Analyze the current economy situation in mainland China and find workable methods to the middle-income trap.

The President of the People's Republic of China Xi Jinping pointed out at the 21st Century Council Beijing Conference that China will persevere in reform and open policy and is going to make several reform plans. Xi also emphasized that China will not be trapped by the middle-income trap.

The middle income trap is a theorized economic development situation, where a country which attains a certain income (due to given advantages) will get stuck at that level. Based on the dynamics that most of the countries in the middle income trap have lost their competitive edge in the exportation of manufactured goods due to their rising-tend wages. They are unable to keep up with economically more developed economies in the high-value-added market. As a result, newly industrialised economies such as South Africa and Brazil have not, for decades, left what the World Bank defines as the 'middle-income range' since their per capita gross national product has remained between $1,000 to $12,000 at constant (2011) prices. They suffer from low investment, slow growth in the secondary industry, limited industrial diversification and poor labor market conditions.

Meanwhile, the recent deceleration in People's Republic of China's economic growth is of concern, and not just because it raises questions over whether internal and external demand is needed to keep the economy growing. It also raises a flag as to whether China is settling into a protracted period of subdued growth, better known in economic circles as the "middle income trap".

Like those fast-burning economies which are mentioned above, China's double-digit growth in gross domestic product was to a large part attributed to its low-cost advantage - an ability to manufacture goods cheaply thanks to its pool of surplus labour and a "demographic dividend" in the form of a youthful workforce.

However, China is beginning to lose this edge. Since 2008, real wage growth in urban China has consistently exceeded labour productivity growth. And the surplus of rural labour is shrinking; in fact, labour shortages have been noted for several years, especially in coastal areas.

Population ageing will also make labour more expensive. China's working-age population is likely to peak in a couple of years. Soon, China will no longer be able to benefit from its demographic dividend.

This is familiar territory for many Latin American countries and several Southeast Asian nations, which fell into the middle income trap when they failed to fully implement upgrades as surplus labour shrank and wages rose. Most worked up to middle income status in the 1960s and have remained so after 50 years.

There are role models, many of them here in East Asia: Hong Kong, Japan, South Korea, Singapore and Taipei, China all successfully upgraded their industries through innovation, and jumped from low to high income within three to four decades.

However, mainland China faces a number of challenges in this transition.

Successful upgrading requires a critical mass of firms with strong incentives for innovation. China's private enterprises, although growing strongly, remain small in size with limited ability to reinvent themselves as hi-tech, high-value companies. This present condition is mainly caused by the government investing policy, that is to say, currently, in mainland China, it is more difficult for private enterprises to get loans from banks or other authorities than the State-owned enterprises. In other words, in Chinese market, private enterprises are indeed the weak momentum, compared with the latter. State-owned enterprises, meanwhile, are far larger and can more easily innovate, but are less efficient and have weaker incentives to advance. In 2011, state-owned enterprises were less than half as profitable as private firms.

China's growth is widely believed to have relied too much on investment and external demand, and not sufficiently on domestic private consumption. In 2011, the latter comprised just 38 per cent of GDP. The overreliance on external demand makes the economy vulnerable to global slowdown, as recent experience shows. Over-investment, meanwhile, could lead to poor asset quality, which in turn could undermine the stability of the financial system.

Complicating matters is the issue of rising inequality. China's Gini coefficient increased from 0.3 in the early 1980s to 0.43 in the late 2000s, which is on the high side globally and among the highest in Asia. High inequality can retard growth, as low-income households contribute little to demand and are unable to invest in skill training and development. Beyond direct economic impact, inequality has the potential to generate social instability.

China will have to wean its economy from heavy energy consumption. China's coal-based energy system is not only damaging the environment and contributing to global warming, its reliance on fossil fuels means energy supply and security could constrain the country's future growth.

How can the country successfully confront these difficulties? There are no easy solutions. The first is to build an environment conducive to innovation, invest massively in human capital - including reducing human capital gaps between the urban and rural population, and move towards a knowledge-based economy, a feat that will take time and vision.

The next is to deepen structural reforms in state-owned enterprises, the labour and land markets, the financial sector and the fiscal system - critical to eliminating market distortions, addressing structural imbalances and improving the efficiency of resource allocation and use.

The third is to maintain a stable environment for sustained growth by reducing income inequality and making growth more inclusive. This can be achieved by creating more well-paid urban jobs to absorb rural migrants, continued investment to improve regional connectivity, more spending on public services and a more equitable income tax system.

Last but not least, green growth should be encouraged to conserve resources and protect the environment. Strengthening international and regional economic co-operation would also help.

Such an approach would involve tilting the balance from low-cost to high-value production, from reliance on government towards the use of market, and from external demand to domestic consumption.

Many East Asian economies grew at 8 per cent or more annually in the 10 to 20 years before they joined the high-income club. If the right steps are taken, there is no reason why China cannot grow at close to that level.

Rising labour costs require China to step up efforts to innovate, to upgrade enterprises and industries, and to switch from low-cost to high-value production. That should help avoid getting caught in the so-called middle income trap.

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