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Nonlinear Inflation Regimes and Per-Capita Growth: Comparative Evidence from China and the Philippines (1987-2024)

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Contribution Statement

This study contributes to the inflation-growth literature by showing that the relationship between inflation and GDP per capita growth is better understood as regime-dependent rather than strictly linear in both China and the Philippines. Using annual WDI data from 1987 to 2024, the paper demonstrates that threshold models outperform linear benchmarks, but that the substantive meaning of the estimated regimes differs across countries. In China, higher inflation regimes are historically associated with stronger per-capita growth, whereas in the Philippines inflation is negatively associated with growth across regimes, with threshold estimates sensitive to extreme shock years. The paper therefore argues against a single common inflation rule and instead supports a country-specific, structurally informed interpretation of inflation regimes.

Abstract

This paper examines whether the relationship between inflation and GDP per-capita growth is better characterized as nonlinear and regime-dependent rather than strictly linear in China and the Philippines. Using annual World Development Indicators data for 1987–2024, the study estimates country-specific linear benchmark models and threshold-based regime models with inflation as the threshold variable and trade openness as a supporting control. The results show that the threshold specification improves model fit in both countries, indicating that the inflation-growth relationship changes across inflation environments. However, the substantive pattern of this regime dependence differs sharply between the two cases. For China, the estimated inflation threshold is 3.05%; inflation is negatively associated with per-capita growth below this threshold but positively associated with growth above it. For the Philippines, the baseline threshold is 2.72%, and inflation is negatively associated with per-capita growth in both regimes. A robustness check excluding the pandemic year 2020 shifts the Philippine threshold upward to 9.23% while preserving the negative sign in both regimes. These findings do not support a single common threshold at which inflation uniformly becomes growth-reducing in both countries. Instead, they suggest that inflation regimes are country-specific and must be interpreted in relation to macroeconomic structure, historical growth composition, and exceptional shock periods. The paper concludes that threshold-based analysis remains useful, but its policy interpretation should be context-sensitive rather than universal.

Keywords: *Inflation regimes; GDP per capita growth; threshold model; nonlinear macroeconomics; China; Philippines*

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Highlights

- Threshold models fit the inflation-growth relationship better than linear benchmarks in both China and the Philippines.
- China and the Philippines exhibit different inflation regime patterns over 1987–2024.
- China shows negative inflation-growth association below 3.05% inflation and positive association above it.
- Philippine inflation is negatively associated with per-capita growth in both regimes, with threshold estimates sensitive to shock years.
- The findings do not support a single common inflation threshold for growth across the two countries.

1. Introduction

Inflation remains one of the most persistent concerns in macroeconomic policy because it sits at the center of questions about growth, household welfare, investment behavior, and economic stability. In policy discourse, inflation is often treated as a uniformly harmful phenomenon once it rises above a preferred target range. Yet both theory and empirical evidence suggest that the relationship between inflation and growth is not always so straightforward (Zheng et al., 2019). In some settings, moderate inflation may accompany expansion, structural transformation, or post-shock adjustment without immediately producing severe growth deterioration (Adaramola & Dada, 2020). In other settings, inflation may coincide with weaker real incomes, reduced investment confidence, and lower growth performance (Anagaw, 2023; Miar, 2025). The key issue, therefore, is not simply whether inflation affects growth, but whether that relationship changes across inflation regimes and whether those regime patterns differ across countries.

This question is especially important in emerging and developing economies, where inflation arises from multiple sources and operates through different structural channels (Asfuroğlu, 2021). Inflation may reflect demand expansion, exchange-rate pass-through, imported commodity shocks, fiscal pressure, domestic supply bottlenecks, or institutional features of monetary transmission (Asfuroğlu, 2021; Milošević & Marjanović, 2022). The consequences of inflation for economic growth may therefore depend not only on its level but also on the structure of the economy in which it occurs. A given inflation rate may be absorbed differently in an economy with a deep manufacturing base, strong productive capacity, and coordinated development strategy than in one that is more dependent on consumption, imports, or price-sensitive household expenditure (Política antiinflacionaria, 2016; Rückkehr der Inflation?, 2008). This implies that the inflation-growth relationship is unlikely to be identical across national contexts.

China and the Philippines offer a meaningful comparative setting for examining this issue. Both are important Asian economies, yet they differ substantially in productive structure, external orientation, policy capacity, and historical growth composition (Atento, 2025; Cyharев & Voronchikhina, 2019). China's development path has been shaped by industrialization, export competitiveness, infrastructure expansion, and sustained investment-led transformation (Calabrese et al., 2024). The Philippines, while capable of meaningful growth, has followed a different trajectory, with a relatively larger role for services, domestic demand, remittance-supported consumption, and greater sensitivity of household welfare to food and energy price movements (Bocchi, 2008; Kikkawa et al., 2024). These contrasts make the pair analytically useful not because they are directly comparable in scale or level of development, but because they reveal how inflation may interact differently with economic growth under distinct structural conditions.

Recent inflation episodes have made this inquiry more policy-relevant. Inflationary pressure reopens long-standing debates over how aggressively policymakers should respond to rising prices, especially when inflation is partly driven by supply-side factors or global shocks. A purely linear view of inflation would imply that each increase in inflation carries the same marginal growth cost. However, if the relationship is nonlinear or regime-dependent, then policy interpretation must be more nuanced. Inflation may not affect growth in the same way at low, moderate, and high levels. In that case, it becomes more useful to examine changes in the relationship across inflation regimes than to assume one constant effect across the full distribution.

This paper adopts that perspective. Rather than presuming that inflation begins to hurt growth only after crossing a universally harmful threshold, it examines whether the relationship between inflation and GDP per capita growth differs across inflation regimes in China and the Philippines. The paper is therefore intentionally cautious in its framing. It does not begin from the assumption that inflation is necessarily benign below a certain point and harmful above another in identical fashion across both countries. Instead, it asks whether a regime-based specification explains the data better than a linear one and whether the sign and magnitude of the inflation-growth relationship vary across countries and across inflation regimes.

The use of GDP per capita growth as the dependent variable is central to this inquiry. Aggregate GDP growth may mask whether improvements in output translate into meaningful gains at the level of individual welfare (Deaton, 2023; Murphy, 2011). Since inflation directly affects purchasing power, real income, household consumption, and the developmental significance of growth, GDP per capita growth is a more policy-relevant outcome than total output growth alone (Ferreira et al., 2023; Mweene & Peter, 2025). This choice is particularly important in comparative work involving economies with different population dynamics and different transmission channels from prices to welfare.

The empirical strategy is deliberately parsimonious. The main relationship of interest is between inflation and GDP per capita growth, with trade openness included as the single supporting control variable. Trade openness is retained because it captures one important macroeconomic channel through which domestic growth may interact with the external sector, imported price pressures, and international demand conditions (Corsetti & Pesenti, 2005; Erceg et al., 2007). The choice to limit the number of controls is deliberate. The purpose of the paper is not to build a large determinant-of-growth model, but to isolate as clearly as possible whether the growth association of inflation changes across regimes and whether that regime pattern differs between China and the Philippines.

Using annual World Development Indicators data for the period 1987–2024, this study estimates country-specific benchmark linear models and then compares them with threshold-based regime models. The sample period is determined by the common availability of the three variables, particularly the start of China's inflation series in the dataset used for analysis. The paper is guided by three embedded objectives: first, to determine whether the relationship between inflation and GDP per capita growth is better characterized as regime-dependent rather than strictly linear; second, to estimate country-specific inflation thresholds for China and the Philippines; and third, to compare the direction and magnitude of the inflation-growth relationship across regimes in the two economies.

The contribution of the study is therefore modest but clear. It does not attempt to establish a universal inflation threshold for growth. Instead, it offers a focused comparative assessment of whether inflation behaves differently across regimes in two structurally distinct Asian economies. In doing so, it shifts the discussion from a broad and often overgeneralized claim that inflation uniformly harms growth to a more precise question: does the inflation-growth relationship change across inflation regimes, and are those regime patterns country-specific?

The remainder of the paper proceeds as follows. Section 2 reviews the related literature on inflation and growth, nonlinear and threshold approaches, and the relevance of the China-Philippines comparison. Section 3 presents the data and empirical strategy. Section 4 reports the empirical results. Section 5 discusses the findings in comparative macroeconomic terms. Section 6 concludes, and Section 7 identifies the policy implications.

2. Related Literature

2.1. Inflation and economic growth

The literature on inflation and growth has long resisted simple generalization. In classical, monetarist, and policy-oriented macroeconomic thinking, inflation is often viewed as harmful because it distorts price signals, weakens the real value of savings, raises uncertainty, and discourages long-term investment (Baer, 1967; Bastian & Setterfield, 2015). Persistent inflation may also erode institutional credibility and encourage defensive economic behavior, including speculative holding of assets, shorter planning horizons, and the repricing of contracts in ways that undermine productive efficiency (ÇİÇEN, 2023; Fischer & Modigliani, 1978). In this view, inflation damages growth through uncertainty, misallocation, and reductions in real purchasing power.

Yet the empirical literature has rarely yielded a single uniform conclusion (Durguti, 2024). In some countries and periods, moderate inflation has coexisted with robust growth, especially during phases of industrialization, structural transformation, or post-crisis expansion (Structural change trajectories, 2016). Such findings have led many researchers to distinguish between low, moderate, and high inflation environments rather than assume one constant marginal effect (Bastian et al., 2024). Under some institutional conditions, moderate inflation may accompany growth without causing immediate developmental deterioration (Ibarra & Trupkin, 2015). In other contexts, even relatively modest inflation may be associated with lower real household welfare (Alnaa & Matey, 2024), weaker investment sentiment, and reduced growth performance (Quartey, 2010).

The use of GDP per capita growth adds further importance to this debate. Inflation affects more than macroeconomic aggregates. It alters the real value of wages, savings (Inflation: Causes and effects, 1983), and household expenditure, especially where consumption baskets are concentrated in essential goods such as food, transportation, and utilities (Taylor, 2022). An economy may register positive aggregate growth while still generating weaker per-capita welfare gains if inflation erodes real incomes (Alnaa & Matey, 2024). For this reason, the inflation-growth question is more meaningful when framed in per-capita rather than purely aggregate terms.

Another complication is that inflation may arise from different sources and may therefore carry different implications. Inflation driven by temporary external shocks may not produce the same growth dynamics as inflation generated by persistent domestic imbalances (Alberola et al., 2013). Likewise, inflation in economies with stronger productive capacity and policy credibility may operate differently from inflation in economies with narrower supply response and more vulnerable household consumption (Borio & White, 2004). These considerations make it difficult to sustain a purely linear and universal interpretation of the inflation-growth nexus.

2.2. Nonlinearity, thresholds, and regime dependence

In response to the limitations of linear models, a substantial part of the literature has turned toward nonlinear or threshold-based approaches (Rasyid et al., 2021). The central idea is that inflation may not exert the same effect on growth at all levels (Ayyoub & Wörz, 2019). Instead, the inflation-growth relationship may change once inflation moves from one regime to another (Seleteng et al., 2012). Threshold models are especially attractive because they translate an abstract econometric question into a policy-relevant one: does inflation become more damaging after passing a certain level, or does its relationship with growth change in some other systematic way across regimes (Reimers et al., 2023)?

This perspective is theoretically plausible. At relatively low inflation levels, price increases may be absorbed without substantial macroeconomic disruption, especially in economies with strong supply response, stable expectations, and productive dynamism. At higher levels, however, inflation may intensify relative-price distortions, destabilize expectations, reduce real purchasing power, and trigger tighter policy responses. The effect on growth may therefore change not smoothly but by regime (Mandeya & Ho, 2022; Zheng et al., 2019). This possibility has made threshold estimation an appealing method in comparative macroeconomic work (Chu et al., 2019).

At the same time, the threshold literature does not always produce a single clean turning point applicable across countries. Estimated thresholds often differ depending on sample, period, country composition, specification, and measure of inflation or growth (Mandeya & Ho, 2022; Zheng et al., 2019). This suggests that threshold values are not purely technical parameters but may reflect deeper structural features of the economies being studied. In some cases, threshold estimation reveals a stronger negative effect only above a certain level. In others, the relationship changes across regimes but not in a simple 'safe below, harmful above' form (Cuaresma & Silgoner, 2013). This is an important point for the present study. A regime-based model is useful not because it guarantees a textbook harmful threshold, but because it allows the data to reveal whether the inflation-growth relationship changes in pattern, sign, or magnitude across inflation environments.

From a methodological standpoint, a threshold approach is also preferable to a large multivariable model in the present context. Since the paper's contribution lies in identifying regime variation rather than explaining every source of growth, a parsimonious threshold specification allows the main relationship to remain interpretable. It aligns well with a focused comparative design involving two countries and annual time-series evidence.

2.3. Why compare China and the Philippines?

The comparison between China and the Philippines is justified by structural contrasts. China's development path has involved rapid industrialization, export depth, large-scale investment, strong manufacturing capacity, and coordinated state involvement in development strategy. Such features may influence how inflation interacts with growth. Moderate inflation in an economy with deeper productive capacity may be accommodated differently from inflation in an economy where supply constraints, import dependence, or household exposure to essential-goods price changes are more pronounced.

The Philippines presents a distinct macroeconomic setting. Its growth structure has relied more strongly on services, domestic demand, and remittance-supported consumption (Alfonso, 2018; Bocchi, 2008). Food and energy price movements, exchange-rate pass-through, and domestic supply bottlenecks may therefore have more immediate consequences for real household welfare and per-capita growth. This does not imply that the Philippines is inherently less stable; rather, it suggests that the developmental meaning of a given inflation rate may differ from that in China.

The comparison is also useful because it resists the temptation to impose a pooled rule on dissimilar economies. Much of the broader macroeconomic literature treats countries in panels, thereby estimating average effects that may obscure country-specific dynamics. By focusing on two structurally distinct cases, the present study can interpret inflation regimes in substantive economic terms rather than as pooled average coefficients. This narrower design is a strength as long as the interpretation remains disciplined and does not overstate generalizability.

Taken together, the literature supports three motivations for the present study. First, the inflation-growth relationship may be nonlinear rather than linear. Second, any threshold or regime pattern is likely to be country-specific rather than universal. Third, China and the Philippines provide a useful pair for examining whether the same inflation environment has different growth implications under different structural conditions. The empirical task is therefore not merely to estimate whether inflation matters, but to determine whether the relationship changes across regimes and whether those changes differ between the two countries.

3. Data and Empirical Strategy

3.1. Data source and sample

This study uses annual data from the World Development Indicators for China and the Philippines. The WDI is appropriate for this analysis because it provides standardized and internationally comparable macroeconomic indicators, allowing the inflation-growth relationship to be examined using a common statistical basis across the two countries.

The empirical sample covers the period 1987–2024. This balanced sample is determined by common data availability across the three variables used in the study, particularly the availability of China's inflation series in the dataset employed for estimation. The country-year structure therefore consists of separate annual time-series observations for each country over a shared modern period. The analysis is not designed as a pooled cross-country panel. Instead, the models are estimated separately for China and for the Philippines, because the principal objective is to compare country-specific inflation regimes rather than to impose a common coefficient structure on two structurally different economies.

3.2. Variables

The dependent variable is GDP per-capita growth (annual %). This indicator is used instead of aggregate GDP growth because it better reflects the developmental significance of macroeconomic performance at the level of the individual. Inflation affects purchasing power, real wage value, household consumption, and welfare outcomes (Alnaa & Matey, 2024; Islamiah, 2024), so per-capita growth is more appropriate for assessing when inflation may be associated with weaker economic performance.

The main explanatory variable is inflation, consumer prices (annual %). This variable measures the annual percentage change in the consumer price index and serves as the paper's central macroeconomic indicator of price instability. It functions both as the key regressor and as the variable around which regime changes are identified.

The supporting control variable is trade openness, measured as trade (% of GDP). This variable is included to account for one important macroeconomic channel through which domestic growth may be linked to external demand conditions, import dependence, and exposure to global price pressures. The decision to include only one supporting control reflects the paper's intentionally parsimonious design. The analysis aims not to construct an exhaustive growth model, but to isolate whether the inflation-growth relationship varies across regimes and between countries.

The variables are denoted as follows: GDP per capita growth is g_t; inflation is π_t; and trade openness is tr_t. All variables are retained in annual percentage form. No logarithmic transformation is applied, as the variables of interest are already expressed as rates and the threshold interpretation is clearer when inflation remains in its original percentage scale.

Table 1. Variable definitions and data source.

Variable	Role in study	WDI code	Definition	Unit
GDP per capita growth	Dependent variable	NY.GDP.PCAP.KD.ZG	Annual percentage growth rate of GDP per capita based on constant local currency	Percent
Inflation, consumer prices	Main explanatory / threshold variable	FP.CPI.TOTL.ZG	Annual percentage change in the consumer price index	Percent
Trade openness	Supporting control	NE.TRD.GNFS.ZS	Sum of exports and imports of goods and services measured as a percentage of GDP	Percent of GDP

Source: World Development Indicators (WDI), China and the Philippines, balanced annual sample, 1987–2024.

3.3. Baseline linear specification

The analysis begins with a benchmark linear model for each country:

$$g_t = \alpha + \beta\pi_t + \delta tr_t + \varepsilon_t$$

where g_t is GDP per capita growth, π_t is inflation, tr_t is trade openness, and ε_t is the error term.

This linear specification serves as a reference model. It provides the average association between inflation and GDP per capita growth across the full sample period. However, the linear coefficient may conceal meaningful regime differences if the inflation-growth relationship is not constant across inflation environments. For this reason, the benchmark model is not treated as the preferred final specification, but as a baseline against which the regime-based model can be compared.

3.4. Threshold specification

To examine whether the inflation-growth relationship changes across inflation regimes, the study estimates a country-specific threshold model of the form:

$$g_t = \alpha + \beta_1\pi_t I(\pi_t \leq \gamma) + \beta_2\pi_t I(\pi_t > \gamma) + \delta tr_t + \varepsilon_t$$

where γ is the inflation threshold to be estimated and $I(\cdot)$ is an indicator function separating the sample into two regimes.

This model allows inflation to have one coefficient below the threshold and another above it. The threshold is estimated empirically using a grid-search procedure over the interior portion of the inflation distribution. For each candidate inflation value, the model is estimated and the residual sum of squares is computed. The inflation value that minimizes the residual sum of squares is selected as the estimated threshold. The search is restricted to the interior of the distribution to avoid unstable thresholds located at the extremes of the sample.

The use of this model does not assume in advance that inflation will necessarily become more harmful only above the threshold. Rather, it allows the data to determine whether the relationship between inflation and growth changes across regimes and, if so, in what direction. This is a critical difference from a stronger threshold-harm narrative. In the present paper, the threshold specification is used to detect regime dependence, not to impose a predetermined economic story on the data.

3.5. Estimation and inference

All models are estimated separately for China and the Philippines. Because annual macroeconomic time-series data may exhibit heteroskedasticity and mild serial correlation, inference is based on heteroskedasticity and autocorrelation consistent (HAC) standard errors. This choice improves the reliability of coefficient testing in the presence of macroeconomic clustering across years.

The estimation proceeds in four steps. First, the balanced 1987–2024 annual series are assembled for each country. Second, descriptive statistics are computed to characterize the average growth, inflation, and trade openness of the two economies over the sample period. Third, the benchmark linear model is estimated. Fourth, the threshold model is estimated using the grid-search procedure, and the resulting regime-specific inflation coefficients are interpreted comparatively.

Model comparison is conducted using standard fit criteria such as the coefficient of determination and information criteria. The purpose of the comparison is to determine whether the threshold specification provides a more informative empirical description than the single-slope linear benchmark.

3.6. Robustness checks

Given the relatively short sample associated with annual country-specific time-series analysis, robustness checks are necessary. Three robustness strategies are therefore incorporated.

First, the results are examined for sensitivity to unusual macroeconomic shock years, especially those associated with extraordinary global disruption. This is important because isolated extreme observations may exert disproportionate influence on threshold estimation (Cabras & Morales, 2006).

Second, alternative timing assumptions are considered by assessing whether the relationship changes materially when inflation is analyzed for temporal lags rather than assumed to operate only contemporaneously.

Third, the substantive stability of the threshold estimates is evaluated by comparing whether the regime pattern remains broadly intact under reasonable specification variation. The goal of these checks is not to produce a large battery of models, but to ensure that the central regime-based interpretation is not an artifact of a single influential year or specification choice.

3.7. Empirical expectation

The empirical expectation of the study is framed cautiously. The paper does not assume that both China and the Philippines will exhibit the same inflation threshold or that inflation will become uniformly growth-reducing only after a single turning point; instead, the expectation is that the relationship between inflation and GDP per capita growth may be regime-dependent, and that the pattern of this regime dependence may differ between the two countries.

More specifically, the study expects that a threshold specification may describe the inflation-growth relationship better than a strictly linear model, and that the sign and magnitude of the inflation coefficient may vary across inflation regimes. Whether these variations take the form of a stronger adverse effect above the threshold, a weaker association below it, or some other country-specific configuration is treated as an empirical question rather than a presupposed result.

This restrained expectation is more appropriate for a comparative macroeconomic study of two structurally distinct economies. It allows the analysis to remain faithful to the data while preserving the core contribution of the paper: identifying whether inflation behaves differently across regimes and whether those regime patterns differ between China and the Philippines.

4. Results

4.1. Descriptive results

The descriptive statistics indicate that China and the Philippines entered the estimation period with markedly different macroeconomic profiles. Using the balanced annual sample from 1987 to 2024, China recorded a mean GDP per capita growth rate of 7.95 percent, mean inflation of 4.53 percent, and mean trade openness of 39.94 percent. Over the same period, the Philippines posted a lower mean GDP per capita growth rate of 2.52 percent, a higher mean inflation rate of 5.80 percent, and a considerably higher mean trade openness of 64.73 percent. These differences are already suggestive of distinct growth regimes and inflation environments.

Table 2. Descriptive statistics, 1987–2024.

Variable	N	Mean	SD	Min	Max	N	Mean	SD	Min	Max
	China					Philippines				
GDP per capita growth	38	7.951	2.813	2.097	13.555	38	2.524	3.218	−10.549	6.766
Inflation	38	4.534	6.053	−1.402	24.257	38	5.803	3.815	0.674	19.262
Trade openness	38	39.942	10.441	24.226	63.570	38	64.731	14.293	37.357	87.575

Source: World Development Indicators (WDI). All variables in annual percentage form.

China's average growth performance over the period was substantially stronger than that of the Philippines (Rasiah & Nazeer, 2016), consistent with its long phase of industrialization, export-led expansion, and investment-intensive development (AKKEMİK, 2015). At the same time, China's mean inflation was lower than that of the Philippines despite its higher growth performance (Inflation Volatility, 2009). This combination implies that China experienced a macroeconomic environment in which relatively strong per-capita growth coexisted with generally moderate price increases. By contrast, the Philippines combined lower average per-capita growth with higher average inflation, suggesting a more constrained developmental environment in which price instability may have been more difficult to absorb.

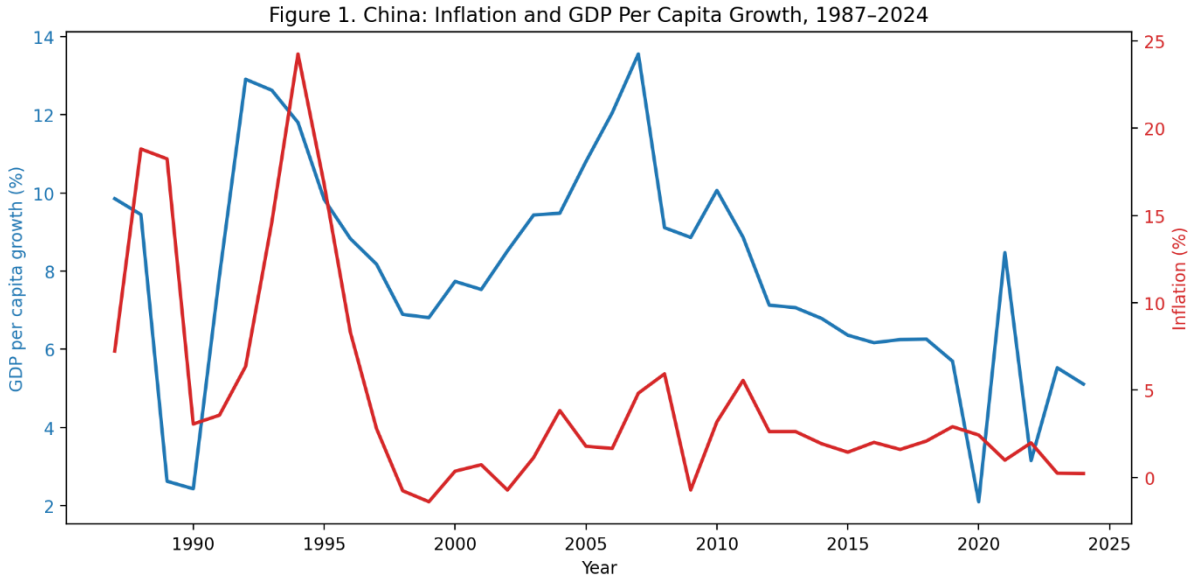

Figure 1. China: Inflation and GDP Per Capita Growth, 1987–2024. This figure shows the historical movement of inflation and GDP per capita growth in China over the estimation period. It illustrates that several of the country's stronger growth episodes coincided with moderate inflation rather than with very low inflation.

These descriptive contrasts are important because they establish the plausibility of country-specific regime behavior. A common linear rule imposed on both countries would risk obscuring how differently inflation may interact with growth under distinct structural conditions. The descriptive evidence therefore supports the decision

to estimate the models separately and to examine whether the inflation-growth relationship changes across inflation regimes within each country.

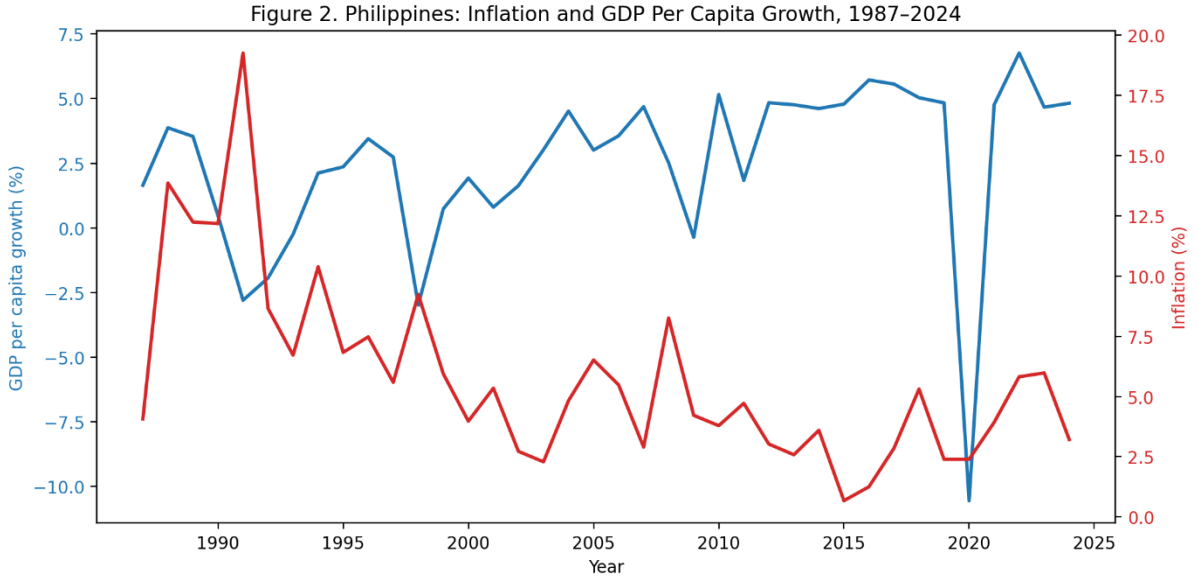

Figure 2. Philippines: Inflation and GDP Per Capita Growth, 1987–2024. This figure presents the historical movement of inflation and GDP per capita growth in the Philippines. The series reflects greater growth fragility and shows how low-inflation years do not necessarily correspond to stronger growth, particularly during major shock periods.

4.2. Linear benchmark results

The first empirical step was the estimation of a linear benchmark model in which GDP per capita growth was regressed on inflation and trade openness. This specification provides the average association between inflation and growth across the full sample period and serves as a baseline against which the threshold model can be assessed.

Table 3. Linear benchmark results.

Variable	China	Philippines
Constant	0.9781 (1.7390)	3.1488 (3.6570)
Inflation	0.1991* (0.0620)	−0.2296 (0.1743)
Trade openness	0.1520*** (0.0381)	0.0109 (0.0415)
R-squared	0.3748	0.0884
AIC	173.5739	198.1324
Observations	38	38

Notes: Dependent variable is GDP per capita growth. HAC(1) robust standard errors in parentheses. *p < 0.05; **p < 0.01; ***p < 0.001; †p < 0.10.

For China, the linear estimate produced an inflation coefficient of 0.1991, which was statistically significant at conventional levels (p = 0.0013). The coefficient on trade openness was 0.1520 and was also highly significant (p = 0.00007). The model generated an R-squared of 0.3748 and an AIC of 173.57. These results indicate that, when constrained to a single average slope, inflation is positively associated with GDP per capita growth in China over the 1987–2024 period. Trade openness also appears to be positively associated with growth. Substantively, this means that years of stronger Chinese growth often coincided with moderate inflation and greater external integration.

For the Philippines, the linear estimate yielded an inflation coefficient of −0.2296, but this relationship was not statistically significant ($p = 0.1878$). The coefficient on trade openness was 0.0109, likewise statistically insignificant ($p = 0.7920$). The model produced an R-squared of 0.0884 and an AIC of 198.13. The Philippine linear specification therefore offers only weak explanatory power and does not produce a statistically clear average effect of inflation on GDP per capita growth across the entire period.

Taken together, the linear results already suggest that a single-slope model may be inadequate. In China, the positive linear coefficient on inflation runs against the conventional understanding that inflation often exerts a negative effect on growth (Quinto & Atento, 2025). In the Philippines, the coefficient has the expected sign but lacks statistical clarity. These findings motivate the shift to a regime-based specification. Rather than assuming that inflation has one constant marginal effect across all annual observations, the threshold model allows that relationship to vary across inflation environments.

4.3. Threshold results

The threshold model was then estimated separately for China and the Philippines using a grid-search procedure that selected the inflation value minimizing the residual sum of squares. The results show that the inflation-growth relationship is indeed better described as regime-dependent than as strictly linear, but the form of that regime dependence differs sharply across the two countries.

Table 4. Threshold model results.

Variable	China	Philippines
Estimated inflation threshold (γ)	3.0523	2.7228
Constant	1.9086 (1.5535)	4.5494 (2.9178)
Inflation, below threshold	−0.6798** (0.2338)	−1.5856† (0.8606)
Inflation, above threshold	0.1601* (0.0627)	−0.3509** (0.1248)
Trade openness	0.1502*** (0.0342)	0.0074 (0.0398)
R-squared	0.4958	0.1787
AIC	167.3968	196.1721
Observations below threshold	24	7
Observations above threshold	14	31
Total observations	38	38

Notes: Threshold estimated by grid search. Dependent variable is GDP per capita growth. HAC(1) robust standard errors in parentheses. *p < 0.05; **p < 0.01; ***p < 0.001; †p < 0.10.

For China, the estimated inflation threshold was 3.0523 percent. There were 24 observations at or below this threshold and 14 observations above it. Below the threshold, the inflation coefficient was −0.6798, statistically significant at the 1 percent level ($p = 0.0036$). Above the threshold, however, the coefficient became 0.1601, also statistically significant ($p = 0.0107$). The threshold specification improved model fit relative to the linear benchmark, with R-squared increasing to 0.4958 and AIC falling to 167.40.

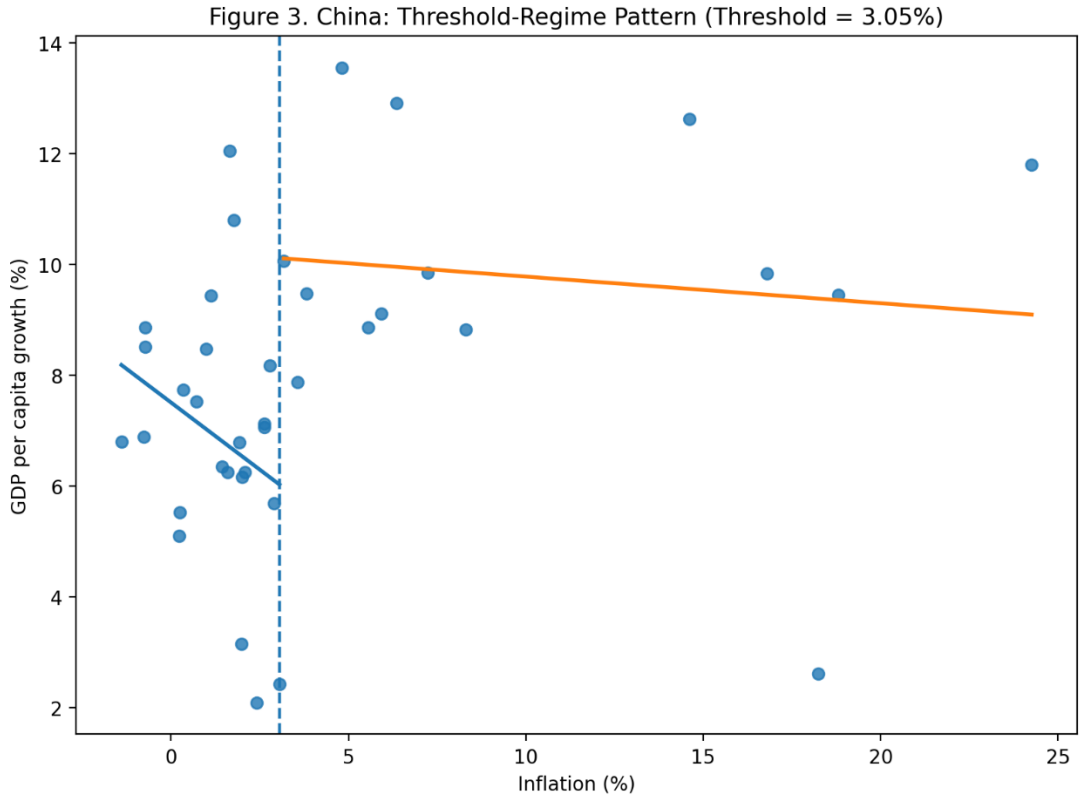

Figure 3. China: Threshold-Regime Pattern (Threshold = 3.05%). This scatterplot shows the relationship between inflation and GDP per capita growth in China with the estimated inflation threshold marked by a vertical line. The fitted regime lines indicate a negative association below the threshold and a positive association above it.

These results indicate that China does exhibit inflation regime dependence, but not in the conventional form expected by the concept of the original paper. The estimated pattern is not one in which inflation is broadly tolerable below a threshold and then becomes harmful above it. Instead, the Chinese data suggest the opposite configuration within this sample: lower inflation is associated with weaker per-capita growth, while inflation above the threshold is associated with stronger growth. This does not mean that inflation is inherently growth-enhancing in a general causal sense. Rather, it suggests that, within the observed Chinese macroeconomic history from 1987 to 2024, many of the country's stronger growth years coincided with inflation levels above 3 percent, whereas several lower-inflation years were associated with weaker growth or disinflationary conditions.

For the Philippines, the estimated threshold was 2.7228 percent. The regime split, however, was highly uneven: only 7 observations fell at or below the threshold, while 31 observations lay above it. Below the threshold, the inflation coefficient was −1.5856, marginally significant ($p = 0.0654$). Above the threshold, the coefficient remained negative at −0.3509, but was statistically stronger ($p = 0.0049$). Model fit improved relative to the linear benchmark, with R-squared increasing to 0.1787 and AIC declining to 196.17.

The Philippine result therefore shows regime dependence, but again not in the simple form of a benign lower-inflation regime and a distinctly harmful higher-inflation regime. Inflation is negatively associated with GDP per capita growth in both regimes. The main difference lies in magnitude and statistical precision. The below-threshold coefficient is more negative in absolute value, but the interpretation of that result must be treated cautiously because the lower regime contains only seven observations and includes the pandemic year 2020, in which inflation was relatively low while GDP per capita growth collapsed sharply. That year exerts considerable influence on the low-inflation regime.

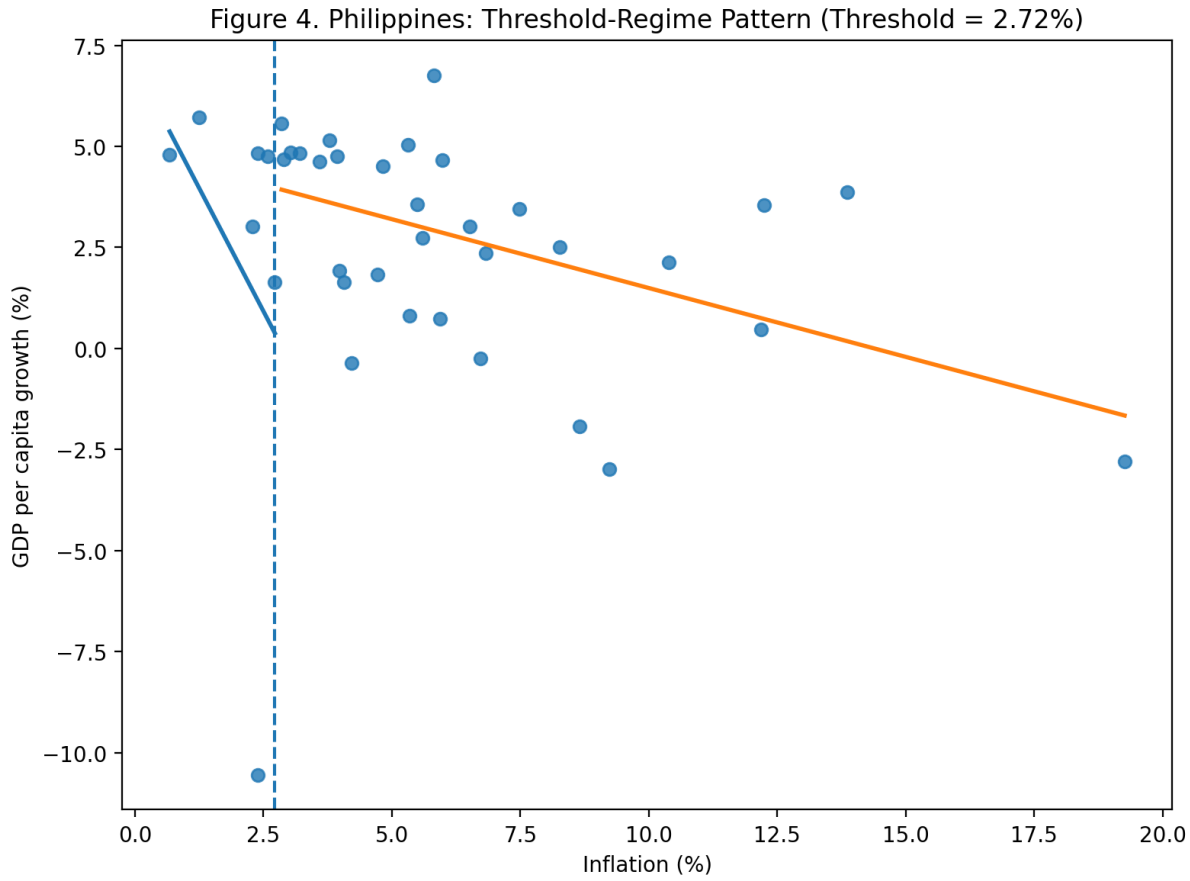

Figure 4. Philippines: Threshold-Regime Pattern (Threshold = 2.72%). This scatterplot shows the relationship between inflation and GDP per capita growth in the Philippines with the estimated inflation threshold marked by a vertical line. The fitted regime lines indicate negative associations in both regimes, with the lower-inflation regime influenced by a small number of observations and by the pandemic shock year.

4.4. Model comparison

A comparison of the linear and threshold specifications confirms that the threshold model provides a better fit in both countries. In China, the threshold model raised R-squared from 0.3748 to 0.4958 and reduced AIC from 173.57 to 167.40. In the Philippines, the threshold model raised R-squared from 0.0884 to 0.1787 and reduced AIC from 198.13 to 196.17. The improvement is stronger in China, where the regime split captures an important structural difference between low-inflation and higher-inflation years. In the Philippines, the threshold model also improves fit, though more modestly and with greater sensitivity to a small number of low-inflation observations.

The importance of this comparison lies not only in statistical performance but in interpretation. The linear model compresses very different inflation environments into one average coefficient. The threshold model reveals that this averaging masks important within-country regime patterns. Even where the regime pattern does not conform to the classic 'inflation becomes harmful only after a threshold' story, it still indicates that the inflation-growth relationship changes in meaningful ways across inflation levels.

4.5. Robustness considerations

The Philippine case required additional robustness scrutiny because of the strong influence of the 2020 observation. When 2020 was excluded, the estimated Philippine threshold shifted materially upward to 9.2349 percent. The coefficient below the threshold became −0.6667 and statistically significant ($p = 0.0002$), while the coefficient above the threshold was −0.3608, also strongly significant ($p = 0.0003$). Model fit improved substantially, with R-squared increasing to 0.3951 and AIC declining to 158.22.

Table 5. Philippines robustness check: threshold model with and without 2020.

Variable	Baseline sample (1987–2024)	Excluding 2020
Estimated inflation threshold (γ)	2.7228	9.2349
Constant	4.5494 (2.9178)	6.0810 (1.8932)
Inflation, below threshold	−1.5856† (0.8606)	−0.6667*** (0.1793)
Inflation, above threshold	−0.3509** (0.1248)	−0.3608*** (0.0989)
Trade openness	0.0074 (0.0398)	0.0025 (0.0294)
R-squared	0.1787	0.3951
AIC	196.1721	158.2174
Observations below threshold	7	32
Observations above threshold	31	5
Total observations	38	37

Notes: The exclusion of 2020 materially changes the Philippine threshold estimate and improves model fit, while preserving the negative sign of inflation in both regimes. HAC(1) robust standard errors in parentheses. *p < 0.05; **p < 0.01; ***p < 0.001; †p < 0.10.

This robustness exercise is revealing. Once the pandemic shock is removed, the Philippine regime pattern becomes more stable and less dominated by an unusual low-inflation collapse year. However, even in this revised specification, the result still does not support a simple narrative in which inflation is harmless below the threshold and harmful above it. Instead, inflation remains negatively associated with per-capita growth in both regimes, with differences in magnitude rather than in sign.

The Chinese result did not require the same type of crisis-year correction to reveal its core pattern. Its regime structure appears more stable in the sample, though its substantive meaning is different from the original hypothesis. The Chinese threshold result indicates that higher inflation was historically associated with stronger growth phases rather than with a clear post-threshold growth penalty.

4.6. Summary of empirical findings

Several conclusions emerge from the results. First, the inflation-growth relationship is more accurately described as regime-dependent than as strictly linear in both China and the Philippines. Second, the estimated inflation thresholds differ across countries, indicating that inflation regimes are not governed by a single common rule. Third, the substantive meaning of the threshold differs sharply between the two cases. In China, the estimated regime pattern contradicts the simple proposition that inflation becomes growth-reducing only above a threshold. In the Philippines, inflation is negatively associated with growth in both regimes, though the precise regime structure is sensitive to the inclusion of extreme shock years.

The empirical record therefore supports a restrained conclusion. The results do not justify a strong claim that inflation uniformly becomes harmful beyond a clean common threshold in China and the Philippines. What they do support is the weaker, but more defensible, conclusion that the inflation-growth relationship varies across inflation regimes and that the nature of that regime variation is country-specific.

5. Discussion

The empirical findings call for a more nuanced interpretation of the inflation-growth relationship than implied by the original paper's concept. The threshold model performs better than the linear benchmark in both China and the Philippines, which confirms that the relationship is not adequately captured by a single constant slope. However, the form of regime dependence differs between the two countries and does not support a unified

narrative in which inflation is broadly acceptable up to a point and then becomes clearly growth-reducing thereafter.

The Chinese result is the most striking in this regard. The positive coefficient in the higher-inflation regime suggests that inflation levels above approximately 3 percent were historically associated with stronger per-capita growth rather than weaker. This pattern is consistent with the macroeconomic history of China over much of the sample period (Chang et al., 2016). Strong growth phases in China were often accompanied by investment expansion, industrial dynamism, and rising domestic demand, conditions under which moderate inflation may have reflected rapid economic activity rather than macroeconomic breakdown (McKay, 2011; Yusuf, 1994). In such a setting, low inflation may not necessarily indicate stability or macroeconomic success; it may instead coincide with periods of weaker demand, slower industrial momentum, or broader disinflationary pressure. The Chinese threshold result therefore appears to capture a distinction between low-inflation slowdowns and moderate-inflation expansion phases rather than a simple harmful-threshold mechanism.

This interpretation should nevertheless be handled with care. The result does not imply that inflation is universally growth-enhancing in China or that higher inflation is normatively desirable. Rather, it suggests that, within the observed sample, moderate inflation was historically embedded in broader growth episodes. Inflation in this case may be acting partly as a macroeconomic marker of expansion rather than as an autonomous driver of stronger growth. The threshold model reveals the existence of regime variation, but the economic meaning of that variation is inseparable from the wider development context.

The Philippine case points in a different direction. Inflation is negatively associated with GDP per capita growth in both regimes, and the overall pattern is more consistent with the idea that price instability erodes real economic performance. This is plausible in a macroeconomic environment where household welfare is more directly exposed to food prices, energy prices, and exchange-rate pass-through, and where the growth process may be more sensitive to the consumption effects of inflation (Allon-Pineda et al., 2025; Reyes et al., 2010). The Philippines does not display the same expansion-associated inflation regime seen in China. Instead, inflation appears more consistently tied to weaker per-capita growth outcomes.

At the same time, the Philippine threshold result also warns against overly rigid interpretation. The low threshold of 2.72% in the baseline threshold model is heavily influenced by the presence of 2020, when inflation was low but growth collapsed due to an extraordinary external shock. This creates an apparent low-inflation regime that looks unusually harmful. Once that year is removed, the estimated threshold rises substantially to 9.23%, and the negative association of inflation with growth remains in both regimes. This suggests that the Philippine case is better interpreted not as evidence of a sharply defined harmful turning point, but as evidence of a generally adverse inflation-growth relationship whose apparent regime structure is sensitive to exceptional macroeconomic disturbances.

These cross-country differences have broader implications for comparative macroeconomic analysis. First, they reinforce the idea that threshold estimates are not universal constants. A threshold is not merely a technical cutoff; it is partly a reflection of the country's structural composition, macroeconomic history, and the specific shocks embedded in the sample. This is why the same empirical method produces very different substantive results in China and the Philippines. Second, the results caution against the routine use of pooled or average inflation-growth coefficients in policy analysis. A single cross-country estimate may conceal not only different threshold levels, but entirely different regime meanings.

The findings also inform how inflation should be interpreted in development settings. Inflation is often treated exclusively as a policy failure (Chowdhury & Sundaram, 2023). Yet the Chinese evidence suggests that, under some development trajectories, moderate inflation may coexist with high growth because both are symptoms of broader expansionary conditions. By contrast, the Philippine evidence suggests that inflation may more readily translate into real-income pressure and weaker growth. The economic significance of inflation is therefore not exhausted by its numerical value. It depends on what kind of economy is experiencing the inflation, what sectoral structure underlies growth, how households absorb price changes, and whether inflation reflects demand-led expansion, supply-side constraint, or external shock transmission.

A further implication concerns the choice of dependent variable. The use of GDP per capita growth rather than aggregate GDP growth is important because it ties the analysis more directly to developmental welfare. Inflation may be associated with expansion in aggregate output while still weakening the real welfare gains available per person (Alnaa & Matey, 2024). Conversely, inflation in a high-growth industrializing economy may

be less immediately destructive to per-capita growth than in an economy with narrower structural buffers (Ibarra & Trupkin, 2015). The comparative pattern observed here supports the usefulness of the per-capita framework.

The main contribution of the study is therefore not the identification of a universal harmful inflation threshold. Its contribution lies in demonstrating that a regime-based approach is empirically more informative than a strictly linear one, while also showing that the regime patterns themselves are highly country-specific. In China, the threshold model distinguishes between lower-inflation years associated with weaker growth and higher-inflation years associated with stronger growth. In the Philippines, the threshold model reveals a generally negative inflation-growth relationship, though one whose apparent turning point is sensitive to extraordinary shock years. These are substantively different outcomes, and this difference is precisely what a comparative regime approach is able to uncover.

In analytical terms, the study therefore supports a cautious but meaningful conclusion: inflation does not affect GDP per capita growth in a uniform manner across countries or across inflation regimes. The relationship is nonlinear, but nonlinearity does not always take the form that policy intuition expects. That insight is more modest than the original threshold-harm hypothesis, but it is also more faithful to the data and more defensible for publication.

6. Conclusion

This study examined whether the relationship between inflation and GDP per capita growth is better understood as regime-dependent rather than strictly linear, using annual World Development Indicators data for China and the Philippines over the period 1987–2024. The analysis employed a parsimonious comparative design in which country-specific linear benchmark models were compared with threshold-based regime models using inflation as the threshold variable and trade openness as a supporting control.

The results indicate that a regime-based specification provides a more informative empirical description than a single-slope linear model in both countries. In both China and the Philippines, the threshold model improved statistical fit relative to the linear benchmark, suggesting that the inflation-growth relationship changes across inflation environments rather than remaining constant across the full sample period. This finding alone is important because it shows that the use of a single average inflation coefficient may conceal meaningful regime variation.

At the same time, the substantive pattern of that regime dependence differs sharply between the two economies. In China, the threshold model identifies an inflation threshold at approximately 3.05 percent, below which inflation is negatively associated with GDP per capita growth and above which the association turns positive. This result does not support the original proposition that inflation becomes growth-reducing only after crossing a threshold. Instead, it suggests that within the observed sample, higher-growth phases in China were historically associated with moderate inflation, while lower-inflation years were more closely associated with weaker growth or disinflationary conditions.

In the Philippines, the threshold model identifies a lower baseline threshold of approximately 2.72 percent, but inflation is negatively associated with GDP per capita growth in both regimes. The below-threshold regime appears more strongly negative in the baseline specification, although this result is influenced by the inclusion of the pandemic year 2020, when inflation was relatively low but growth collapsed sharply. When that year is excluded, the estimated threshold rises to approximately 9.23 percent, and inflation remains negatively associated with growth in both regimes. Thus, the Philippine evidence is more consistent with a generally adverse inflation-growth relationship, although the exact regime split is sensitive to exceptional macroeconomic disturbances.

Taken together, these findings support a restrained but meaningful conclusion. The study does not identify a single clean inflation threshold beyond which inflation uniformly begins to harm per-capita growth in both countries. Rather, it shows that the inflation-growth relationship is nonlinear, regime-dependent, and country-specific. In China, the regime pattern reflects the coexistence of moderate inflation with historically strong growth phases. In the Philippines, inflation is more consistently associated with weaker per-capita growth, though the form of the threshold pattern depends partly on the treatment of extraordinary shock years.

The paper's main contribution therefore lies not in establishing a universal harmful threshold, but in demonstrating that threshold-based comparative analysis can reveal distinct macroeconomic regime patterns that would be obscured by a purely linear approach. The results suggest that inflation should not be interpreted through

a single generalized rule across structurally different economies. Its growth implications depend on development structure, macroeconomic history, and the specific shocks embedded in the sample.

This conclusion also implies a methodological lesson. Threshold estimation remains useful even when it does not confirm the most intuitive or policy-convenient narrative. In the present study, the threshold framework remains justified precisely because it reveals that inflation regimes exist, but that their meaning is not identical across China and the Philippines. This more qualified conclusion is less sweeping than the original paper concept, but it is more analytically credible and more faithful to the empirical record.

7. Policy Implications

The policy implications of the study must be drawn with caution. Since the results do not support a single common threshold at which inflation becomes uniformly growth-reducing in both countries, the paper does not justify a universal inflation rule for comparative policy design. Instead, the evidence supports a more differentiated view: inflation management should be interpreted in relation to national macroeconomic structure and to the regime-specific historical pattern observed in each economy.

For China, the findings suggest that moderate inflation should not automatically be interpreted as a sign of growth deterioration. In the historical sample used in this study, inflation above the estimated threshold of roughly 3 percent coincided with stronger per-capita growth, while lower-inflation years were associated with weaker growth performance. This implies that policymakers should be cautious about adopting overly mechanical anti-inflation responses during periods of economic expansion. If moderate inflation reflects active investment, strong demand, or broader industrial momentum, aggressive disinflation may risk suppressing growth without necessarily improving developmental welfare. The policy lesson is not that higher inflation should be pursued, but that inflation must be interpreted in light of the broader growth context. Moderate inflation in a structurally dynamic economy may require monitoring and management rather than automatic contractionary overreaction.

For the Philippines, the results point in a different direction. Inflation appears to be more consistently associated with weaker GDP per-capita growth, which suggests that inflation control remains a more directly growth-relevant objective. In an economy where household welfare is more sensitive to food, energy, and essential-consumption price movements, inflation can more quickly erode real purchasing power and reduce the developmental quality of growth (Aladejare & Musa, 2022; Storm, 2022). This implies that anti-inflation policy in the Philippines is not merely a price-stability exercise but also a welfare-protective measure. However, the evidence also warns against reading too much into a single estimated cutoff. The threshold shifts materially when an extraordinary year such as 2020 is excluded, indicating that inflation policy should not rely on a rigid numerical boundary detached from wider macroeconomic circumstances.

A broader implication is that country-specific inflation regimes matter more than imported policy heuristics. The same inflation rate may not carry the same developmental meaning in two different economies. A moderate inflation episode in one country may reflect productive expansion and relatively resilient supply conditions, while in another it may reflect supply bottlenecks, real-income erosion, and weakened household demand (Ahmmed et al., 2020; Maher, 2023). Policymakers should therefore resist the tendency to interpret inflation in isolation from sectoral structure, external exposure, household vulnerability, and the composition of growth.

The results also suggest that average cross-country inflation targets or pooled macroeconomic conclusions should be used with caution when designing national policy. A threshold estimated from broad international panels may obscure how differently inflation interacts with growth across specific economies (Azam & Khan, 2020; Reimers et al., 2023). The China-Philippines comparison demonstrates that even within Asia, inflation regimes can exhibit sharply different associations with per-capita growth. This supports the case for policy analysis grounded in national macroeconomic history rather than in generalized cross-country averages alone.

Another implication concerns the role of shock years in policy assessment. The Philippine results show how a single extraordinary observation can materially alter the apparent inflation regime. This serves as a reminder that macroeconomic policy should distinguish between ordinary inflation environments and exceptional crisis episodes. Inflation observed during pandemic disruption, severe external shock, or abrupt supply collapse may not carry the same policy meaning as inflation arising during normal cyclical or structural conditions (Frenkel, 2018; Saraiva et al., 2019). Policymakers should therefore supplement threshold-style rules with contextual judgment.

Finally, the study implies that policy debate should move beyond the binary question of whether inflation is simply 'good' or 'bad' for growth. The more relevant issue is how inflation interacts with each country's development structure and whether the economy is in a regime where inflation is embedded in expansion, in stagnation, or in external disruption. In practical terms, this means that monetary authorities and macroeconomic planners should interpret inflation together with indicators of productive capacity, demand composition, sectoral stress, trade exposure, and household welfare transmission.

In summary, the policy implication of this study is not the identification of a universal inflation ceiling. Rather, it is the recognition that inflation management must be country-specific, regime-sensitive, and structurally informed. China and the Philippines do not exhibit the same inflation-growth regime pattern, and policy responses should reflect that difference. A more flexible and context-aware interpretation of inflation is therefore likely to be more appropriate than the application of one simplified threshold rule across dissimilar economies.

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