

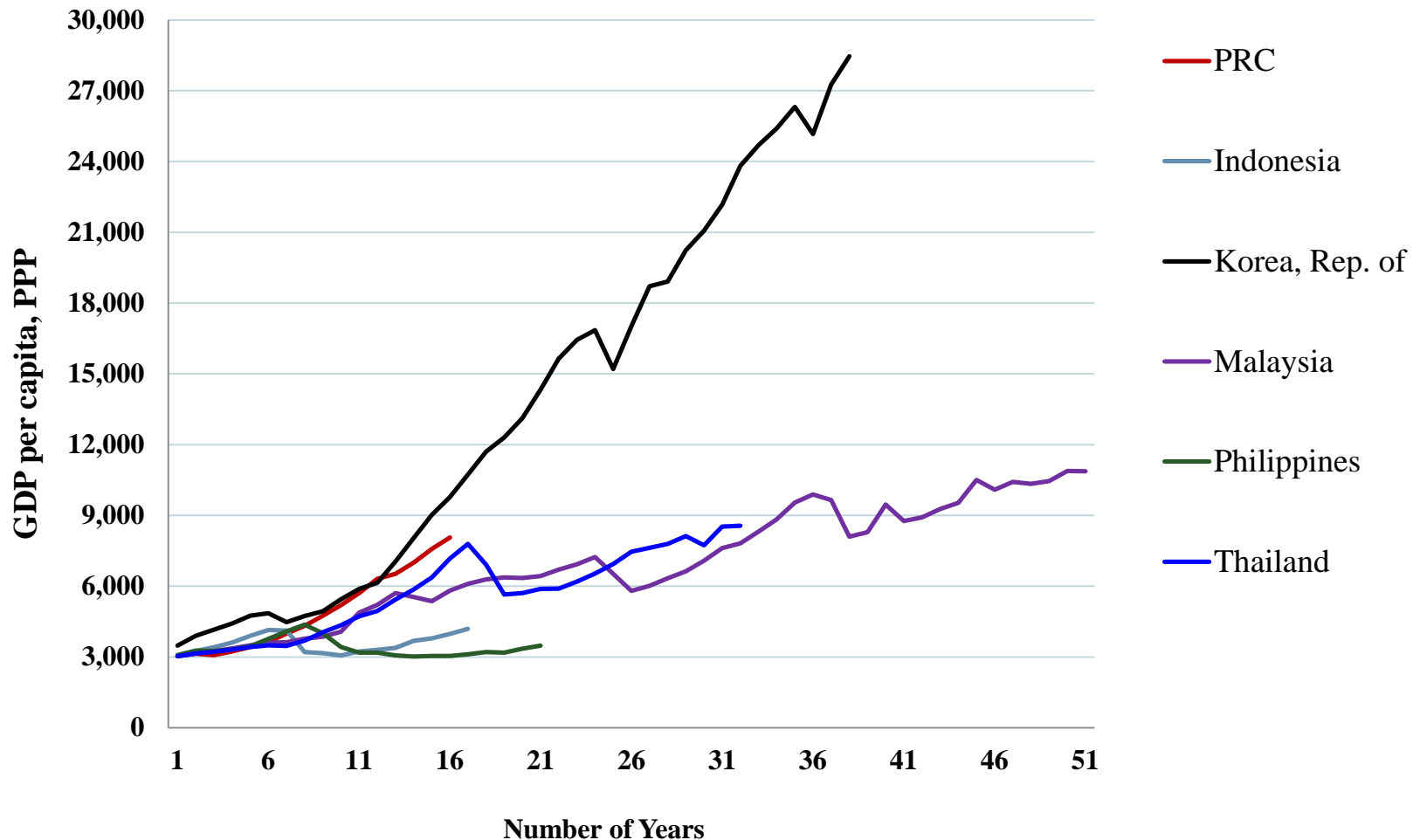
# Is there a Middle Income Trap?

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# GDPpc and time elapsed after reaching US\$ 3,000



# Objectives of the talk

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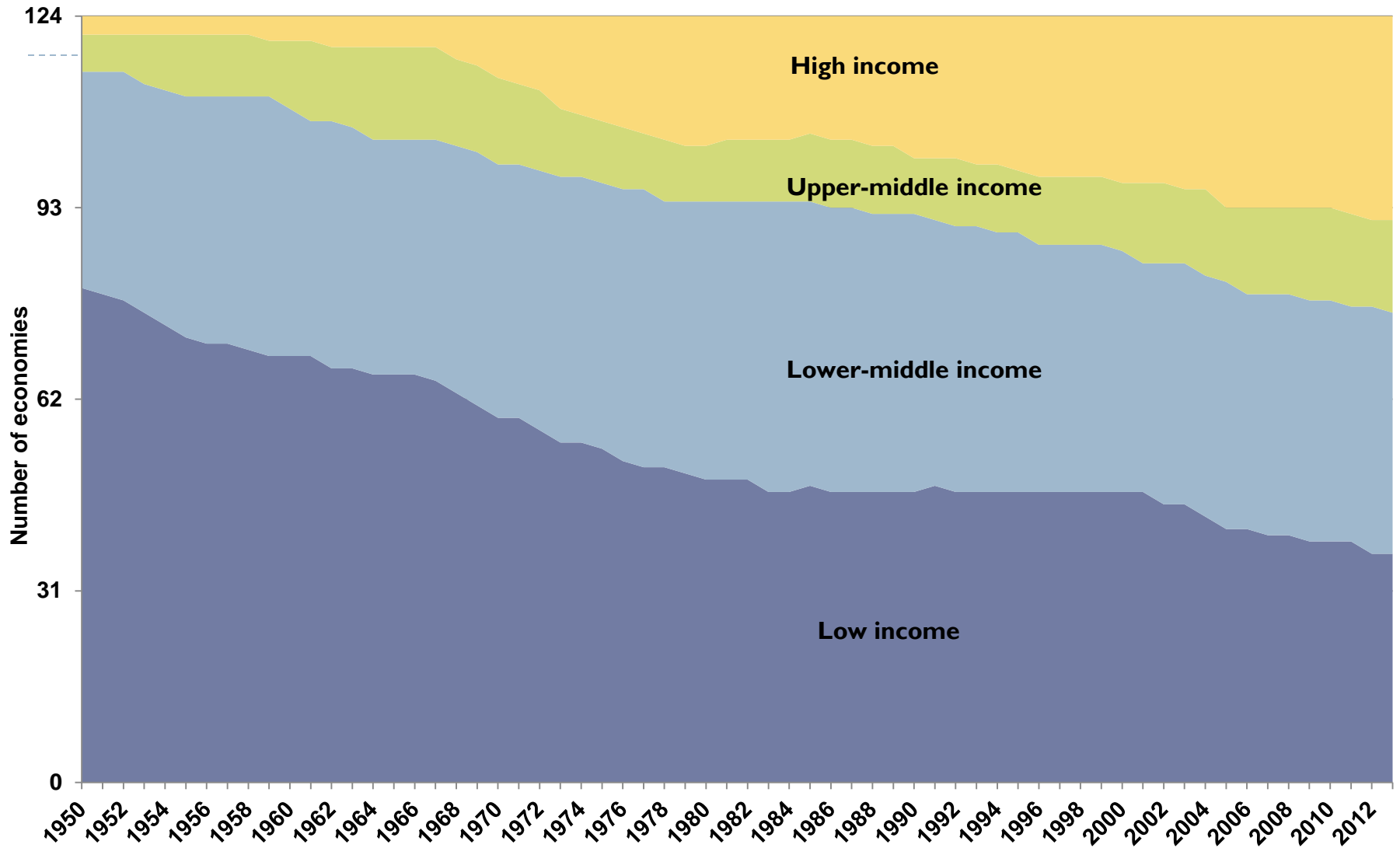
- ▶ What does the term “middle-income trap”(MIT) really mean?
  - ▶ Using a term without a clear content is dangerous
  - ▶ Key question: how long has been the historical ‘norm’ in the MI segment?
  - ▶ Method: Examine historical transitions from one income level to the next
  
- ▶ Countries as of 2013
  
- ▶ Useful or misleading idea for policy discussions?

# Data and thresholds

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- ▶ We have data for 124 countries for 1950-2013
- ▶ For 72 of these countries we have data back in time for different periods
- ▶ **Our income thresholds (in 1990 PPP\$) are:**
  - ▶ ***LM* = \$2,000 ; *UM* = \$7,250; *H* = \$11,750**
  - ▶ **Middle-Income: \$2,000 - \$11,750**

# The number of high-income economies has increased



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Transitions across income groups  
since the 19<sup>th</sup> century

How fast have they been?

# LM→UM before 1950: median of 64 years

Economy	Year the economy turned LM (YLM)	Years as LM	Average growth rate (%) (YLM to YUM)	Economy	Year the economy turned LM (YLM)	Years as LM	Average growth rate (%) (YLM to YUM)
Asia-Pacific				Europe			
Australia	1851	99	1.2	Austria	1876	88	1.5
Hong Kong	1950	26	5	Belgium	1854	107	1.2
Japan	1933	35	3.9	Denmark	1872	81	1.6
New Zealand	1860	80	1.4	Finland	1922	42	3.1
Singapore	1950	28	4.6	France	1874	86	1.4
Latin America				Germany	1874	86	1.5
Argentina	1890	71	1.5	Greece	1924	38	2.7
Chile	1891	101	1.3	Hungary	1925	73	1.6
Colombia	1946	67	1.9	Ireland	1913	55	1.6
Mexico	1942	62	2.1	Italy	1906	57	2.3
Panama	1945	66	2	Netherlands	1827	128	1
Uruguay	1870	124	1	Norway	1907	54	2.5
Venezuela	1925	23	5.7	Poland	1950	50	2.2
Middle-East and North Africa				Portugal	1947	31	4.2
Israel	1950	19	5.5	Spain	1913	60	2.2
Saudi Arabia	1950	20	6.3	Sweden	1896	58	2.2
Syrian Arab Republic	1950	46	2.5	Switzerland	1868	77	1.8
Sub-Saharan Africa				United Kingdom	1845	108	1.2
Mauritius	1950	41	2.8	North America			
				Canada	1881	69	1.9
				United States	1860	72	1.7

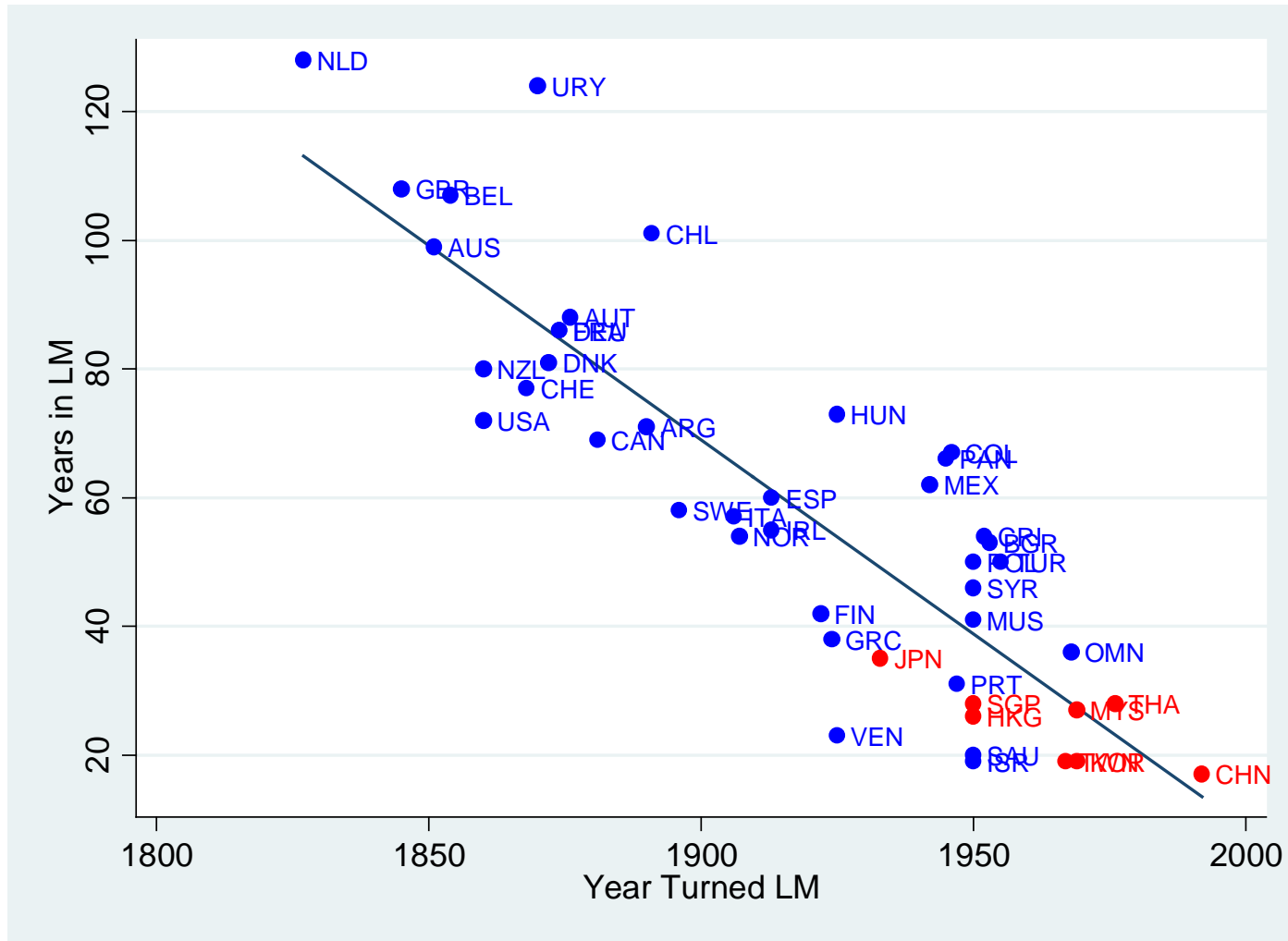
# LM→UM after 1950: median of 28 years

Economy	Region	Year the economy turned LM (YLM)	Year the economy turned UM (YUM)	Years as LM	Average growth rate (%) (YLM to YUM)
<b>PRC</b>	AP	1992	2009	17	7.5
<b>Malaysia</b>	AP	1969	1996	27	5.1
<b>Korea, Rep. of</b>	AP	1969	1988	19	7.2
<b>Taipei, China</b>	AP	1967	1986	19	7.0
<b>Thailand</b>	AP	1976	2004	28	4.7
<b>Bulgaria</b>	Europe	1953	2006	53	2.5
<b>Turkey</b>	Europe	1955	2005	50	2.6
<b>Costa Rica</b>	LAC	1952	2006	54	2.4
<b>Oman</b>	MENA	1968	2004	36	2.4



LM→UM is a slow walk

East and Southeast Asian graduations from LM to UM have been outliers



# LM transitions historically

Set of economies	Economies that became LM after 1950 and then became UM		Economies that became LM in or before 1950 and then became UM		All economies	
	Median	Mean	Median	Mean	Median	Mean
With East and Southeast Asia	28	34	64	65	<b>55</b>	58
Without East and Southeast Asia	52	48	67	68	62	66

LM (\$2,000) → UM (\$7,250) in 55 years implies a growth rate of **2.37%** p.a.

# UM→H before 1950: median of 20 years

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Economy	Region	Year the economy turned UM (YUM)	Year the economy turned H (YUH)	Years as UM	Average growth rate (YUM to YH)
Australia	AP	1950	1970	20	2.4
New Zealand	AP	1949	1972	23	2.0
Switzerland	Europe	1945	1959	14	3.1
Canada	North America	1950	1969	19	2.6
United States	North America	1941	1962	21	1.8

Economy	Region	Year the economy turned UM (YUM)	Year the economy turned H (YH)	Years as UM	Average growth rate (%) (YUM to YH)
<b>Hong Kong, China</b>	AP	1976	1983	7	5.9
<b>Japan</b>	AP	1968	1977	9	4.7
<b>Korea, Rep. of</b>	AP	1988	1995	7	6.5
<b>Singapore</b>	AP	1978	1988	10	5.1
<b>Taipei, China</b>	AP	1986	1993	7	6.9
<b>Austria</b>	Europe	1964	1976	12	4.1
<b>Belgium</b>	Europe	1961	1973	12	4.4
<b>Denmark</b>	Europe	1953	1968	15	3.3
<b>Finland</b>	Europe	1964	1979	15	3.6
<b>France</b>	Europe	1960	1971	11	4.4
<b>Germany</b>	Europe	1960	1973	13	3.4
<b>Greece</b>	Europe	1972	2000	28	1.8
<b>Ireland</b>	Europe	1975	1990	15	3.2
<b>Italy</b>	Europe	1963	1978	15	3.4
<b>Netherlands</b>	Europe	1955	1970	15	3.3
<b>Norway</b>	Europe	1961	1975	14	3.5
<b>Portugal</b>	Europe	1978	1996	18	2.8
<b>Spain</b>	Europe	1973	1990	17	2.7
<b>Sweden</b>	Europe	1954	1968	14	3.6
<b>United Kingdom</b>	Europe	1953	1973	20	2.5
<b>Argentina</b>	LAC	1970	2011	41	1.2
<b>Chile</b>	LAC	1992	2005	13	3.7
<b>Uruguay</b>	LAC	1994	2012	18	2.6
<b>Israel</b>	MENA	1969	1986	17	2.6
<b>Mauritius</b>	SSA	1991	2003	12	4

UM→H  
after  
1950:  
median  
of 14  
years

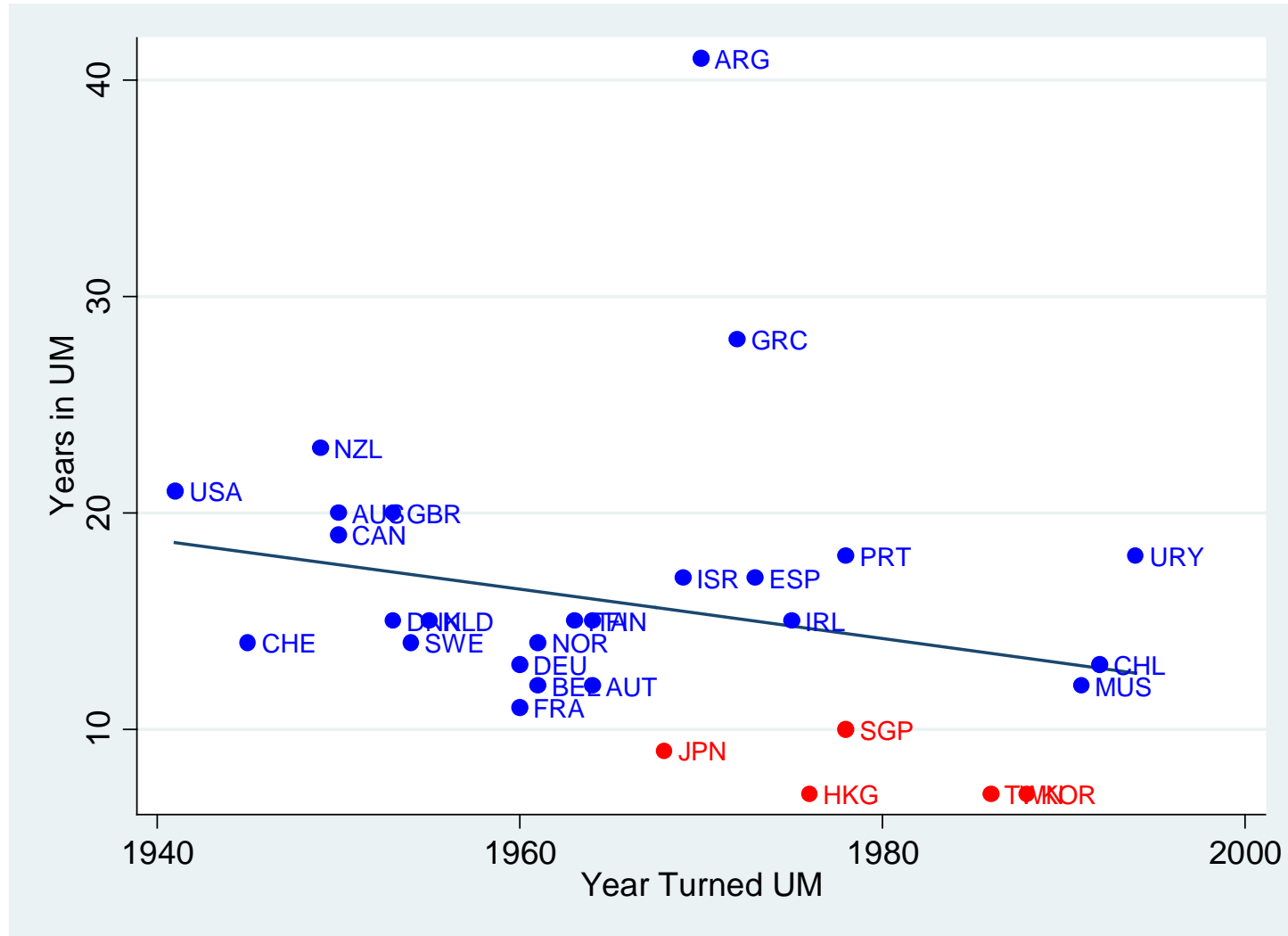
AP = Asia-Pacific,

LAC = Latin America  
and Caribbean,

MENA = Middle East  
and North Africa,

SSA = Sub-Saharan  
Africa

UM→H is a faster walk than LM→UM. Again, East and Southeast Asian graduations have been outliers



# UM transitions historically

Set of economies	Economies that became UM after 1950 and then became H		Economies that became UM in or before 1950 and then became H		All economies	
	Median	Mean	Median	Mean	Median	Mean
With East and Southeast Asia	14	15	20	19	15	16
Without East and Southeast Asia	15	17			15	17

UM (\$7,250) → H (\$11,750) in 15 years implies a growth rate of **3.27%** p.a.

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What countries had not had **long** middle-income transitions (for historical standards) as of 2013?

# LM transitions < 55 years as of 2013

Economy	Region	2013 GDP per Capita (1990 PPP \$)	Years in LM until 2013	Remaining years to 55	Average Growth (%) 2003-13	Average GDP per Capita Growth to Reach \$7,250
<b>Cambodia</b>	<b>AP</b>	<b>2,969</b>	<b>9</b>	<b>46</b>	<b>8.8</b>	<b>2.0</b>
<b>India</b>	<b>AP</b>	<b>3,834</b>	<b>12</b>	<b>43</b>	<b>6</b>	<b>1.5</b>
<b>Indonesia</b>	<b>AP</b>	<b>5,548</b>	<b>28</b>	<b>27</b>	<b>4.5</b>	<b>1.0</b>
<b>Lao PDR</b>	<b>AP</b>	<b>2,220</b>	<b>2</b>	<b>55</b>	<b>5.3</b>	<b>2.3</b>
<b>Myanmar</b>	<b>AP</b>	<b>4,323</b>	<b>10</b>	<b>45</b>	<b>8.5</b>	<b>1.2</b>
<b>Pakistan</b>	<b>AP</b>	<b>2,386</b>	<b>9</b>	<b>46</b>	<b>2.5</b>	<b>2.4</b>
<b>Philippines</b>	<b>AP</b>	<b>3,429</b>	<b>39</b>	<b>16</b>	<b>3.3</b>	<b>4.8</b>
<b>Sri Lanka</b>	<b>AP</b>	<b>6,431</b>	<b>31</b>	<b>24</b>	<b>5.5</b>	<b>0.5</b>
<b>Vietnam</b>	<b>AP</b>	<b>3,711</b>	<b>12</b>	<b>43</b>	<b>5.6</b>	<b>1.6</b>
Albania	Europe	4,695	44	11	4	4.0
Romania	Europe	4,810	52	3	3.2	14.7
Bolivia	LAC	3,408	46	9	2.8	8.7
Dominican Republic	LAC	5,153	41	14	3.2	2.5
El Salvador	LAC	2,972	50	5	0.8	19.5
Honduras	LAC	2,357	10	45	1.9	2.5
Paraguay	LAC	3,789	41	14	2.5	4.7
Algeria	MENA	3,682	42	13	1.6	5.4
Egypt	MENA	3,935	34	21	2.6	3.0
Iran	MENA	7,153	55	0	6.0	<1
Libya	MENA	2,162	52	3	-1.2	-
Morocco	MENA	4,041	37	18	3.3	3.3
Tunisia	MENA	6,451	42	13	2.7	0.9
Yemen, Rep.	MENA	2,501	38	17	<b>-0.6</b>	<b>-</b>
Botswana	SSA	5,155	31	24	1.5	1.4
Congo, Rep.	SSA	2,502	35	20	2.2	5.5
Ghana	SSA	2,222	2	53	5.1	2.3



## UM transitions < 15 years as of 2013

Economy	Region	2013 GDP per Capita (1990 PPP \$)	Years in LM	Years in UM until 2013	Remaining years to 15	Average Growth (%) 2003-13	Average GDP per Capita Growth to Reach \$11,750
<b>PRC</b>	<b>AP</b>	<b>10,018</b>	<b>17</b>	<b>5</b>	<b>10</b>	<b>7.6</b>	<b>1.6</b>
<b>Thailand</b>	<b>AP</b>	<b>9,962</b>	<b>28</b>	<b>10</b>	<b>5</b>	<b>3.3</b>	<b>3.4</b>
Bulgaria	Europe	9,046	53	8	7	3.7	3.8
Hungary	Europe	9,033	73	13	2	1.1	14.1
Poland	Europe	11,590	50	14	1	4.0	1.4
Turkey	Europe	8,980	50	9	6	3.3	4.6
Colombia	LAC	7,257	67	1	14	3.3	3.5
Costa Rica	LAC	8,571	54	8	7	2.8	4.6
Mexico	LAC	8,181	62	10	5	1.3	7.5
Panama	LAC	8,986	66	3	12	4.6	2.3
Oman	MENA	9,475	36	10	5	2.8	4.4

As of 2013....

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- ▶ Ten countries had experienced **slow** transitions in LM (>55 yrs.)
- ▶ Four countries had experienced **slow** transitions in UM (>15 yrs.) (this includes Malaysia, but out in 2014)

# Therefore...Middle-Income...Trap or Myth?

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- ▶ The term ‘middle-income *trap*’ can be misleading if not used properly
  - ▶ We do not think there is anything out of the ordinary in economies between \$2,000 and \$11,750. Development is a continuum
  - ▶ Risky to use it in policy discussions
  
- ▶ 30 countries have made the full transition from LM into H
  - ▶ In general, *slow* and *long* transitions...but ‘trapped’?
  - ▶ East and Southeast Asian economies are outliers, not the norm

It takes almost a century to become a high-income economy (most of it in LM) and a miracle to do it faster

Time taken to graduate from LM to H (number of years)	All economies -All years	Only E-SE Asia	w/o E-SE Asia
Median	83	33	93
Mean	81	33	91

		< 55	55-75	> 75
UM→H	< 15	9	10	11
	> 15	3	8	11
		12	18	30

Japan, **4 Asian NIEs**, Finland, Ireland, Norway, Mauritius

Spain, **UK**, Argentina, **Uruguay**, Australia, New Zealand, Canada, US

# A proposal: Let's talk what about we know (a bit): Growth...

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- ▶ What are **fast** middle-income transitions?
  - ▶ LM: **Less than 55 years** as LM (\$2,000 to \$7,250);  **$g > 2.37\%$  p.a.**
  - ▶ UM: **Less than 15 years** as UM (\$7,250 to \$11,750);  **$g > 3.27\%$  p.a.**
  - ▶ **No Asian country is 'trapped' in MI**
  
- ▶ Why do some countries have **slow** middle-income transitions?
  - ▶ Growth rates below historical median:  $g < 2.37\%$  p.a. in LM;  $g < 3.27\%$  p.a. in UM. It is just a question of growth. No need to mystify it
  - ▶ Why? No incentives to save; lack of physical and human accumulation; No innovation; Low pace of structural transformation toward manufacturing (<18% employment share)

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**Thank you**