Middle-Income Blues

Sunil Sharma
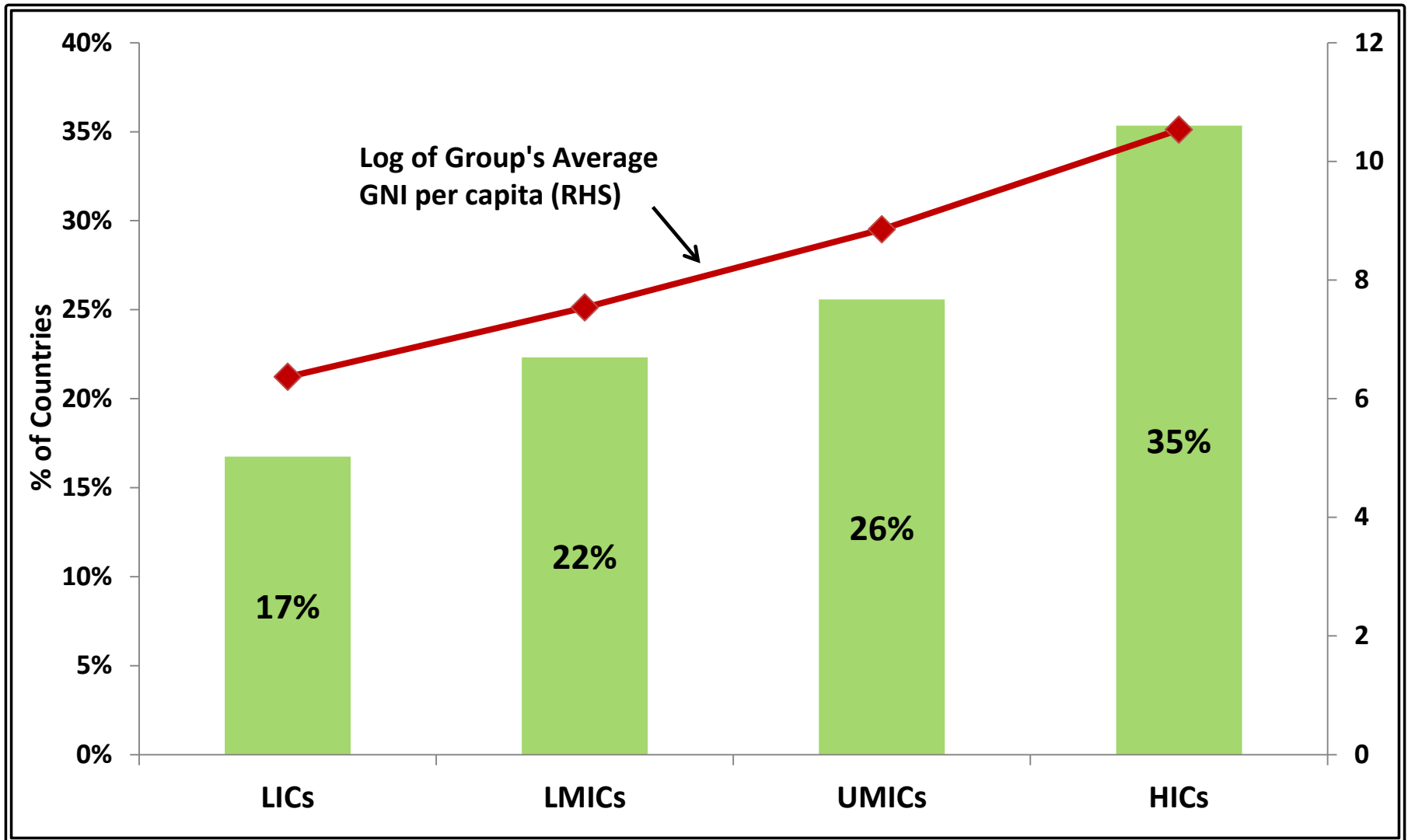
BOK-IMF seminar

Asia: Challenges of Stability and Growth

Seoul, Korea

September 26 – 27, 2013

Distribution of Countries by Income Per Capita, 2012

Log of Group's Average GNI per capita (RHS)

% of Countries

LICs — 17%
LMICs — 22%
UMICs — 26%
HICs — 35%

World Bank Thresholds: 0 ≤ LIC < $1,035 < LMIC ≤ $4,085 < UMIC ≤ $12,615 < HIC

Required Growth Rate for "Catch-up" in 50 Years

Country	2011 GDP Per Capita (PPP 2005 dollars)	Required Growth Rate To US	Required Growth Rate to OECD (HIC)	Actual Growth Rate (1980 – 2011)
Argentina	15,501	3.9	3.4	1.4
Brazil	10,278	4.7	4.2	1.0
Chile	15,272	3.9	3.4	3.3
Mexico	12,776	4.3	3.8	0.7
Nigeria	2,221	8.0	7.5	1.0
Turkey	13,466	4.2	3.7	2.7
South Africa	9,678	4.9	4.4	0.3
China	7,404	5.4	4.9	8.9
India	3,203	7.2	6.7	4.3
Indonesia	4,094	6.7	6.2	3.7
Malaysia	13,672	4.1	3.7	3.4
Thailand	7,633	5.4	4.9	4.1

Source: Im, Fernando Gabriel, and David Rosenblatt, 2013, "Middle Income Traps – A Survey," World Bank.

Country Transition Matrix Among Relative Income Groups
(Ten-year periods, 1950-2008)

p (i, j)	LIC [0 – 1/16)	L-MIC [1/16 – 1/8)	M-MIC [1/8 – 1/4)	U-MIC [1/4 – 1/2)	HIC ≥ (1/2)	Total Transitions
[0 – 1/16)	0.92	0.08	---	---	---	186
[1/16 – 1/8)	0.22	0.61	0.16	---	---	140
[1/8 – 1/4)	0.01	0.17	0.65	0.18	---	145
[1/4 – 1/2)	---	0.03	0.14	0.68	0.15	99
≥ (1/2)	---	---	---	0.01	0.99	106

Ergodic Distribution	0.16	0.05	0.04	0.04	0.71

Source: Im, Fernando Gabriel, and David Rosenblatt, 2013, "Middle Income Traps – A Survey," World Bank.

Asian countries that have crossed both lower and upper thresholds of the UMIC phase during 1950 - 2008

Country	UMIC – Lower Bound (0.25 US GDP per capita)	UMIC – Upper Bound (0.5 US GDP per capita)	Years	Avg. growth differential (1950 – 2008)	Avg. growth differential over UMIC phase	Avg. growth differential until HIC status
Japan	1955	1968	13	1.7%	1.5%	1.7%
Korea	1983	1997	14	3.6	4.9	3.9
Taiwan	1978	1993	15	3.5	4.8	4.0
Hong Kong	1956	1978	22	2.7	3.4	2.9
Singapore	1969	1981	12	2.5	6.0	2.6
Mean			15.2	2.8	4.12	3.02

The Growing Complexity of Development (Economies of Scale)

Force	Growing Complexity			Strategic Imperatives	
	From: Exploiting comparative advantage	+	To: Also exploiting scale economies	New opportunities	Policy priorities
Specialization	Labor-intensive exports	+	Parts and components trade	Regional production networks	Logistics
Ideas and Human Capital	Basic and Secondary education	+	Postsecondary education	Regional knowledge spillovers	Scientists and engineers
Managing Economies	High savings and low deficits	+	Risk management	Regional financial stability	Corporate bond markets

The Growing Complexity of Development
(Distribution of Economic Rents)

Force	Growing Complexity		Strategic Imperatives	
	From: Letting markets work	+ To: Also addressing coordinating failures	Pressing Challenges	Policy priorities
Agglomeration	Megacities	+ Midsized and small cities	Congestion	Connected small and midsized cities
Social and spatial effects	Unskilled wage growth	+ Urban skilled wage growth	Inequality	Access to social services
Managing societies	Small centralized governments	+ Decentralized governments	Corruption	Transparency and accountability

Source: Gill and Kharas, An East Asian Renaissance, World Bank (2007).