

Middle Income Traps and Premature Deindustrialization in Asia

Some Comments about U-shaped Relationships

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[Slides available at: <https://bit.ly/jaae2018>]

Paper overview

The Middle-income Trap Reconsidered: The Case of Asia

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Motivation

- Raising interest in the middle-income trap
 - 3860 returns in Google Scholar (as of June 17th, 2018)

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Objectives

- Investigate the *potential connection* of two literatures:
 1. The middle-income trap hypothesis
 2. The premature deindustrialization hypothesis
- Apply this *potential connection* to the context of Asia

Data and Methods

- Sample of 27 countries for the period of 1970- 2014

For the middle income trap:

- Compare the growth rates of the World Bank's income groups:
 - MIC growth < LIC growth
 - MIC growth < HIC growth

For the premature deindustrialization hypothesis:

- Pooled cross-section regressions:
 - $Industrialization = f(+GDP, -GDP^2, Controls)$

Results

For the middle income trap:

- MIC growth > LIC growth
- MIC growth > HIC growth

For the premature deindustrialization hypothesis:

- $Industrialization = f(+GDP, -GDP^2, (?)Controls)$
- The peak of the inverted-U has declined (only for employment)
- The turning point has declined (for both employment and output)
- More notorious for South Asia

Implication/warning:

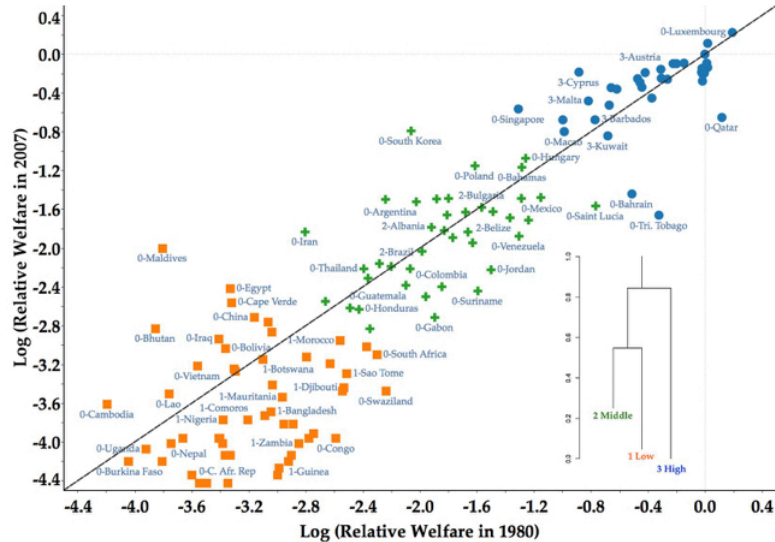
- Premature deindustrialization in Asia may decrease the growth rates of middle-income countries

Comments on the middle-income trap

Endogenous grouping of countries

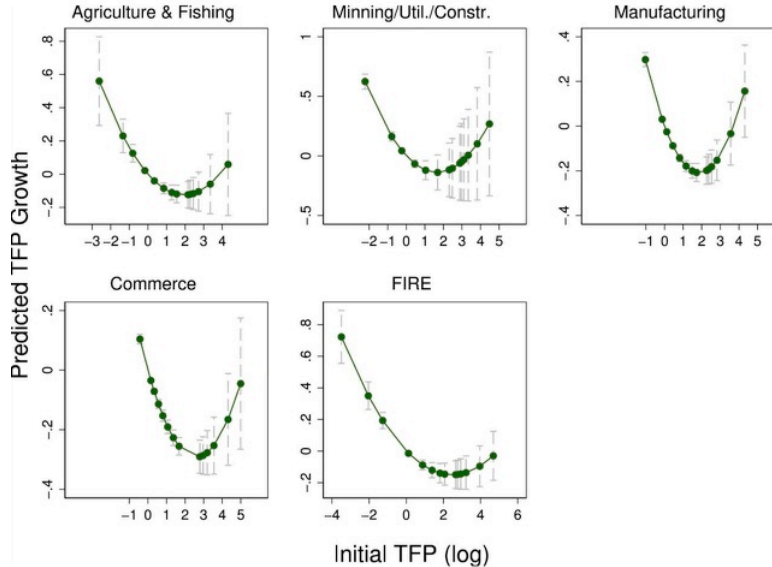
A beta-convergence framework for empirical testing

Endogenous grouping of countries



Source: Mendez C. (2017). **Convergence Clubs Beyond GDP: A Non-Parametric Density Approach**. MPRA Working Paper No. 82048

A beta-convergence framework for empirical testing



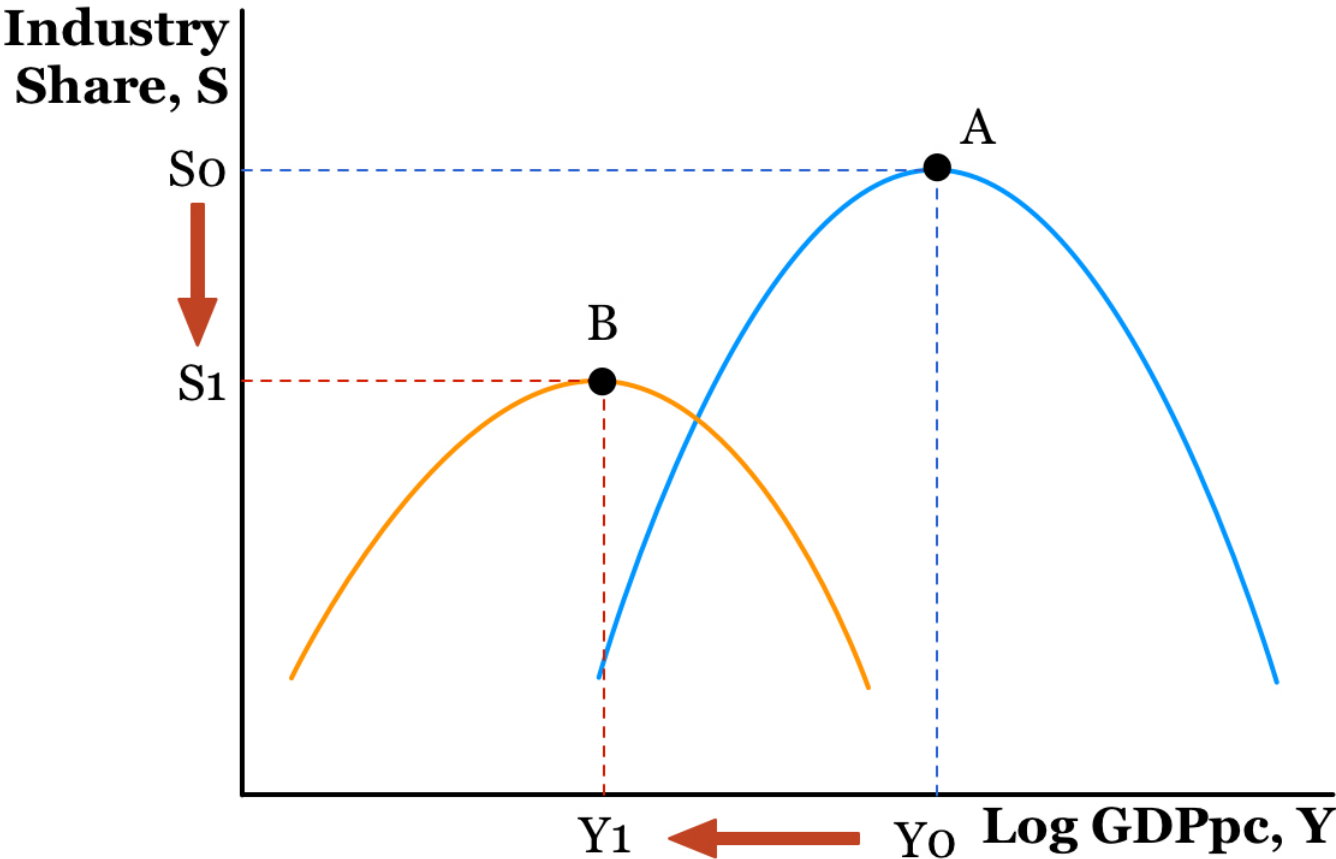
Source: Bahar, D. (2018). **The middle productivity trap: Dynamics of productivity dispersion** Economics Letters, 167, 60-66.

Comments on premature deindustrialization

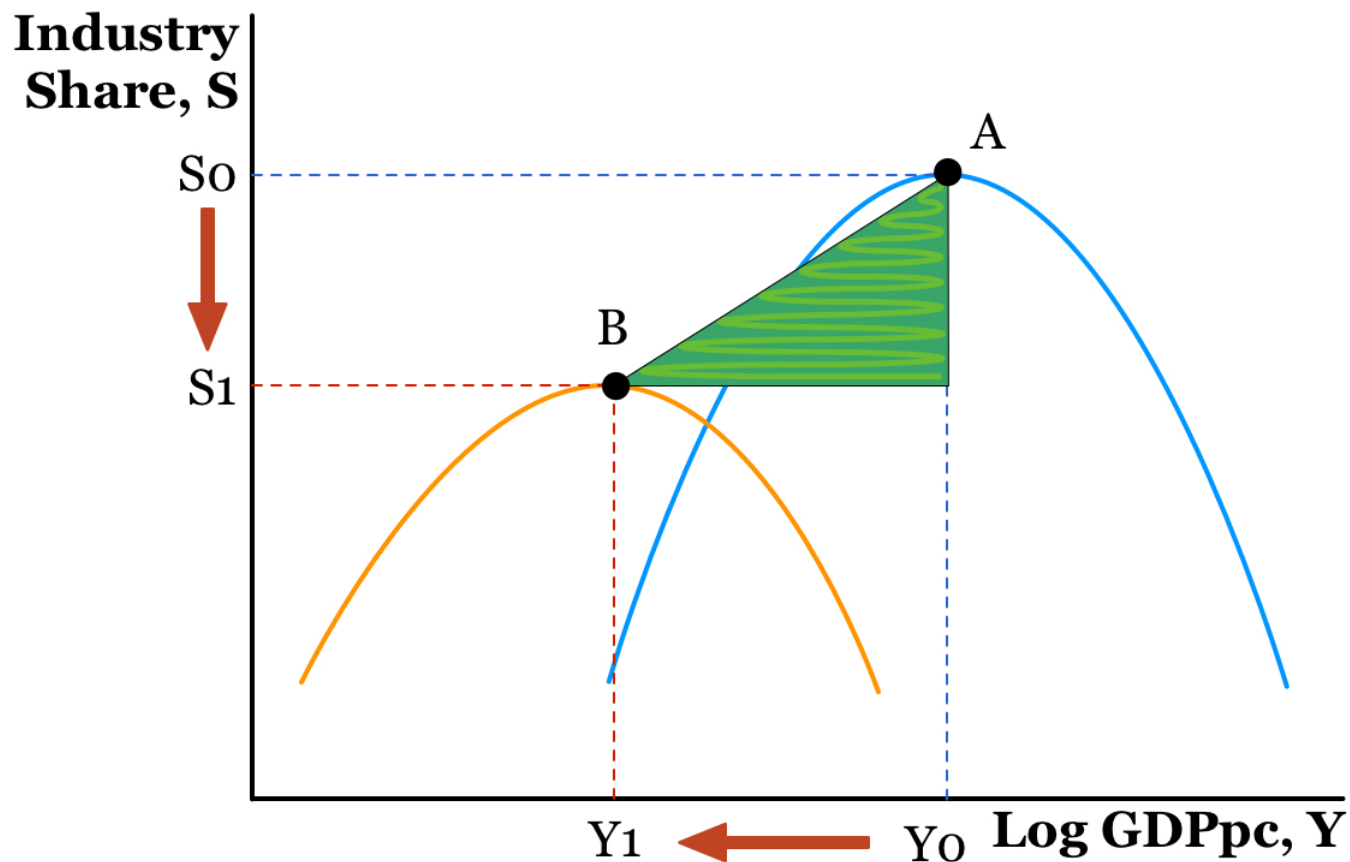
Measuring the premature deindustrialization triangle

Finding deindustrialization clubs

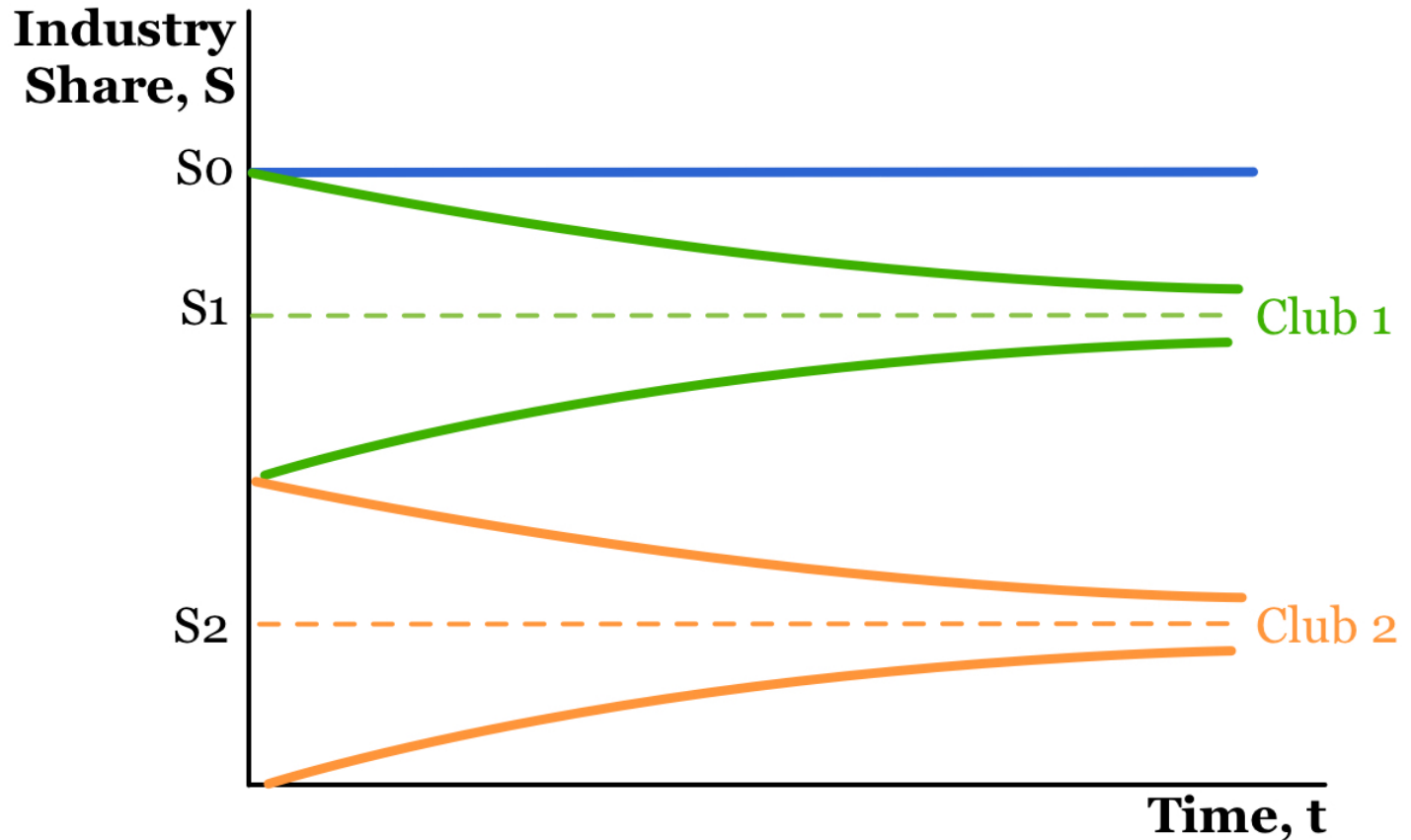
Measuring the premature deindustrialization triangle



How big is the deindustrialization triangle?



Finding deindustrialization clubs



Thank you very much for your attention

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