

Position Paper V

With the progress of globalization process and advancement of global economies around the world, the emergence of few possible challenges can be observed in the data. The middle income trap, which is being discussed more and more in the last decades, is one of them (Eichengreen, Park & Shin, 2011). To determine whether this is a real problem of 21st century capitalism or not, the main observations on the middle income trap and its different aspects should be analyzed.

First of all, the issue of middle income trap is associated with the decreasing trend of GDP per capita growth since 1960s (see Figure 1). Moreover, Eichengreen, Park and Shin (2011) state that there is a slowdown observed in most countries except oil exporters. Such stagnation of growth demonstrates the observed difficulty for the economies to improve their income level nowadays. The existing income groups are classified as low income, lower-middle income, upper-middle income and high income with different intervals depending on the definition. Both lower-middle income and upper-middle income groups constitute the middle income portion, where the problematic trap occurs. According to Figure 2, although the number of low income countries has decreased with a concurrent increase in the portion of high income group thanks to economic development, the part of middle income group remains stably broad.

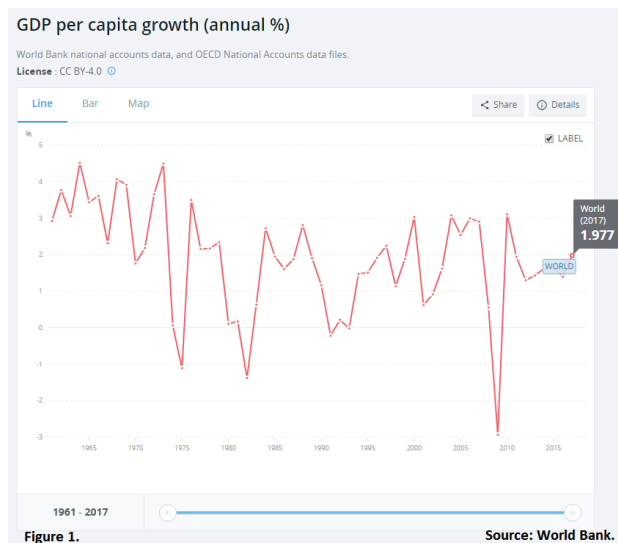
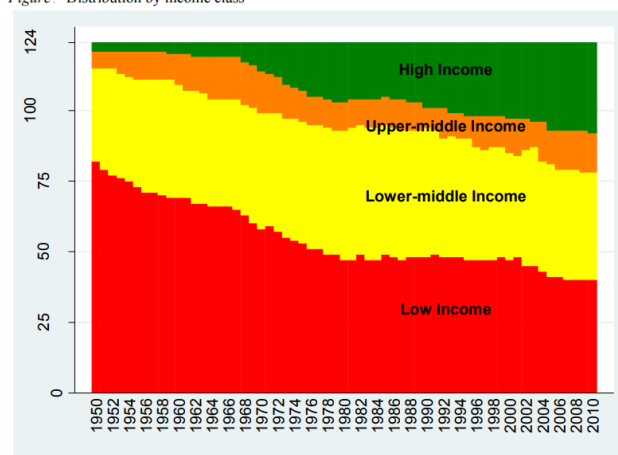


Figure. Distribution by income class



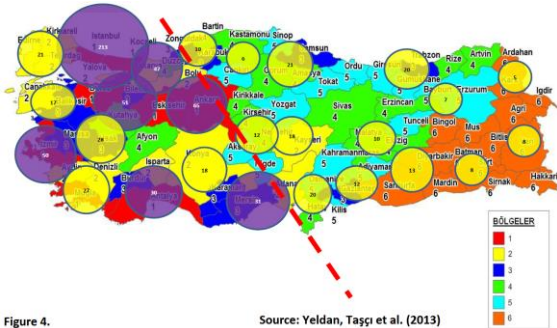
Secondly, the problem exists not only in the middle income group itself, but also within its subgroups. It is observed that once a country enters to lower-middle income or to upper-middle income group, there is a high chance of staying there longer than one would expect with possibility of getting to lower-middle income trap or upper-middle income trap, respectively (Felipe, Abdon & Kumar, 2012). They also found that the expected time of graduating from one level and passing to another has decreased throughout the centuries, having 28 years at most for lower-middle income

and 14 years at most for upper-middle income group for graduation as expectation (2012). However, only few economies seem to successfully achieve the given expectations in time (see Figure 3). In fact, a considerable number of Latin American, Sub-Saharan African and Middle Eastern countries suffer from either lower-middle or upper-middle income trap.

Country	Year when Low-Mid Income status was reached	Year when Upper-Mid Income status was reached	Number of years spent in the Mid-Income status	Rate of per income growth over the transtion (%)
China	1992	2009	17	7.5
Malaysia	1969	1996	27	5.1
Korea	1969	1988	19	7.2
Taipei	1967	1986	19	7.0
Thailand	1976	2004	28	4.7
Bulgaria	1953	2006	53	2.5
TURKEY	1955	2005	50	2.6
Costa Rica	1952	2006	54	2.4
Oman	1968	2001	33	2.7

Source: Felipe, Abdon and Kumar (2012)
Figure 3.

Retrieved from Yeldan, Taşçı et al. (2013) Figure 4.



Source: Yeldan, Taşçı et al. (2013)

Finally, some explanations of the observed slowdown along with the middle-income trap might be the set of factors, such as institutions, human capital, physical capital, Total Factor Productivity (TFP) growth and expansion or contraction of the working age population (Shekhar, Romain, Damien, Yiqun & Longmei, 2013). They also report that among the most significant ones was TFP growth (2013), which is substantially decreasing over the years. Moreover, in some cases another possible explanation is dualistic growth path. As can be seen in Figure 4, Turkey is observed to have different characteristics of growth in different regions: the West is more developed and rich, however the East is poor and undeveloped (Yeldan, Taşçı et al., 2013). In other words, no matter how developed is the West of Turkey, the East cancels out the implications of development and growth when looked together. Yeldan (2014) also depicts a similar case in Mexico, where modern Mexico and traditional Mexico move in opposite directions.

In a nutshell, middle income trap is observed to be an important issue, where many countries cannot improve their level of income, although in some cases it might be reflected in different problems, such as dualistic growth path. To overcome this trap the relevant policies, such as ones related to institutions and human capital, should be implemented.

References

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