

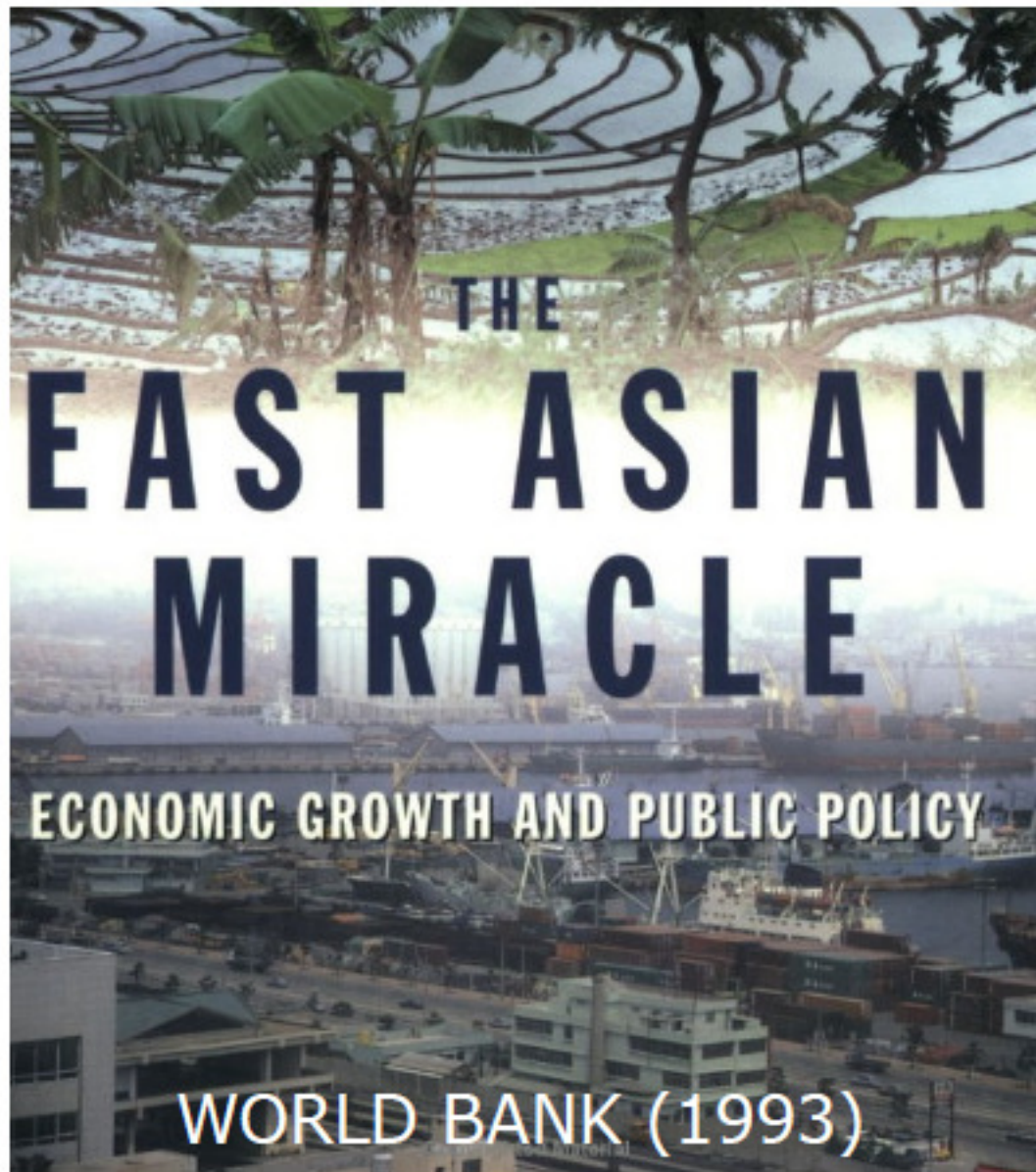
# The Middle Income Trap: The Other Side of the Philippine Centavo

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## SHARED GROWTH

Rapid income  
growth

+

Improvement in  
income  
distribution

Efficiency

+

Equity

# SHARED GROWTH ROOTS



## East Asian Miracle Countries

JAPAN

REPUBLIC OF KOREA

TAIWAN

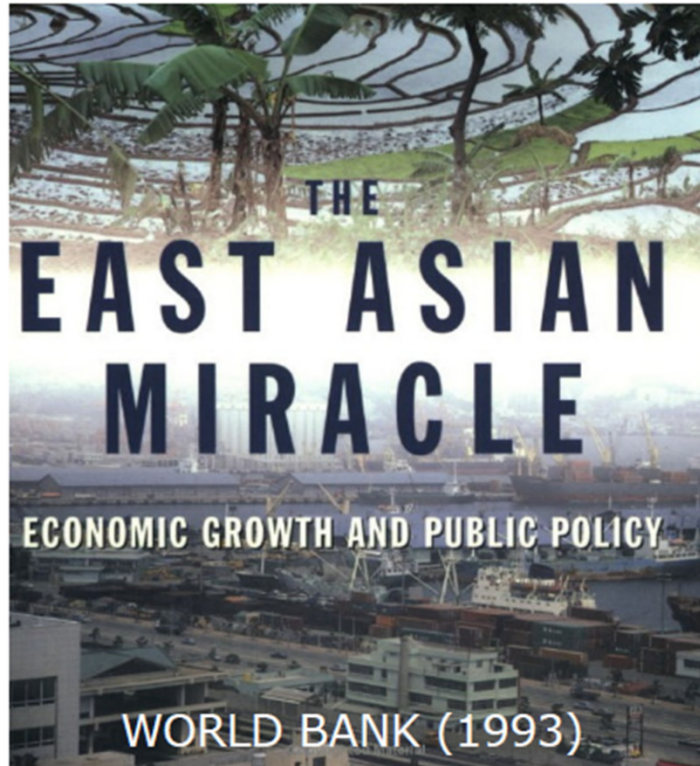
HONG KONG

THAILAND

MALAYSIA

SINGAPORE

INDONESIA



HOW COUNTRIES  
ARE CATCHING UP

TWO SIDES  
OF THE  
SAME  
PHILIPPINE  
COIN?

## Middle Income Trap



HOW  
COUNTRIES ARE  
NOT CATCHING  
UP

# What is the “Middle Income Trap”?

- A country is in a middle income trap if it grows too slow so that it is stuck in a middle income bracket
- Four income brackets (per capita income in 1990 PPP dollars)
  - Low-income: less than \$2000
  - Lower-middle income: between \$2000 and \$7250
  - Upper-middle income: between \$7250 and \$11750
  - High-income: more than \$11750

# What is the “Middle Income Trap”?

- 124 countries having consistent data for 1950 to 2010 were classified. In 2010
  - 40 low-income
  - 38 lower-middle income
  - 14 upper-middle income
  - 32 high-income
- Threshold annual growth rate of per capita income (years equivalent)
  - Lower-middle income: 4.7% (28 years)
  - Upper-middle income: 3.5% (14 years)

# Distribution by Income Class

- In 1950, there were 39 countries classified as middle-income (33 lower-middle-income and 6 upper-middle-income).
- This number increased to 56 (46 lower-middle-income and 10 upper-middle-income) in 1980.
- But
  - the number of middle-income countries has remained at about 50 between the mid-1990s and 2010, as very few low-income countries reached the lower middle-income threshold, and
  - also very few countries jumped from lower-middle-income into upper-middle-income

Table 5 Economies in the lower-middle-income trap in 2010

Country	Region	2010 GDP per capita (1990 PPP \$)	No. of years as LM until 2010	Ave. growth (%) 2000-2010	No. of years to reach \$7,250*
Philippines	Asia	3,054	34	2.5	35
Sri Lanka	Asia	5,459	28	4.3	7
Albania	Europe	4,392	37	4.8	11
Romania	Europe	4,507	49	4.1	12
Bolivia	Latin America & Caribbean	3,065	45	1.8	49
Brazil	Latin America & Caribbean	6,737	53	2.0	4
Colombia	Latin America & Caribbean	6,542	61	2.6	5
Dominican Republic	Latin America & Caribbean	4,802	38	2.8	15
Ecuador	Latin America & Caribbean	4,010	58	2.2	27
El Salvador	Latin America & Caribbean	2,818	47	0.4	251
Guatemala	Latin America & Caribbean	4,381	60	1.1	47
Jamaica	Latin America & Caribbean	3,484	56	-0.3	-
Panama	Latin America & Caribbean	7,146	56	2.4	1
Paraguay	Latin America & Caribbean	3,510	38	1.5	48
Peru	Latin America & Caribbean	5,733	61	4.2	6
Algeria	Middle East & North Africa	3,552	42	2.2	34



Egypt	Middle East & North Africa	3,936	31	3.0	21
Iran	Middle East & North Africa	6,789	52	3.4	2
Jordan	Middle East & North Africa	5,752	55	3.5	7
Lebanon	Middle East & North Africa	5,061	58	4.1	10
Libya	Middle East & North Africa	2,924	43	2.4	39
Morocco	Middle East & North Africa	3,672	34	3.3	21
Tunisia	Middle East & North Africa	6,389	39	3.5	4
Yemen, Rep.	Middle East & North Africa	2,852	35	0.9	109
Botswana	Sub-Saharan Africa	4,858	28	1.7	24
Congo, Rep.	Sub-Saharan Africa	2,391	33	1.8	63
Gabon	Sub-Saharan Africa	3,858	56	0.0	-
Namibia	Sub-Saharan Africa	4,655	61	2.4	19
South Africa	Sub-Saharan Africa	4,725	61	2.0	23
Swaziland	Sub-Saharan Africa	3,270	41	2.2	37

*Table 6 Economies in the upper-middle-income trap in 2010*

Country	Region	2010 GDP per capita (1990 PPP \$)	No. of years as LM	No. of years as UM until 2010	Ave. growth (%) 2000-2010	No. of years to reach \$11,750
Malaysia	Asia	10,567	27	15	2.6	5
Uruguay	Latin America	10,934	112	15	3.3	3
Venezuela	Latin America	9,662	23	60	1.4	15
Saudi Arabia	Middle East	8,396	20	32	0.9	37
Syria	Middle East	8,717	46	15	1.7	18

\* No. of years to reach \$11750 =  $\ln(11750/\text{gdp}2010) / \ln(1 + \text{avegr})$ , where avegr is the average growth rate of income per capita during 2000-2010.

*Source:* Authors' calculations

# Difference between LIT and MIT

- the low-income countries stuck in a low-level equilibrium trap face a daunting task need a big push (investment) to start industrialization.
- But the countries that have attained lower- and, especially, upper-middle-income status have, for the most part, achieved some degree of industrialization (some of them, like Brazil or Malaysia, relatively high).
  - Their problem is different. Although many of them still display traces of dualism, their problem is not how to increase investment.

# MIT may be a Product Trap

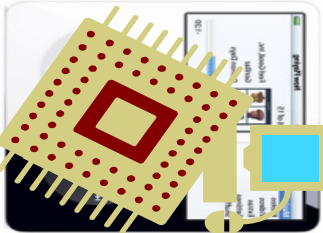
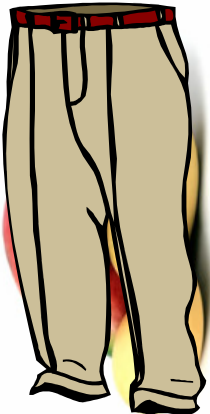
- *A product trap* → MIT
- Countries in the lower-middle-income trap, in particular, export a significant share of products that are both unsophisticated and not especially well-connected to other products (Mid or Low PATH).
- Countries in the upper-middle-income trap are better positioned, but nevertheless, the share of well-connected products in their overall export basket is small.

# MIT is a Product Trap

- distribution of exports according to their level of sophistication (*PRODY*) and connectedness (*PATH*).
  - *PRODY* reflects the income associated with a particular product.
    - A product with a higher *PRODY* is a product exported by relatively richer countries and a product with a lower *PRODY* is a product exported by relatively poorer countries.
  - *PATH*, on the other hand, reflects the transferability of capabilities associated with the product.
    - A product with higher *PATH* is more connected to other products—i.e., its capabilities are similar to the capabilities required for producing other products—than a product with a lower *PATH*

# Distance between products

LO PRODY  
LESS SOPHISTICATED PRODUCTS



HI PATH

LO PATH

HI PRODY  
MORE SOPHISTICATED PRODUCTS

Table 10 Countries in the LMIT: Distribution of exports according *PRODY* and *PATH* (% number of products exported with  $RCA \geq 1$ ), average 2003-2007

Country	High <i>PRODY</i> - High <i>PATH</i>	High <i>PRODY</i> - Mid <i>PATH</i>	High <i>PRODY</i> - Low <i>PATH</i>	Mid <i>PRODY</i> - High <i>PATH</i>	Mid <i>PRODY</i> - Mid <i>PATH</i>	Mid <i>PRODY</i> - Low <i>PATH</i>	Low <i>PRODY</i> - High <i>PATH</i>	Low <i>PRODY</i> - Mid <i>PATH</i>	Low <i>PRODY</i> - Low <i>PATH</i>	#. of prods. with $RCA \geq 1$
Albania	7.3	2.4	4.2	14.6	9.7	3.6	18.8	<b>33.3</b>	6.1	165
Algeria	0.0	0.0	10.0	5.0	<b>30.0</b>	5.0	5.0	<b>30.0</b>	15.0	20
Bolivia	3.5	1.2	5.8	5.8	9.2	2.3	9.2	<b>40.2</b>	23.0	87
Brazil	8.0	5.5	8.0	16.9	13.4	4.5	9.5	<b>17.4</b>	16.9	201
Colombia	6.1	3.4	2.7	<b>21.6</b>	13.5	3.4	18.2	18.2	12.8	148
Congo, Rep.	0.0	3.3	6.7	0.0	0.0	13.3	10.0	26.7	<b>40.0</b>	30
Dominican Rep.	5.1	5.1	4.3	12.8	8.6	1.7	19.7	<b>29.9</b>	12.8	117
Ecuador	2.6	1.3	3.9	9.1	10.4	6.5	16.9	<b>24.7</b>	<b>24.7</b>	77
Egypt	4.5	2.3	2.3	18.0	12.9	4.5	18.5	<b>25.8</b>	11.2	178
El Salvador	2.5	2.5	4.1	24.0	9.1	3.3	22.3	<b>24.8</b>	7.4	121
Gabon	0.0	4.2	8.3	0.0	8.3	8.3	20.8	<b>29.2</b>	20.8	24
Guatemala	2.7	2.7	0.7	23.2	8.0	1.3	<b>24.5</b>	23.8	13.3	151
Iran	0.0	2.6	6.5	7.8	20.8	6.5	7.8	<b>27.3</b>	20.8	77
Jamaica	3.4	6.8	5.1	6.8	17.0	6.8	13.6	<b>27.1</b>	13.6	59
Jordan	4.0	3.3	4.6	22.5	15.9	4.0	15.9	<b>22.5</b>	7.3	151
Lebanon	8.6	4.8	6.7	19.1	10.0	6.2	13.3	<b>21.4</b>	10.0	210
Libya	5.0	5.0	15.0	0.0	<b>30.0</b>	15.0	5.0	5.0	20.0	20
Morocco	3.9	0.0	4.6	6.9	11.5	7.7	22.3	<b>35.4</b>	7.7	130
Panama	5.2	3.3	6.5	13.1	13.7	13.1	13.1	<b>22.2</b>	9.8	153
Paraguay	1.1	1.1	3.2	13.8	6.4	2.1	13.8	<b>36.2</b>	22.3	94
Peru	1.5	3.8	3.0	12.0	15.0	5.3	14.3	<b>27.8</b>	17.3	133
Philippines	3.0	3.0	14.9	6.9	6.9	12.9	14.9	<b>24.8</b>	12.9	101
Romania	11.0	3.4	3.4	<b>22.0</b>	9.1	3.4	19.6	21.1	7.2	209
South Africa	6.3	4.3	4.3	18.8	13.0	7.7	10.1	<b>21.2</b>	14.4	208
Sri Lanka	2.3	3.0	1.5	11.4	9.1	5.3	20.5	<b>28.0</b>	18.9	132
Tunisia	2.0	2.6	4.6	16.5	9.2	5.3	25.0	<b>27.6</b>	7.2	152
Yemen, Rep.	1.4	2.8	4.2	2.8	14.1	11.3	8.5	<b>35.2</b>	19.7	71

Source: Felipe et al. (2010a)

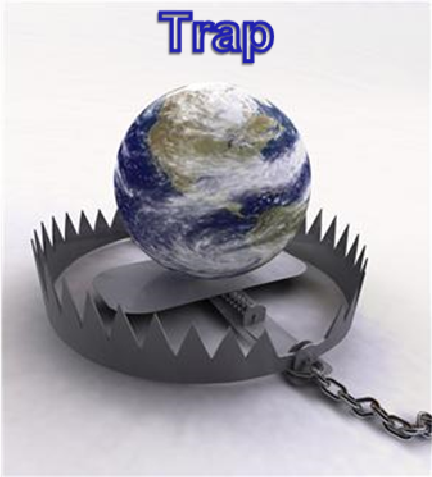
# MIT and IT

SOFT (SERVICES)

EARLY DE-INDUSTRIALIZATION



Middle Income Trap



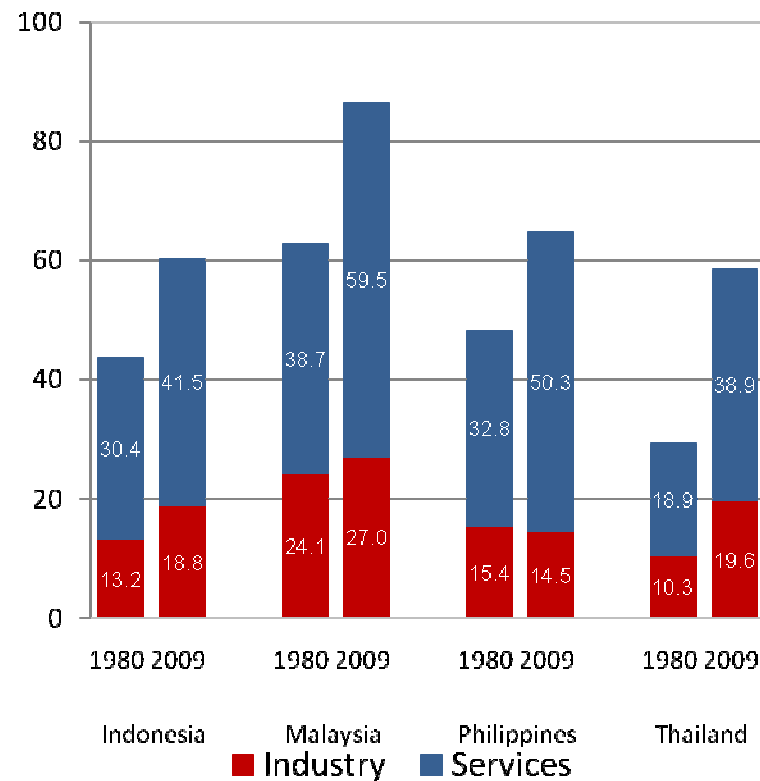
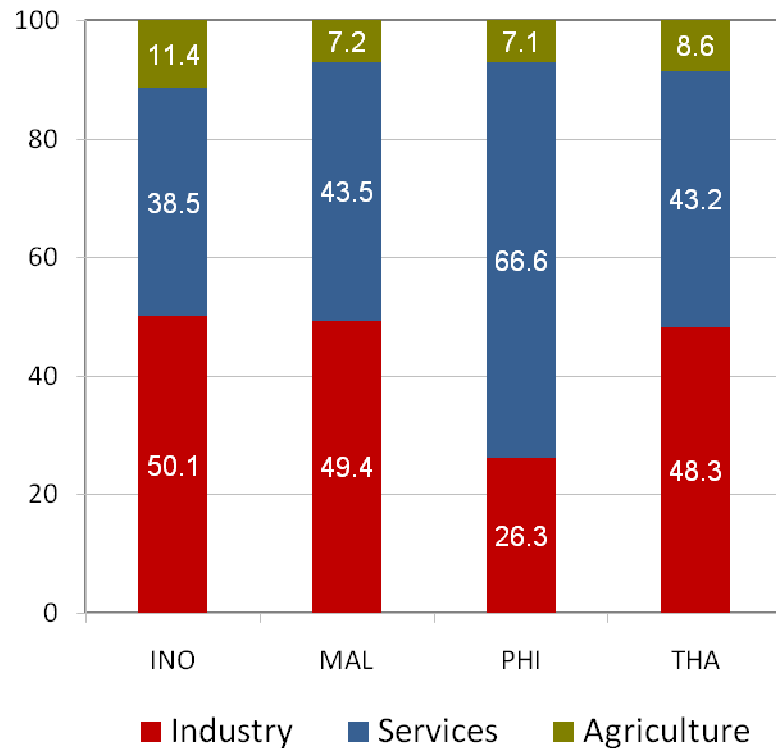
LOW PATH PRODUCTS

HARD (MANUFACTURING)





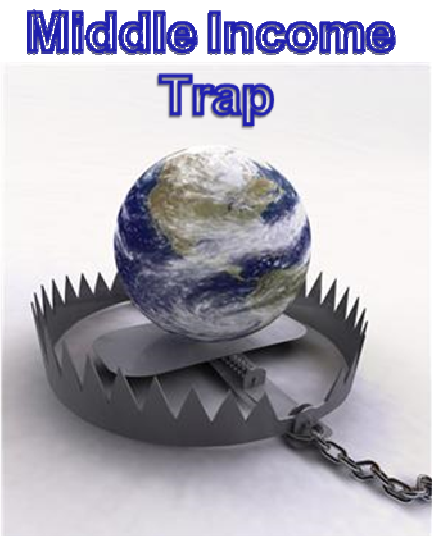
# Early De-industrialization



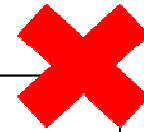
# OUR TASKS

SOFT (SERVICES)

EARLY DE-INDUSTRIALIZATION



LOW PATH PRODUCTS



HARD (MANUFACTURING)

# Sources

- *Tracking the Middle Income Trap: What is it, Who is in it, and Why?* by Jesus Felipe, Arnelyn Abdon, Ubtsav Kumar, ADB 2012
- *Taking the Right Road to Inclusive Growth* by Norio Usui, ADB 2012

# Which country was 1<sup>st</sup> in terms of GDP per capita in 1960?

❖ Indonesia



❖ Philippines



❖ South Korea



❖ Thailand



\* 1996 US\$

# Which country was 1<sup>st</sup> in terms of GDP per capita in 2000?

- ❖ Indonesia
  - ❖
- ❖ Philippines
  - ❖
- ❖ South Korea
  - ❖
- ❖ Thailand
  - ❖

\* 1996 US\$

