

Middle-Income Trap

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- The Economic Survey 2018 (volume I) makes a theoretical examination of India facing a Late Convergence Stall and the risk of falling into the Middle-Income Trap.
- To understand the Middle Income Trap, classification of countries by the World Bank in terms of Per-Capita Income is to be understood.
- The World Bank is classifying countries in terms of per capita income.
- Low-income countries are those with a per capita income lower than \$1005.
- The second category is the middle-income group with a per capita income varying from \$1006 to \$ 12235. This group is the largest one with nearly 81 countries.
- Countries with a PCI of \$12236 and above are classified as higher-income economies.

What is the Middle Income Trap?

- The “middle-income trap” is the phenomenon of hitherto rapidly growing economies stagnating at middle-income levels (of per capita income) and failing to graduate into the ranks of high-income countries.
- Coined in 2006 by World Bank economists Indermit Gill and Homi Kharas, the term ***refers to a sustained economic slowdown following a period of strong growth.***

Reasons for this situation in India

- The economic reforms that India unleashed in 1991 led to a period of strong growth lifting millions out of poverty and increasing the size of the economy by almost nine times in about 30 years.
- However, unlike China and other prosperous East Asian nations, ***there was no mass shift from farm to factories.***

- **India failed to create a robust manufacturing sector**, which today accounts for less than 17% of the economic output.
- Service led economic growth→ **jobless growth**→ India's economic growth has been powered by investments in the services sector, which could only create a few million high-skilled jobs, **thereby forcing a staggering 81% of the workforce to be employed in the informal sector.**
- The Asian Development Bank has found that **unequal income distribution**
- India has very low levels of human capital growth for an ambitious and fast-growing major economy. The World Bank ranked India at a lowly 115th out of 157 countries in its Global Human Capital Index rankings released last year.

Solutions:

- Attracting more investments in infrastructure development
- implementing land and labor reforms
- investments in human capital formation
- provision of better social security to people