

World Dev. Report

"The Middle Income Trap"

- defⁿ: stagnation when country's GDP per capita hits around 10% of US GDP, app x. \$8000 today
⇒ difficult to transition to high income status

→ LIC ⇒ rapid growth due to low wages, basic tech. catchup + cheap lab. advantage ⇒ MIC

→ MIC ⇒ exhaustion of initial growth drivers, institutional weakness, lack of innovation

→ Basic industrialization using cheap lab. & low tech

- Explanation

move up value chain ⇒ wages ↑ ⇒ cheap lab. X

loss of competitiveness

→ MIC ⇒ needs new level of disruptive innovation to keep wages ↑ while maintaining competitiveness thru productivity ↑

⇒ reg. overhaul, \$ into R&D, education levels ↑

→ India ⇒ demographic window for 3 more decades

→ object poverty will be gone

(BUT)

→ Threat of MIT

Institutional quality ↑ needed

→ complex contracts

→ smooth enforcement

→ effective reg.

(All this दलम अउरलत irrelevant,
main desc. अउरलत comes below)

since 1990, only 34 countries have broken the MIT \Rightarrow mostly due to EU integration or oil discovery

MIC home to 6B ppl (75% of global popn)

\hookrightarrow 40% of global GDP

- Data (as per WB rep.)

\rightarrow India among 100+ nations (China, Brazil, South Africa etc.) in Middle-income

\rightarrow 2007 \hat{A} India classified as lower-middle income country by WB \Rightarrow remained there since

- Challenges of MIT

diminishing returns on Physical Capital (basic infra, tech, edu no longer enough)

Aging population: grow old before rich

Rising debt levels

Outdated eco. strategies: Traditional models rely

Rising protectionism & Geopolitical tensions

Pressure to undertake energy transition

\rightarrow 1st phase (LIC): Investment in basic infra & services

- 3rd strategy for eco growth

\rightarrow 2nd Phase (Lower MIC): **Foreign Tech Infusion to modernize industries & boost productivity**

\hookrightarrow India here

\rightarrow 3rd Phase (Upper MIC): **Balanced approach; infuse foreign tech. but also innovate & push tech. frontiers domestically**

* Successful models: SK, Poland

- Challenges for India
 - Income Inequality (mention Gini coeff.)
 - Slow poverty redⁿ: growth rate ↑ but PCI growth rate ↓
 - Labour mkt issues: Agri, Female LFP
 - Economic diversification lacking
 - Env. challenges: Net-zero by 2070

wahi challenges re-contextualized to India

- Policy recomm. for India
 - Address income inequality: progressive taxation + social spending + social safety net
 - Strengthen Eco. Insti & governance: efficiency ↑, transparency ↑, corruption ↓
 - ⇒ resource utilization ↑, EoDB ↑
 - Enhance productivity & innovation: Thru edu & skilling
 - Support local manufacturing: diversification ↑, cost ↓, eg. PLI
 - Focus on sustainable development
 - Env.
 - Social
 - Eco.

- Conclusion
 - India 1/5th of humanity ⇒ India breaks MIT ⇒ global good
 - Developed nation by 2047
 - Comprehensive approach needed for overall eco. performance ↑, not focus on isolated sectors.

Need to maintain 7+% to reach \$14K by 2047