



LEVERAGING LDC GRADUATION FOR ESCAPING MIDDLE INCOME TRAP

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Middle Income Trap: A Reality than a Theory



Middle Income Trap and Challenges



Way Forward

The term 'middle income trap' refers to countries which transformed themselves from low-income into middle income status and then unable to move into high-income.

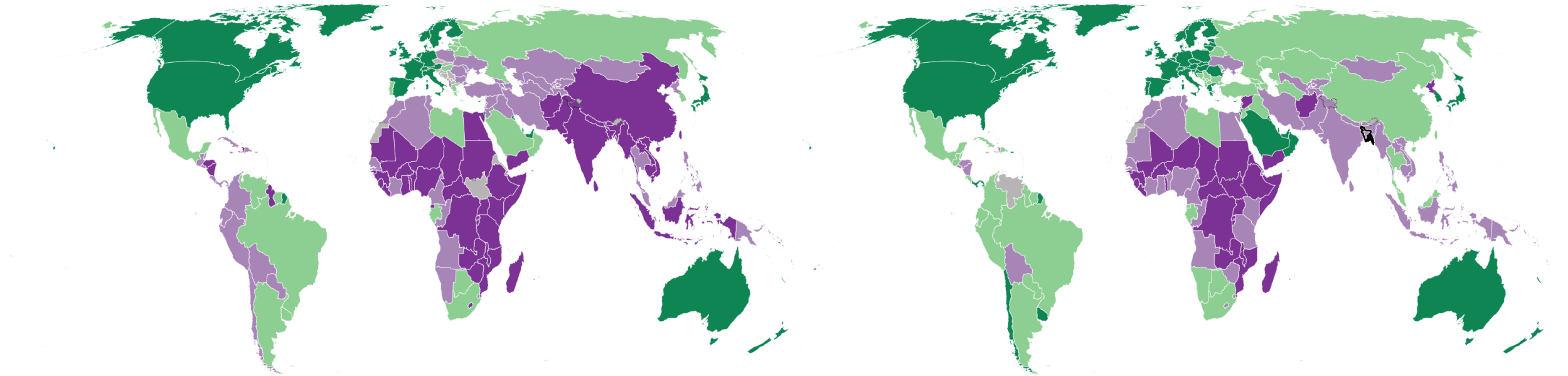
Group	July 1, 2022 (new)	No. of Countries	Average GNI Per Capita
Low income	Less than 1,086	27	741
Lower-middle income	1,086 – 4,255	55	2,470
Upper-middle income	4,256 -13,205	56	10,358
High income	> 13,205	79	48,120

Source: World Bank, 2023

The world by income

1991

2021



■ Low income ■ Lower middle income ■ Upper middle income ■ High income

Source: World Bank, 2023

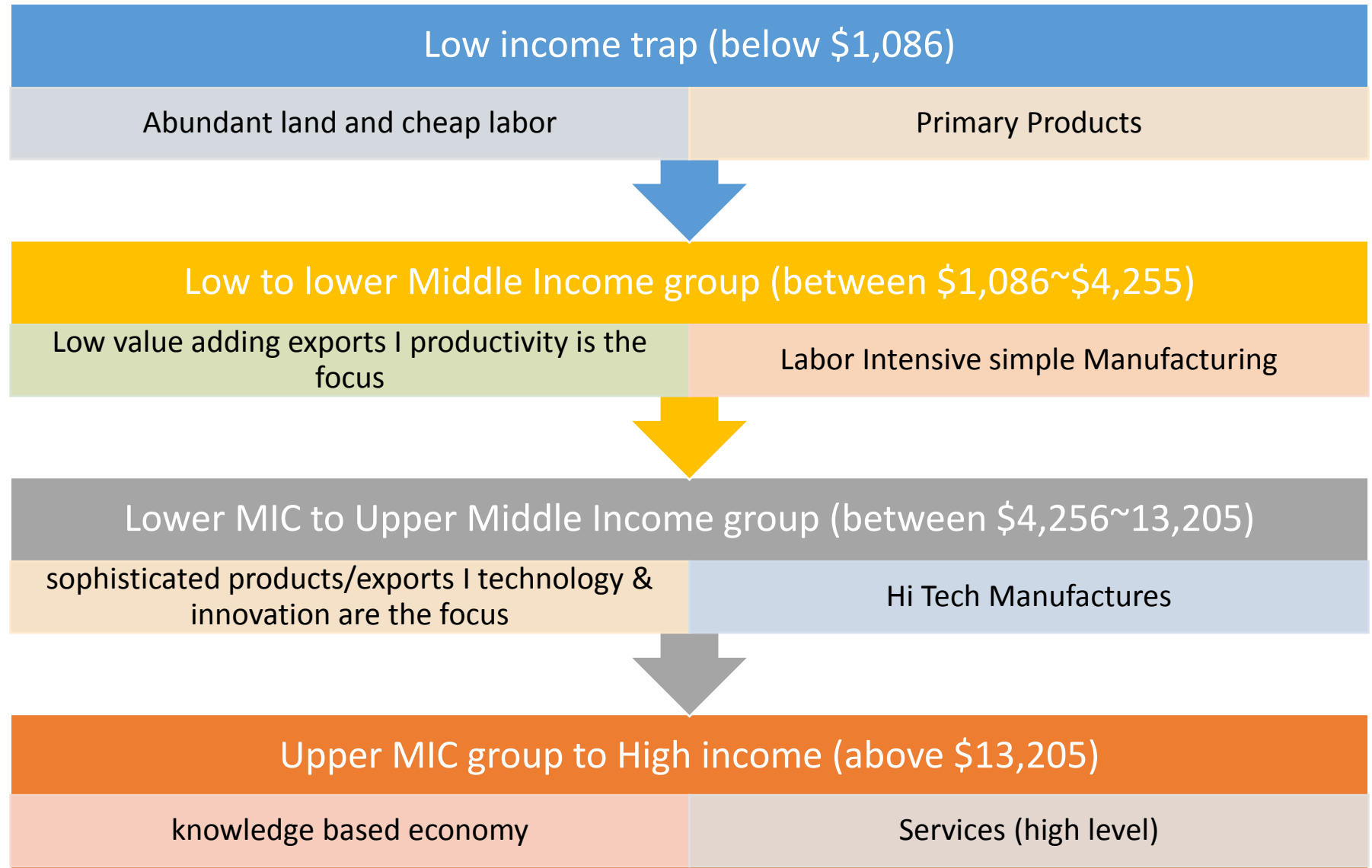
Per Capita GNI, 1970 to 2021

Country Name	1970	1980	1990	2000	2010	2020	2021
Low income			367	241	617	714	741
Lower middle Income	133	428	526	590	1,650	2,267	2,470
Upper middle Income	307	938	1,183	1,897	5,849	9,387	10,358
High income	2,707	9,723	18,212	25,394	39,291	43,945	48,120
Bangladesh		220	300	430	800	2,300	2,570
World	802	2,608	4,194	5,495	9,413	11,040	12,026

Source: World Development Indicator, 2023

Four stages of structural transformation

Bangladesh needs large investments for capital, technology and human development to fully utilize the potentials for 3rd stage...



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Middle Income Trap: A Reality than a Theory

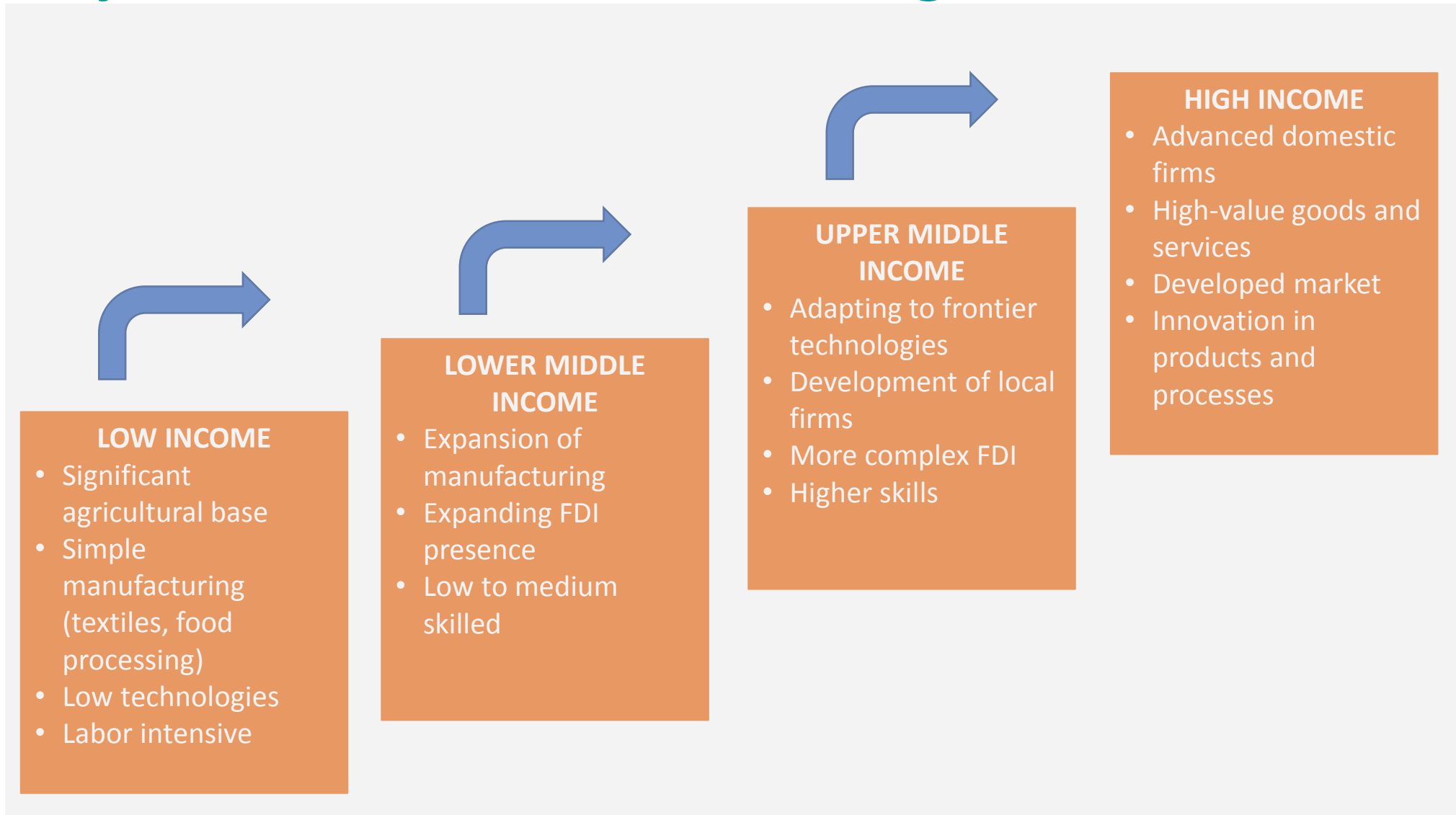


Middle Income Trap and Challenges

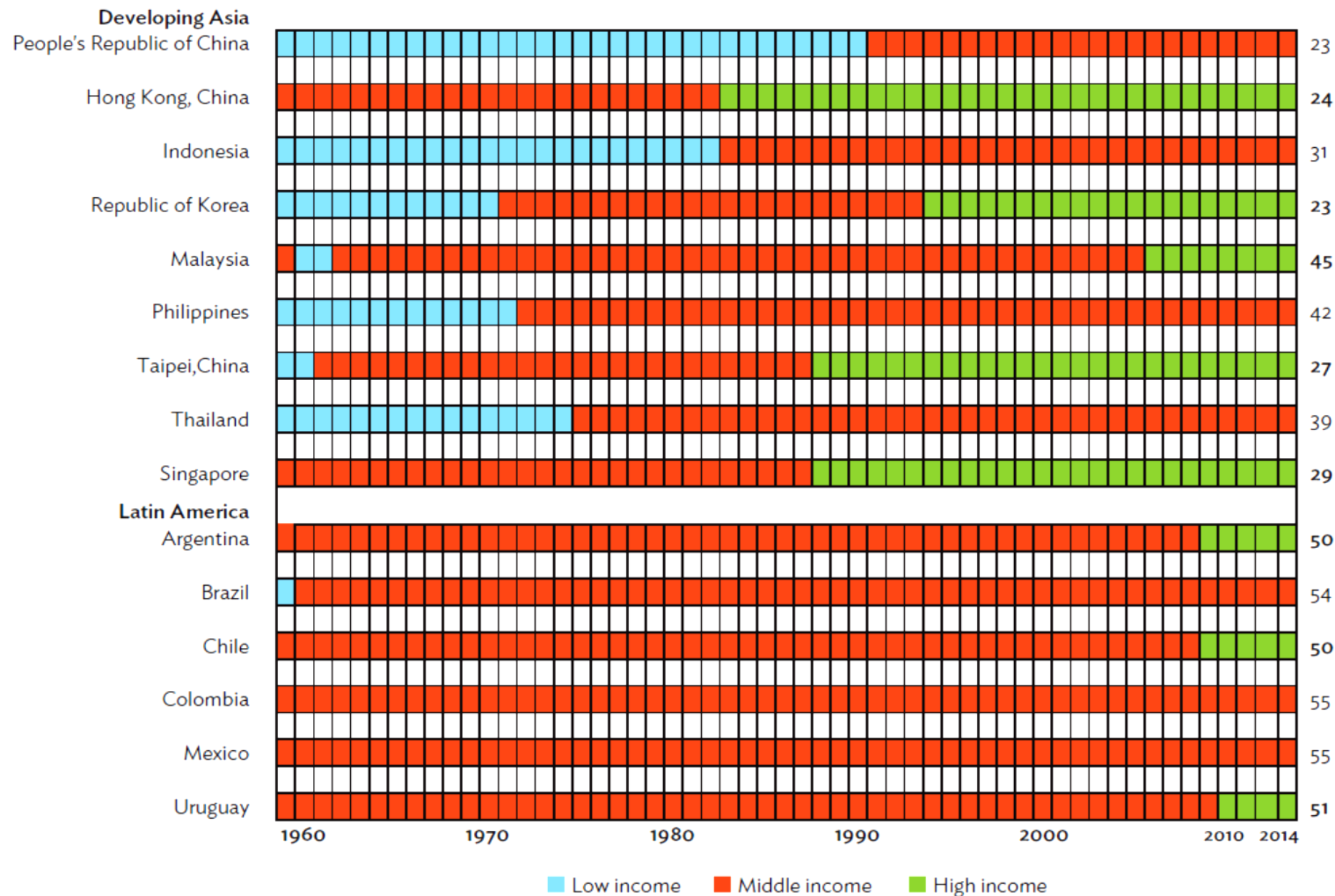


Way Forward

Key Features of Transition to High Income



Years as Middle Income, 1960–2014



Source: Asia's Middle-Income Challenge: An Overview, ADB, November 2017

Middle-income trap: Key Challenges and Risks



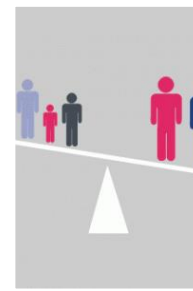
Large technology and productivity gaps with advanced countries



Rising wages



Imbalances in the sources of growth



Rising income inequality



Resource constraints and environmental degradation



A challenging external economic environment

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Development Paradigm:
LDC Graduation



Middle Income Trap and
Challenges



Way Forward

Middle-income trap and lessons from international experience

1. Growth Slowed Down

⑩ Many countries experience a growth slowdown after achieving middle-income status.

2. Resource-driven to productivity-driven growth

- Preparing for a timely transition from resource-driven growth to productivity-driven growth.

3. Industrial Upgradation

- Avoiding the middle-income trap requires continuous industrial upgrading through innovation and technology

Common features of successful economies that escaped MI trap, 1/2

1 Equitable Income Distribution

- Japan, South Korea, and Taiwan (China) experienced rapid & sustained growth with equitable income distribution between 1960 and 1990.

2 Strong Export Focus

- Strong exports push through selective interventions such as export credit and duty-free capital goods import for exports.

3 Commercialization of Agriculture

- Dynamic agriculture and rural development supported industrialization process.

4 Education and Skills

- Strong emphasis on education and policies encouraging for skills, technology and knowledge.

Common features of successful economies that escaped MI trap, 2/2

5 Moving toward high value adding products

- Structural transformation through diversification; movement into higher value-added products

6 Demographic Dividend

- Appropriate utilization of 'demographic dividends'

7 High Investment

- High investment and rapidly growing skilled labor force accounted for 2/3 of the growth, and productivity accounted for the remaining.

8 Effective Coordination

- Effective economic governance, efficient bureaucracy ensured macroeconomic stability

Policy experiences to avoid the middle-income trap

1. Moving from a low-cost to a high-value economy

2. Supporting innovation and industrial upgrading

3. Deepening structural reform

- Private sector reform
- Labor market reform
- Financial & land market reform

4. Fiscal reform

5. Expanding services and scaling up urbanization

6. Reducing income inequality

7. Promoting green growth

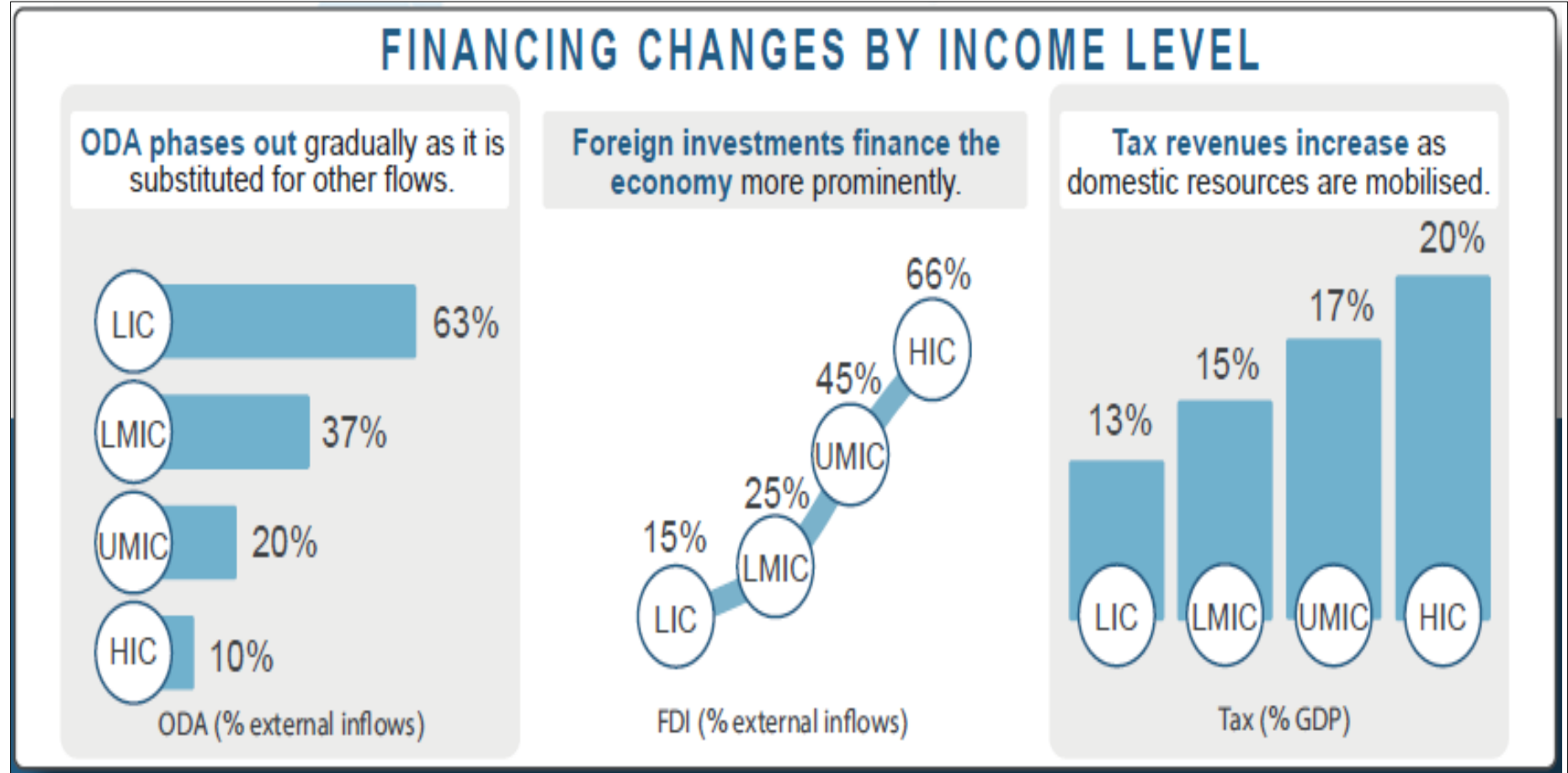
8. Maintaining macroeconomic and financial stability

9. Strengthening international and regional economic cooperation

Modality of Finance Changes by Income Level

Implications for ERD Officials-

1. continued effort for competitive sources of financing, and
2. ensuring better utilization of funds



Source: OECD

Thank you