



Middle-Income Trap

Published On: 14-10-2024

Context :

The **World Development Report 2024** by the **World Bank** highlights the “**middle-income trap**,” where **growth rates slow as incomes increase**. It emphasises adopting a “**3i**” **Approach** (Investment, Infusion of new technologies, and Innovation).

- **Middle-Income Trap** refers to a situation in which a country’s **growth slows** after reaching **middle-income levels**, preventing it from achieving high-income status. This happens because the **easy gains** from **cheap labour** and low-hanging industrialisation **fade** as **countries climb out of poverty**.

Challenges for India

- **Slow Growth in Manufacturing**: Manufacturing is no longer the growth engine, with developed nations going protectionist.
- **Premature deindustrialisation**: Modern economies are seeing a decrease in manufacturing share at much lower GDP levels compared to the past.
- **Rising Power of Billionaires**: Increasing control of the Indian economy by a few billionaire groups may hinder broad-based investment and equitable growth.
- **Agriculture’s Persistent Role**: Reverse structural transformation: Post-pandemic, India has seen rising employment in low-productivity sectors like agriculture.

Way Forward

- **Promote Export-Led Growth**: Even with global trade headwinds, India must integrate into global value chains and push for service sector growth.
- **Domestic Innovation**: Emphasize technology transfer, foster innovation, and support start-ups and industries with R&D investment.
- **Inclusive Growth**: Ensure workers benefit from economic growth through real wage increases and improved labour conditions.
- **Neutral State Role**: The government should maintain neutrality, supporting all sectors based on merit and performance, not proximity to power.

Lessons from South Korea and Chile

- **South Korea**
 - **State Intervention**: Directed private sector activities and promoted export-driven growth.
 - **Economic Planning**: Disciplined local elites and ensured adherence to state economic plans.
 - **Business Success**: Successful companies received state support, non-performers were allowed to fail.
- **Chile**
 - **Resource Export**: State intervention ensured success in natural resource sectors like Salmon industry.
 - **Targeted Support**: Multiple fronts of state support ensured industry growth.