

Middle Income Trap and Economic Non-Development

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2016

Kenichi Ohno argued that countries are stuck in a middle income trap if they are (1) not able to stimulate their productivity growth and innovative power via comprehensive industrial policy, (2) are not able to create inclusive growth and (3) do not have a financial system which supports development. Indeed there are only a small number of countries which could reduce the difference between their real GDP per capital and the real GDP of for example the US. Most countries, including South Africa, Brazil or India, stagnate at per capital GDP levels of below 25 per cent of US GDP per capita or even much lower. In this paper it is shown that market forces together with institutional weaknesses make it very difficult for most countries to fulfill all three dimensions mentioned above and overcome the middle income trap. Actually, globalization and the integration of countries in international goods and capital markets make it even more difficult to overcome the middle income trap. In the paper it is also presented how some countries managed to overcome the middle income trap and what can be learned from them.