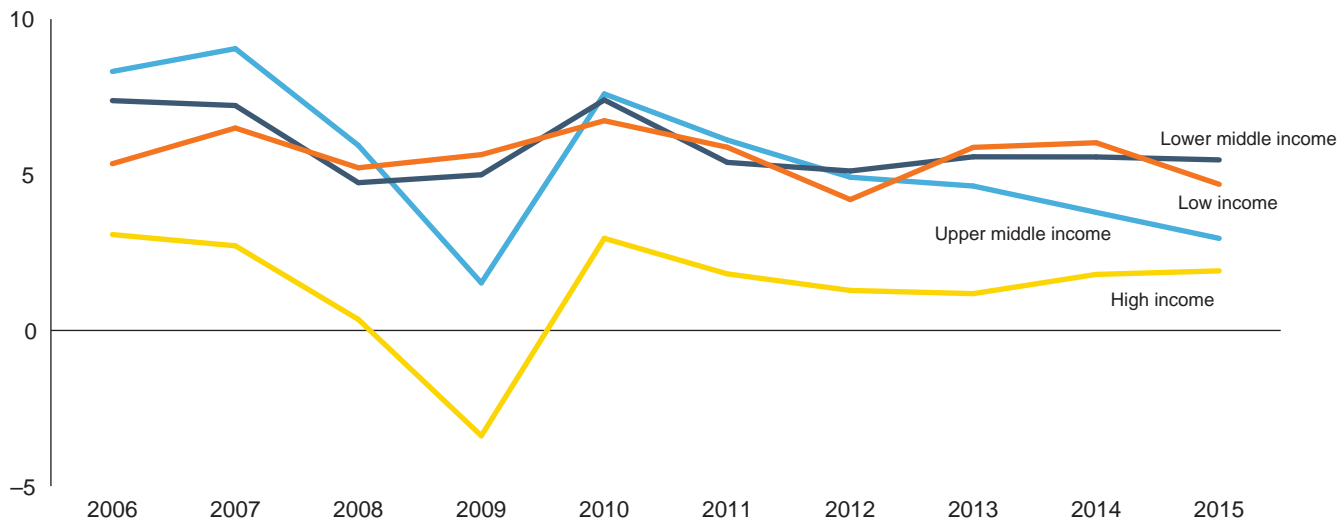




CHAPTER

The middle-income trap and upgrading along global value chains

FIGURE 5.1)&2 RGT ECRKVC ITQYVJ D[KPEQOG ITQWR s



Source: World Development Indicators database.

TABLE 5.1 Share of all countries in a given income group in 2000 and 2015
Percent

		Income group in 2015				Total
		Low income	Upper middle income	High income		
Income group in 2000	Low income	14.6	4.8	0.0	100	
	Upper middle income	24.4	37.7	3.8	100	
	High income	0.0	0.0	100.0	100	
	Total	14.6	24.4	25.8	35.1	100

Source: World Development Indicators database.

the relationship between the two debates, but empirical analyses have found some evidence that GVC participation supports escape from the dynamics hypothesized in the middle-income trap literature, albeit with substantial variation (Kummritz and ... not assign causality; it instead asserts that while GVC integration can support sustained high growth rates for middle-income countries, a certain level of development and industrial sophistication, higher value-added GVCs.

The chapter makes four central claims:

- ... other, but they should be bridged. The factors that constrain GVC participation and upgrading provide a more granular ...

coherent and applicable set of policy recommendations to address the causes of growth slowdowns and structural stagnation.

- The need for developing countries to adapt to trade through ... and information presents a partial but important conceptual paradigm and policy framework to identify levers for middle-income countries to converge with richer countries. The economic ... to upgrade into higher value-added tasks and products over ...
- The institutional, macroeconomic, trade, and industrial policies required for successful GVC participation can also address economic stagnation among trapped middle-income countries.

failure “to build a national mindset and institutions that encourage constant upgrading of its human capital.” Ohno divided the catching-up industrialization process into four stages and identified

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... primarily on structural, industrial, and trade policies as well as social policy: lesson from these past industrializn 3>-17<00D5>-7.2 <008F>-811.9 (e)-15.5-1

- ... ever, Aiyar and others (2013) see an important role for measures to enhance regional integration, infrastructure investments, and deregulation in areas where private sector activity
- ... lytical tool to assess where these issues may be at play (see ...)
- ... viduals' skill attainment and access to public infrastructure ...
- Skilled workers are needed to move up the value chain from low value-added industries to develop higher value-added activities (Eichengreen and others 2013).
- To avoid the middle-income trap, China, like past escapees, will need to upgrade its industrial structure through new ... will require differentiating between state-owned enterprises and non-state-owned enterprises and between product and factor markets.

American countries with the Asian newly industrialized countries using a product-space methodology and suggested that diversi - new production was sequentially developed in industries such as iron, steel, machinery, and electronics through workers with skills

use at the sectoral level and for differentiating between transac-
 literature on the development of value added in trade (see Hum-
 mels and others 2001, Koopman and others 2014, and Johnson
 and Noguera 2012) and a growing number of indicators and indi-
 cators.

- It makes it possible to understand a country's actual indus-
 trial structure and international links among sectors in order
 to formulate targeted policies and strategies.
- It provides evidence of how nontariff measures or regulatory
 changes affect upstream and downstream producers.
- It offers better analytical tools to anticipate the impact of
 potential shocks.
- It enables calculations of the trade's job content and impact
 on ecosystem services, thanks to satellite accounts of employ-

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 impact of spillovers on productivity is not conclusive (Görg and
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 same sector and country in productivity, skills, and wages. Is
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 and nascent industries. Recent research questions the robust-
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 found them for Colombia.

Research on the link between importing inputs and produc-
 tivity focuses on developed countries. Importing can improve
 key aspects of competitiveness through three main feedback
 loops: productivity, innovation, and skills. Easier access to
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though GVC integration as a buyer (through foreign value added) is particularly important. Connectivity, education and skills, and standards compliance are most important for countries selling into GVCs. The researchers concluded that the policy areas thought to be most important for countries selling into GVCs are air freight infrastructure and road network quality are particularly important. Connectivity, education and skills, and standards compliance are most important for countries selling into GVCs. The researchers concluded that the policy areas thought to be most important for countries selling into GVCs are air freight infrastructure and road network quality are particularly important.

The correlation between GVC integration and GDP per capita is positive, but the gains diminish as income increases. Similarly, growth in output per capita is highest for lower income groups. Some channels for GVC integration depend on industry similarity, with links assumed to be easier when trade is intraindustry.

of the lack of value-added trade data prior to 1990, they permit analysis for only the last 20 years, while much of the middle-income trap literature focuses on the period 1980-2000. The researchers concluded that the policy areas thought to be most important for countries selling into GVCs are air freight infrastructure and road network quality are particularly important. The researchers concluded that the policy areas thought to be most important for countries selling into GVCs are air freight infrastructure and road network quality are particularly important.

Viewing income transitions through a global value chain perspective. The previous section showed that while integrating into GVCs is associated with sustained growth and development, doing so is not sufficient for countries to escape the middle-income trap. Policies to produce greater gains from GVC participation are needed.

FIGURE 5.6 Growth of global value chain integration and GDP per capita by income category

GDP per capitae «9—ÍÝð

transitions from low to middle to high through a series of diagrams laying out these transitions.

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ing aspects of integration in GVCs, and the second dimension
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connecting to connecting to upgrading to mature engagement.

The orange lines indicate the growing intensity of engagement
on the buying side, and the blue lines indicate the growing inten -

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complementing production with proper and effective access to

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are aligning its goals to those of actual and potential buyers

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- ÕÃœ•^ìœ >~` œì...iÀÃ Óã£È®° ^À” }ÀœÜì... ^Ã `À^Ûi~ LP «Àœ`ÕVì^Û^ìP
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technological advances in automation, big data analytics, and digitization. They have also looked at manufacturing responses to climate change and other environmental- and resource-related risks, including transitions toward additive manufacturing through three-dimensional printing technologies. And they see the growth of the circular economy as likely to require manufacturers to design products for several cycles of disassembly and reuse.

GVCs are characterized by four features: customized production; sequential production decisions going from the buyer to the suppliers; high contracting costs; and global matching of goods, to the substantial power that multinational corporations coordinating GVCs have in selecting where to geographically locate individual production tasks. Technological improvements are likely in each of these cases to increase both the sophistication of buyer demands and the supplier capabilities to meet them. A full but given their implications for the relationship between GVC participation and declining economic growth and structural stagnation, addressing two aspects of these medium-term developments.

unsophisticated products is likely to increase substantially, requiring not only higher levels of education but also cross-domain

ANNEX 5.1

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Replace Humans – and Where They Can't (Yet).”McKinsey Quarterly

(July): 1–12.

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