INCOME TRANSITIONS IN EAST AND SOUTHEAST ASIA

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EAI Background Brief No. 1234

Date of Publication: 7 April 2017

Executive Summary

1. For any economy, after transiting from low- to middle-income classification, the ideal path of income transition is to ultimately achieve high-income. A long stagnation in a specific income group is defined as "income traps", among which "middle-income trap" is of particular concern.

2. The World Bank in 2013 reported that only 13 middle-income economies out of a total 101 in the world have successfully moved to the high-income group.

3. From 1960 to 2015, in East and Southeast Asia, five economies successfully transited to become high-income economies. By region, four of these five economies were in East Asia. Today, East and Southeast Asia has 11 middle-income economies in the middle income transition.

4. The number of years that upper-middle income economies took to transition from lower to upper-middle income category is almost unchanged compared with the timespan that today's high income economies took in their upper-middle income transition.

5. Developed economies took a shorter timespan to transition from upper-middle to high income category. On average, they stayed in the upper-middle income rung for eight years. By end 2016, all upper-middle income economies in East and Southeast Asia have surpassed the eight-year mark. This is a challenge for Asian developing economies.

6. From 1960 to 2015, East and Southeast Asia had three major differentiations in income transition, chronically due to tension of Cold War, rise of nationalism in Southeast Asia and the 1997 Asian financial crisis.

7. The lessons from past transitions in Asia show that economic openness and stability has been a common feature of rapid growth and resultant income

transition. Closed and quasi-closed economic models usually led to long-term stagnation in income transition.

8. International environment is also an important factor to the local stability of developing economies as an unstable environment may quickly change a country's attitude towards economic openness and hence indirectly influence income transition.

9. The challenge for today's Asian developing economies is to ensure the establishment of institutions that avoid stagnation in transition and keep pace with global frontiers.