

PhD in Economics

Overcoming the Middle-Income Trap: Study of Institutional Effects and International Pathways

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Abstract

Since the conception of the middle-income trap in 2007, scholars have carried out extensive research on this phenomenon, and explained it from many perspectives. More than a decade later, the middle-income trap phenomenon has not disappeared nor has it been properly resolved. Consequently, several Latin American countries and African countries are still trapped.

The school of institutional economics regards institutions as the fundamental cause of economic growth and, in recent years, scholars have included institutions in the analytical framework. However, as a whole, the research mainly focuses on qualitative aspects. Fewer articles directly link institutions and the middle-income trap. Therefore, taking the phenomenon of the middle-income trap as a starting point, doing in-depth research on the impact of institutions the economic growth in middle-income countries has an important theoretical significance as well as practical value.

This thesis counts the changes in the income stage of nearly 200 countries in the world from 1960 to 2021, selects countries that have achieved a successful transition from the middle-income stage to the high-income stage and identifies countries that are still in the upper middle-income stage during the sample period. On this basis, it further selects 20 countries that successfully crossed the middle-income trap and 13 countries that fell into the middle-income trap. Based on the investigation of the countries' history, this dissertation examines the institutional characteristics of the economic development process, and reveals key institutional factors that are conducive to a country's crossing of the middle-income trap.

On the basis of the country studies and statistical analysis, this thesis further uses

econometric models to empirically test the relationship between institutions and economic growth, to explore whether institutions have played a significant role in the process of a country's middle-income trap transition, analyzing how these institutional factors affect the transition from the middle-income stage to the high-income stage from the overall institutional indicators and the six key sub institutional indicators. It should be noted that in the research process of the full text, this thesis only regards the middle-income trap as an economic development phenomenon, not an inevitable law. The main research conclusions drawn in this thesis are as follows:

First, the coefficients of the overall indicators and sub indicators of institutions with the core explanatory variable of this article are very significant, which indicates that improving the quality of institutions can significantly promote the growth of a country's per capita national income. Under the same circumstances, the coefficients of successful countries' institutional indicators are far greater than those of countries that are trapped. This shows that the institutions play a crucial role in the process of a country's transition from the middle-income stage to high-income stage. **Second**, factors such as political stability, property rights protection, government efficiency, level of openness, income distribution, and corruption control are key institutional factors that affect whether a country can successfully achieve leapfrogging from the middle-income trap. **Third**, the results of the intermediary effect model test indicate that total factor productivity and net export play a partial intermediary role in the process of institutional impact on a country's per capita national income. **Fourth**, not all countries can continue to maintain growth after crossing the middle-income stage. The institutions still significantly affect a country's economic growth performance in the high-income stage.

Overall, the core research conclusion of this dissertation is that institutions play a crucial role in whether a country can successfully overcome the middle-income trap. A high level of institutional quality is an important driving force for the development of the national economy, affecting the length of time a country stays in the upper middle-income stage. The differences in the institutional level and structure of different countries will, to a certain extent, affect their economic development status, and thus affect the escape from the middle-income trap.