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Middle Income Trap

(The Hindu, 11-10-24)

Context: The World Development Report 2024 — authored by the World Bank — calls attention to the phenomenon of the “middle-income” trap, or the slowing down of growth rates as incomes increase.

What is the "middle-income trap"?

- The **middle-income trap** is a phenomenon in economics where a country that has attained middle-income status experiences a slowdown in economic growth and struggles to transition to a high-income economy.
- Essentially, they get "stuck" at a certain level of income.
- Countries in the middle-income trap often lose their advantage in producing low-cost manufactured goods due to rising wages.
- Underlying this stagnation are often structural issues like:
 - **Low productivity growth:** A failure to innovate and improve efficiency.
 - **Insufficient investment in human capital:** Lack of education and training to develop a skilled workforce
 - **Weak institutions:** Corruption, red tape, and lack of rule of law can hinder investment and growth
 - **Inequality:** A large gap between rich and poor can limit domestic demand and create social instability
- World Bank estimates stagnation occurs at 11% of U.S. per capita income
- Only 34 out of all middle-income economies transitioned to higher income levels in the last 34 years

What lessons can be drawn from countries that successfully escaped the middle-income trap?

- South Korea's interventionist state model directed private sector activities
- Chile's targeted state intervention in natural resource exporting sectors
- Importance of state neutrality among private players and performance-based benefits
- Need for powerful business houses to invest, adopt new technologies, and innovate

What specific challenges does India face in overcoming the middle-income trap?

- Increased power of billionaires perceived as close to the state
- Stagnation in the manufacturing sector and reversal of structural transformation
- Disconnect between GDP growth and wage growth
- Need to balance state intervention with democratic principles

What strategies does the World Development Report 2024 recommend to overcome this trap?

- Emphasizes the "3i" approach: investment, infusion, and innovation
- Calls for responsive state policies to implement these strategies
- Highlights the need for nimble policymaking to address modern economic challenges

Can you answer the following question?

Discuss the concept of the "middle-income trap" and evaluate India's position in light of this economic phenomenon.

The U.K. and 'leaving lessons' from the Indian Ocean

(The Hindu - 11-10-24)

Context: UK agreed to relinquish its sovereignty over the Chagos Islands to Mauritius

What is the background of Chagos Islands issue?

- The Chagos Islands, located in the Indian Ocean, were detached from Mauritius by the UK in 1965, three years before Mauritius gained independence. This was done to create the British Indian Ocean Territory (BIOT)
- In the early 1970s, the UK forcibly evicted the entire population of the Chagos Islands, around 1,500 people, primarily to Mauritius and Seychelles. This was done to make way for a US military base on Diego Garcia, the largest island in the archipelago.
- The Chagossian people have been fighting for their right to return to their homeland for decades. The UK's actions have been widely condemned as illegal and a violation of human rights.
- Mauritius has long claimed sovereignty over the Chagos Islands, and its claim has been supported by the United Nations and international courts.

What are the terms of the recent agreement?

- **Sovereignty Transfer:** The UK has now agreed to cede sovereignty of the Chagos Islands to Mauritius. This is a major victory for Mauritius and the Chagossian people.
- **US Base Remains:** The agreement secures the continued operation of the US military base on Diego Garcia for the next 99 years. This was a key condition for the UK, given the strategic importance of the base.
- **Right of Return:** The agreement also includes provisions for the resettlement of Chagossians on the islands, although the details of how this will be implemented are still being worked out.

How is the recent agreement analysed in international circles?

- **Symbolic Victory:** For Mauritius, the return of the Chagos Islands is a symbolic victory and reinforces its sovereignty. It also strengthens its position in the region.
- **Moral and Legal Reckoning:** The UK's decision to return the Chagos Islands can be seen as a belated acknowledgment of the injustice done to the Chagossian people.
- **Strategic Considerations:** The continued operation of the US base on Diego Garcia highlights the strategic importance of the region.
- **Challenges Ahead:** The resettlement of Chagossians will be a complex and challenging process. There are concerns about the environmental impact of resettlement and the integration of Chagossians into Mauritian society.

Can you answer the following question?

Examine the historical and cultural claims of the Maldives over the Chagos Islands.