20th Annual Symposium

Escaping the Middle-Income Trap: A Perspective from Namibia

Bank of Namibia

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Preface

The Bank of Namibia held its 20th annual symposium at the Safari court hotel on the 19th of September 2019 under the theme: Escaping the middle-income trap: A perspective from Namibia. The selection of the theme stemmed from the disappointing growth record in Namibia since 2016 that has given rise to the notion that Namibia might be in a middle-income trap.

The 20th annual symposium aimed to achieve the following objectives:

a) To assess whether Namibia is potentially in a middle-income trap
b) To look for growth enhancing strategies;
c) To learn from what other countries have done in increasing their growth thereby moving to higher income categories;

These issues were addressed through presentations given by local and international speakers supplemented by a panel discussion comprising of representatives from the private sector, academia and government.

This booklet contains the papers presented by the speakers at the symposium. It also includes a summary of the key policy issues emanating from the symposium and recommendations on the way forward.

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Welcoming Remarks

by Mr Iipumbu Shiimi
Governor of the Bank of Namibia

Director of Ceremonies
Right Honourable Dr Saara Kuugongelwa-Amadhila, Prime Minister of the Republic of Namibia;
Honourable Ministers and Deputy Ministers Present;
Members of Parliament;
Honourable Regional Governors and Councilors;
Members of the Diplomatic Corps;
Executive Directors of Government Offices/Ministries and Agencies;
Board Members of the Bank of Namibia;
Distinguished Speakers and Panelists;
Captains of Industry;
Members of the Media;
All invited guests.

Ladies and Gentlemen,

1. **Good morning! It is my great honour to welcome you to the Bank of Namibia 20th Annual Symposium.** This year 2019, marks two decades of the Bank of Namibia Annual Symposia in promoting policy dialogues that are supportive of sustainable economic development in Namibia. Since its inception in 1999, the symposium developed into a structured investigation of specific themes and economic issues of a theoretical, applied or policy nature. It continues to attract participants from the public and private sector, academics, researchers and policy makers nationally and internationally.

2. Allow me, to express my gratitude and appreciation to our 2019, invited guests and discussants for availing time to be with us on this occasion and share their views and knowledge on this important topic. **I wish to extend a special welcome to our international speakers, Dr. Jesus Felipe and Dr. Mathew Verghis - welcome to Namibia!** I wish to encourage you to make time to experience our beautiful country and the warmth of its hospitality during your stay.

3. **This year's symposium theme is focusing on the so-called middle-income trap.** Is there such a trap, and if so, is Namibia in the trap, and how can we escape it? Namibia achieved upper middle-income status in 2008. This caused confusion among the citizens of the country because socio-economic

conditions do not show the country as an upper middle-income. However, being an upper-middle income country should not be perceived as bad, especially if Namibia wishes to be a high-income country by 2030 as articulated in Vision 2030. Vision 2030 states that for Namibia to be a prosperous nation **"there is a condition of sustained high economic growth, that places Namibia in the 'high income' category of nations, eliminates duality in the economy and ensures equity in the pattern of economic growth."** Therefore, we should embrace the income category we are placed in, and work towards reducing poverty levels and income inequality. It is important, however, that donors and development multilateral organisations such as the World Bank and IMF develop particular programs and financing products that are designed to help countries with unique circumstances such as Namibia.

4. **Namibia has recorded good growth over the last few years, however, ever since 2016, growth has stagnated significantly, which brought on the notion that Namibia might be in a middle-income trap.** GDP growth rates had been on an upward trajectory over a number of years, averaging 3.5 percent between 1990 and 1999, then increasing to 4.3 percent between 2000 and 2009. During 2010 - 2015, average growth rate was 5.7 percent, mainly due to an expansionary fiscal policy and the construction of large mines. However, since 2016, real GDP contracted as the temporary stimulus from the construction of mines and public sector infrastructure dissipated, and government undertook significant fiscal adjustments to stabilize public debt dynamics.

5. **According to Kharas and Kohli (2011), countries fall into the MIT if they "cannot make a timely transition from resource-driven growth, with low-cost labour and capital, to productivity-driven growth."** In this sense, middle-income traps reflect the difficulty middle-income countries like Namibia have in competing with either low-wage economies or highly skilled advanced economies. Namibia has already begun to show signs that it is growing past the mining-led growth model that has fueled rapid economic growth since independence. Namibia have, by definition, exhausted much if not most of the potential to get growth by exploiting its natural resources.

6. **The question in our mind should then be "how differently should we do things to sustain economic growth so as to move to a higher income category".** This is the focus of the symposium this year; how to move out of the middle-income trap and become a high-income economy through sustained economic growth. Most of the countries that find themselves in the middle-income category struggle to implement good policies and only a few succeed in reaching high-income status and sustaining growth, hence are known as being trapped in that category. My job here is not to go into the details of how to

improve growth in Namibia, because there are experts here who will address that.

7. This symposium offers an opportunity for us to reflect and deliberate on this important topic, particularly the following questions, which I believe are crucial to transforming the Namibian economy, and converting challenges into opportunities:

   i. How can the country improve its business environment and make it more investor friendly?
   ii. What kind of businesses should Namibia target, we need to be focused, we cannot be good at everything?
   iii. What can we learn from countries that have successfully moved to higher income levels and significantly improved the living standards of their citizens?

8. **In conclusion, I believe we have an opportunity to transform the Namibian economy through sustained growth. We must use the current challenges to transform our economy to create shared prosperity for all our people.**

I look forward to discussions on possible solutions. I thank you for your attention and welcome you to this event!

Keynote address

by: Right Honourable Saara Kuugongelwa-Amadhila
Prime Minister

Honourable Ministers & Deputy Ministers,
Mr. Iipumbu Shiimi, Governor of the Bank of Namibia,
Members of the Diplomatic Corps,
Distinguished Speakers and Panelists,
Distinguished Invited Guests,
Executive Directors and Senior Officials,
Captains of Industry,
Members of the Media,
Ladies and gentlemen,

1. I am pleased to join you at this 20th Annual Symposium of the Bank of Namibia. The Annual Symposia held by the central Bank have been a trendsetter in bringing forth evidence-based policy discourse and international best lessons. In that vein, allow me to congratulate the Bank of Namibia's efforts aimed at promoting policy dialogue supportive of Sustainable Development in Namibia. I am also delighted that in our midst, we have international guests that will speak and share international experiences and lessons.

2. The theme for this 20th Bank of Namibia Symposium, which is "Escaping from the Middle-Income Trap: A perspective from Namibia", is relevant, as it allows for Namibia to interrogate how best and far we have implemented our development agenda in our quest to achieve Vision 2030.

3. The middle-income trap phenomenon, which implies the virtual stagnation in economic advancement comes about when it becomes challenging for the same policy tools which spurred socio-economic expansion and the reduction of poverty to propel the economy out of a middle-income status into a high-income status. Thus, with expected diminishing returns on the utilization of the same policy package, a departure from business as usual through policy recalibration, innovation, increasing productivity and competitiveness is fundamentally necessary.

4. Globally, evidence on the prevalence of poverty obtained from the World Bank and other international bodies suggests that about 70 percent of the poverty incidence is concentrated in middle-income countries. This requires that concerted and targeted efforts be made to achieve the ambition of Goal 1 and 2 of the Sustainable Development Goals (SDGs), that of eradicating extreme poverty and ending hunger by 2030.

5. Namibia is less than 11 years from year 2030, a year in which we aspire to be an industrialized Nation. While our Vision is still realizable, the current economic situation, coupled with adverse climate conditions, which puts pressure on agricultural products, pose serious challenges which must be addressed if we are to remain on course towards the achievements of the objectives of Vision 2030.

6. As a country, we have achieved notable progress since independence in addressing socio-economic challenges. The proportion of Namibians living below the national poverty line more than halved from 69.3 in 1993/94 to 28.7% in 2009/10, and further to 17.4% in 2015/16. Measured at the international poverty lines of 2011 purchasing power parity (PPP) $1.90 per person per day, 14.6% of the population were poor in 2018, a fall from 22.6% in 2009. However, there is need to push for increased growth in the economy to allow it to spur further socio-economic benefits to our people. Evidently, poverty levels are more prevalent in female-headed households, families with low education level, larger families, children and the elderly, and laborers in subsistence farming.

7. The 1990 to 2016 period is characterized by the following;

   (a) economic expansion averaged 4.3 percent over a 26-year period, from 1990 to 2016; enabling growth in per capita incomes, improvement in the quality of life and other socio-economic developments;
   (b) a relatively efficient revenue system is implemented, with the tax-to-GDP ratio of about 30 percent, enabling the State to fund economic development programs and increased provision of services to the population;
   (c) a comprehensive social safety net system is administered, which serves as the first line of defence against poverty and vulnerability;
   (d) the growth in Gross National Income per capita, propelling Namibia into the region of Upper Middle-Income Countries by 2010 and lifting thousands of Namibians out of poverty. As such, extreme poverty fell from 21.7 in 2004 to 10.7 percent by 2016 and the proportion of the population living in absolute poverty declined from 41 percent in 1994 to 17.4 percent by 2016;
   (e) decline in inequality, as measured by the GINI Coefficient ratio from 0.70 in 1993 to 0.56 by 2016, and
   (f) expanded access to education and basic services is broadly expanded and life expectancy has improved to 64 years since 2014.

8. These realized gains were anchored on peace and stability, macroeconomic stability, democratic governance, institutional strength, relatively efficient public infrastructure and an entrenched property rights system. However, we note too

well that structural challenges remain, for which concerted efforts are required to accelerate the needed impact. These include the following: -

(a) the composition of growth, its inclusiveness and structure of the economy remain generally skewed,
(b) Economic growth, which is a necessary condition for income generation, has significantly weakened in recent years,
(c) the triple challenges of poverty, unemployment and inequalities continue to linger. At 33.4 percent, unemployment is progressively high and youth unemployment distinctively higher. Inequality remains one of the highest globally, reflecting skewedness in the distribution of income and wealth;
(d) Total factor productivity and national competitiveness rankings have gradually weakened overtime;
(e) The quality of outcomes in the social sectors have not been commensurate with the quantum of investments made; and
(f) As a small open economy and arid country, Namibia is increasingly vulnerable to external event shocks and climate change.

9. As such, we require both domestic policy responses and targeted support from, and partnership with, Development Partners and multilateral financial institutions.

Ladies and Gentlemen,

10. The discourse on the phenomenon of a middle-income trap has over time evolved from the conceptual definition and empirical considerations of what constitutes a middle-income trap, to focus more on the policy combinations which could propel economies from middle-income to high-income status. Therefore, it is not amiss that the question is raised as to 'what needs to be done to avoid the middle-income trap?'

11. I am certain that this Symposium programme allows for this pertinent question to be discussed thoroughly, and good implementable recommendations to be advanced. Taking cognizance of prevalent structural and binding constraints, it is necessary to examine pathways for discernible progress out of a potential middle-income trap.

12. Some of the issues that need to be tackled are:

(a) reduction of our income inequalities, as at the Gini co-efficient of 0.56 in 2015/16, the distribution of our national wealth distribution remains skewed;
(b) Reduction in unemployment, which is also high at 33.4% of the working population in 2018, and even higher among women (34.3%) and the youth (46.1%);

(c) improving productivity levels, diversifying the economy and improving national competitiveness through continued innovation, enhanced policy certainty and internal institutional efficiencies and by embracing the digital economy;
(d) improving the quality of our education and of health services to achieve desired outcome, and
(e) embracing the public-private-partnership framework (PPP) to unlock the challenges in financing of infrastructure, by leveraging on the private capital to develop infrastructure.

13. Other pathways to an inclusive high income growth trajectory:-

(a) revitalizing economic growth as a necessary condition for transitioning to high-income status, in scale, quality and inclusiveness;
(b) developing domestic productive capacity for export oriented value-added goods and services;
(c) leveraging regional integration as an expanded market to realize increasing gains from trade and value shares;
(d) mobilizing domestic resources to sustainably finance national development ambitions; and
(e) leveraging development partners support.

14. We have to avoid the middle-income trap and ensure that we return to economic growth levels that are required for us to achieve prosperity. We must ensure that we build comparative advantage of our industries and optimize access to markets. In doing so, we must ensure that we empower the previously disadvantaged, especially women and youth, and by so doing, built an equal society.

15. At the end of July this year, Namibia held the National Economic Growth Summit with the deliberate objective of promoting robust private sector-led economic activity through increased private sector investment flows and implementation of a package of reforms by the Government. The Summit, also provided policy clarity on issues such as the application of the envisaged NEEEB (Bill), Namibia Investment Promotion Act and administrative reforms on Visa requirements to facilitate ease of doing business and certain tax policy proposals.

16. The new modes of doing things and the domestic resources mobilization strategy are critical. A new engagement strategy for official development assisstance (ODA) is also crucial. Such strategy shall aspire to go beyond income classification framework to embrace the concept of a GDP Plus, where the Plus factors are the incidences of poverty, measures of inequality, Human Development Index and vulnerability to climate change.

17. As I draw to a conclusion of this address, I wish to underscore that tangible progress has been made to improve living conditions and reduce disparities through growth and other targeted measures. It is on the back of such progress that Namibia was ushered into the legion of Upper Middle Income Countries.

18. Nonetheless, a significant mileage still has to be traversed for the country to transcend into high income status aspired for in Vision 2030. This requires all of us, as local stakeholders, both from public and private sectors, to be aggressive in pursuing the more nimble and innovative policies, structural transformation and diversification of our economy from a primary resource based economy to a knowledge based economy, able to leverage benefits from regional integration and global value chains.

19. Let this symposium be a springboard for effective homegrown proposals, international best lessons and renewed partnerships. I wish you fruitful deliberations.

Thank you for your attention.

Is Namibia in a Middle- Income Trap? A Comparative Analysis[1]

By
Dr. Bernie Zaaruka:
Senior Economist, Bank of Namibia
Charlotte Tjeriko:
Economist, Bank of Namibia

1 *"This paper was presented by Mrs Florette Nakusera: Director – Research and Financial Stability Department"*

Executive summary

Economic literature has shown that few middle-income countries have successfully progressed to high-income level. This phenomenon raises concern about the validity of the neoclassical growth theory, which predicts global economic convergence. Namibia has established an enviable track record of political stability, mostly prudent macroeconomic policies, reasonable growth, and natural resource conservation.

There is growing concern that Namibia might have fallen into a "middle-income trap" and be unable to move on to achieve high levels of economic growth and further economic transformation. A middle-income trap is a development stage that characterizes countries that are squeezed between low-wage producers and highly skilled, fast-moving innovators. Therefore, this paper attempts to highlight the Namibian economy patterns since its independence up to the current position using the middle-income trap criteria.

The theoretical definition refers to middle-income trap as a trap of policy misdiagnosis when countries fail to match their growth strategies with prevailing structural characteristics of the economies. First, it is observed when middle-income countries get squeezed between the low-wage countries (particularly China) that dominate in mature industries (such as the manufacturing sector) and the innovators in rich countries that dominate in industries undergoing rapid technological change due to higher wages. The second trap is caused by a premature leapfrog into knowledge economies, without proper institutional infrastructure in place.

The middle-income trap (MIT) definitions are subdivided into absolute and relative approaches (Im and Rosenblatt 2015). The absolute definitions are based on absolute middle-income thresholds whereas the relative approaches refer to the per capita income relative to a developed country (frequently the US).

Based on the two MIT definitions, the absolute definitions do not provide conclusive results for Namibia. This is mainly because the upper middle-income upper bound is closely related to Namibia's present-day GDP per capita PPP. The Spence (2011) and Felipe et al., (2014) thresholds of U$ 10,000 and U$ 11,750 is close to Namibia's GDP per capita of U$ 11,135 in 2018. The definition by Eichengreen et al., (2013) does point to a potential growth slowdown for Namibia.

The relative approach definition by Im and Rosenblatt (2013) shows that, given Namibia's current GDP per capita growth rate, it will take Namibia 54 years to catch up to the US economy. Using the relative approach definition, if a country grows faster (in per capita terms) than the rich countries, it will eventually catch up with the high-income countries real GDP per capita. Assuming the US economy's average growth rate of real GDP per capita is 1.8 percent per annum, it will take

Namibia 54 years to converge to high income status, provided that it grows by an average of 5 percent per annum. Namibia's average GDP per capita growth rate since independence is 2.13 percent, at this growth rate, it will take Namibia over three centuries to reach high income status.

According to the literature, there are several factors that trigger an MIT. Based on literature, these factors range from poor quality universities, low levels of human capital, limited venture capital, regulatory barriers and incomplete rule of law present significant barriers to becoming an innovation-driven economy. In this paper we highlight five economic factors (human capital, export structure, TFP, innovation and infrastructure) most often identified as triggering factors in the MIT literature. Namibia performed poorly in all these factors, which indicates that the country is in MIT and should look into policies that aim to improve these factors.

The following policies are proposed for Namibia to avoid MIT. Namibia's education system needs to be linked with industrial targets; give priority to niche manufacturing that is employment-intensive and geared to global markets to increase exports, acquiring foreign technology that build domestic firms technological and business capabilities, to improve productivity gains; Government, in consultation with the private sector, should identify growth-enhancing infrastructure projects for collaboration as well as making public procurement deliver value for money by reducing corruption; Namibia should Invest in Research and Development (R&D) to support innovation and industries in Namibia; Integrating domestic markets into global markets will helps increase firm competitiveness in Namibia

1. Introduction

1. **Namibia has established an enviable track record of political stability, generally prudent macroeconomic policies, moderate growth, and natural resource conservation.** Namibia made a few strides on reducing poverty. The share of people living on USD1.25/day or less, has declined by almost 60 percent—to 21 percent in 2009 from 49 percent in 1993. The Gini index declined from 70.1 in 1993/94 to 60.3 in 2003/2004; to 59.7 in 2009/2010, and further to 56.0 in 2015/16. Per capita income has grown sufficiently to place the country in the upper-middle income classification. Namibia has achieved these gains while facing constraints imposed by geography and legacies of apartheid and colonialism (World Bank, 2017).

2. **There is growing concern that Namibia might have fallen into a "middle-income trap" and is unable to move to achieve higher levels of economic growth.** Namibia successfully transitioned from low- to upper -middle -income status in 2008, however, there is growing concern that Namibia might be in a "middle-income trap" and unable to move to higher levels of economic growth and further economic transformation. Furthermore, despite the huge

improvements in poverty levels, Namibia's total factor productivity has been falling (Ziramba et.al., 2018). In addition, the country relied substantially on foreign direct investment in the mining sector for technological transfer. Therefore, adequate technology creation and diffusion did not occur, and industry linkages and clustering are not widespread to break through a potential middle-income trap.

3. **The economic growth literature has shown that only few middle-income countries have successfully attained high-income levels.** Although economic growth during the early 1960s has lifted many low-income economies to middle-income levels and other economies to even higher levels of income, very few countries have been able to catch up with the high per capita income levels of the developed world (Arias and Wen, 2015). Many poor countries today have a per capita income that is 30 to 50 times smaller than that of the U.S. and sometimes even lower.

4. **This economic divergency raises concern about the validity of the neoclassical growth theory, which predicts global economic convergence.** The neoclassical growth model suggests that poor economies, starting with a lower capital stock, will be able to grow relatively faster than developed countries and eventually catch up with their income levels through capital accumulation and technological adoptions from the developed world (Robert Solow 1956). This implies that effective transition from middle to high-income level requires an efficient resource use, private sector improvement, productivity enhancement and technology.

5. **What is of interest then is to know what is meant by this so-called middle-income trap.** During the last decade the term "middle-income trap" (MIT) has entered common talks and received much attention in scientific and non-scientific literature. The term MIT commonly refers to countries that have experienced rapid growth, which enabled them to reach the status of a middle-income country but have not been able to finally catch up to the developed countries and achieve high-income status – instead they became caught in the middle-income range (the so-called MIT).

6. **MIT is a development stage that characterizes countries that are squeezed between low-wage producers and highly skilled, fast-moving innovators.** Countries caught in this trap tend to grow more slowly and often fall behind. Cost advantages in labour-intensive sectors, such as the manufactured exports, that once drove growth, start to decline in comparison with lower-wage countries. At the same time, "trapped" countries lack the institutions, capital markets, track record, or critical mass of highly skilled workers to grow through major innovations, like wealthier countries.

7. **Therefore, this paper attempts to examine the Namibian economy patterns since independence to its current position, using the middle-income trap criteria.** The aim of the paper is to ascertain if Namibia is indeed in a trap, or in danger of falling into one. Moreover, this paper goes further ahead in cross-country evidence of how Namibia compares with peer middle-income countries, as well as high-income countries. It further looks at the factors that are known to lead countries into a trap, known as the triggering factors.

8. **This paper is organised in six sections as follows:** The introduction serves as section 1, while section 2 presents the literature review, by outlining the various definitions and concepts on the middle-income trap. Section 3 apply these definitions to the Namibian economy to test for the existence of the middle-income trap. Section 4 presents a comparative analysis between Namibia and other economies (both middle-income and high-income) countries, focusing on factors that increase the probability of a growth slowdown at the middle-income level. Section 5 offers policy options, while section 6 concludes.

2. What does the Middle-Income Trap mean?

2.1 The definition of a Middle-Income Trap (MIT)

9. **There is no universal definition of the MIT.** There are different interpretations of this phenomenon popular among researchers. According to Gill and Kharas (2015), the middle-income trap is more the absence of a satisfactory growth theory to inform development policy in middle-income economies than the articulation of a generalized development phenomenon. Gill and Kharas (2015) set two groups of definitions for the MIT, the theoretical definition; and the empirical/quantitative definition.

10. **The theoretical definition refers to the middle-income trap as an economic environment of policy misdiagnosis when countries fail to match their growth strategies with prevailing structural characteristics of their economies.** There are two common traps identified that middle-income countries could fall into (Gill and Kharas, 2007). First, it is observed when middle-income countries get squeezed between the low-wage countries (particularly China) that dominate in mature industries (such as the manufacturing sector) and the innovators in rich countries that dominate in industries undergoing rapid technological change due to higher wages. The successful transition from low-income to middle-income status tends to increase the wage levels in middle-income countries.

11. **The second trap is caused by a premature leapfrog into knowledge economies, without proper institutional infrastructure in place.** Poor quality universities, low levels of human capital, limited venture capital,

regulatory barriers and incomplete rule of law present significant barriers to becoming an innovation-driven economy (Gill and Kharas, 2015). Middle-income countries that invest heavily and prematurely in trying to become "knowledge economies" can find low returns to such investments. The combination of wasted fiscal spending and a faulty growth diagnostic can lead to substandard performance—another example of the middle-income trap.

12. **The empirical MIT definitions uses economic measures to classify economies and are subdivided into absolute and relative approaches (Im and Rosenblatt 2015).** The absolute definitions are based on absolute middle-income thresholds whereas the relative approaches refer to the per capita income relative to a developed country (frequently the US). The absolute MIT definition is based on the observation that many countries remain in a narrow income band over long periods of time. The relative approach, in contrast, usually refers to the per capita income relative to the US or another developed country. Many authors (e.g., Felipe et al., 2012; Aiyar et al., 2013) that use absolute values for the thresholds refer to the yearly updated country classification of the World Bank. This classification distinguishes between four income categories based on the real per capita gross national income (GNI) calculated based on the Atlas method (Table 2.1).

Table 2.1. Per capita GNI thresholds.

Classification	Income Range
Low-income economies	< $1,025 in 2018
Lower-middle-income economies	$1,026–$3,995 in 2018
Upper-middle-income economies	$3,996–$12,375 in 2018
High-income economies	≥ $12,376 in 2018

Source: World Bank (http://data.worldbank.org/about/country-and-lending-groups)

13. **A large part of the literature on the matter has mainly focused on using absolute measures of income levels or growth rates to characterize income gaps or to measure low- and middle-income traps (Spence, 2011; Felipe et al., 2012; Aiyar et al. 2013, Eichengreen et al., 2014, among others).** Spence (2011) was the first to suggest a fixed threshold for the MIT and proposed a range of between 5,000 USD and 10,000 USD per capita (PPP) income. He argued that this is the stage of development at which the transition to higher-income levels becomes challenging.

14. **The absolute MIT definitions, derived by Felipe, Abdon, and Kumar (2012) calculated the critical threshold for determining the middle-income trap based on the number of years it takes a country to move from one income category to another.** Their definition of MIT says that a country is in

the MIT if it stays for more than 28 years in the lower-middle-income range (range between 2,000 and 7,500 USD per capita, PPP, constant 1990 prices; average pace of growth 4.8 percent annually). Furthermore, it states that a country is in MIT if it stays for more than 14 years in the upper-middle-income range (between 7,500 and 11,500 USD per capita, PPP, constant 1990 prices; average pace of growth 3.5 percent annually). According to Felipe, Abdon and Kumar (2012), in their sample of 38 lower-middle-income countries and 14 upper-middle-income countries in 2010, 35 in total could be identified as countries that were stuck in the trap.

15. **Aiyar et al. (2013) also adopted the absolute income approach by treating the MIT as a special case of growth slowdowns and exploring their determinants.** The authors interpreted growth slowdowns as sudden and sustained deviations from the growth path predicted by a basic conditional convergence framework. Based on this assumption, they suggested two thresholds: first at the level of 2,000 USD per capita (Purchasing Power Parity (PPP) adjusted, constant 2005 prices) for low-income countries; and second at the level of 15,000 USD per capita (PPP, constant 2005 prices) for middle-income countries. They argued that the main reason for this choice is that the GDP per capita classification generated by these cutoff points is extremely close to the GNI per capita classification employed by the World Bank.

16. **Eichengreen, Park and Shin (2013) suggested another threshold, drawing on the concept of growth slowdowns.** The study defines a growth slowdown episode as one in which three conditions are satisfied: (i) growth in the preceding period is greater than or equal to 3.5 percent per annum; (ii) the difference in growth between the current and preceding period is greater than or equal to 2 percentage points per annum; and (iii) the country's per capita income exceeds USD10,000 in 2005 constant international prices. As a result, Eichengreen, Park and Shin (2013) identified two peaks between which the likelihood of such slowdowns is most probable: between 10,000 and 11,000 USD per capita (PPP, constant 2005 prices) and between 15,000 and 16,000 USD per capita (PPP, constant, constant 2005 prices).

17. **An advantage of the empirical interpretations is their clarity and the supporting empirical work (Pruchnik and Zowczak, 2017).** By using an absolute threshold, one can easily judge whether a country has managed to escape the MIT. Although per capita income does not completely describe a country's level of development, it has proven to be closely correlated with other important indicators of quality of life, such as life expectancy at birth, child mortality rates, and school enrollment rates (World Bank, 1989).

18. **On the other hand, Woo et al. (2012) is among a few studies that used the relative approach to MIT.** Woo et al. (2012) define the middle-income range between 20 percent and 55 percent of the US per capita income. The study constructed a Catch-Up Index (CUI) by dividing a given country's income level by the US income level. Countries with a CUI over 55 percent are classified as high-income, whereas those with a CUI below 20 percent are classified as low-income, while the rest are classified as middle-income. Woo et al. (2012) suggested that a country is stuck in the MIT when it shows no tendency to converge to the global economic leader (i.e. the US).

19. **Im and Rosenblatt (2013), also used the relative definition approach.** They focus on the probability of a country entering the next income category. Contrary to most of the other articles, they use a trisection of the middle-income range in "lower-middle", "middle-middle", and "upper-middle". Im and Rosenblatt (2013) use per capita GDP data from Maddison (2010) for 127 countries within the period from 1950 to 2008. They conclude that the transition from upper-middle to high-income status is just as likely as the transition from the lower-middle to upper middle range. Therefore, they doubt the existence of the MIT. However, it is questionable how far these results are due to the trisection of the middle-income range. It would therefore be interesting to see how results change if one only uses two middle-income sub-categories.

3. Is the Namibian Economy in a Middle – Income Trap?

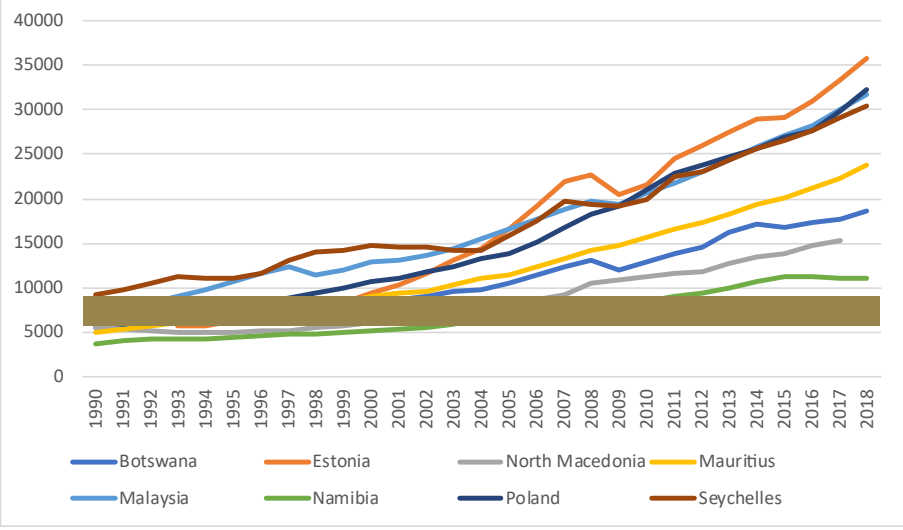
20. **In this section, we apply both the (absolute and relative) empirical MIT definitions to Namibia.** By doing so, we aim to answer the question of whether there are any signs of the Namibian economy being in a middle-income trap or approaching the trap. This approach is followed by a number of studies such as Glawe and Wagner (2017); Cherif and Hasanov (2015); and Csath (2019) among others that focus on country-specific analysis. The empirical MIT definition threshold applied are shown in the Table 3.1 below, as guided by the literature.

21. **It is useful to compare Namibia to selected middle-income countries as well as to economies that transitioned to high income to identify potential barriers to continued high growth in Namibia.** The selected middle-income countries are Botswana, Mauritius, Malaysia, North Macedonia, while the high-income countries are Poland, Seychelles and Estonia as per the World Bank classification. To do so, we obtained the absolute values for the thresholds as per the yearly updated country classifications of the World Bank. The selection of higher-income is informed by countries whose transition from upper-income to high-income after the 1990s to learn from recent economic policies followed by these countries.

3.1 The absolute MIT Definitions

22. **In terms of the absolute MIT definitions, of Spence (2011), which shows that Namibia is above the MIT identified threshold.** The study provides fixed level of income as a threshold for the MIT, GDP per capita ranging between USD 5,000 and USD 10,000. According to Spence (2011), this is the stage of development at which the transition to higher-income levels becomes challenging. Using the data by the World Bank, as a low middle-income country, Namibia entered the threshold of real GDP per capita of USD 5,000 in 1999. The country then succeeded to move to an upper-middle income country status in 2008, with an average GDP per capita growth of 5.3 percent between 1999 and 2008. Between 2009 and 2018, Namibia's real GDP per capita growth slowed to 3.1 percent, despite bridging the USD 10,000 threshold in 2014.

Figure 3.1: An illustration of the MIT based on the definition of Spence (2011)



Source: Authors compilations based on data from the World Bank

23. **Namibia satisfies the definition conditions indicating the problem of slowing growth in middle-income countries, as highlighted by Eichengreen et al., (2013).** Based on the Eichengreen at al., (2013), as a first step, we extend the data series with the IMF forecast, which gives projections until 2023. Thus, we identify the period of a growth slowdown in Namibia as 2016. Namibia and Botswana are the only countries that satisfy conditions (1) – (3), and had, thus experienced a growth slowdown of middle-income according to the Eichengreen et al., (2013) definition. This observation is in line with the "middle-income trap" hypothesis, which refers to the phenomenon of hitherto rapidly growing economies stagnating at middle-income levels and failing to graduate into the ranks of high-income countries.

Table 3.2 MIT based on the Definition of Eichengreen et al., (2013)

	Namibia		Botswana	
GDP per capita (avg 7 years before)	2009-2015	4.7%	2007-2013	5.4%
Year of slowdown	2016	0.4%	2014	4.8%
GDP per capita (avg 7 years after)	2017-2023	1.8%	2015-2021	2.8%

Source: Authors compilations based on data from the World Bank

24. **The study by Felipe, et al., (2012); and Felipe, Kumar and Galope, (2014), also adopted the fixed income approach emphasising the number of years a country spent within the income category.** A country is in a MIT if it stays for more than 28 years in the lower-middle income range (LMIR). From the available data provided by the World Bank (1989 - 2018), Namibia spent around 19 years as a LMIR country before moving to the upper-middle-income (UMIR) range in 2008. Between 2008 and 2018, Namibia's real GDP capita grew by 3.2 percent per annum which is more or less in line with the definition of Felipe et al., (2014), which calls for 3.27 percent growth rate for upper-middle-income (UMI) to transverse to higher-income (HI) countries. Namibia has been in the middle-income category for a period of 11 years, which is still below the 15 years which is the median of the economies that transition from the upper-middle income category to higher-income (Felipe et al.,2014).

25. **Namibia's recent growth pattern suggests that it could be in danger of becoming part of the slow transition economies.** Given the number of years that Namibia has been upper-middle income and the recent growth performance, there are indications that the economy may be at risk of making a slow transition from UMI to HI. For Namibia to transition into HI within the historical median of 15 years, a growth rate of 3.27 % is required. Therefore, Namibia should implement policies to accelerate growth to avoid the MIT.

Summary

26. **The absolute MIT definitions does not provide conclusive results on Namibia.** This is mainly because the upper middle-income upper bound is straddled around Namibia's present-day GDP per capita. The Spence (2011) and Felipe et al., (2014) thresholds of USD 10,000 and USD11,750 is close to Namibia's GDP per capita of USD 11,135 in 2018. The definition by Eichengreen et al., (2013) does point to a potential growth slowdown for Namibia.

27. **The use of a fixed threshold is straight forward and makes it easy to determine whether a country is or is not in the MIT.** One advantage of these empirical interpretations is their clarity and the supporting empirical work (Pruchnick and Zowczak, 2017). Although per capita income does not

completely describe a country's level of development, it has proven to be closely correlated with other important indicators of quality of life, such as life expectancy at birth, child mortality rates, and school enrolment rates (World Bank 1989).

28. **The criticism of fixed threshold definitions of the MIT is that at some point in time all countries will surpass the fixed income thresholds if these thresholds stay unchanged.** The standard methods to define income status requires regular updates so as not to ignore the evolution of income in other countries.

3.2 The relative approach MIT definition

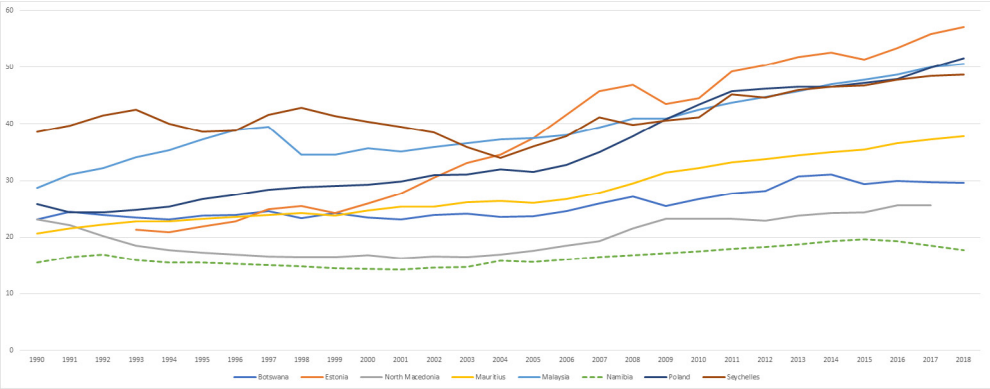
29. **In most empirical work on the middle- income trap, the relative income definition is the preferred approach.** For example, Bulman et al. (2014) suggested the income classification as follows: (i) low-income countries - those whose GDP per capita equals to 10 percent or less of GDP per capita in the USA; (ii) middle income countries - are those with values of 10 percent – 50 percent of GDP per capita in the USA; and (iii) those with values above 50 percent are high income countries. In addition, the authors divided middle income as lower middle-income and upper-middle income. In this division, the rate of 30 percent is accepted as the threshold value. Im and Rosenblatt (2013), also used the relative definition approach. They focus on the probability of a country entering the next income category.

30. **According to the definition of Bulman et al (2014), Namibia remained a middle-income economy for the last 28 years, which can be can be thought of as a "middle-income trap."** Figure 3.2 presents incomes per capita of a few selected small countries as a share of income per capita of the USA. Figure 3.2 shows that, if we use the definition of Bulman et al., Estonia is the only country in the high-income group. Poland, Malaysia, Seychelles and Mauritius are among the upper middle-income countries. Namibia barely makes it into the middle-income category, just above the low-income threshold of 10 percent over the last 28 years, which implies that Namibia could be stuck at this middle-income level and this calls for change in growth strategies. According to Bulman et al (2014), growth determinants at low- and high-income levels may be different and there is a need for countries to transition from growth strategies that are effective at low income levels to growth strategies that are effective at high income levels.

31. **The definition by Woo et. al. shows that Namibia has always been in the low-income category relative to the global economic leader i.e. the US and showed no tendencies of catching up.** The Namibia Catch up Index (CUI) has not moved above 20 per cent for more than 28 years, which is required to be

classified as a middle-income country. According to this definition, Seychelles, Malaysia, and Poland are in the upper middle-income category, while Estonia migrated to high-income status in 2017. By this definition, Namibia is stuck in the low-income level trap and there no clear tendencies of converging to the higher-income level.

Figure 3.2: Per Capita Income relative to the USA (%)



Source: Authors compilation from World Bank data

32. **The definition by Im and Rosenblatt (2013) shows that, given Namibia's current GDP per capita growth rate, it will take Namibia 54 years to catch up to the US economy (Table 3.4).** By definition, if a country grows faster (in per capita terms) than the rich countries, it will eventually catch up with the high-income countries GDP per capita. Using the catch-up definition of Im and Rosenblatt (2013), assuming the US economy's average growth rate of GDP per capita is 1.8 percent, it will take Namibia another 54 years to converge to high income status, provided that it grows by an average of 4 percent per annum.[2]- The interpretation is such that Namibia's average GDP per capita growth rate over the last 50 years is 0.64 percent, at this growth rate, it will take Namibia over six centuries to reach high income status. Im and Rosenblatt took a period of more than 50 years to make a more credible[3] analysis. However, if we take the period after independence, it shows that it will still take Namibia 54 years to reach high income status, however, it will have to grow at 5 percent

2 *In order to calculate the number of years it will take a country to reach high income status, you divide the average real GDP per capita of the high income by the average real GDP per capita of the middle to get the initial R.*

3 *Experience shows that majority of the countries that moved to higher-income levels particularly before the 1950s took quite a longer period to do so.*

per annum. Namibia's average GDP per capita growth rate since independence is 2.13 percent, at this growth rate, it will take Namibia over three centuries to reach high income status.

Table 3.4: Number of years for convergence to the Rich Countries GDP per capita

R	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%
12	1266	212	116	80	61	50	42	36	32	29
11	1222	205	112	77	59	48	41	35	31	28
10	1173	196	108	74	57	46	39	34	30	27
9	1119	187	103	71	54	44	37	32	28	25
7	991	166	91	63	48	39	33	28	25	22
6	913	153	84	58	44	36	30	26	23	21
5	820	137	75	52	40	32	27	24	21	19
4	706	118	65	45	34	28	23	20	18	16
3.2	593	99	54	38	29	23	20	17	15	13

Source: Authors compilation based on World Bank data

Summary

33. **We can conclude that the relative approach MIT definition application indicates Namibia is in MIT.** With an average GDP per capita growth rate of about 3.8 percent, Namibia has moved from 16 percent to 18 percent of the U.S. income per capita during the 1990 -2018 period, far below from the high-income threshold. Namibia has been stuck in the "middle-income trap" for the past 2 and half decades, and at that speed, it may take a long time to escape it.

4. Overview of factors contributing to the MIT

34. **Using the triggering factor approach, this section focuses on the factors that increase the probability of an economy's growth slow-down as it reaches a middle-income level**[4] . Based on the MIT cited literature, notably the work of Agenor and Canuto (2012), Aiyar et al. (2013), Eichengreen, Park and Shin (2013), and Felipe, Abdon and Kumar (2012), among others, the triggering factor approach analysed the correlations between specific economic factors and the likelihood of a middle-income country being stuck in the trap.

4 *This section follows the approach of Pruchnik and Zowczak (2017) to analyze the Namibia case in more detail.*

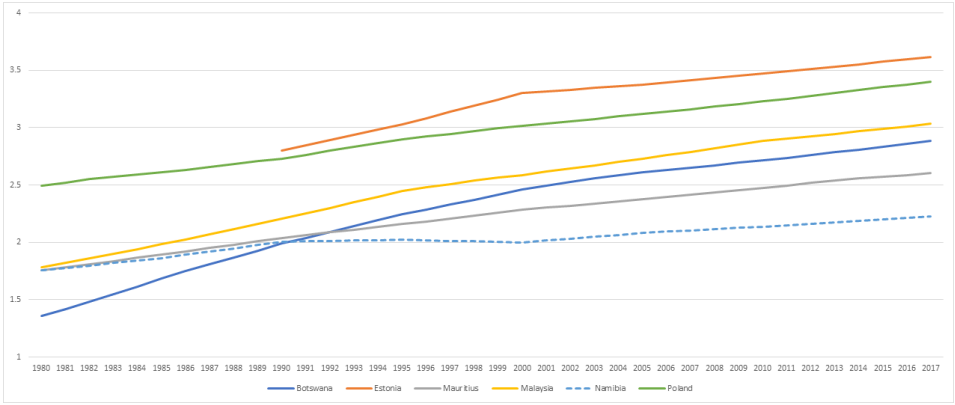
This study focuses on five economic factors most often identified as triggering factors (human capital, export structure, total factor productivity (TFP), innovation and infrastructure) in the MIT literature. We discuss whether these factors have or have not triggered an MIT in Namibia.

4.1 Analysis of Indicators associated with MIT: Selected Country Comparison

4.1.1 Human Capital

35. **The importance of human capital in the economic development process of a country is emphasized in the standard growth literature, where human capital is an input factor in production.** The human capital is further emphasised in the MIT literature as important for escaping the middle-income trap. The MIT literature regards human capital and, closely related to it, the educational system, as an important factor in overcoming the MIT (e.g., Jimenez, Nguyen, and Patrinos 2012; Eichengreen, Park, and Shin 2014; Yilmaz 2014).

Figure 4.1: Human Capital Index



Source: PWT 9.1

36. **Namibia recorded the lowest indicator level on human capital index compared to all the other countries.** Figure 4.1 shows the human capital index based on years of schooling and returns to education using data from the PWT9.1. As can be seen in figure 4.1, Namibia recorded the lowest indicator levels compared to all the other countries, despite the upward trajectory shown by the index. Estonia and Poland – the two that transitioned to high income countries – are clearly leading in this index. Also, an inadequately educated workforce is listed in The Global Competitiveness Report as among the most problematic factors for Namibia. More advanced education may be especially

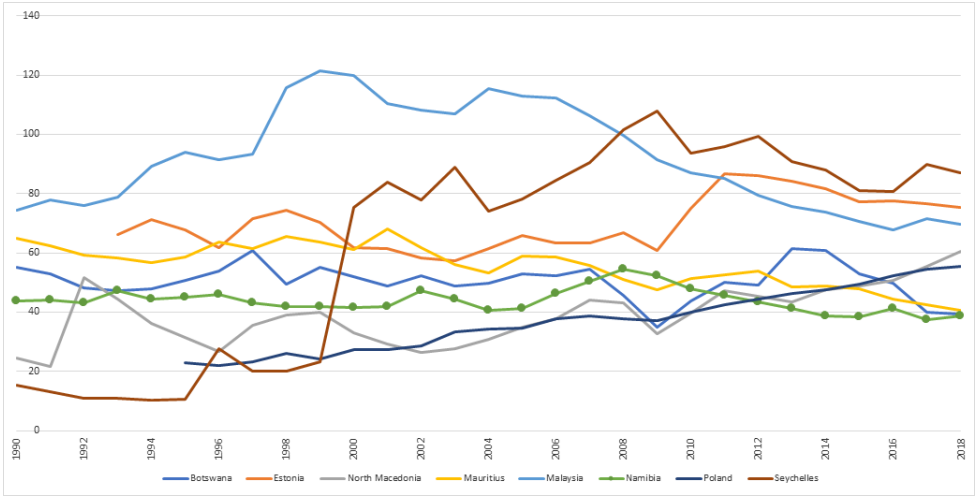
valuable for Middle-Income countries seeking to avoid a growth slowdown by moving into the production of more technologically sophisticated goods and services. This is evident in the case of Estonia, that has been the leading country in Europe for digital public services for many years. Its citizens are well-skilled in the use of digital technologies and are keen users of a variety of internet services.

37. **A skilled labour force is key in improving productivity levels in any economy.** Knowledge in the economy has clearly become an increasingly important factor in wealth creation than often surpasses the natural resources endowment. We are aware of countries with plenty of natural resources, but that, nevertheless, remain poor and underdeveloped. Knowledge is becoming an important strategy for businesses not only to improve products and services but also to enhance productivity and efficiency. It is therefore, encouraging to note the Namibian Government's efforts to improve the quality of our education through the budget allocation to the education sector. Beyond the budgetary dimension, further efforts, especially in improving the quality of education, are necessary in Namibia to create a well-educated workforce and thus avoid a potential MIT.

4.1.2 Export structure

38. **An important challenge for middle-income countries seeking to maintain their customary high growth rates is to move up the technological ladder.** As shown in Eichengreen et. al., (2014), middle-income countries' biggest challenge in attaining high growth rates is to move up the technological ladder into the production of more technologically sophisticated goods. Partly to get out of the way of lower-cost developing countries beginning to penetrate global markets for low-tech products. Felipe, Kumar and Abdon (2010) provide empirical support for the contention that countries that are unable to upgrade and diversify their exports may become caught in a middle-income trap.

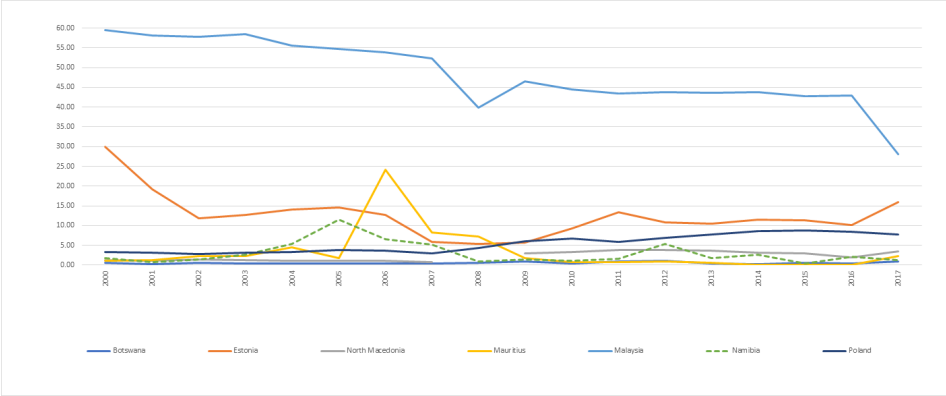
Figure 4.2: Exports of Goods and Services (% of GDP)



Source: World Bank 2018

39. **Namibia's exports have averaged 44 percent from the period after independence, which is a decline from the average of 52 percent from the period pre-independence.** The figure above depicts the exports of goods and services as percentage of GDP of the selected countries from 1990 – 2018. As shown in Figure 4.2, Namibia's exports have averaged 44 percent from 1990 - 2018, this is a fall from an average of 52 percent during the pre-independence period 1980-1989. According to Bulman, Eden, and Nguyen (2014), countries that managed to escape the MIT have an average export share in GDP of 60 percent whereas those that did not manage to escape the MIT have an average share of around 35 percent. Seychelles and Estonia's exports seem to conform to this threshold, Malaysia's export share – an upper middle-income country – is above all the high-income countries.

Figure 4.3: High-tech exports (as % of manufacturing exports)



Source: World Bank 2018

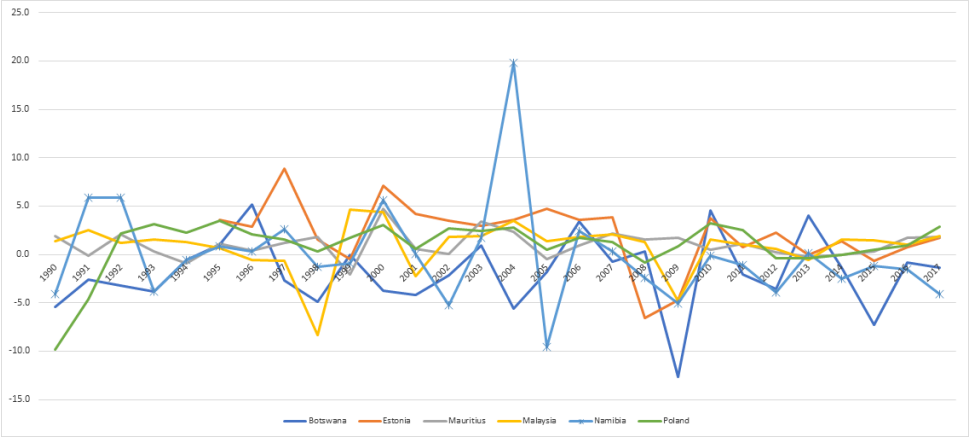
40. **The high-tech exports as a share of manufacturing exports for Namibia surged up between 2004 and 2007 to reach 11 percent and then levelled off at below 5 percent.** Figure 4.3 shows the high-tech exports as a percentage of manufacturing exports for the selected countries for the period 1990 to 2017 (most recent available data). As shown in Figure 4.3 the high-tech exports as a share of manufacturing exports for Namibia surged up between 2004 and 2007 to reach 11 percent and then levelled off at below 5 percent. Interestingly, Figure 4.3 also reveals that Malaysia – a middle-income country - performed significantly better than the high-income countries. However, Estonia and Poland's high-tech exports as a share of manufacturing exports are higher than most of the other countries, which could explain their transition to higher-income level classification.

41. **Namibia performed poorly in both the exports of goods and services as well as the high-tech exports as a percentage of manufacturing exports.** Kohli and Mukherjee (2011) argued that under the current globalized environment, MIT countries are unable to compete with low-income, low-wage economies in manufacturing exports and are unable to compete with advanced economies in high skill innovation. This indicates that export structure indicator could potentially hold back Namibia, in its quest to become an industrialised nation by 2030. The export structure indicator is therefore a trigger for MIT in Namibia.

4.1.3 Total Factor Productivity (TFP)

42. **Total factor productivity (TFP) indicates how efficiently the available production factors are transformed into final output (Daude and Fernández-Arias 2010).** It is not possible to measure TFP directly. Instead, it can be interpreted as a residual that accounts for the portion of output that is not explained by the other inputs, particularly labour and capital (Comin 2008). According to Eichengreen, Park, and Shin (2013) about 85 percent of the growth slowdowns in their sample could be attributed to the drop in the TFP growth rate on average, whereas the decreases in capital and labour growth only play a relatively small role. Bulman, Eden, and Nguyen (2014) and Jitsuchon (2012) argue that countries that managed to successfully to move out of the MIT trap had a relatively high TFP growth. Tho (2013) emphasized that MICs have to master the transition from input-driven to TFP-driven growth.

Figure 4.4: TFP growth rates



Source: Authors' calculation, based on data from PWT 9.1

43. **The potential causes of the middle-income trap are evident in TFP patterns for Namibia.** Figure 4.4 shows the growth rates of TFP of the selected countries, for the period 1990 to 2017 (most recent available data). We use the TFP data from the Penn World Table (Volume 9) (PWT9.1), which depicts the TFP at constant national prices (2011=1), to calculate the TFP growth rates. The data shows that the average growth rate of TFP for Namibia between 1990 to 2017 is -0.1 percent and highly volatile. Comparing the period between 1990 to 2004 and 2005 to 2017, the data shows that the TFP growth rate for Namibia declined from an average of 1.8 percent to an average of -2.2 percent respectively. The average TFP growth rate for Namibia is the lowest amongst all the examined countries. The country with the highest TFP growth rate is Estonia, followed by Mauritius.

44. **Namibia experienced a sharp decline in TFP growth, and the literature indicates that MITs may be associated with TFP growth drops.** The PWT9.1 data indicates that Namibia experienced a sharp decline in TFP growth, implying that the country has been slow in adopting new and improved technologies, which is a characteristic of MITs. Thus, we can postulate that TFP could be a potential MIT triggering factor in Namibia. Overall, the literature implies that (i) having a high TFP growth rate in general may help to avoid an MI, and (b) MITs may be associated with TFP growth drops (Glawe and Wagner, 2017). Productivity gains can come from more efficient use of existing resources and technology to produce the same goods and service. However, rising productivity can be sustained only through new and improved technologies and increasing ability to master more sophisticated economic activities.

4.1.4 Low level of innovation

45. **The innovative capacity of a country is the most cited factor associated with escaping the MIT (e.g. Agenor and Canuto 2014).** According to Aghion et. al, (2013) innovations in one sector or one country often build on knowledge that was created by innovations in another sector or country. The process of diffusion, or technology spill-over, is an important factor behind cross-country convergence. As an indicator of a country's innovativeness, we use the innovation component (12th pillar) of the Global Competitiveness Index (World Economic Forum 2018), which, research suggests that a decline in the index is, is negatively associated with the probability of a growth slowdown. The pillar is composed of indicators such as: i) capacity for innovation, ii) spending on R&D, and iii) university-industry collaboration.

46. **Namibia's level of innovation is among the lowest, which is considered among the most important triggering factor of MIT.** The Namibian indicator of 3.2 out of 7, could imply insufficient capacity of the country to innovate. In Namibia, policies aiming at boosting productivity, the absorption of technology and innovation in a broad sense should be prioritised. The priority should be to facilitate technology adoption, as well as the promotion of new economic activities (such as new exports) with high potential spill-overs for the rest of the economy. At the heart of the middle-income trap is the insufficient development of domestic innovation capabilities, which translates into low productivity growth.

4.1.5 Insufficiently advanced infrastructure

47. **The quality of infrastructure plays a major role in escaping the MIT.** Aiyar et al. (2013) and Agenor and Canuto (2012) have indicated that access to advanced infrastructure is necessary to raise productivity in the design

sector and stimulate innovations. Particularly important are high-speed communications networks. As a proxy of the quality of infrastructure, the infrastructure component (2nd pillar) of the Global Competitiveness Index (World Economic Forum 2018) is used. Research suggest that a decline in the index is negatively associated with the probability of a growth slowdown. The pillar is composed of indicators such as the quality of: i) electricity infrastructure, ii) transport infrastructure, and iii) telephonic infrastructure.

48. **In terms of the infrastructure pillar, Namibia is the third lowest among the examined countries.** The infrastructure pillar for Namibia for 2017/18 of 4.2 out of 7 is the third lowest among the examined countries. Namibia is compared to countries like Malaysia (middle-income) and Estonia (high-income) whose indicators stands at 5.5 and 5.1 out of 7, respectively. Namibia's indicator is however better compared to Botswana (3.6 out of 7), Botswana being viewed as a solid economic performer in Africa.

5 Policy implications

49. **Namibia's education system needs to be linked with industrial targets.** To ensure that education contributes substantially to economic growth in Namibia, educational policy must be tailored to support the national development strategy, rather than simply increasing literacy rates, average years of schooling or even gross tertiary enrolment. For example, in the case of Singapore, the human resource system was restructured in 1981 when the country decided to shift from import-substitution to export-oriented industrialization. The country adopted formal education focused at specific industrial goals but also upgrading the skills of the existing workforce in the industry through training and vocational education. The literature distinguishes between the quantity, the quality, and the types of skills/education as well as access to education.

50. **Namibia should give priority to niche manufacturing that is employment-intensive and geared to global markets.** A viable export-oriented strategy for Namibia would thus emphasize adding value to agricultural (particularly agro-processing) produce. The aim should be to put fully to work Namibia's most abundant resource, which is unskilled labour. Relevant technology upgrade in the agricultural and agro-processing sector will results in higher output which maximize job creation potential of the value chains. Installing drip irrigation systems would be a possible solution to the persistent drought conditions in the country. Israel is one of the leading countries that provide food security to the world through drip irritation. One example of how Israeli drip irrigation has impacted food supply in foreign countries is through the Tipa (Drop). The Tipa (Drop) is a kit that enables gravity to irrigate when there is no water pressure in rural areas. The Israeli Foreign Ministry has provided Tipa kits to hundreds of famers in Senegal, Kenya, South Africa, Benin and Niger.

51. **Namibia should leverage on the well-developed private sector health provisions to increase exports of goods and services.** Namibia should consider exporting of modern services to the regional market by leveraging on the well-developed private sector health care facilities. Another key service sector with untapped potential is the tourism sector which needs further enhancement to make it competitive. These will increase the value of export share as a percentage of GDP.

52. **For Namibia to avoid the MIT, the focus should be on acquiring foreign technology that build domestic firms technological and business capabilities, to improve productivity gains.** Namibian firms must begin to acquire their own technological and business capabilities so that the country does not get locked into a low-wage role by exploiting the opportunities presented by the West Africa cable system (WACS)[5]. Namibia should foster private sector participation in the telecom sector and facilitate access to existing infrastructure for new operators by finalizing the infrastructure sharing guidelines. A rising capability to introduce new and improved technologies will enable Namibia to sustain productivity growth over time. For example, the Republic of Korea and Taiwan Province of China, the technological leaders in the developing world, adopted highly interventionist strategies on trade and domestic resource allocation, with a clear preference for promoting indigenous enterprises and deepening local capabilities. They imported technology vigorously from leading transitional corporations.

53. **Government in consultation with the private sector should identify growth-enhancing infrastructure projects for collaboration as well as making public procurement deliver value for money by increasing efficiency.** Pursuing economic transformation and transition to higher-income level requires that the Namibian government to be effective in providing an environment that is conducive for business as well as collaboration with the private sector to develop growth-enhancing infrastructure. Furthermore, the government should put in place efficient procurement systems.

54. **Namibian policy makers need to reassess the regulatory framework as well as all business-related policies to improve its productivity and competitiveness ranking.** Namibia's competitiveness in doing business has been declining for the past years and issues of bureaucratic processes and a cumbersome regulatory framework have been cited as reasons. This inherently implies that creating a friendly business environment for private sector activities, which is free of distortions and underpinned by efficient public institutions and transparent regulatory frameworks will certainly enhance the competitiveness of the Namibian economy. The country

5 *WACS is a high capacity broadband undersea cable system that is aimed at connecting Africa through Europe and North America. The WACS submarine fibre optic cable is meant to enhance Telecom's ability to provide cheaper internet services to benefit the customer.*

should simplify procedures for starting a business by launching the planned platform for online business registration and facilitating trading across borders by expediting the implementation of the National Single Window.

55. **Namibia should invest in Research and Development (R&D)[6] to support innovation and industries in Namibia.** The government should enhance the Research and Development capabilities of National Commission on Research Science and Technology (NCRST). The Namibian Government has long recognized the importance of Research, Science and Technology as an engine of economic growth and development, hence the enactment of the Research Science and Technology Act, 2004 (Act no 23 of 2004). Therefore, there is a need for continue support for research and development capabilities to ensure the rights skills, technology and innovation mix needed for the fourth industrial revolution. The top performers in innovation, Sweden and Denmark, have tried to substantially improve their higher education systems, both through marked increases in funding and institutional reforms, which were very substantial in Denmark, involving the concentration of research in a comparatively smaller number of organisations. Private sector investment in R&D Sweden in relation to GDP is among the highest in the world.

56. **Integrating domestic markets into regional and global markets will help increase firm competitiveness in Namibia leveraging on the port expansion.** Namibia should expedite the completion of the logistics hub centre to improve regional infrastructure which link SADC countries and provide cheaper services. This needs to be accompanied by improvements in the railway infrastructure and locomotives to facilitate trade that could promote faster transformation of the Namibian economy. The Ministry of Industrialization, Trade and SME Development should also provide information on foreign markets to domestic enterprises and facilitate their access to those markets. The Ministry of Industrialization, Trade and SME Development should further develop clear targets to support a breakthrough into new exports market and selected value chains.

6 Conclusion

57. There is a consensus that the pace of economic growth in Namibia remains slow relative to the level required to meet the ambitious targets of Vision 2030, which aims to transform the country to a prosperous industrialized nation by 2030.

58. **Economic history has shown that few middle-income countries have successfully attained high-income level.** Effective transition from middle

6 The R&D pillar includes indicators on R&D spending, patents, publications and research institutions

to high-income level requires an efficient resource use, private sector improvement, productivity enhancement, and technology based rather than labour-based production. Failure of doing so, undoubtedly, leads to income trap, which is a situation where a country is stuck at middle-income level for a long period.

59. **The aim of this paper was to study the Namibia economy using a coherent MIT framework, which was inconclusive using the absolute definition, while the relative approach shows that Namibia is in a middle-income trap.** The paper conducted an extensive literature review and compared different approaches to the subject. The paper found that the absolute MIT definitions provides inconclusive results for Namibia. This is mainly because the upper middle-income upper bound is closely related to Namibia's present-day GDP per capita. Using the catch-up definition of Im and Rosenblatt (2013), assuming the US economy's average growth rate of GDP per capita is 1.8 percent, it will take Namibia 54 years to converge to high income status, provided that it grows by an average of 4 percent per annum. If we take the period after independence, it shows that it will still take Namibia 54 years to reach high income status, however, it will have to grow at 5 percent per annum.

60. **In terms of the triggering factor approach, Namibia is in the MIT, as it is performing poorly in all the factors that should improve Namibia's level from middle income status to high income status.** Namibia performed weak in the factors that trigger an MIT, which means that if Namibia wishes to avoid a middle-income trap, or to overcome it, it should take steps at improving these factors. Namibia should align its policies so as to improve its growth.

61. This analysis can be a step towards formulating a more precise definition of the MIT. It can also be a good reference point for future research into the subject.

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Annexure

Empirical Literature reviewed

Studies that found evidence of MIT	
Agénor, Canuto, and Jelenic (2012)	The study found that economic growth slows when per capital income reaches around $15,000 to $16,000.
Zhuang, Vandenberg, and Huang (2012)	The study concluded that the troubled global outlook after the Global Financial Crisis poses a serious risk that even dynamic middle-income economies may find themselves trapped in a slow- or no-growth equilibrium.
Eichengreen, Park, and Shin (2014)	The study found new data that suggest the possibility of two modes of growth slowdown, one at $10,000-$11,000 and another at $15,000-$16,0000 purchasing power parity dollars. They found that several countries appear to have experienced two slowdowns, consistent with the existence of multiple modes. They suggest that growth in middle-income countries may slow down in a succession of stages rather than at a single point in time. This implies that a larger group of countries are at risk of a growth slowdown and that middle-income countries may find themselves slowing down at lower income levels than implied by our earlier estimates.
Aghion and Bircan (2017)	They emphasize that high growth rates in earlier periods, unfavourable demographics, very high investment rates, and undervalued exchange rates support a growth slowdown, and hence the probability of getting stuck in an MIT.
Ohno (2009)	The study examined several aspects of the dangers of being stuck at a medium level. He determined that the countries that are most at risk were the ones that were unable to move up the value chain – which ranges from coming up with the product to marketing it –, because they continue to expect growth from assembly plants set up by foreign companies in-country.
Spence (2014)	Spence posed the following question: how is it possible that some countries – like Japan, South Korea and Taiwan – were able to avoid the trap and enter the ranks of high-income countries, while a great majority were stuck? Spence believes that it is those countries that base their economic growth to an excessive extent on foreign capital that have a harder time becoming developed. The countries that are successful in mobilizing their domestic resources are the ones that manage to break out of the trap or avoid it.

Studies that found no evidence of MIT	
Im and Rosenblatt (2015)	The study explored both the absolute and relative thresholds of the trap. With transitional matrix analysis, they found little support for the idea. However, they also stressed that the concept is useful for guiding policy discussions because it accurately defines the challenges faced by countries at that stage of development.
Han and Wei (2015)	Using a transition matrix analysis on decade-level growth rates, the study found that the data rejects the idea that middle-income economies either have a high absolute probability of being stuck where they are or have a higher relative probability of being stuck than the low- or high-income groups.
Bulman, Eden, and Nguyen (2014)	The study refuted the idea of a middle-income trap. They argued that countries that used to grow fast (in general) continued to grow fast and did not get stuck at any specific level of income. However, they also noted that some middle-income countries did remain stagnant with low growth of relative income, and that, in general, transitioning from a middle-income to a high-income country is challenging.
Felipe, Kumar, and Galope (2014)	The study found no evidence of a middle-income trap in their analysis. Instead, they argue that what distinguishes economies in their transition from middle to high income is fast versus slow transitions. Historically, they find that it has taken a "typical" economy 55 years to graduate from lower middle income ($2,000 in 1990 purchasing power parity [PPP] $) to upper-middle income ($7,250 in 1990 PPP $). Moreover, they find that, historically, it has taken 15 years for an economy to graduate from upper-middle income to high income (above $11,750 in 1990 PPP $).

Table 1: Income classification 1987 - 2018

	EST	BWA	MYS	MUS	NAM	MKD	POL	SYC
Number of years spent as low- income country	-	-	-	-	-	-	-	-
Number of years spent as lower middle- income country	3	8	5	5	19	16	9	-
Number of years spent as upper middle- income country	12	23	26	26	10	10	13	27
Number of years spent as high-income country	12	-	-	-	-	-	9	4
Total	27	31	31	31	29	26	31	31

EST - Estonia, BWA – Botswana, MYS - Malaysia, MUS – Mauritius, NAM – Namibia, MKD – North Macedonia, POL - Poland, SYC - Seychelles

Table 1 shows the situation of countries according to the income classification in the period 1987 - 2018.

Table 2: Absolute MIT Definitions

Absolute MIT Definitions			
Spencer 2011	**Fixed range**	**GDP per capita**	
		U$ 5,000 -U$10,000	
Felipe, Abdon and Kumar (2012)	**Criteria**	**Low-middle-income range**	**Upper-Middle-income**
	Critical MIT Threshold	>28 Years	>14 Years
	Income range	U$ 2,000 -U$7250	U$7250 -U$11750
	GDP per capita growth	3.5%	3.5%
Eichengreen, Park, and Shin (2014)	**Conditions:**	**Growth slowdown episode**	
	(1) Seven-year average GDP per capita	3.5% prior slow down	
	(2) The difference between 7-year average growth rate before and after	> 2 percentage points	
	(3) the GDP p.c. in the year of growth slowdown	> U$ 10,000	

Table 3: Relative MIT Definitions

Relative MIT Definitions		
Bulman, Eden, and Nguyen (2014)	**Income level**	**Low-middle-income range**
	Low income	< 10%
	Middle income	10 - 50 %
	High income	> 50%
Woo, Lu, Sachs, and Chen (2012)	**Income level**	**Low-middle-income range**
	Low income	< 20%
	Middle income	20 - 55 %
	--> Lower Middle income	< 30%
	--> Upper middle income	> 30%
	High income	>55%

Table 4: Number of years for convergence to the Rich Countries GDP per capita

R	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%
12	361	149	94	69	55	45	39	34	30	27
11	348	144	91	67	53	44	37	33	29	26
10	334	138	88	64	51	42	36	31	28	25
9	319	132	84	61	48	40	34	30	27	24
7	283	117	74	54	43	36	30	27	24	21

Source: Authors compilation based on World Bank data

Escaping the Middle–Income Trap: International Experiences

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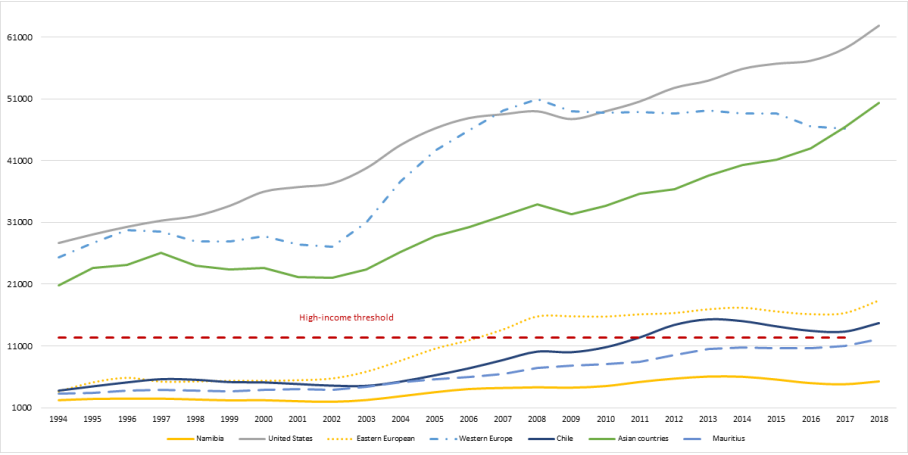
Practice Manager - Macro Economics & Fiscal Management:
World Bank

7 *This paper is an extract of the presentation done at the Bank of Namibia Annual Symposium 2019, prepared by the Bank of Namibia staff.*

1. Introduction

1. **Very few countries have managed to escape the middle-income trap over the years.** Several countries have reached the World Bank's threshold, for example in Europe Latin America, and Seychelles and Mauritius in Africa. Europe has been a convergence machine, with countries like Ireland, Portugal and Spain catching up, and the Eastern bloc making good progress. Asian tigers (Korea, Taiwan PRC, Singapore and HK) are the only ones to reach US and Western European countries income levels.

Figure 1: Who has escaped the middle-income trap



Source: World Bank WDI Database

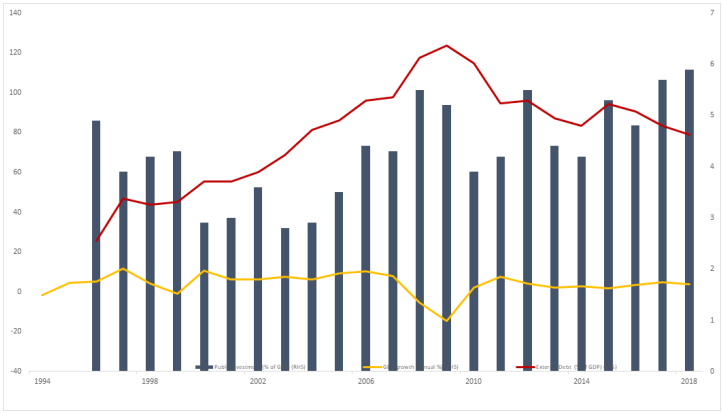
2. **The paper will explore a few countries that successfully became high income over the past few years.** The countries are Estonia, Chile and Mauritius. These countries were chosen based on their similarities to Namibia in terms of country size, mining, and geographical isolation.

2. Estonia

2.1 Key Macro indicators

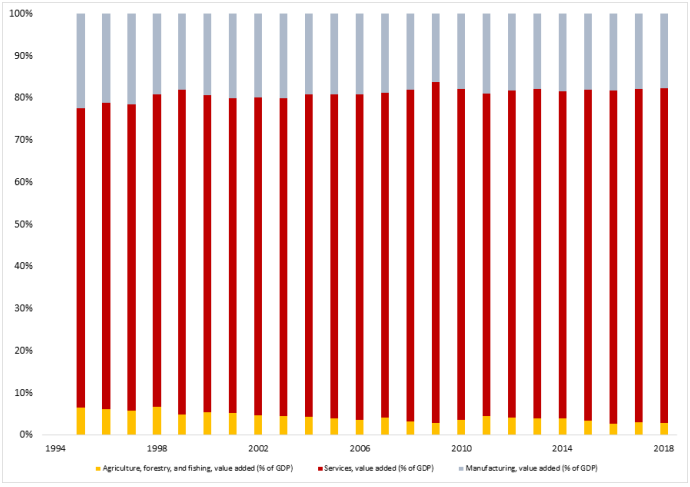
3. **Estonia experienced GDP growth under 2 percent, which will most probably make it hard for Estonia to converge to Western Europe without acceleration.** The country has high levels of external debt, mostly private debt – a common feature in Europe. It does not rely on public investment. The economy is mostly dominated by services, while agriculture only contributes a small amount.

Figure 2: Public investment, GDP growth, external debt



Source: WDI, IMF

Figure 3: Sectoral contribution (% of GDP)



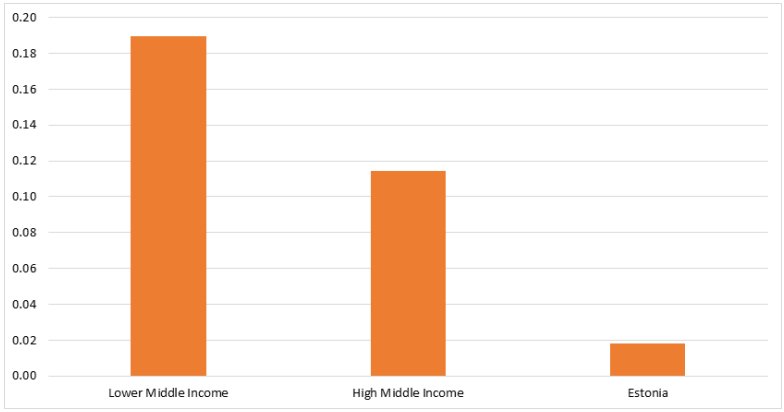
Source: WDI

2.2 Key Openness indicators

4. The FDI regulatory restrictiveness index scores are on a 0 to 1 scale, where 1: highest score symbolizes full restriction and 0: lowest score, where there are no regulatory impediments to FDI. The FDI Index gauges the restrictiveness of a country's FDI rules by looking at the four main types of restrictions on FDI:
   - Foreign equity limitations
   - Screening or approval mechanisms
   - Restrictions on the employment of foreigners as key personnel
   - Operational restrictions, e.g. restrictions on branching and on capital repatriation or on land ownership

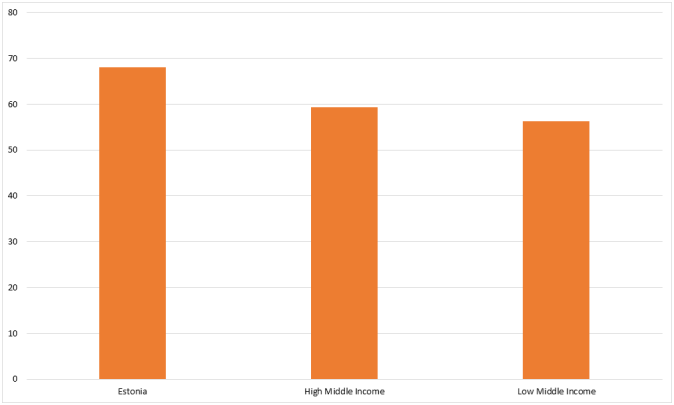
5. **The trade openness scores are on a 0 to 100 scale, where 100 represents the optimal situation or 'frontier'.** The score for trade openness is the average of the scores of prevalence of non-tariff barriers, trade tariff, complexity of tariffs, efficiency of the tariff process, and service trade openness. The figures below show that Estonia is quite an open economy, despite the FDI regulatory restrictiveness index showing a much lower figure compared to the other middle-income countries.

Figure 4: FDI Regulatory Restrictiveness Index



Source: OECD, 2015

Figure 5: Trade Openness

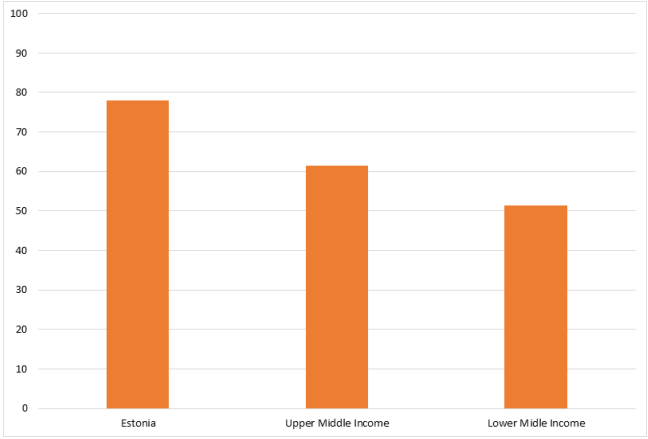


Source: Global Competitiveness Report, 2019

2.3 Factors explaining Estonia's success

6. **Several factors contributed to the success of Estonia, the following are a few of the contributing factors:**
   - Deregulation and reforms in the business environment.
   - Privatization through sale to foreigners.
   - Conservative macro-fiscal policies.
   - Very flexible labor markets and well-educated labor force.
   - EU accession.

Figure 6: Skills of Workforce (scale 0 – 100)



Source: The Global Competitiveness Report 2018[8]

7. **Deregulation and reforms in the business environment:** Reforms in Estonia were undertaken in a very short period of time in the early 1990s, including price liberalization, removing of essentially all capital controls, and the streamlining of regulation.

8. **Privatization through sale to foreigners:** The privatization process was also done early. Most of the privatization of both small and large firms was done mainly through sales to foreign owners.

9. **Conservative macro fiscal policies:** Use of Currency Board to stabilize inflation rates and prudent fiscal policies.

10. **Very flexible labor markets:** Estonia labor markets are notable for the modest role of trade unions and the very low coverage of collective agreements.

8 *Note: Skills of work force includes scores in indicators such as: extend of staff training; quality of vocational training; skillset of graduates; digital skills among population; ease of finding skilled people*

2.4 Digital sector in Estonia

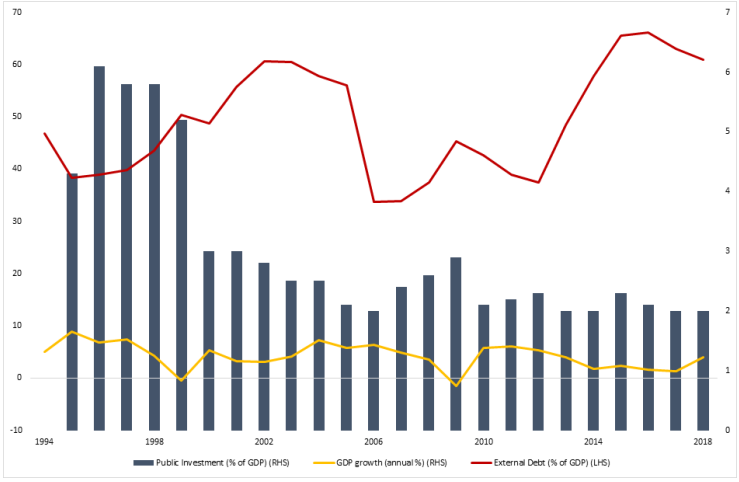
11. **Estonia is the world's most advanced digital society, being the birthplace of unicorns such as Skype and TransferWise.** When it comes to empowering citizens through public sector technology, Estonia is leading the way by a distance. After regaining its independence in 1991, the government decided to promote the use of digital technologies in all areas of society and the economy. In 1997, electronic-governance was launched; in 2000 e-tax came in. While investing in ICT, Estonia also greatly improved its business climate, human capital, and governance. The greater ease of doing businesses and a tech-savvy population spawned a host of technology-intensive startups, including Skype and TransferWise, a company disrupting the money transfer industry. Today, Estonians have access to 3,000 e-government, e-banking, and other services. As a result, each citizen saves about five working days per year, adding up to 7 million workdays overall.

3. Chile

3.1 Key Macro indicators

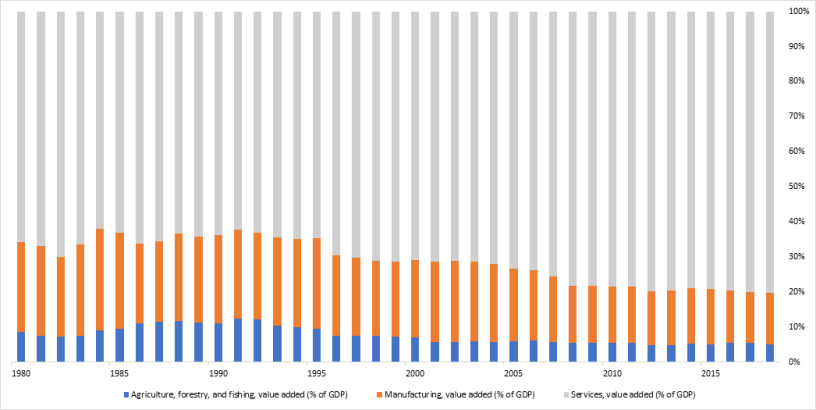
12. **GDP growth figures show that the economy of Chile will need to pick up GDP growth to converge to Western Europe.** It has reasonable levels of external debt, with low levels of public investment. However, sectoral contributions as a percentage of GDP show that the manufacturing and agriculture sectors have been falling.

Figure 7: Public investment, GDP growth, external debt - Chile



Source: WDI, IMF Note: Left axis: Public Investment and GDP growth

Figure 8: Sectoral Contribution (% of GDP)



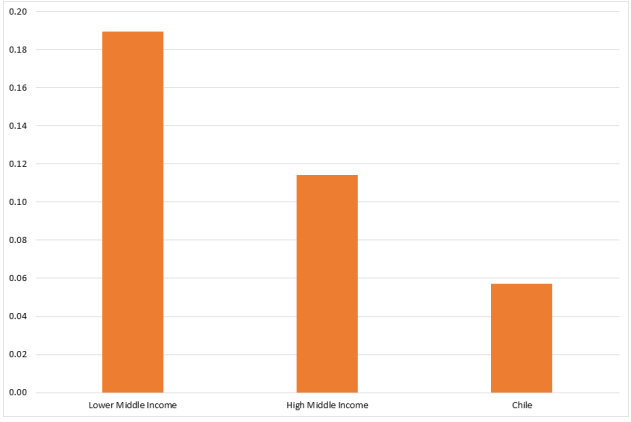
Source: WDI

3.2 Key Openness indicators

13. FDI regulatory restrictiveness Index: The highest score is 1 (full restriction to FDI) and the lowest score is 0 (there are no regulatory impediments to FDI).

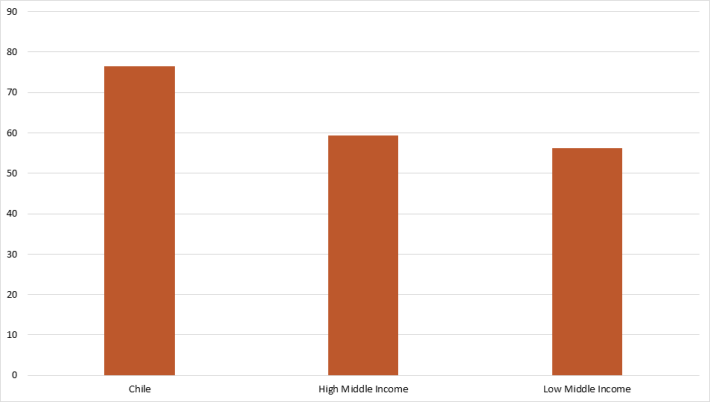
14. Trade Openness: Scores are on a 0 to 100 scale, where 100 represents the optimal situation or 'frontier'. The score for trade openness is the average of the scores of prevalence of non-tariff barriers, trade tariff, complexity of tariffs, efficiency of the tariff process, and service trade openness.

Figure 9: FDI Regulatory Restrictiveness Index



Source: OECD, 2015

Figure 10: Trade openness

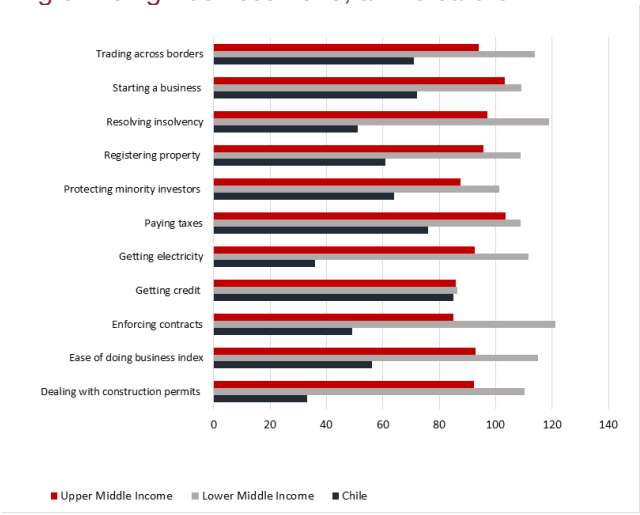


Source: Global Competitiveness Report, 2019

3.3 Factors explaining success:

15. **Several factors contributed to the success of Chile, the following are a few of the contributing factors:**
    - Credible macro-economic policies and macro stabilization for around 30 years.
    - Shift from import substitution to external opening
    - Over 3 decades of liberal reforms
    - Strong and adapting institutions

Figure 11: Ranking of Doing Business 2019, all indicators



Source: Global Competitiveness Report, 2019

3.4 Salmon Farming in Chile

16. **Chile is the second-largest salmon producer after Norway, and salmon from Chile is sold all over the world.** In the first stage, public sector set up the first commercial salmon-farming operations in the country with external support reinforcing those initial contributions (e.g. the Japan International Cooperation Agency). By the second stage, many new firms, mostly family enterprises, entered the market. Suppliers of intermediate inputs, service firms, producers of salmon food, pharmaceutical companies, and individual professionals also joined the industry. In the last 20 years, the sector was characterized by major transformations in industry structure and performance, world-class process technologies, and the reorganization of international marketing strategies. Large foreign salmon producers gained ground in the industry as it rapidly moved into global operations.

3.5 Factors allowing development of sector:

17. **Multiplication of trade agreements:** (i) opened new markets for the Chilean's salmon exports and allowed to diversify export destinations; increased pressure to create sector-specific regulations for aquaculture in the 2000s.

18. **Government's support:** Public sector took the lead in the initial stage of the sector's development, although it progressively left space for the private sector (including foreign firms) to take initiatives.

19. **Technology absorption and diffusion:** Through FDI and constant acquisition by firms and public agencies of scientific and technological information resulting from regular contact (e.g. business missions) with leading knowledge countries (e.g. Norway, Scotland).

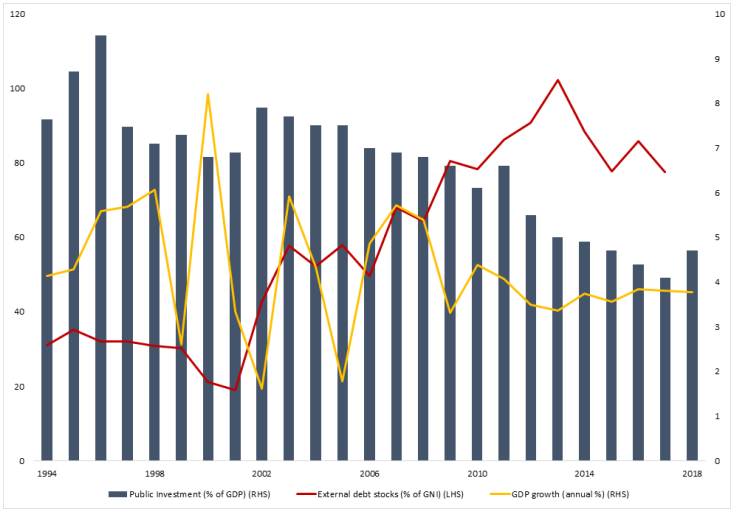
20. **Clear and adapted regulations:** E.g. for fish farming and antibiotic use.

4. Mauritius

4.1 Key Macro Indicators

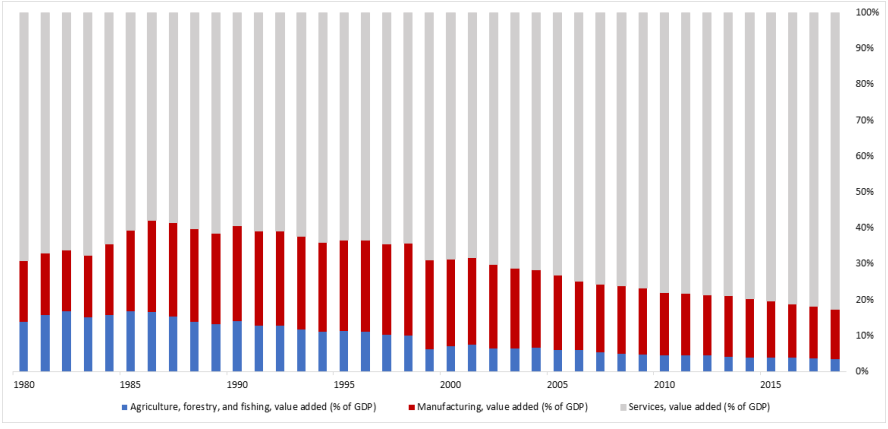
21. **Mauritius is characterized by strong GDP growth.** The country's public investment was very high in earlier years; however, it has been on a downward trajectory. External debt of the economy has been rising. Despite this, it is relatively well managed. There have been structural changes towards the services sector – tourism and financial services.

Figure 12: Public investment, GDP growth, external debt - Mauritius



Source: WDI, IMF

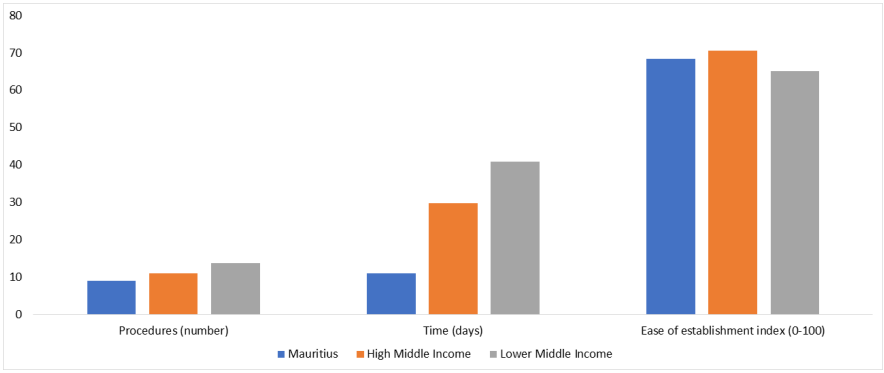
Figure 13: Sectoral Contribution (% of GDP)



Source: WDI

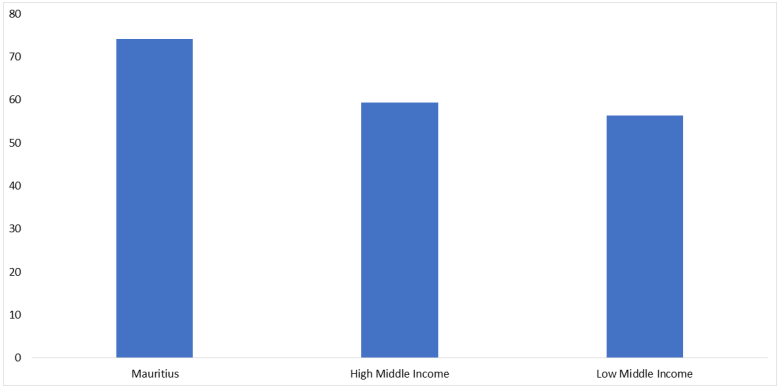
4.2 Key Openness indicators

Figure 14: Starting a foreign business



Source: World Bank, 2012

Figure 15: Trade Openness



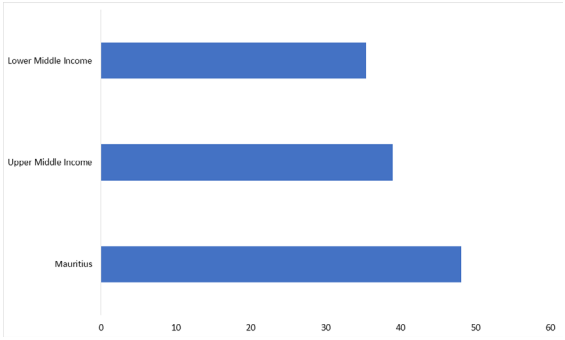
Source: Global Competitiveness Report, 2019

22. **There is no FDI regulation restrictiveness indicator for Mauritius.** Trade Openness: Scores are on a 0 to 100 scale, where 100 represents the optimal situation or 'frontier'. The score for trade openness is the average of the scores of prevalence of non-tariff barriers, trade tariff, complexity of tariffs, efficiency of the tariff process, and service trade openness.

4.3 Factors explaining success:

23. **Several factors contributed to the success of Mauritius. The following are a few of the contributing factors**:
    - Heterodox trade policy involving segmentation with imports being 'closed' and exports relatively open
    - Preferential access to the export markets enjoyed by Mauritius.
    - Openness to FDI and new ideas.
    - Avoiding currency overvaluation.
    - Political stability and strong institutions.

Figure 16: Exports of goods and services (% of GDP), Average 2009-2018



Source: WB's WDI database

24. **Heterodox trade policy involving segmentation with imports being 'closed' and exports relatively open.** On the one hand, imports were restricted through high trade barriers; on the other, extensive and selective intervention occurred on the export side. Thereby, Mauritius ensured that the returns to the export sector were high, effectively segmenting its export sector from the rest of the economy and preventing a restrictive trade regime from spilling over to this sector.

25. **Mauritius has enjoyed preferential access to the markets of the major trading partners—United States and especially Europe.** This access has affected this "heterodox trade policy" which included creation of an export processing zone (EPZ) along with the following policy instruments: First, duty free access was provided to all imported inputs (for exports); Second, a variety of tax incentives were provided to firms operating in the export processing zones, which had the effect of subsidizing exports. Third, labor market for the export sector was effectively segmented from the rest of the economy (and in particular the import competing sector) with more labor flexibility and lower wage cost (since minimum wages for women were lower and the EPZ employed disproportionate amounts of female workers) in the EPZ.

26. **Preferential access to the export markets enjoyed by Mauritius.** Two main products that have together accounted for over 90 per cent of Mauritian exports (sugar, textiles and clothing). An alternative way of stating this is that Mauritius benefited from the protectionist policies of the United States and EU in the sugar and textile and clothing sectors (giving priority to Mauritius instead of Hong Kong, for instance).

27. **Openness to FDI and new ideas.** Importation of manufacturing ideas via foreign direct investment (i.e. textile). Ethnic links to China and India could have also led to the rise of the textile.

28. **Avoiding currency overvaluation.** Mauritius managed to maintain a very competitive exchange rate during most of its history. Unlike most countries, it avoided any spell of overvaluation following its long period of high growth. In fact, Mauritius had among the highest degree of undervaluation compared to other developing countries.

29. **Political stability and strong institutions.** (i) Uninterrupted democracy since independence (only Botswana did the same in Africa); (ii) No army: Advantages - On the one hand, financial savings, and on the other hand freedom from the military coups that have plagued so many other African countries; (iii) Strong rule of law, respect for property rights, etc. Example: It was good institutions that allowed Mauritius to develop the EPZ effectively, where others might have gotten mired down in corruption.

4.4 Mauritius' tourism sector

30. **Mauritius tourism industry has experienced drastic growth in the last decade.** The total contribution (direct and indirect) of Travel & Tourism to GDP was 23.8% of GDP in 2017. The Mauritian Tourism industry was promoted extensively in the 1980s and issues relating to air access and hotel capacity dealt with in a comprehensive plan. In only a few years the tourism sector was catapulted to a major sector in the economy. This rapid surge was due to intensive promotion campaigns in Europe by the Mauritius Government Tourist Office and Air Mauritius coupled with policies encouraging exclusivity and avoiding overexpansion. Although it created its own airline, Air Mauritius, it sought to partner with others as a core strategy. Through pooling agreements, it has sound relationships with major carriers, such as British Airways and Air France. Explicit emphasis has been placed on training and high-quality service with adequate government support and policies. Mauritius has a fine hotel school. Many hotels are staffed entirely by Mauritians, including at the managerial level.

31. **Examples of policies encouraging exclusivity and avoiding overexpansion:** Mauritius actively discourages charter flights and expansion is controlled by stopping new hotel construction when occupancy rates drop below a certain level. Also, Mauritius exercised close control over its coastline to ensure that new properties conformed to environmental standards.

5. Recommendations

- Namibia needs to get the basics right – good macroeconomic management, open economy and encourage the private sector to be the engine of growth.
- This may not be enough, and the country will have to look at new avenues for growth, could the services sector be the future?
- The government should take an active role and allow the private sector to be the engine of growth.

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Notes on the Middle-Income Trap and how Namibia could avoid it

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9 *This paper is an extract of the presentation done at the Bank of Namibia Annual Symposium 2019, prepared by the Bank of Namibia staff.*

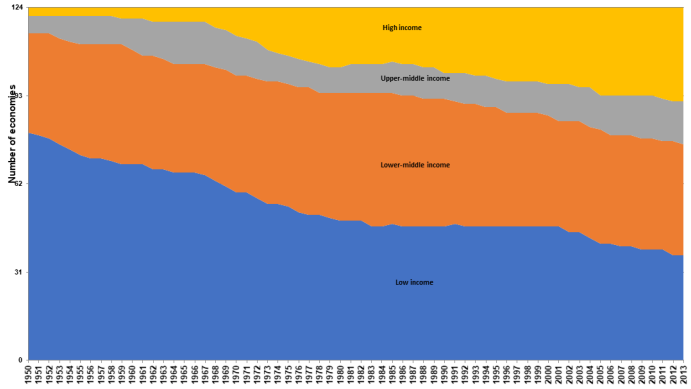
1. What is the Middle-Income trap? Does it exist?

1. **The middle-income trap is a term coined by Gill and Kharas (2007), derived from the observation that some economies that managed to cross the low-income category into the middle-income category have not yet made it into the high-income category; while some others have made it.** The former economies have been referred to as being stuck in the "middle-income trap." Economies like Malaysia, Thailand, Brazil, or the Philippines have been said to be in the trap. According to Gill and Kharas (2007), middle-income countries find it difficult to compete with both low-income countries and high-income countries.

2. **Based on the historical experience, we determine the number of years that economies have typically spent in the middle-income segment.** First, we construct income thresholds for low (L), lower-middle (LM), upper-middle (UM), and high-income (H), segments (Felipe et al. 2017). These are: $2,000 (PPP US dollars of 1990) the start of lower middle-income; $7,250 the start of upper middle-income; and 11,750 the start of high income.

3. **Using historical data, we show how countries have moved across income segments.** This information is summarized in Figure 1 (Felipe et al. 2017). It shows clearly that the number of low-income countries in the world has declined and that of high-income countries has increased, from 3 in 1950 to 33 in 2013. This means that, overall, countries are transitioning across income segments. This simple yet compelling evidence puts into question the idea that when countries reach the middle-income segment, they find it difficult to progress and are at the risk of getting trapped.

Figure 1: Evolution of the number of countries in each income category, 1950 - 2013



2. Number of years spent in the middle-income segment

4. **Several questions pertaining to the middle-income trap have emerged over the years;** (i) Is it true that when countries reach MI, they are prone to be 'trapped'? (ii) What is the (time) historical norm for crossing the MI segment? The tables below summarize the historical experience transitioning the middle-income segment (Felipe et al. 2017). First, the historical median number of years it has taken countries to cross the lower middle-income segment was 55 (Table 1), while the corresponding for the upper middle-income segment was 15 (Table 2). This makes it a total of 70 years to transition the middle-income segment. Of the 30 countries that made it to the high-income segment, only 9 transited the middle-income in at most 70 years; and 8 of them spent more than 55 years in the lower middle-income segment and over 15 in the upper middle-income segment (Table 3). The East Asian economies have been outliers to the historical norm, as they have been able to transition the middle-income segment significantly faster than most other economies in the world (Table 4).

Table 1: Low Middle income transitions historically (No. years)

	Economies that became LM after 1950 and then became UM		Economies that became LM in or before 1950 and then became UM		All economies	
Set of economies	**Median**	**Mean**	**Median**	**Mean**	**Median**	**Mean**
With East and Southeast Asia	28	34	64	65	55	58
Without East and Southeast Asia	52	48	67	68	62	66

Source: Authors' calculations.

Table 2: Upper middle-income transitions historically (No. years)

	Economies that became UM after 1950 and then became H		Economies that became UM in or before1950 and then became H		All economies	
Set of economies	**Median**	**Mean**	**Median**	**Mean**	**Median**	**Mean**
With East and Southeast Asia	14	15	20	19	15	16
Without East and Southeast Asia	15	17			15	17

Source: Authors' calculations. UM ($7,250) H ($11,750) in 15 years implies a per capita growth rate of 3.27 % p.a.

Table 3: Time taken to graduate from low middle-income to high-income (No. years)

Time taken to graduate from LM to H (number of years)		All economies- All years	Only E-SE Asia	w/o E-SE Asia
Median		83	**33**	93
Mean		81	**33**	91
		LM UM		
		< 55	**> 55**	
UM H	**< 15**	9	10	19
	> 15	3	8	
		12	18	30

Source: Authors' calculations.

Table 4: The Asian economies: outliers to the historical norm (no. years in the income range)

	Lower Middle Income	Upper Middle Income
Hong Kong	26	7
Japan	35	9
Singapore	28	10
Korea	19	7
China	17	
Malaysia	27	≈20
Taiwan	19	7
Thailand	28	-

Source: Authors' calculations.

5. **The estimated income thresholds allow us to calculate the growth rate of per capita gross domestic product [GDP] that economies would need to achieve in order to cross the middle-income segment in the median number of years.** These are 2.37% per annum for the lower middle-income segment (i.e., to go from $2,000 to $7,250 in 55 years); and 3.27% per annum for the upper middle-income segment (i.e., to go from $7,250 to 11,750 in 15 years). The logical consequence is that some economies cross the middle-income segment faster than others, simply because they (the former) grow faster.

2.1 Middle-Income…Trap or Myth?

6. **The term 'middle-income trap' can be misleading if not used properly.**
   - We do not think there is anything out of the ordinary in economies between $2,000 and $11,750. Development is a continuum.
   - It is risky to use the term in policy discussions and should be avoided at all times.

7. **As noted above, 30 countries made the full transition from low middle-income into high-income between 1950 and 2013.** The Eastern and Southeastern Asian economies that developed at a faster pace are outliers and not the norm.

   What are the characteristics of fast middle-income transitions?
   - LM: Less than 55 years as LM ($2,000 to $7,250); g>2.37% p.a.
   - UM: Less than 15 years as UM ($7,250 to $11,750); g>3.27% p.a.

   Why do some countries have slow middle-income transitions?
   - Growth rates below historical median: g< 2.37% p.a. in LM; g<3.27% p.a. in UM. It is just a question of growth. No need to mystify it.
   - Why do these economies struggle with slow transition? No incentives to save; lack of physical and human accumulation; No innovation; Low pace of structural transformation.

3. Dynamics of Development

How does it happen?
- Structural transformation + Eliminate barriers that constrain technology adoption + Improve work practices + Intensify competition (demonopolize; stop protecting insiders).

Who makes it happen?
- A 'modern private sector' = Culture of entrepreneurship (+ Coordination with public sector).

Knowledge-Innovation: What gets you $40,000 wages? (i) consumer products with a high-income elasticity of demand and value added; (ii) advanced intermediate complex products (machinery, chemicals); (iii) modern services (logistics, modern transport systems, etc.).

3.1 The development creed

(a) Development is a long-term process that involves the Structural Transformation (ST) of the economy: a country cannot grow (productivity) by producing the same basket of goods. It needs to (i) transfer workers to high-productivity sectors (industrialization); (ii) diversify; (iii) upgrade. The question then becomes, how to accelerate this process?
(b) What a country produces, and exports determines its wages (income): get into complex products with a high-income elasticity of demand.
(c) Historically, the process of structural transformation has proven to be slow. The exceptions are in East Asia (NIEs + PRC). However, it has become increasingly difficult for developing countries.
(d) Policies, institutions and strategies differ across time and country: there is no optimal set of policies that apply to all countries. Copying from developed countries could be counter-productive.
(e) An increase in export diversification has a positive effect on productivity given that exporters are more productive than non-exporters. Moreover, export diversification can reduce exposure to external shocks, reducing macroeconomic volatility and increasing economic growth.
(f) Modern Industrial Policy: Modern market economies are driven by a dynamic private sector. Yet Governments must play a key, catalytic, role "helping" the private sector (market failures). Otherwise, industrialization and development in general will be very difficult.
(g) The governments of developing countries cannot implement dozens of reforms at once and cannot have twenty objectives.
(h) It is important to know how to coordinate fiscal (Finance), monetary (Central Bank), and growth (Planning) policies to achieve the country's objectives.
(i) It is important not to confuse a country's "objectives" (increase living standards; reduce unemployment; attain full employment) with the "tools" the government has to achieve these objectives (e.g., exchange rate, fiscal policy).
(j) It is important to know your growth potential and its determinants: you cannot grow at 7 percent per year if your potential is 5 percent.

4. Structural Transformation, Innovation and Entrepreneurship

8. **Since the early days of development economics, it was recognized that development is about the transformation of the productive structure and the accumulation of the capabilities necessary to undertake this process.** The structural transformation literature argues that economic development is a process in which new activities emerge and old ones disappear, and the weight of all economic activities and their patterns of interaction change. This is closely related to the notion of structural change—the growing importance of non-agricultural sectors in production and employment.

9. **This has been the recent experience of some countries in Asia, e.g., Korea and Singapore.** China is undergoing a deep process of structural transformation that, to a large extent, explains its rapid growth (Felipe et al. 2013). On the other hand, the countries that have failed are those that have not been able to engineer this process. They get stuck in the production and export of a relatively narrow range of goods that are often unsophisticated. Hausmann, Hwang, and Rodrik (2007) show that, after controlling for other factors such as initial per capita income, countries with a more sophisticated export basket grow faster. In other words, what a country export does matter for subsequent growth. De Ferranti et al. (2000) show that export diversification is associated with a higher GDP growth.

10. **A country's ability to foray into new products depends on whether the set of existing capabilities can be easily redeployed for the production and export of new products.** This idea implies that it is probably easier for a country that exports T-shirts, for example, to add shorts rather than smart phones to its export basket. On the other hand, it is very likely that a country that exports basic cell phones has the capabilities to add smart phones to its export basket. The implication is that it is easier to start producing a "nearby" product (in terms of required capabilities to export it successfully) than a product that is "far away" and requires capabilities that the country probably does not possess.

4.1 A modern private sector:

A modern private sector is one that is equipped with entrepreneurs with:

(i) ideas (products/services that consumers want = demand);
(ii) a business plan;
(iii) capacity to commercialize innovations.

What did the East Asian economies do?

- Picked a few activities at a time instead of promoting a large number of them
- Picked activities that offered significant technological benefits and linkages
- Forced companies to enter world markets early on and used exports to discipline and monitor both bureaucrats and enterprises
- Gave the lead role in productive activity to private enterprises but using public enterprises as needed to fill gaps. The latter entered risky activities
- Invested in skill creation, infrastructure and support institutions, all carefully coordinated with interventions in product markets
- Used FDI selectively by restricting it or by imposing conditions on it
- Centralized strategic decision-making in competent authorities
- Collected huge amounts of relevant information and learning lessons from the technological leaders
- Mistakes were corrected quickly
- Involved the private sector in strategy formulation and implementation

5. How to transform Namibia

11. **Namibia only recently obtained upper middle-income status and it therefore, cannot be classified as trapped.** Table 5 shows that Namibia was a bit slow transitioning the middle-income segment, but it made it recently. Now, to be a good student in the upper middle-income and make it into high-income following the historical average, Namibia needs to achieve a per capita growth rate of 3.27 percent per annum during the next 15 years. Most developing countries suffer the same triple challenge: (i) Poverty reduction; (ii) Unemployment; (iii) Inequality. Namibia is no exception.

Table 5: Countries experiencing slow lower middle-income transition (> 55 years) as of 2013

Economy	Region	2013 GDP per Capita (1990 PPP $)	Year the economy turned LM	Years as LM until 2013	Average	Years to reach $7,250*
Brazil	LAC	6,917	1958	56	2.14	2
Ecuador	LAC	4,498	1954	60	1.27	17
Guatemala	LAC	4,627	1936	78	0.90	30
Jamaica	LAC	3,406	1955	59	0.89	-
Peru	LAC	6,385	1946	68	1.72	3
Jordan	MENA	6,339	1956	58	1.89	4
Lebanon	MENA	5,091	1950	64	1.16	11
Gabon	SSA	4,428	1950	64	0.55	29
Namibia	SSA	5,286	1950	64	1.41	9
South Africa	SSA	5,328	1950	64	1.17	1 2

Source: Authors' calculations. LAC = Latin America and Caribbean, MENA = Middle East and North Africa, SSA = Sub Saharan Africa.

** Years to reach $7,250 is calculated based on growth during 2003-2013.*

12. **Namibia needs a massive industrialization program to reach high-income status**:
    A. Domestic production of necessities: Develop key sectors of the domestic economy: companies that make the thousands of products consumed everyday (food, construction, cement, chemicals, furniture, paper, transportation, leather, electronics, etc.) + services
    B. Get into a few manufacturing complex products in the machinery and chemicals clusters. Get into some modern (advanced) services (logistics, finance, tourism) and not necessarily into a large manufacturing sector. Take a 'high-road' approach to employment in the service sector by, for example, setting a high minimum wage that forces employers to keep productivity

high and growing. Get into a few consumer products with a high-income elasticity of demand. Namibia should boost FDI.

C. Draw a roadmap with the private sector

The above should pull the economy and have significant indirect effects: (i) development of other sectors; (ii) employment.

5.1 Strategic Bets (Long Jumps)

- **A strategic bet is a big, bold move made to transform the economy and create a new growth trajectory.** These are activities that cannot happen without major public involvement because on its own the market is unlikely to solve the coordination problems. Firms wishing to jump to far away activities will face many missing capabilities, and these are not known. Namibia should decide (politically) whether the country is going to attempt a few long jumps. What are these products? These strategic bets involve using vertical (sector specific) interventions:
- Market interventions, such as: Financial assistance to start-up firms; Incentives for training and skill development among large and exporting firms; Facilitate import of inputs for high-tech industries; Tax exemptions for a particular sector; and
- public inputs, such as: Improved ports and logistics centers for exporting industries; Improved access to ICT to help exporting firms reach; international markets; Phytosanitary control for agricultural products.

China: the elephant in the room

13. **Most developing countries' problem is not necessarily deindustrialization but industrialization itself.** Many low-income countries cannot break into manufacturing markets, even for labor-intensive manufactures. The biggest challenge to developing countries currently is China. Developing countries today are uncompetitive relative to China with respect to both unit labor costs (simple products, e.g., clothing) and technology (complex products, e.g., electronics, cars).

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Policy issues emanating from the 20th Bank of Namibia Annual Symposium

by Bank of Namibia Research
and Financial Stability Department

1. Introduction and Background

The Bank of Namibia held its 20th annual symposium at the Safari Hotel on 19 September 2019 under the theme: **Escaping the middle-income trap: A perspective from Namibia.** Namibia's continued reliance on growth-strategies that have natural limits, such as those based on natural resources or FDI inflows, coupled with over-reliance on government spending, are likely to lead to a middle-income trap. Effective transition from middle to high-income level requires an efficient resource use, private sector improvement, productivity enhancement, and technology based rather than labour-based production.

The term 'middle income trap' captures a situation where a middle-income country can no longer compete internationally in standardized, labour intensive commodities. In this sense, middle-income traps reflect the difficulty middle-income countries like Namibia have in competing with either low-wage economies or highly skilled advanced economies. It is against this backdrop that the symposium was organized under this theme, in hope of finding solutions on how to move out of the middle-income trap and become a high-income economy through sustained economic growth. More specifically, the deliberations were guided by the following key questions:

i. Is Namibia in a middle-income trap?
ii. The understanding is that we need to be focused, we cannot be good at everything. What kind of activities or sectors should Namibia target?
iii. What can we learn from countries that have successfully moved to higher income levels and significantly improved the living standards of its citizens?

These issues, among others were addressed through presentations given by local and international speakers and supplemented by a panel discussion comprising of representatives from the World Bank, Asia Development Bank, University of Namibia and the Bank of Namibia.

A key conclusion that emanated from the 20th Annual symposium was that, Namibia was not in a middle-income trap and has potential to reach higher income level. Key drivers of growth were identified as; FDI inflow that will increase the technological progress in the country; investment in manufacturing of complex goods for export and expanding modern tradable services with high productivity.

2. Key Policy Issues Emanating from the Symposium

The papers and discussions at the symposium raised several options with regards to increasing growth in Namibia. The following is a summary of the key policy issues that emerged from the symposium:

i) Develop niches in complex products in manufacturing

If Namibia wishes to be an industrialized nation by 2030, the country will have to invest heavily in niche manufacturing of complex goods. What a country produces, and exports determines its wages (income): therefore, Namibia needs to get into complex products that have a high-income elasticity of demand. Policies to enhance industrialization should be deliberate and relentless, supported by political will and capabilities.

ii) Attract FDI inflow that will increase technological progress in the country

A rising capability to introduce new and improved technologies will enable Namibia to sustain productivity growth over time. For example, the Republic of Korea and Taiwan Province of China, the technological leaders in the developing world, adopted highly interventionist strategies on trade and domestic resource allocation, with a clear preference for promoting indigenous enterprises and deepening local capabilities.

iii) Increasing modern tradable services

Modern services have high wages as they have high elasticity of demand. In order to transform the economy, there is need to increase the amount of money to be spend in the country, and since modern services have high wages, it is important to invest in modern tradable services which increase employment in the country but can also be exported.

iv) Focus on fixing only a few objectives and not everything at once

Namibia needs to prioritise its development undertakings, by focusing on activities with the most developmental impact. Despite the many ailments that face the country, disbursing resources to fix everything will spread resources too thinly. Namibia should decide on what is most important that will effectively transform the economy and focus resources on those. The Asian economies picked only a few activities that offered significant technological benefits and linkages, and these helped transform their economies.

v) Enhance the private sector to be an engine of future growth

The private sector plays a vital role in any economy, and as such the government should ensure an environment that is conducive for the efficient functioning of the private sector. This inherently implies creating a friendly business environment for private sector activities, which is free of distortions and underpinned by efficient public institutions and transparent regulatory frameworks will certainly enhance the competitiveness of the Namibian economy.

vi) Enhance laws that enable importation of skilled labour

Introduce and enforce the implementation of enabling laws that attract critical skilled foreign labour. In instances of critical skills shortages in Namibia, the laws should be conducive to enable obtaining the necessary critical skills from abroad. As such, focus should be on foreign skills that are complementing instead of substituting local labour, which enables knowledge spill overs, i.e. wanting to obtain knowledge on key technologies that are not nationally available yet. Therefore, immigration policies should be accommodating for the country to import the needed skills.

3. Policy Recommendations

- Namibia should shift away from being reliant on natural resources, given the volatility in commodity prices and diversify its economy.
- Encourage private sector as engine of future growth: The private sector should drive the initiative to move people from the agricultural segment to manufacturing and services;
- Government should play an active role in the initial stages of sectors and initiatives with commercialization potential and progressively allow private sector (including foreign firms) to step in.
- Namibia's education system needs to be linked with industrial targets: The Public and private sectors as well as the academia should have open and honest dialogues on how to take the country forward.
- Investment in education should not only be focused on increasing the number of schools and classrooms, but the focus should also be on measures to improve and increase quality of output produced;
- Invest in Research and Development (R&D) to support innovation and industries in Namibia through private sector, public sector and academia collaboration;
- Integrate domestic markets into regional and global markets that will help increase firm competitiveness in Namibia by leveraging on the port expansion.
- Explore the benefits from the currency peg with South Africa – how to maximize Namibia's proximity to South Africa.

Concluding Remarks and Vote of Thanks

Mr. Ebson Uanguta,
Deputy Governor of the Bank of Namibia

Director of Ceremonies
Right Honourable Dr Saara Kuugongelwa-Amadhila, Prime Minister of the Republic of Namibia;
Honourable Ministers and Deputy Ministers Present;
Members of Parliament;
Honourable Regional Governors and Councilors;
Members of the Diplomatic Corps
Executive Directors of Government Offices/Ministries and Agencies;
Board Members of the Bank of Namibia;
Distinguished Speakers and Panelists;
Captains of Industry;
Members of the Media;
All invited guests;
Ladies and Gentlemen,
Good afternoon!

1. It has been an honour and privilege for us at the Bank of Namibia to host the 20th Annual Symposium under the theme **"Escaping the Middle – Income Trap: A Perspective from Namibia".** As mentioned by the Governor, the symposium is a platform where we interact with the public and policy makers to discuss issues of national importance, which have an impact on policymaking. The support we have received from our policy makers and the public at large when it comes to this event, as you have witnessed today, not only highlights its relevance, but also gives us the motivation required to continue hosting such events.

2. **Director of Ceremonies, ladies and gentlemen! Before delivering my vote of thanks, allow me to point out a few key issues which emerged from the discussions today:**

    a. First, we should note that the key question that this symposium poses is: Is Namibia in the middle-income trap? And what is the economic future for Namibia? Since independence, Namibia experienced a period of exceptional growth. In 2016–17, the engines that temporarily boosted growth grounded to a halt. Real GDP began contracting as construction in the mining sector returned to pre-2010 levels and the government started implementing consolidation plans to stabilize the public debt-to-GDP ratio.

b. In light of such circumstances, the future of Namibia will be contingent on its ability to draw on its accumulated capabilities to respond and adapt. The views that are emerging from this Symposium is that, the growth and development prospects of Namibia will depend, to a large extent, on how it enhances its drivers of long-term growth – overall levels of productivity, export capabilities and Namibia's 'product space'.

c. To remain competitive in the global economy in the long term, **Namibia must undertake economic structural change.** Structural reforms are urgently needed to strengthen productivity and external competitiveness and boost long-term growth. Reforms should streamline business regulations, contain public sector wage dynamics, and reduce costs of key production inputs. Over time, it is important to remove non-tariff barriers to exports, foster the adoption of new technologies, and address shortages of skilled workers.

d. Successful cases of structural change and the implementation of industrial policies typically require coordination and collaboration between both the public and private sectors.

2.1 Policy Options available for Namibia

e. **Boost Productivity Growth:** Namibia would need to boost productivity growth at all levels of its economy – at the firm and sectoral levels.

f. **Venture in new areas of exports:** To diversify its export basket and avoid an over-reliance on exporting raw natural resources, Namibia needs to acquire knowledge and find new niches in areas of manufacturing and services, particularly modern services as indicated by our speakers as a step in the right direction. We need to pick activities that offer significant technological benefits and linkages.

g. **Fostering public and private sector collaboration:**

h. **Make starting a business easier by reducing the procedures, time and cost –** The one-stop shop, a great initiative that has been in the pipeline for many years, should have a set date from which it should be fully operational, as this will improve and speed up the creation of new businesses significantly.

i. Lastly, undertake reforms within the tourism and the agricultural sectors given their abilities to absorb large numbers of relatively unskilled workers.

Ladies and gentlemen,

3. The future of Namibia remains bright, given its stellar track record and the policies that the government has embraced to boost the growth and development. What Namibia requires, is create accountability platform where various stakeholders (public and private sector) must account for project implementation progress.

4. On behalf of the Bank of Namibia Board, Management and staff, I wish to extend a heartfelt appreciation to all the speakers, panellists, invited guests of various industries and the general public for your invaluable contributions. Allow me to take this opportunity to express our sincere appreciation to the Prime Minister, Right Honourable Dr. Saara Kuugongelwa-Amadhila, for delivering the keynote address which was very insightful and providing high-level support to the outcome of the Annual Symposium.

5. I**n the same vein, I also extend a special thanks to the Ministers, Deputy Ministers and MPs and other dignitaries in our midst.** Your presence here makes us believe that the theme we chose was not only pertinent but will receive the necessary attention. I would also like to thank the media represented here today, for not only capturing the event, but also for ensuring that the Bank of Namibia Symposium discussions and deliberations will be taken beyond this venue in order to ensure that the nation at large benefits from today's discussions. Also, our gratitude goes to the Management and staff of Safari Hotel for this beautiful and convenient venue and for supplying us with good refreshments during our deliberations. Let me also extend a final word of thanks to the organising committee members, staff members of the Bank of Namibia. Thanks for a job well done.

6. Finally, I would like to inform you that as usual, the proceedings of the symposium will be compiled in a booklet, titled: "Bank of Namibia Annual Symposium 2019", which will be posted on the Bank of Namibia's website. Once again, thank you all and the Bank of Namibia looks forward to seeing you at our 21st Annual Symposium next year.

7. I wish you an enjoyable and productive day ahead.
Thank You!