

## **The Middle Income Trap: A Critical Discourse Analysis**

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The term “middle income trap” has gained currency in mainstream economic discourse in the past decade. It has been used to caution against China’s impending economic stagnation, a catch-all phrase for Latin American countries’ failure to translate development impulses to sustained growth and Southeast Asian tigers’ inability to break the barrier and officially belong to the category of developed nations (see for example, Reuters, 29 April 2013; Schuman, 12 March 2013; Aiyar et al, 2013; Evans-Pritchard, 2012).

While there is a general sense of what the “middle income trap” refers to, this paper suggests that such term warrants close theoretical examination. It has been common within policy circles and mainstream media to categorize countries as falling into the middle income trap but the concept’s ontology, presuppositions and heuristic potency remains to be unpacked, deconstructed and critically examined. I aim to conduct such examination in this paper. I consider this exercise important in order to have a better appreciation of the scope and limits of middle income trap as an analytical category and sharpen its function as a heuristic tool to make sense of economic realities and diagnose identified problems.

The approach I use in my examination draws on the model of Dryzek’s discourse analysis. It takes the position that concepts are not ahistorical and apolitical but are socially embedded, dynamic and constantly negotiated. Discourses are products of particular spatial, temporal and intellectual contexts which facilitate their emergence and impact. By understanding the context within which the middle income trap emerged, there can be better appreciation of what the term aims to characterise and to what extent it can make sense of a particular phenomenon. This approach goes beyond debating definitional issues – what does it mean to be categorized as “middle income” and what it means to be in a trap – but a discursive issue – the perspective the concept privileges, the kind of economic reality it portrays, the extent of actors’ agency and groups that benefit from such construction of reality.

These ideas are developed in several parts. I begin by providing a brief explanation of the framework. I explain why discourse analysis is important particularly in examining an economic concept like the middle income trap that seems benign and uncontroversial. I then unpack the ontology of the middle income trap and its theoretical presuppositions. I suggest that middle income trap belongs to the broader discourse of staging development, where progress is defined in a sequential path. I contextualize the discursive environment where the concept of the middle income trap emerged, the key actors that perpetuated and contested its use as well as the potency of rhetorical devices that contributed to the concept’s reification. In the final section, I take stock of the ideas learned from this exercise and propose ways in which the concept can be sharpened and put to critical use.

## Why discourse?<sup>1</sup>

Dryzek defines discourse as “a shared means of making sense of the world embedded in language” (Dryzek, 2000, p. 18). They are common terms of reference that allow those subscribing to a particular set of views to weave them together in a coherent narrative that can be communicated in intersubjectively meaningful ways. A discourse revolves around a main storyline, which synthesizes opinions about facts and values. In Foucauldian terms, discursive practices are mechanisms of establishing regimes of truth or setting the terms of accepted and often taken for granted reality in a particular context.

While it has been common to dismiss discourse as “mere talk,” Dryzek, particularly in his pioneering book, *Politics of the Earth* (1997), has made a compelling case as to why discourse matters. As a theoretical category, discourse emphasizes the socially embedded nature of language and its material impact. Concepts social agents put forward are not mere descriptions of a reality that is “out there” to be found but are historicised, culturally-invented and constantly negotiated. Dryzek, for example, has identified four sets of discourses that have informed and structured environmental politics. These are: (1) survivalism which views the earth as having a limited stock of resources, thereby requiring collective action to prevent global disasters; (2) environmental problem solving which acknowledges ecological problems but considers them manageable in the context of an industrial society; (3) sustainability which bridges the conflict between environmental and economic values and; (4) green radicalism which rejects the structure of an industrial society and advocates for the transformation of human consciousness and politics. All of these ways of understanding the environment – its capabilities and limits – enable agents to put together different pieces of information and form a coherent narrative. It is this very process of constructing assumptions and storylines that facilitate policy debates and inform collective problem-solving.

As a methodological tool, Dryzek’s approach has provided a reasonable analytical framework in conducting systematic discourse analysis. Although it has emerged as one of the trendiest research methods in sociology, media and cultural studies, there has been a relative shortage of prescribed methodological procedures in conducting discourse analysis. Perhaps this is because laying down a methodological outline itself deviates from discourse analysis’s spirit of celebrating plurality and dynamism of linguistic representation. Another reason could be related to the presupposition that discourse analysis is necessarily historical and genealogical in the Foucauldian sense, therefore, researchers using this methodology are automatically committing to these strategies of data gathering analysis.

Dryzek’s work presents a reasonable research strategy. While his approach is also historically-informed, he develops a set of “questions to ask about discourses” which facilitates an organized, rigorous and theoretically-anchored approach in tracing and comparing the evolution of discourses. His analysis is based on four dimensions. These are:

Dimensions	Guide questions*
Ontology	What entities are recognized or constructed? How can they be subject to change?

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<sup>1</sup> This section builds on one of the author’s earlier published work. See Curato, N. (2012) “Revisiting the Politics of the Earth,” in *Political Reflections*, 3(4): 52-54

Assumptions about natural relationships	What is the relationship among existing entities? Are they in conflict or in harmony with each other? Is there equality or hierarchy?
Agents and motives	Who are the actors deploying, contesting and revising discourses? What are their motives for engaging in discourse? Who benefits from this discourse?
Key metaphors and rhetorical devices	What linguistic techniques are used to articulate the position? What values are being appealed to by these techniques?

\*Developed by the author based on Dryzek's model

While this framework has been applied to environmental politics, and more recently, earth systems governance (Dryzek and Stevenson, 2011), I suggest that this is also relevant in unpacking economic concepts such as the middle income trap. Literature on sociology of development as well as critical political economy has begun interrogating the process of knowledge production in economics. Söderbaum (2008), for example, has unmasked neoclassical economics as “ideology,” arguing against the belief in a value-free economics. He underscored the discipline’s “political” aspect to make space for different types of “expertness” in the field. Similarly, Freeman and Kliman (2008) have advocated critical pluralism. They argue that economics must recognize its active role in reproducing the model of the liberal market by pursuing a monotheoretical approach to research. Economics’ main task is not to defeat rival theories but to “bring about an understanding of these theories and their implications, to make both the material origin of these ideas and their practical consequences available for empirical verification” (Freeman and Kliman, 2008, p. 190). These studies, among others, have emphasized the value of deconstructing the underpinnings of both orthodox and heterodox economics and render their ontological premises and rhetorical devices visible. This perspective is in tension with views which consider normative and political statements as outside the remit of neoclassical economics and best understood by other “normative” disciplines such as social policy, sociology or philosophy (Todaro, 1997; Hands, 2001).

### **Methodological note**

In the next section, I examine the discourse of the middle income trap based on the four dimensions outlined. I approach this task as a social scientist interested in dissecting economic development frameworks and critically negotiating their use. By doing so, I aim to have a better sense of the concept’s heuristic potency, its political implications and reconsider the ways in which it can be deployed.

The analysis presented is based on an in-depth reading, qualitative coding and analysis of a preliminary data set. This includes official documents, working papers, press releases and media coverage discussing the middle income trap. The data set is preliminary in the sense that ascertaining the universe of documents pertaining to this topic is still a work in progress. In advanced versions of this paper, I aim to examine the different articulations of the middle income trap based on economic regions, time periods and professional contexts (academic, policy, international business, development etc). For the purposes of this paper, I aim to put forward observations based on a preliminary data set as reflected in the reference list.

### **The ontology of the middle income trap**

A general characterisation of the middle income trap describes it as a situation when “a country’s growth plateaus and eventually stagnates after reaching middle income levels” (Nag, Asian Development Bank, 2011). One of the ways in which these levels of income are defined is as follows:

We start by defining four income groups of GDP per capita in 1990 PPP dollars: low-income below \$2,000; lower-middle-income between \$2,000 and \$7,250; upper-middle-income between \$7,250 and \$11,750; and high-income above \$11,750... In 2010, there were 40 low-income countries in the world, 38 lower-middle-income, 14 upper-middle-income, and 32 high-income countries (Felipe et al, 2012, p. 1).

This semantic formulation’s basic presupposition is that categorizing countries in terms of income levels is indicative of its extent of economic development. High, middle and low income categories are used as benchmarks to set apart countries that have successfully managed to reach a developed status, those that have managed to overcome their low-income status but remain ensnared in a category that is not yet considered high income, and those that remain underdeveloped. Implicit in this characterisation is that growth that pushes countries to high-income status is a desirable development path, thereby requiring a close investigation of the factors that constitute the trap and possible solutions to such problem.

While this description appears benign, if not mundane, it is illuminating of the term’s ontology. In basic terms, ontology refers to the kinds of entities that are considered to exist in reality. It examines the “stuff” that makes economies, how they hang together and the principles that govern its functioning (Mäki 2001, p. 3). Such account of reality becomes the premise on which empirical inquiries take off. In the case of the middle income trap, its ontology rests on a coherent view of economic reality where there is a universal measure that can act as fundamental descriptor of things (Mehta, 2008, p. 78). GDP per capita income is a standard descriptor of development, allowing for cross-country comparisons. As in structuralist ontology, the economy has stable, law-like properties. It is an economic imperative, for example, for middle income countries “to grow, to innovate, to produce... to compete [and] to develop by any means necessary” (Miller, 2011, p. 10). The importance of growth is presupposed as natural, plateau is framed as a challenge that must be overcome.

This premise is consistent with the economics model that explains development in terms of “sequences.” Economic growth is understood as transformation of productive structures where resources are invested from lower to higher productivity activities (Rostow, 1959; Kuznets, 1966). In the context of East Asia, such structural transformation entails three stages:

- (1) Economic take-off starts with the arrival of foreign direct investment (FDI) firms. Manufacturing is limited to simple assembly or processing of light industry products for export such as garments and foodstuff. Foreign investors control design, technology and production, parts and materials are mostly imported and the developing country’s main contribution are cheap, unskilled labour and industrial land. This creates jobs for the poor but internal value created remains small.
- (2) FDI accumulates, production expands and local suppliers emerge to supply parts in the production process. This creates an essential relationship between assemblers and suppliers, creating greater internal value. Production, however, remains under foreign management.

- (3) Human capital is acquired by internalizing skills and knowledge. Locals replace foreigners in all areas of production, increasing internal value. The country exports high quality manufactured products and becomes a leader in global market trends (Ohno, 2009, pp. 27-28; also see Gill and Kharas, 2007, p. 18).

These stages are associated with a successful shift in strategy as countries progress from a middle-income to high-income status. As Rodrik puts it, “countries know that once they manage to put a foot into them, they are on an ‘automatic upward trajectory’” (Rodrik, 2011, p. 4). It is worth pointing out, however, that this sequence of development is not unilinear. Reversals can happen, as in the case of countries that have moved up to middle income levels but slip back to the low-income group due, for example, to wars and excessive dependence on a narrow set of commodities (Felipe et al, 2012).

While the middle income trap discourse is located within the broader model of sequencing economic development, distinct in its ontological construction is the centrality of time. Some countries may have crossed the low to middle income threshold some years ago but fail to graduate to the next income stage after a period of time. Felipe et al.’s work, in particular, underscores the temporal element to express caution over middle income countries remaining on particular per capita income level for a number of years. They argue:

If a country’s per capita income in 1990 PPP dollars remains between \$2,000 and \$7,250 for 28 years, then it is in a lower-middle income trap. If a country’s per capita income remains between \$7,250 and \$11,750 for 14 years, then it is in a higher-middle income trap. The periods were determined by the median number of years that countries which have successfully graduated to the next step have taken (Felipe et al, 2012, p.3).

Then we calculate the threshold number of years for a country to be in the middle-income trap: a country that becomes lower-middle-income (i.e., that reaches \$2,000 per capita income) has to attain an average growth rate of per capita income of at least 4.7 percent per annum to avoid falling into the lower-middle-income trap (i.e., to reach \$7,250, the upper-middle-income threshold); and a country that becomes upper-middle-income (i.e., that reaches \$7,250 per capita income) has to attain an average growth rate of per capita income of at least 3.5 percent per annum to avoid falling into the upper-middle-income trap (i.e., to reach \$11,750, the high-income level threshold). *Avoiding the middle-income trap is, therefore, a question of how to grow fast enough so as to cross the lower-middle-income segment in at most 28 years, and the upper middle-income segment in at most 14 years* (Felipe et al, 2012, p. 1; emphasis added).

In this definition, the timing for growth is finite, making the term “trap” a fitting label for such situation. It communicates a sense of urgency for countries to avoid “falling into the trap,” which entails proactive policy interventions in developing human capital and diversifying the export basket (Felipe et al, 2012; Ohno, 2009; Doner, 2012; World Bank, 2005). As a Chinese economist puts it,

In a sense then, the ‘middle income trap’ notion has but one merit: it points up the urgency and necessity of speeding up development. In other words, with rising per capita income, developing countries cannot be complacent, but must adjust their mode

of development, actively respond to changes in internal and external conditions, and vigorously promote social development (Shixue, 2011).

Such prescriptive component complicates the middle income trap's ontological position. While it subscribes to a structuralist ontology which views economic reality as a series of developmental stages which culminates in economic prosperity, it is also cognizant of the role of agents in constructing what Ohno calls "an appropriate industrial vision" (Ohno, 2009, p. 29). This vision is more aggressive than suggested by the once-dominant paradigm of the Washington Consensus. While deregulation, privatization and creation of sound business environment are identified as important structural conditions, these are mainly relevant in the first few stages of development. Creative agentic actors are necessary to break the glass ceiling in the latter stages and execute "meaningful strategies to accelerate industrialization" (Ohno, 2009, pp. 29-30). The World Bank (2005) itself has acknowledged the complexity of transitioning from middle to high income status, conceding the absence of "universal set of rules" for development. Instead, the Bank acknowledges that:

Sustained growth depends on key functions that need to be fulfilled over time: accumulation of physical and human capital, efficiency in the allocation of resources, adoption of technology, and the sharing of the benefits of growth. Which of these functions is the most critical at any given point in time, and hence which policies will need to be introduced, which institutions will need to be created for these functions to be fulfilled, and in which sequences, varies depending on initial conditions and the legacy of history. *Thus we need to get away from formulae and the search for elusive 'best practices', and rely on deeper economic analysis to identify the binding constraints on growth... [T]he complexity and diversity of growth experiences are not amenable to simplistic policy prescriptions* (World Bank 2005, xii-xiii; emphasis added).

It is worth clarifying, however, that while the middle income trap discourse creates space for the role of agency in altering economic realities, its overarching ontological premise is still anchored on the idea that economic realities follow a sequential path that culminates in development. The "trap" is an aberration, an undesirable situation that must be resolved in a particular amount of time.

### **Assumptions about natural relationships**

The middle income trap discourse views economic relationships among countries in a stratified manner. Stratification is in relative terms, benchmarking the economic performance of low and middle-income countries to developed economies. This can be interpreted as an extension of the conventional practice in economic literature of using the west as reference point, defining underdevelopment as "difference" with industrialized economies from the North (Charusheela, 2005, p. 49). As Charusheela puts it, "the field took the developed world to be the norm against which the underdeveloped world was known to be underdeveloped" (Charusheela, 2005, p. 50). The middle income trap problématique attempts to explain the developing world's deviation from the economic trajectory high income countries have taken. This is reflected in Felipe et al's (2012) definitional qualification, stating that the thresholds are set based on today's well-being standards, making it possible, for example, for countries in the nineteenth century to all be categorised as "low-income." The goal is to eliminate such divergence from today's ideal notion of prosperity and postulate the possibility of countries moving to high income status. This raises a conceptual question, as to whether the high

income category is comparable to a teleological end state where economies will ultimately converge, or a moving target depending on the performance or definition of prosperity by high income countries.

Although the discourse views economic relationships in a stratified manner, conflict or power relationships among actors is deemphasized. The structuralist component of its ontology frames the trap as a function of rising wages and declining cost of competitiveness, leaving countries unable to compete with advanced economies in terms of high-skill innovations or low-income, low-wage countries which can produce cheap manufactured goods (Asian Development Bank, 2011). In this definition, the historical power relationships between developed economies and their firms and middle income countries are decontextualized. The hierarchical and asymmetrical structure of the global division of labour is absent in the developmental narrative. Historical origins of uneven development and the political economy of post-colonial states are secondary to the analysis. The graduation of middle income to high income status is pitched as a win-win situation, implying a non-contentious aspiration of middle-income countries to transition to high income status. However, as Shixue (2011) puts it,

The ‘middle income trap’ is thus in fact spurious. Dispensing with a per capita income-based trap theory does not, of course, mean the challenges facing Latin American countries, and other countries on the road to development are to be ignored. Their experience shows that as per capita incomes rise, there will be significant changes in people’s consumption patterns, environmental pressures will intensify; income distribution will be increasingly equitable, social problems will proliferate, desire for political participation will keep strengthening, difficulties of governance will increase, integration with the outside world will grow (Shixue, 2011).

The success of the South Korean case, for example, was described using a narrative of export diversification made possible by a visionary group of industrialists able to forge a national consensus on economic development. Implicit in this account is how such economic development was built on the backs of women workers and at the expense of farmers, which, following the sequential developmental narrative is relegated as a starting phase for economic development (see Amsden, 1989; Davis, 2004). The *conflict-ridden* and contentious aspect of economic change is downplayed as challenges that a national *consensus* on a development agenda can overcome.

### **Agents and motives**

International financial institutions, policy circles and business reporters are the usual discursive agents of the middle income trap. The term was first used in a World Bank report by Gill and Kharas (2007) and has since been deployed by organizations including the Asian Development Bank (2011) and, through Ohno (2009), Japan’s National Graduate Institute for Policy Studies (GRIPS).

There are two common interrelated reasons for deploying such discourse. The first is to warn. Middle income countries that have begun stagnating economically are identified and explanations for their sluggish performance are offered. Ohno, for example, cautions against Vietnam’s failure to produce effective industrial strategies and consolidated action plans. He diagnoses the country’s policy environment as marred by structural weaknesses due to its

historical experiences of war, political turmoil, socialist planning and severe economic mismanagement, consequently creating fragile economic structure (Ohno, 2009, p. 26). Similarly, China's People's Forum Magazine brought together fifty experts and academics to distinguish ten features of countries falling in the middle income trap. "Decline or stagnation of economic growth, electoral chaos, a divide between rich and poor, pervasive corruption, over-urbanization, shortage of public services, unemployment, social unrest, lack of trust, and a weakened financial system" are among the shared features of countries that have entered the trap (Shixue, 2011, p. 1).

Second, by understanding the nature of the risk of being "trapped," policy experts then provide recommendations. World Bank President Robert Zoellick, for example, has been using the term in his speeches to describe the economic question confronting China. To "avoid falling into this trap," Zoellick was quoted saying, "China has begun to study a variety of emerging modes of growth, notably through policies of urbanization, human capital formation and innovation" (in Shixue, 2011). Export diversification (Felipe et al, 2012; Ohno, 2009) is often cited as key to escaping the trap, as well as climbing the value chain to compete in the global knowledge economy (Garrett, 2004).

These analyses and recommendations have complemented the recent development agenda of the United States, the World Bank and other aid agencies, promoting "smart development assistance" which focuses on the creation of knowledge economies (Garrett, 2004). The United States, for example, through the Middle East Partnership Initiative, provides educational, financial and juridical reform aid to middle-income countries in the region to counteract economic stagnation and potential threats for political stability. Similarly, the World Bank's Skills and Innovation Policy Program provides policy advice to client countries on how to transition to become a knowledge economy by building country capacities – from creating an economic incentive regime for knowledge industries to flourish to linking global knowledge to country demands through free trade, technology transfer and foreign investment (World Bank Institute, 2007). In effect, the discourse of the middle income trap has justified the continued relevance of development agencies' interventions to countries that have already crossed the low-income threshold but are "at risk" of failing to make the cut of high income status.

### **Key metaphors and rhetorical devices**

The rhetoric of threat and metaphors for progress are two commonly utilised discursive techniques. The language of danger and risk are manifest with the use of terms "avoiding," "falling into" and "getting stuck in" the trap (Ohno, 2009; Wheatley, 2010; Felipe et al, 2012), indicating the objectionable situation of remaining in middle income status. These threats are usually accompanied by references to global trends, harping on the limited and narrow window of opportunity for countries to overcome its developmental challenges. This statement from a Beijing-based World Bank economist is a common way of deploying this rhetorical strategy:

Many countries make it from low income to middle income, but very few actually make that second leap to high-income... they seem to get stuck in a trap where your costs are escalating and you lose competitiveness (Hansson in Wheatley, 2010).

The threat of selectivity – "very few actually make that second leap to high income" – serves to underscore the severity of the trap problem but the implications of such threat are left

unarticulated. The normative and practical dangers of remaining in the middle income category are presupposed, while the importance of “growth” is considered self-explanatory, not warranting an explicit case to be made in support of such goal. This dominant assumption of growth as end goal lends currency to the metaphors of “left behind” countries urged to “catch up” without necessarily explicating the practical and normative value of growth. This, I suggest, is indicative of a discourse playing on hegemonic terms, the kind where there are no interlocutors to be addressed; only dominant taken for granted assumptions to bank on.

In spite of the unarticulated rationale for pursuing “progress,” the metaphors used to support this aim abound. “Escaping the trap” and “graduating to the next income group” is a terminology used by Felipe et al and other scholars in policy circles. “Moving up the value chain” from low value-added industries is also often deployed. These metaphors provide the language to express the sequential model of economic development, framing the transition to high income status as the natural progression of economies.

### **Conclusion: The trapped discourse**

In this piece, I have provided a critical discourse analysis of the middle income trap. I argue that analysing discourse is important to reveal the socially-embedded and historicized character of concepts used in everyday life. Through this approach, I have presented the middle income trap’s taken for granted assumptions, its discursive agents and the material impact of its use in setting development agendas. Below is a table summarizing preliminary findings. I suggest that the concept is part of the broader discourse of sequencing economic development. Although it subscribes to a structuralist ontology, it also provides room for agents to imagine and construct visions and strategies for development. This is a slight departure from the Washington Consensus discourse which tends to promote standard economic models and leaves less room for agency and negotiation. Moreover, the middle income trap views natural relationships in a stratified manner (low, middle, high income) although conflict among these income groups is rather understated. It is popular among international financial institutions and policy circles, which usually deploy the rhetoric of risk and dangers of being trapped. Such language provides a sense of urgency for countries to “escape” the trap given the limited window of opportunity for growth.

I have also identified some of the concept’s silences, particularly in terms of its normative and practical justifications for promoting growth. It fails to articulate and lay the basis for its taken for granted assumptions. This includes the presumed perils of remaining in the middle income status, its idealised notion of a global political economy and why “growth” or graduating to the next income group is a preferable developmental sequence. I suggest that the discourse could be further enriched if it debates rather than denies its interlocutors, practices reflexivity rather than rely on the ontological security of established economic paradigms. It is in this manner that the trapped discourse can escape its own discursive trap.

Summary table: Discourse analysis of the middle income trap

Dimensions	
Ontology	Economic realities follow a development sequence culminating in high-income status; countries can be “trapped” in an income level and it is an economic imperative for this to be overcome.

	Change happens through political agents constructing and implementing visions for industrialization
Assumptions about natural relationships	There is stratification among economies due to divergent development trajectories; the discourse emphasizes harmony over conflict among countries' economic relationships.
Agents and motives	International financial institutions, policy circles and business reporters are the primary discursive agents; discourse is used to warn of the "risk" of being trapped and provide policy recommendations including "development assistance."
Key metaphors and rhetorical devices	Rhetoric of threat and metaphors for progress

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