For :
PETT JARUPAIBOON, Regional Programme Officer, FNF Asia, Bangkok Office

Copy to :
Bienvenido "Nonoy" Oplas, Jr., Minimal Government Thinkers, Inc., Philippines

Detailed Session notes as prepared by KARTHIK CHANDRA (Foundation for Democratic Reforms, INDIA)

DAY I
(October 21, 2013)

WELCOME AND OPENING REMARKS

Prof. Dr. Pirom Kamolratanakul (President, Chulalongkorn University, Thailand)

- Many Asian states need a concerted, continued reform-effort to continue on their growth path.
- Thailand is one of the best performing economies since World War II; despite previous crises, it experienced continued growth which has now slowed down. There is a danger of middle-income trap.
- 42% of Thai people find their livelihood in agriculture. Heavy agricultural sector subsidies have yielded higher inefficiencies and hence there is the need for reforms to improve productivity.
- Thailand needs higher investment in infrastructure, secondary education and social infrastructure; more freedom for the private sector and lesser taxation for businesses are also essential.

- This conference will help identify relevant issues, generate ideas on how to address them and also suggest measures on handling them.

Ulrich Niemann
(Director of Division of International Politics, FNF)

- Brief overview of previous EFN conferences; they have played a notable role in exchange of ideas and as a continued forum for academic debate.
- Given the increasing role of government and government debt in the recent past, such forums play an important role in areas of market liberalization.
- The Asian growth story certainly has been a good one but there still is a long way to go: there is a clear and present threat that some states could fall into the middle income trap.
- Middle income economies must start from the fundamentals
- Higher income economies too must undertake structural reforms
- Autocracies need political reforms
- The Asian growth story is less due to technocratic and industrial innovation and interventions and more due to improving market freedom and reducing the restrictive role of the governments.

OPENING KEYNOTE ADDRESS

H.E. Geronimo Sy
(Assistant Secretary, Department of Justice, the Philippines)

- What is Asia? Asia is not only a geographic concept as understood commonly but also an economic one. Had it not been for the reformation and industrial revolution that started during the middle ages, even Europe would probably had been referred to as "Western Asia".
- Concept: "diversity is a given in Asia", "Good neighbours need good fences", "Communication must based on shared values"
- These concepts could be understood through the perspective and the background of Philippines: it is a big country but on the world stage, it both thinks and acts small; it is

the only Christian-majority country in Asia; English is the primary language for a majority of its people.

- Ranking countries based only on incomes and placing them in "middle income" status could be a fallacious exercise; this is because comparing countries based purely on numbers does not capture the full information. Countries are more than numbers, especially numbers that reflect only incomes.
- At the same time, the "middle income trap" is more than an economic issue…it is a primarily a governance issue. To draw parallels within a country, the rules and regulations i.e. the governance framework is arguably more of a concern for the middle class rather than the rich/elite classes (who are doing rather well anyway) and the poor (who are bypassed by the framework).
- Philippines would do well to focus on governance issues and political values so that liberalization is strengthened.

H.E. Set Aung
(Deputy Governor, Central Bank of Myanmar)

- There has always been a debate whether economic freedom acts as a savior.
- Usually, discussion of Asian economies focuses on ASEAN+3 or ASEAN+4 or ASEAN + 6 countries and on whether these countries have taken a "big bang approach" or "gradual approach", etc.
- Asian economic integration is about AFTA (or Asian Free Trade Area) which is more widely understood as "Agree First and Talk Later"
- The idea of AEC (Asian Economic Community) revolves around free flow of capital, labour and goods. This is a very ambitious idea.
- Should AEC/Asia take the path of the EU? It is here that we need to tread very cautiously, especially given the recent EU crisis.
- In the CMLV countries (Cambodia, Myanmar, Laos and Vietnam): Vietnam is a particularly good example of reforms and rapid improvement. Myanmar is probably the "last frontier" for liberal reforms.
- Myanmar's experience:
    - Reform is not a one-time measure; it is a continuous and multi-stage evolutionary process.
    - However, it can be quickened and shortened, if we learn from experiences from other Asian countries.
    - Reform process is not one-dimensional; it goes beyond economic reforms and touches upon governance reforms as well.
    - Usually, such reforms are perceived in a diametrically opposite manner by different stakeholders: the outsiders/developed countries see them as being too

slow while the insiders/fellow-countrymen/citizens see them as going too fast. Both perspectives are correct.

- Therefore, we should not forget that reform is a multi-stage, complicated process and even more so when citizens/stakeholders have several legitimate questions regarding the intent and outcomes of this process.
- We are always "optimistically frustrated" and should remain so!

PANEL 1 : DEFINING THE MIDDLE INCOME TRAP: MYTH OR REALITY? WHAT EXACTLY IS IT?

Moderator: Asst. Prof. Surat Horachaikul (Chulalongkorn University, Thailand)

Dr. Laveesh Bhandari (Director, Indicus Analytics Pvt Ltd., India)

- There is a need for better understanding of growth slowdowns in both developed countries and middle-income countries.
- Countries do exhibit the behavior of high growth rates when they are at the lower income levels. But as they rise to middle income levels, they slowdown and hence the "trap".
- India, being a poor/low-income country is nowhere close to this middle income trap. Still, it is better to be aware of the possibilities.
- The set of factors that influence growth keeps changing as a country moves up the income scale.
- Nevertheless, some basic issues/factors would remain important throughout:
    - Property rights and legal framework – their role in influencing growth/income levels kicks in early
    - Levels of Investment and Infrastructure
    - Demographic factors such as dependency ratios (India has lower incomes but also low dependency ratios; countries with higher income are facing higher dependency ratios), gender imbalances, immigration (both internal and external))

Fred McMahon
(Resident Fellow at Fraser Institute, Canada)

- Middle income trap arises because
    - wages are squeezed in between the poorer countries below and from the richer countries from above.
    - Inadequate Infrastructure (both physical and human resource-related)
    - Policy stalling
    - Simple exhaustion of the existing model (i.e. diminishing returns)
    - demographic changes
- There is significant correlation between income levels and economic freedom, esp. legal and property rights. Better legal framework/rule of law/economic freedom is strongly correlated to higher per capita GDP. This relationship is causative and this causation runs in both directions. But 70-80% of this causation is unidirectional: economic freedom explains a lot of the economic growth/income levels.
- This is clearly evident from the examples of S. Korea, Taiwan, Singapore, Japan, Hong Kong (that have broken through the middle income status and into the richer nation status) and also those of India, Bangladesh, Pakistan (all poorer countries) and China (middle level). However, the case of Malaysia needs better understanding /explanation as its economic freedom levels are relatively very high but still it did not break into the rich income levels.
- Visit www.freetheworld....for details (Fraser Institute).
- (based on Q&A interactions….Fred said) the actual definition of middle-income status is indeed fuzzy and very broad. Based on per capita GDP levels themselves, middle-income status has a very wide range with Sri Lanka, etc at the lower end (USD 2000), Thailand and China (both falling at the middle of this middle-income group; at about USD 6000) and finally Malaysia (with USD 15,000 per capita) all grouped together as middle-income status countries.
- At lower levels of income, higher growth is possible in a country despite having weaker institutional framework because you are growing mainly by copying growth models from other countries and are depending on cheap labour, inputs, etc. However, as a country grows, the role of institutional framework keeps increasing in influencing the growth rates.

PANEL 2: Asia and the Middle Income Trap: Surveying the Trend

Moderator: Assoc. Prof. Dr. Chayodom Sabhasri (Dean, Faculty of Economics Chulalongkorn University, Thailand)

Assoc. Prof. Dr. Suthiphand Chirathivat (Chairman, Chula Global Network, Thailand)

- One explanation for the middle income trap is that as countries become more prosperous, they cannot compete anymore on cheap labour or cheaper material inputs and so the existing model for development starts showing diminishing returns.
- That is why developing countries cannot continue to copy low-end practices and then expect to continue on the growth path.

Prof. Dr. Bibek Debroy (Center for Policy Research, India)

- Given the theme of this conference, he makes three basic propositions.
- These propositions are based both on theory (i.e. conceptual formulation) as well as on empirical evidence (i.e. statistics from individual countries).
- Proposition 1: there is a strong correlation between levels of economic freedom and levels of economic development. This is a two way correlation. This is also a two-way causative relationship, but greatly one-sided. This is because economic freedom accounts for about 70-80% of economic development/income status while economic status of a country itself would explain the remaining 30-20% of the relationship with economic freedom.

  But, a word of caution here: instead of measuring absolute economic freedom, try using *change in*/*growth rate* in (i.e. delta) in economic freedom while trying to correlate it with economic development (which is usually measured in terms of growth rate, which itself is a measure of change)
- Proposition 2: this is a slightly weaker correlation that the one in Proposition 1, as seen from statistical evidence. But it is an equally strong proposition conceptually. This proposition is that as economic development/incomes increase, countries run into an income trap. The usual explanation / reasoning is that as the initial gains from cheaper inputs are exhausted, growth stalls and needs to be kick-started through productivity gains, innovation, etc.

- However, the speaker says that this is not a given because established measures/indices (of capital, labour, land/natural resources) are mostly based on industrialized economies. In other words, this is merely a measurement challenge rather than a reflection of a real trend. For instance the variable of rule-of-law is reflected in other primary input variables like land, labour, capital, etc. Hence, there is probably no need to separately measure the impact of variable ‘rule-of-law’ with economic development/growth.
- Proposition 3: this is a much more ‘provocative one’ compared to the previous two, the speaker says. It is that as a country grows from poor to middle-income states, the role/importance/significance of economic freedom increases in improving economic development. This is because at lower income levels, the gains in economic growth are primarily from inputs i.e. factor-driven (land, labour, capital, natural resources, established development model) while at middle income levels the gains have to come from productivity, economic innovation, etc. all of which are directly related to economic freedom.
- At the same time, the speaker says that the concept of middle income trap is has to be carefully interpreted especially for large, heterogeneous countries like China, India, Pakistan.

PANEL 3: Countries in Focus I

Moderator: Dr. Kim Chung Ho
(Professor, Yonsei University, Korea)

H.E. Geronimo Sy
(Assistant Secretary, Department of Justice, the Philippines)

- The speaker focused on the link between governance and economic development, especially when the government is in the hands of a few (effectively, oligarchies). Some ready examples are South Korea (chaebols) and even Philippines.
- In such countries, “regulatory capture” has resulted in regulation / government working for few individuals and vested interests.
- The role of regulatory institutions in influencing an economy has to be carefully understood. Philippines serves as a case study.

- Philippines has more than 60 regulators, in all sectors combined.
- The current battle between the telephone operators and regulator (NTC) in shifting from per minute billing to actual utilization time(i.e. pulse) based billing for telephone users is one example of regulatory capture; consumers have not been able to access the fruits of fair, transparent and competitive free market despite having a regulatory regime in place.

Dr. Choy Byung-il
(President, Korea Economic Research Institute (KERI))

- Economic freedoms (property rights, freedom from corruption, ease of doing business, etc.) are all greatly correlated with per capita GDP.
- South Korea is one example of how a country can break out of the middle income trap.
- In the 1990s South Korea faced several anti-liberal challenges such as strikes by labour unions, farmers, etc – who were all politically very powerful. Then came the Uruguay Round which forced open markets on its farmers. At the same time, there was a powerful demand within Korea for access to global markets (in sectors like shipping, metal, chemicals and later electronics and hi-tech consumer goods, etc.) and therefore the policy makers had to become outward looking. Increased business freedom and trade freedom played a key role in increasing economic freedom in Korea and thereby increasing economic development.
- However, currently, in Korea, politics is overshadowing economics, stakeholders claiming more than their due share of the pie, inward looking policies, reckless populism abounds and rent-seeking by decision-makers all are resulting in the entire scheme being reduced to a zero sum game with “winners” and “losers” being created.
- At the same time, there are several positive features in South Korea:
    - strong and vibrant civil society and media
    - greater access to information (universal internet access is one prominent example of this)
    - societal emphasis and access to quality higher education
    - independent prosecution system

  as a result of which strong and effective checks on corruption and regulatory capture are made possible.

Dr. Deunden Nikomborirak

(Research Director, Economic Governance, Thailand Development Research Institute (TDRI))

- In the context of Thailand, there is a great dichotomy seen in the case of Manufacturing vs. Agriculture sectors vis-à-vis economic freedoms and approaches to improving growth. Manufacturing Sector (garment manufacturing being a classic example of this sector): high foreign investment, high levels of competition, high levels of labour productivity over the years all have resulted in high levels of growth. But, in the Agriculture Sector: low/restricted levels of foreign investment, no competition and market being dominated by few groups, poor productivity and consequently there were lower levels of growth in this sector.
- The speaker says that poor levels of foreign investment in agriculture/indigenous sector are the cause of poor productivity and poor growth rates. In fact, less that 1% of the total FDI in the country goes into agriculture.
- That is why, it is not surprising that despite Thailand being the second largest Southeast Asian economy, its agriculture contributes only 8% to the GDP while its core manufacturing sector contributes nearly 41%.
- The solution for Thailand for improving incomes to large sections of its population is therefore to open up agriculture for FDI and competition, break up inefficient monopolies in sectors like energy, electricity, etc. and improve competition, curb oligopolies and improve competition in other sectors too, reform labour laws and make them less restrictive, curb not just "regulatory capture" but even "policy capture".
- On a slightly different note: because of the upcoming ASEAN Economic Community (AEC), alternate routes for improved FDI investment levels could be anticipated in Thailand. This is because direct FDI is restricted to 49% in several sectors/industries while FDI coming through the ASEAN/AEC route can invest upto 71%.

Dr. Harsha De Silva
(Member of Parliament, Sri Lanka)

- He defines the Middle Income Trap as 'escaping poverty but unable to attain prosperity'. Sri Lanka seems to be a good example of this situation.
- It is important to note that less than 10% of the countries have ever graduated from middle income status to high income status.
- Middle income countries like Sri Lanka are getting squeezed by low-wage countries (Bangladesh, Vietnam, Cambodia) from the below and high productivity/high technology countries (eg. Malaysia) from the above.

- Sri Lanka is not only facing a middle income trap but also a debt trap. It is resorting to uncontrolled borrowing even as its share of exports has fallen significantly in the face of a poor global outlook.
- Sri Lanka is not investing resources on essential and desirable infrastructure but is spending borrowed money (often raised at huge interest rates of 7% and thereabouts) on wasteful infrastructure like casinos, a space programme and an unutilized port.
- Simultaneously, the inefficient state is crowding out the private sector and per capita military spending has reached very high levels. At present, the bloated army runs even hotels, resorts, public works contracts, etc.
- The above are all indicative of a severe governance failure, not just policy and execution failures.

DAY 2
(October 22, 2013)

The Economic Freedom of the World (EFW) Report 2013
Fred McMahon
(Fraser Institute Resident Fellow, Canada)

- The speaker gave a brief background of the history and track record of the EFW project – it started in the 1980s and has now grown to become a large network of researchers and institutions. EFW Index is now compiled by over 80 credible economists and countries are ranked based on clearly defined indicators.
- Rule of law is the essential infrastructure of economic freedom.
- The components of the EFW Index are:
    - Size of government
    - Legal system and property rights
    - Sound money
    - Freedom to trade internationally
    - Regulation of business, trade and capital markets

- One key difference between economically not free and free societies is that in the case of the former, you become richer by making others poorer while in the case of the latter, you become richer by offering goods and services that other people voluntarily buy.
- Only until recently, Hong Kong, Singapore, etc. were poorer than many African countries.
- Why is Economic Freedom so important? Because there is not only a significant statistically correlative but also causative relationship between economic freedom and economic prosperity / income levels.
- Lower levels of income redistribution are correlated with greater economic freedom and vice versa.
- Also, there is strong correlation between greater economic freedom and higher levels of literacy, life expectancy, happiness and overall satisfaction with life
- The EFW Index Report is available as a major documentary/short film on public TV; DVDs too are available; visit changingworld.net for details.

Presentation of The Economic Freedom of the World (EFW) Report 2013 to H.E. Abhisit Vejjajiva (Former Prime Minister of Thailand and current Leader of Opposition)

Rainer Adam
(Regional Director, FNF Southeast and East Asia)

- Presented the Report to H.E Abhisit Vejjajiva and gave a brief overview of FNF International's activities (started in 1963) that are in their 50th year.

H.E. Abhisit Vejjajiva (Former Prime Minister of Thailand and current Leader of Opposition)

- Thailand has faced several challenges including economic crises (1997 and the recent one starting 2007-08), severe political turmoil, etc. but is still on the road to prosperity.

Growth is continuing and has remained stable over several decades (except during the 1997 crisis period).

- A major contributory reason is the decoupling of politics from key economic decisions.
- This has resulted in:
    - good monetary policies and independent decision-making, in general.
    - Redefining and reducing the role of government; government is now focused mostly on creating infrastructure, laying out the rules of the game, ensuring proper regulatory supervision, curbing corruption, increasing competitiveness, etc.– as a result there is enhanced space for businesses and private enterprise to grow and become more effective.
- Unfortunately, Thailand is slipping down on the Economic Freedom scale and this has coincided with the latest change in national government, in mid 2011. In fact, the earlier administration had weathered political turmoil, disastrous flooding and global economic crises and still maintained healthy growth rates even as the debt-GDP ratios declined. But now, under the present administration, despite having the benefit of calmer times, growth rates are negative. Currently, Thailand is going through a technical recession. This points to something deeper that is wrong.
- One prominent example of this is the present government's rice policy: the government has increased and distorted the minimum support price scheme for rice leading to a collapse of the export market and a huge burden placed on the public finances. Of course, the government must and should help the farmers, but the present policy is certainly not the way to go about it. The previous governments too had the minimum support (requisition) price regime but now for the first time, the government has committed to buy all rice at 50% above the prevailing market price. (Earlier too, there were rice procurement schemes but this time the government became the sole procurer of all rice and the sole trader of rice.) The apparent rationale was that as Thailand was the world's top rice exporter, it could thus control and raise global rice prices via domestic prices and this would benefit the rice farmers themselves. However, the outcome was quite the opposite: this latest scheme has severely distorted the domestic rice market (resulting in latest paddy being more costly than previously-procured rice), increased corruption in the procurement system, Thailand slipping to 3rd position in the global rice market due to increased prices and a huge burden on the public exchequer (the government has now committed 10% of the budget (2% of GDP) to rice procurement alone). Now the government is simply hoarding huge stocks of rice (17 million tons) and is not selling it (in order to not claim a loss). Despite such huge public spending, it is still questionable whether extra money was indeed put into the pockets of the poor rice farmers.
- Another example of governance shortfall is that capital investment (borrowings) is not being shown in the annual budget and is therefore kept out of legislative oversight. For instance, the 2 trillion Thai Baht infrastructure borrowing project on transportation.
- Thai people traditionally and historically always had the freedom to trade, as the ancient texts and literature show. However, recent government policies are endangering these traditional freedoms.

- If Thailand has to escape the "Middle Income Trap" then it is not a question of having a big or small government but a question of redefining the role of the government where it focuses only on key areas and on driving the agenda and not on interfering in areas where private sector and the businesses have a legitimate role to play. If this principle is not adhered to, the government's intervention would distort the market and increase avenues for corruption (it is estimated that Thailand loses about 2% of GDP to corruption).
- A government that is pro freedom, pro market economy does not mean it should be blind to poverty, inequalities, etc but that it would not resort to unviable populist policies. The previous Thai government had resorted to the more effective direct cash subsidies but the latest government has removed them and resorted to the convoluted and ineffective rice procurement policy.
- There is a need for a knowledge-based, innovation based society in order to progress to the next level in economic development.
- There is also an apparent link between highly populist schemes/policies of the government and highly authoritarian government.
- The Thai government's role in supporting car manufacturing industry is another prominent and happily, successful approach to the role of the government (government merely created the right conditions and encouraged business, competition, etc.). He contrasted this with the Malaysian government's approach to the car industry (the government tried to promote one 'national car' instead of limiting its role in creating the right market conditions).

PANEL 4: Countries in Focus II

Moderator: Adinda Tenriangke Muchtar (Programme Director, The Indonesia Institute)

H.E. Set Aung (Deputy Governor, Central Bank of Myanmar)

- Nations need to focus on innovation, infrastructure and productivity to avoid the middle income trap.

- Myanmar is still struggling to formalize its informal economy and therefore is a long way off before it faces the middle income trap.
- Myanmar is highly committed to the AEC project but as a nation is nowhere close to being institutionally ready for its implementation.

Dr. Nguyen Quang A
(Vice Chairman, Association of Commerce and Industry of Hanoi, Vietnam)

- Vietnam is currently ranked low on the Economic Freedom Index. But it is still better than where it was 20 years ago, when it was on par with North Korea.
- Following liberalization of trade and business, a lot of potential has been unleashed in Vietnam and growth rates have improved.
- Currently, Vietnam has around 1,700 USD per capita GDP and so it is too early to talk about middle income trap. With around 7% growth rate annually, it would reach the middle income status in another 20 years.
- Despite this, the economy is facing several challenges already:
    - TFP (Total Factor Productivity) has come down over the past several years in contributing to the growth rate and concurrently the role of capital has increased and the overall growth rates have stalled.
    - Governmental policies are incorrect (not pro freedom and pro market economy)
    - The SOEs (State Owned Enterprises) role vs. private enterprise ??
    - Ownership and property rights being weakly enforced
    - Private commercial banks and related problems ??
- Institutional reforms are needed: Land reforms, SOEs reforms, banking reforms, political reforms and pressures from inside and outside (TPP, AEC, etc.)

Wan Saiful Wan Jan
(Chief Executive of the Institute for Democracy and Economic Affairs (IDEAS), Malaysia)

- Malaysia is a diverse, heterogeneous country with several ethnic divisions and hence related challenges.
- It is officially a middle income country and is officially in the middle income trap. (The *Government's target is to reach USD 15,000 per capita GNI by 2020 ?)*
- In 2010, the government introduced the 'New Economic Model' based on market liberalization, towards reducing government stake in State Enterprises.

- But, a few weeks ago, the government also announced the "Bumiputra Policy" ('Sons of the Soil') in the name of affirmative action resulting in an increase in the state intervention in the private sector. For instance, government is now interfering even in retail marketing, etc in sectors like garments.
- One challenge before the country is how to communicate and advocate the need to enhance Economic Freedom to the public at large and thereby convince the politicians. There is a greatly felt need to change public opinion and perception about markets and liberalization.

Prof. Michael XY Feng
(Vice President, Cathay Institute for Public Affairs, China)

- Last year, China crossed the USD 6,000 per capita GDP mark, thereby making It officially a middle-middle income country. The official target of the Chinese government is to double this per capita income (*by when?)*
- The stated vision of the Chinese President is 'prosperity' and 'rejuvenation of the Chinese nation'. However, there is too much of socialist emphasis on all issues.
- China has to improve its economic freedom levels in order to escape the middle income trap. But this might be very challenging for an authoritarian government and that too given the country's vast area and population. China can certainly not be compared with Hong Kong or Singapore.

Prof. Hiroshi Yoshida
(President, Institute of Public Sector Accounting, Japan)

- Japan is facing a "next generation" middle income trap. Currently, the country is plagued by high taxation, high levels of government borrowing (which is actually borrowing from the future generations of Japan), etc.
- Despite the above, there is a prevalent public belief in the bona fide and benevolent credentials of the government (i.e. that "the government is always right")
- Japanese government's balance sheet too is not truly representative: it seriously misrepresents assets & incomes vs liabilities & expenditure.

Barun Mitra
(Director, Liberty Institute, India)

- We need to focus on the politics behind the issue of middle income trap.
- This debate or issue could be considered a perfect opportunity for enterprising politicians (in a well-meaning sense) to intervene and propose solutions.
- First, the perception of politics has to change.
- In many democracies, convergence of political ideologies and agenda has resulted in personalized competitive politics. In many countries there is a great consensus (centered on non-liberal economic policies) on several issues. So we have to break out of this consensus and put forth liberal, market oriented solutions that are not only good but are also perceived to be good for the public.

PANEL 5: Asia and the Middle Income Trap : How can we overcome it?

Moderator: Assoc Prof ken Schoolland (Hawaii Pacific University, USA)

Tom Palmer
(Executive Vice President, International Programs, Atlas Economic Research Foundation, USA)

- We need to better define the middle income trap.
- The World Bank's well known definition ("countries with lower wages….. lose their competitive advantage" or " countries are squeezed between low (poor) and high (rich) income countries") is wrong.
- Low wages are never a competitive advantage. We need to understand the difference between cost of wages and labour costs. For example, Germany is a high wage country but a low labour-cost country (as the cost of capital is much higher, among the factors of production).
- Countries never compete with each other.

- In that case, what causes incomes to grow?
    - Capital investment, but has diminishing returns, beyond a point. Traditional overemphasis on capital investment/injection approach has not worked beyond a point, especially that in physical infrastructure investment.
    - Capital investment in schooling (general seen as resulting in human development) does not guarantee increase in incomes. This is because schooling is different from education which is different from skills (i.e. actual employable skills and not merely, bureaucratically certified ones with little market applicability).
    - The real reasons/factors for improving incomes are:
        - Innovations
        - Technology
        - Removing restrictions
        - International trade
- Elements most strongly associated with economic freedom and economic growth are rule of law and property rights.
- Is there is a middle income trap? Yes, but only in the sense that those countries that rank in the middle of the Frasier Index of economic levels are more likely to experience growth slowdown. But even within these countries in the middle income range, escape from the trap is possible by having better rule of law, greater economic freedoms, particular emphasis on real education and marketable skills.

Dr. Razeen Sally
(Director, European Centre for International Political Economy)

- Middle income trap study is not a futile exercise – it is rooted in reality. The reason is that "catch up growth" has a ceiling.
- In Middle East and Latin America, countries having: commodity export based economy + complacent governments squandering money on poorly designed programmes + import substitution policy - all have been utterly exposed during bad years. Such countries have the greater risk of getting trapped in the middle income status.
- East Asian (miracle economies) on the other hand, focused on labour advantage and value addition in the global chain.
- Currently, India and Pakistan are in the poor country range. Sri Lanka, Indonesia, Philippines are at the bottom of the middle income status (USD 2000 per capita GDP). China and Thailand are at the middle of this middle income status (USD 6000 per capita GDP). While Malaysia is at the top of this middle income status (USD 15,000 per capita GDP).

- If you are a poor country or a low middle income country, the basics to achieve catch up growth are: 1st generation reforms – "product market liberalization" (all of them need to be set right if it has to work out)
  - Macroeconomic stability (fiscal and monetary policy)
  - Rule of law and property rights
  - International trade (but at the higher end, with value addition)
  - Skills and education
  - Industrial policy is not one of these because government usually is very inefficient in deploying public resources
- The next generation reforms are much more difficult, are structural and more complicated. They are the "factor market liberalization" reforms. (some of them can be gotten right, with proportional results; it is not necessary that all of them have to be gotten right at the same time).
- Increasing globalization and free market does increase income inequality. This is indeed a political challenge. We cannot avoid this but instead must face it and evolve ways to address it.

Dr. Sethaput Suthiwart-Narueput (Executive Chairman, Thailand Future Foundation)

- Focus on Research and Development, innovation, etc are necessary to escape from the middle income trap. But Thailand has not invested enough in these – only 0.2% of the GDP and now even this is coming down.
- In the PISA scores (education standards), Thailand is coming down.
- Key reforms do not get implemented not due to lack of knowledge and awareness among the authorities (and even the general public to an extent) but primarily because of:
  - Distant or difficult political payoffs (that is why all those schemes with easy and visible payoffs such as huge physical infrastructure projects are so persistent)
  - Poor accountability (not a single politician in Thailand has ever been convicted of corruption and sent to jail)
- One solution to bad governance is to have lesser government and smaller governments. How do achieve this is a challenge.
- One attempt that should have been easier is privatization, but has failed due to poor public perception, vested interests hijacking the effort, etc.

Peter Wong (Executive Director, Lion Rock Institute, Hong Kong)

- Korea, Hong Kong, Taiwan, etc. they all took 50 years to become rich. Hong Kong has escaped the middle income trap.
- Strong private property rights (the speaker says Hong Kong used to have better private property rights during the 1945 – 2000 year period). Low taxation, flat tax, etc. too played their role.
- However tax breaks, etc. should not be selectively given to foreign firms over domestic ones and to corporates over individuals. If anything individuals deserve lower tax rates than firms.
- Governments should resist the temptation to borrow from the future generations and thereby bankrupting them.

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