

WHY EASTERN EUROPEAN ECONOMIES HAVE FOUND THEMSELVES IN THE MIDDLE INCOME TRAP AND HOW TO OVERCOME IT

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ABSTRACT

The «middle income trap» mode means first of all a stop in the economic development of those countries that pursues a policy of economic growth but after a certain successful period this tendency slow down and the gap of welfare against developed countries ceases to decrease. This mode can emerge for different countries at various levels of GDP per capita. The variance in income may be rather large, but the common feature is preservation of the existing welfare gap with the developed countries. Such steady state leads to crises in all countries that have fallen into this trap of middle income. In Europe, this situation was emerging after the global financial and economic crisis of 2008-2009. These processes have developed as the continuation of the economic differentiation of the «North» and «South» countries, as well as countries of Western and Eastern Europe. The forecasts for the automatic economic convergence of the European Union countries have not been to come true. Why it was happen? Why the global financial and economic crisis stopped the economic growth of many European countries? This paper tries to give some analytical answers this question and suggests certain economic policy measures to overcome this situation. The main methodological basis of this research was the Joseph Schumpeter's theory of economic development with a conceptual invention that technological innovations are the main factor of economic development and that the slowdown of innovation processes causes the limitation of economic development. The analysis showed that the confirmation of this situation may be demonstrated by the contemporary economic competition between Europe and United States, as well as with the dynamic Southeast Asia countries. It is the weakening of modern innovation processes in Europe that led to an increase in the economic backwardness of Europe from the United States and a shortening distance from epy advanced Asian countries that realised successfully the catch-up policy. The same picture is observed inward Europe between separate countries. The research carried out in the paper shows that the boundary between countries - economic leaders, and other countries is clearly traceable to the indicators of the European Innovation Scoreboard. The same indicators and characteristics of the participation of countries in the processes of the modern industrial revolution (4IR) convincingly suggest in favour that the «middle income trap» problem is primarily due to the lack of the strong innovation activities in the countries concerned. Based on these findings the practical recommendations for economic policies aimed at overcoming the economic problems of the countries of Eastern Europe that have fallen into the «middle income trap» are offered. Methodological approach of Schumpeter's theory let us theoretical and practical benchmarks to better recognize the needed key economic policy content in the middle-income countries. In this sense it is important to form a vision of economic reforms as the innovation technological change.

KEYWORDS

The middle income trap, Schumpeter's theory of economic development, Innovations and knowledge economy, Economics of Catch-up, Economic crisis, Comparative Economics