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# The Rise of the Middle Class and Economic Growth in ASEAN

by

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**Abstract:** We present instrumental variables estimates of the relationship between the share of income accruing to the middle class and GDP per capita. The increase in GDP per capita that ASEAN economies experienced during 1970-2010 significantly contributed to a higher share of income accruing to the middle class in these countries. Econometric model estimates show that the impact of a rise of the middle class on economic growth depends on initial levels of GDP per capita. In the majority of ASEAN countries, a rise of the middle class that is unrelated to GDP per capita growth would have had a significant negative effect on economic growth for levels of ASEAN economies' GDP per capita in 1970. In contrast, for recent values of GDP per capita a rise of the middle class would positively contribute to growth of GDP per capita in ASEAN. We show that investment is an important channel through which the income share of the middle class affects economic growth.

*Key words:* Middle Class, Inequality, Economic Growth, ASEAN

*JEL codes:* O1

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