

Middle-Income Trap: Current situation - Policies implications for Vietnam

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- Literature review of the Middle-Income Trap
- International Experiences
- An overview of GDP growth, GDP per capita in Vietnam
- Empirical evidence
- Policy Implications



Literature review of Middle-Income Trap

What is the MIT



There is no universally accepted definition for the MIT



The MIT is understood as a phenomenon where a country, after reaching the middle-income threshold, experiences a slowdown in growth and becomes stuck at this level. It fails to transition to high-income status due to rising costs and diminishing competitive advantages

Factors affecting the MIT



Diminishing returns to investment capital



Exhaustion of Cheap Labor and the Latecomer Advantage



Insufficient quality of human capital



Lack of access to advanced infrastructure, limited access to finance

Literature review of the Middle-Income Trap

The MIT from an absolute perspective

- The MIT will be analyzed from an absolute perspective using the WB's classification thresholds combined with the specific time thresholds proposed by Felipe et al. (2012). Specifically:

- A country that has entered the lower-middle-income group will be considered to fall into the low MIT if it fails to move to a higher income group (upper-middle or high-income) after 28 years.
- Similarly, a country entering the upper-middle-income group will be considered to fall into the high MIT if it fails to reach the high-income group after 14 years.

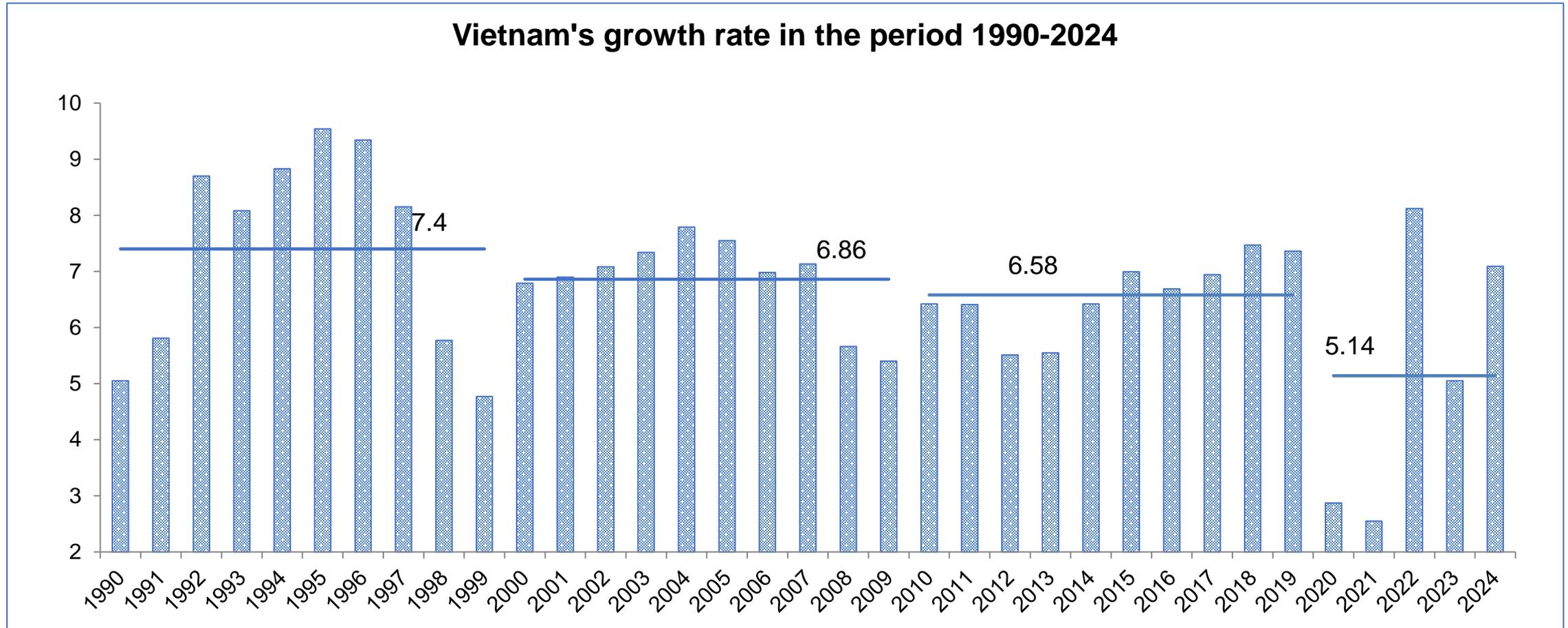
- WB's threshold for 2024:

- Low-income: < \$1,136.
- Lower-middle-income: Between \$1,136 - \$4,495.
- Upper-middle-income: Between \$4,496 - \$13,935.
- High-income: > \$13,935.

The MIT from a relative perspective

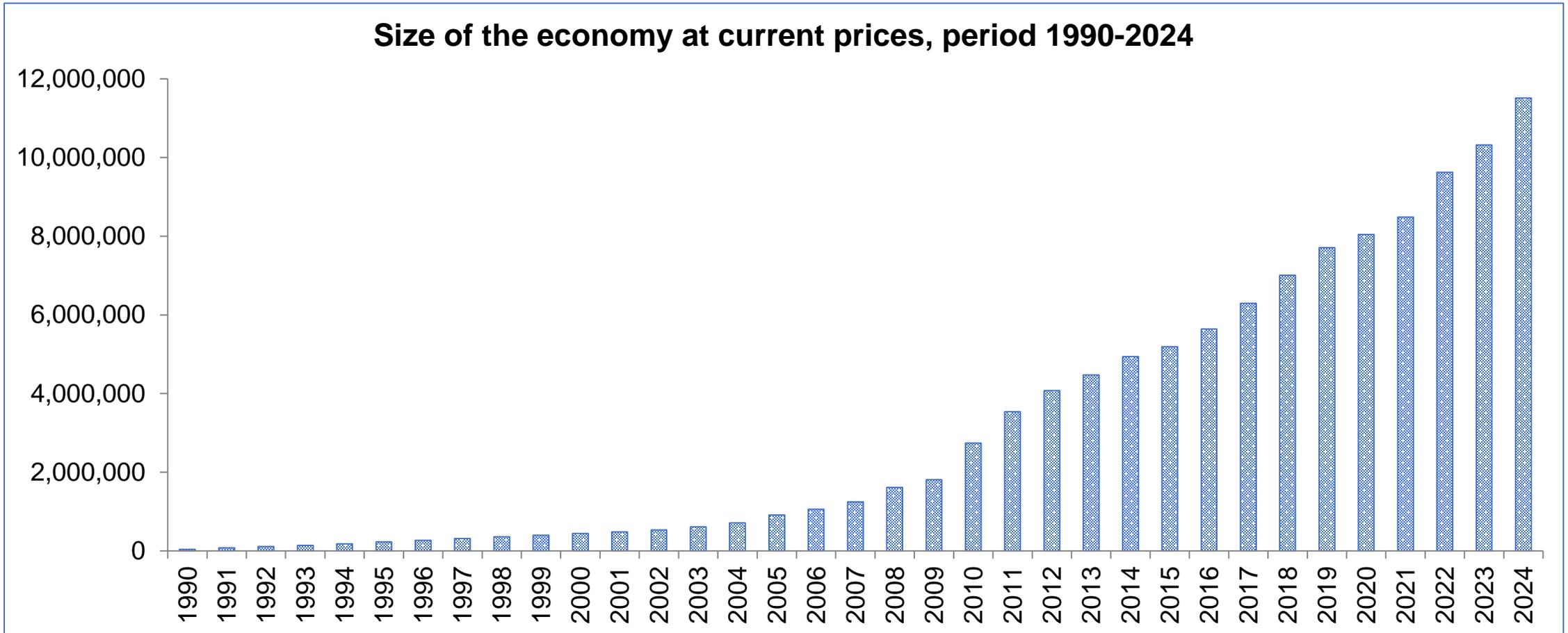
- The MIT will be analyzed from a relative perspective using each country's GDP per capita as a percentage of that of the US. This comparison will then be measured against the income thresholds established by Robertson and Ye (2013): a country belongs to the middle-income group if its GDP per capita is between 8% and 36% of the benchmark country's GDP per capita.

Overview of GDP growth, GDP per capita in Vietnam



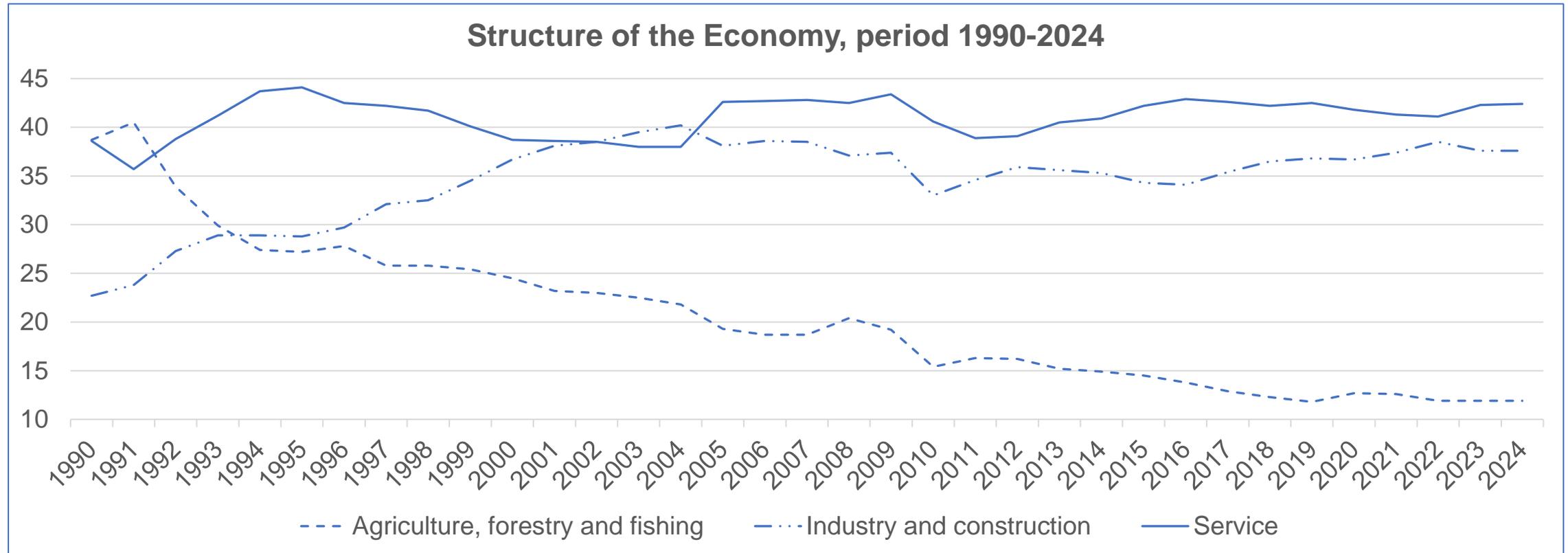
- **Slowdown** in the average annual economic growth rate due to the **diminishing effectiveness** of traditional growth drivers
- The **2020–2024 period**, which recorded the lowest average growth rate of **5.14%**, as a direct result of the **severe negative impacts of the COVID-19 pandemic**

Overview of GDP growth, GDP per capita in Vietnam



- Despite the slowdown in the rate of growth, **the actual size of the economy has expanded** exponentially:
 - Increased by over **190 times** since 1990, reaching more than **VND 11,511 trillion in 2024**.
 - The economy in 2024 is more than **double the size it was in 2015**

Overview of GDP growth, GDP per capita in Vietnam



- **Structural transformation of the economy:**

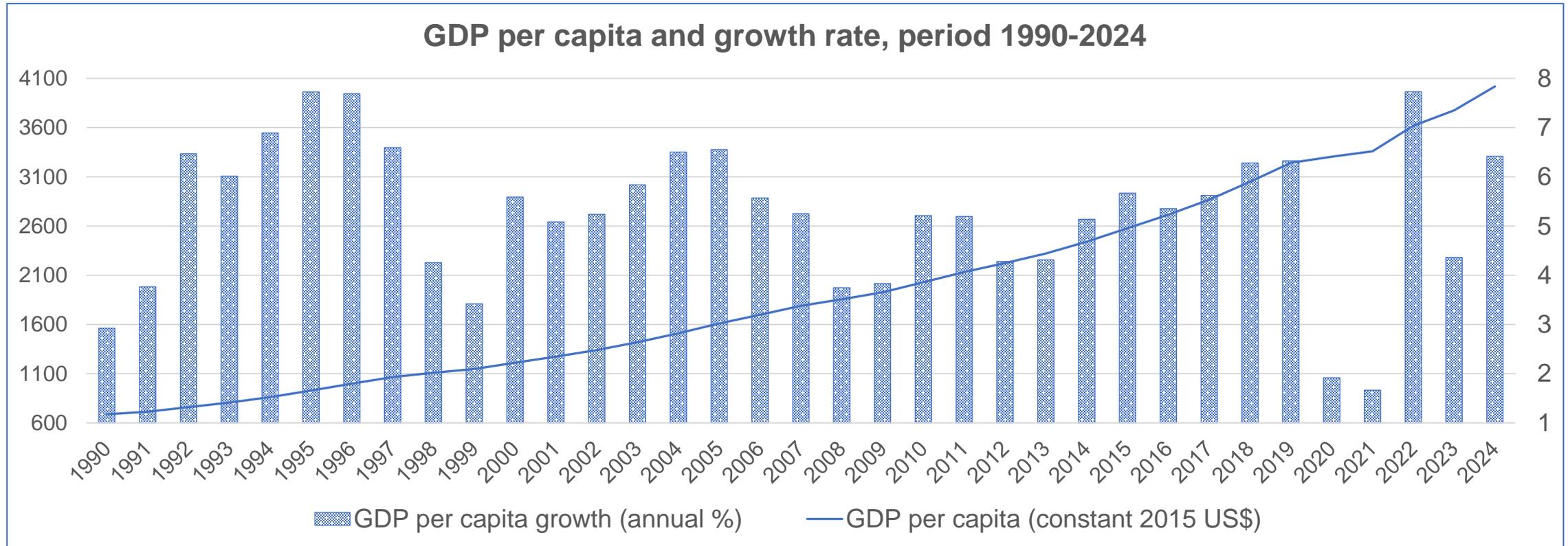
- **Agriculture, Forestry, and Fishery** has decreased dramatically, dropping from **38.7% in 1990** to just **11.9% in 2024**.

- **Industrial and Construction sector** contributes an average of about **34.6%** annually to GDP.

- **Service sector** contributes around **41%** of GDP.

- Labor and resource have been successfully reallocated, primarily towards the **Industrial and Construction sector** and the **Service sector**.

Overview of GDP growth, GDP per capita in Vietnam



•Vietnam's GDP per capita from 1990-2024 has seen a **phenomenal rise**:

- Starting from just a few hundred dollars in the early 90s, the figure is projected to reach **\$4,490 in 2024**.
- Vietnam's GDP per capita surged by about **590%**, increasing nearly **sevenfold** from \$650 (2005) to \$4,490 (2024).

•Crucially, this growth has demonstrated **remarkable resilience**, even through recent global turmoil.

Empirical evidence

Methodology

- **Absolute approach:** based on **fixed income thresholds** set by the World Bank:

- **Low-income:** < \$1,136.
- **Lower-middle-income:** Between \$1,136 - \$4,495.
- **Upper-middle-income:** Between \$4,496 - \$13,935.
- **High-income:** > \$13,935.

Using Felipe, Abdon, and Kumar's framework:

- Stuck in the **low MIT** if persists at the lower-middle-income level for **more than 28 years**.
- Stuck in the **high MIT** if it persists at the upper-middle-income level for **more than 14 years**.
- **Relative approach:** focus on a country's income **relative to a global technological leader**.
 - Definition by Robertson and Ye: a country as middle-income if its GDP per capita is between **8% and 36%** of a benchmark country's GDP per capita.
 - The **United States (USA)** is chosen as the ideal benchmark.
 - Calculate the **Catch-up Index (CUI)** - assessment of whether Vietnam is **catching up** (if CUI > 100 and increase) or **falling behind** (if CUI < 100 and decrease) its peers

Empirical evidence

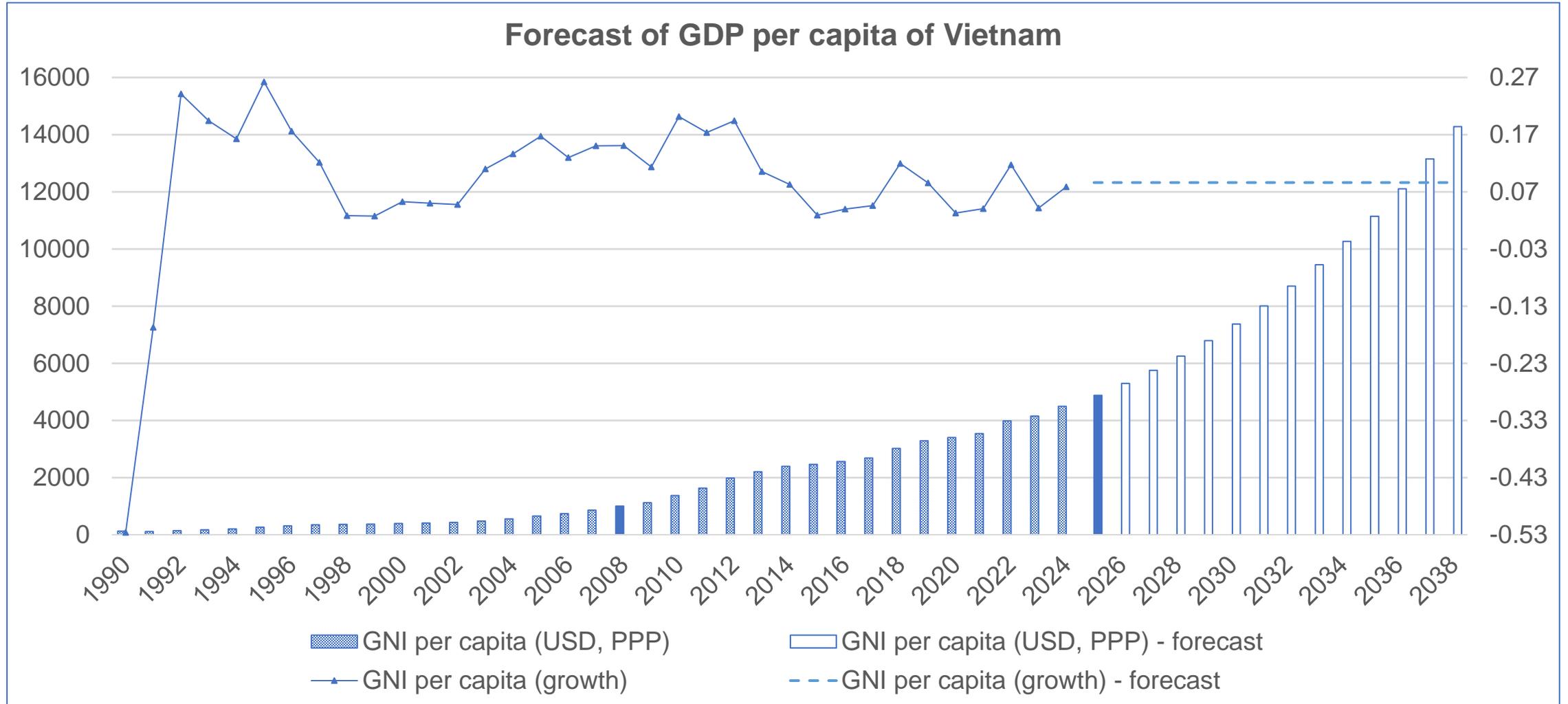
Data and variables

	Variable	Unit	Source
Absolute Approach	GNI per capita	US dollars (Atlas method)	World Bank
Relative Approach	GDP per capita	International dollars (constant 2021, measured in Purchasing Power Parity)	World Bank
Economic performance	GDP growth	Annual percentage change (constant 2010)	National Statistics Office of Vietnam

Covering the period from 1990 to 2024
I also collected similar data series for: Malaysia, Thailand, Indonesia, and the Philippines for a regional comparison.

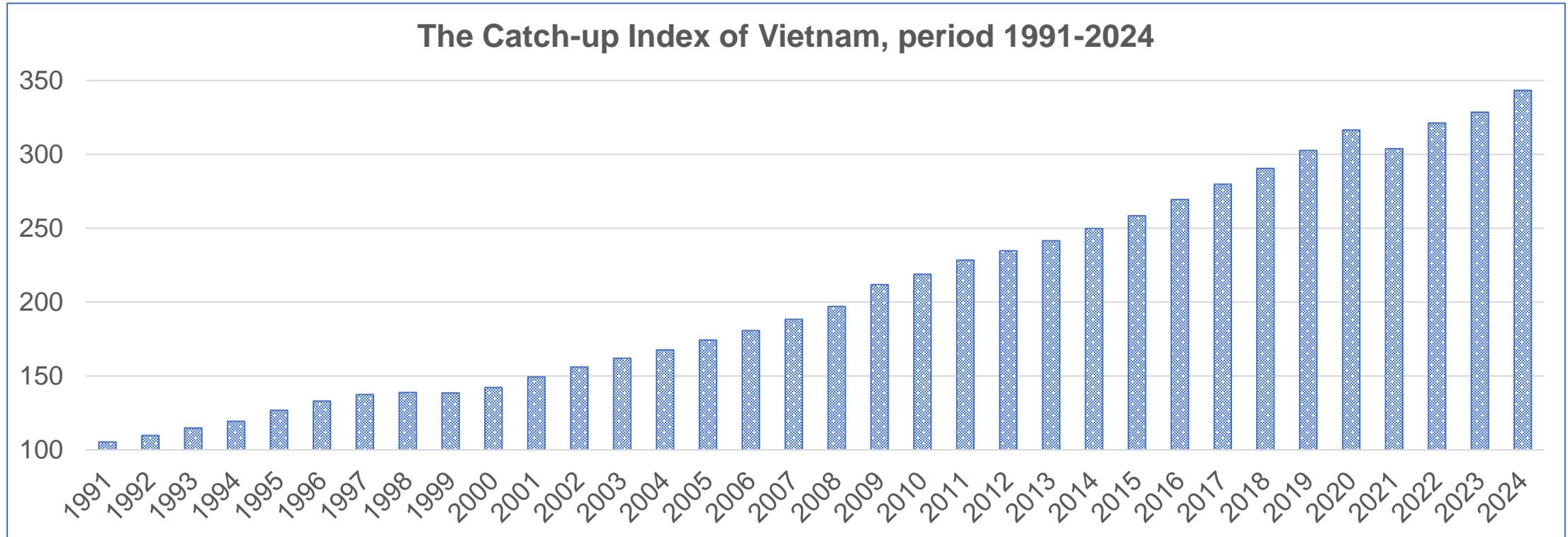
Empirical evidence

Empirical results: The absolute approach



Empirical evidence

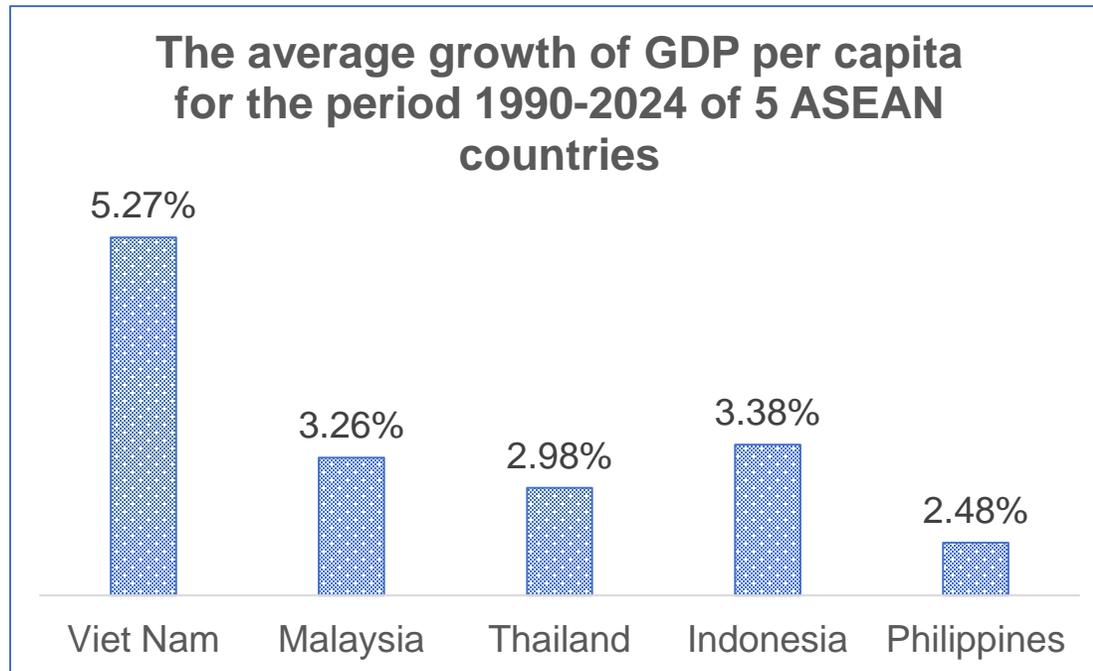
Empirical results: The relative approach



The CUI value is **greater than 100** and shows a **clear increasing trend** over time. This mathematically reflects the continuous **narrowing of the income gap** between Vietnam and the United States

Empirical evidence

Empirical results: The relative approach



Over the 1990–2024 period, Vietnam exhibited the **highest average annual GDP per capita growth rate** among the five nations, at **5.27%**.

While Vietnam entered the middle-income group much later (2001), the other four entered before 1990. However, Vietnam has rapidly closed the distance:

- In 1990, Vietnam's average income was only about **50% of Indonesia's**.

- By 2024, Vietnam's income is approximately **99% of Indonesia's**.

- IMF forecasts even project Vietnam to **surpass Indonesia by 2029** in terms of PPP per capita income.

Empirical evidence

Empirical results: Economic performance

The 1990-2024 period

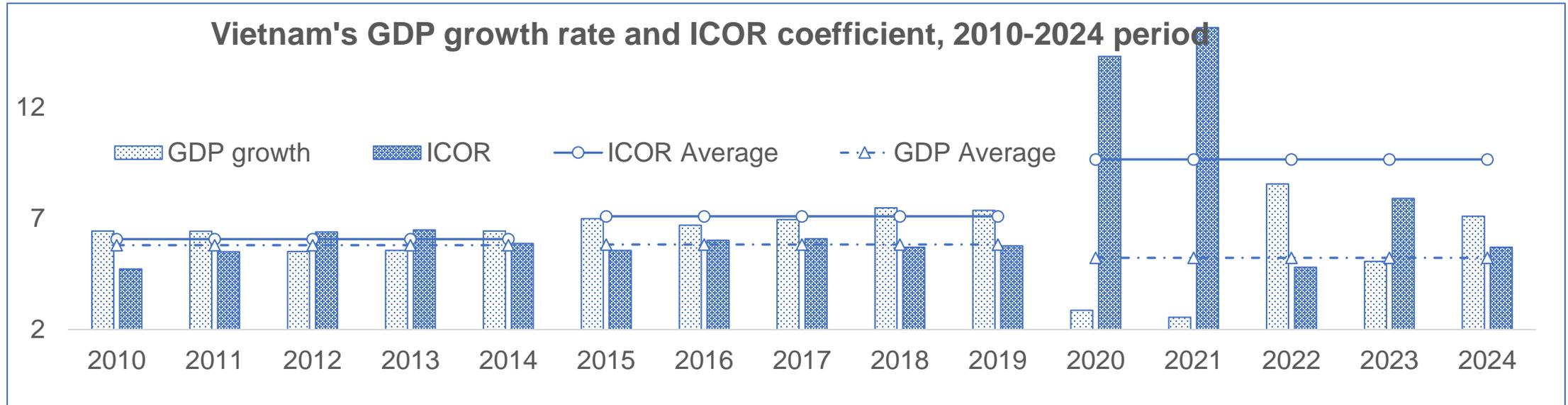
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
α	7.21	0.33	21.79	1.48E-21
β	-1.15	0.48	-2.40	0.02

The 1990-2024 period, excluding 2021-2022

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
α	7.21	0.27	26.41	0.00
β	-0.71	0.41	-1.72	0.09

Policy Implications

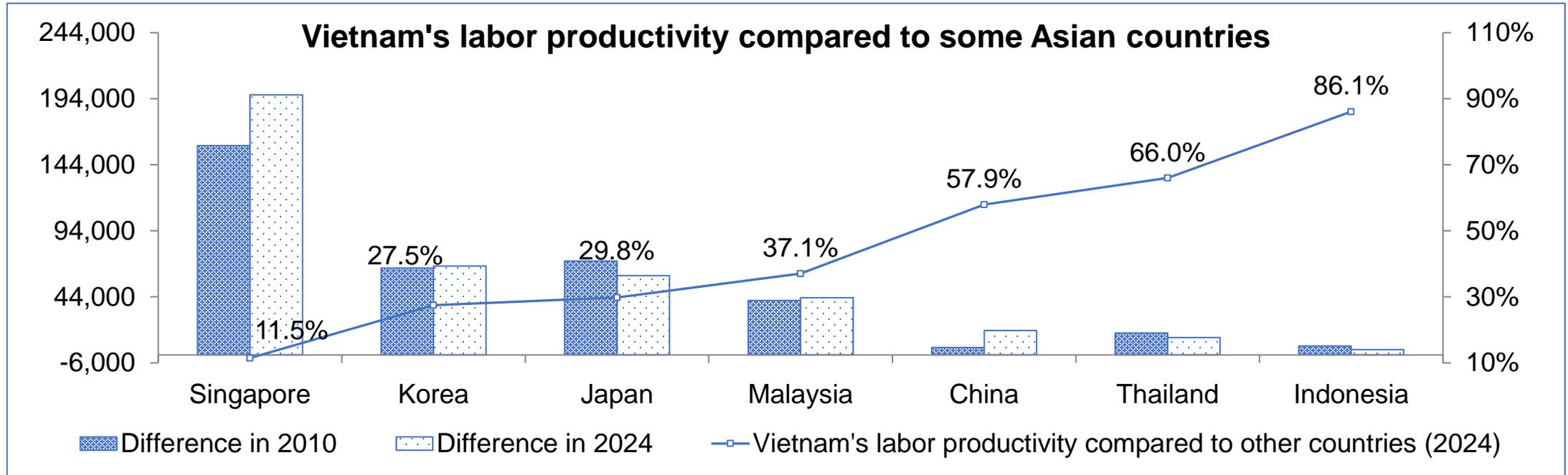
Investment efficiency



- Vietnam's ICOR has historically been high and has shown worrying trends
 - When we compare Vietnam's ICOR (around 6.13 in 2022-2024) to other successful developing nations, the inefficiency becomes clear: **Taiwan** and **Japan** maintained ICORs around **2.7 to 3.2**; **South Korea** was also around **3.0 to 3.2**.
- Policy implication: Ensuring Focused Execution; Streamlining Capital Disbursement; Mobilizing Socialized Capital

Policy Implications

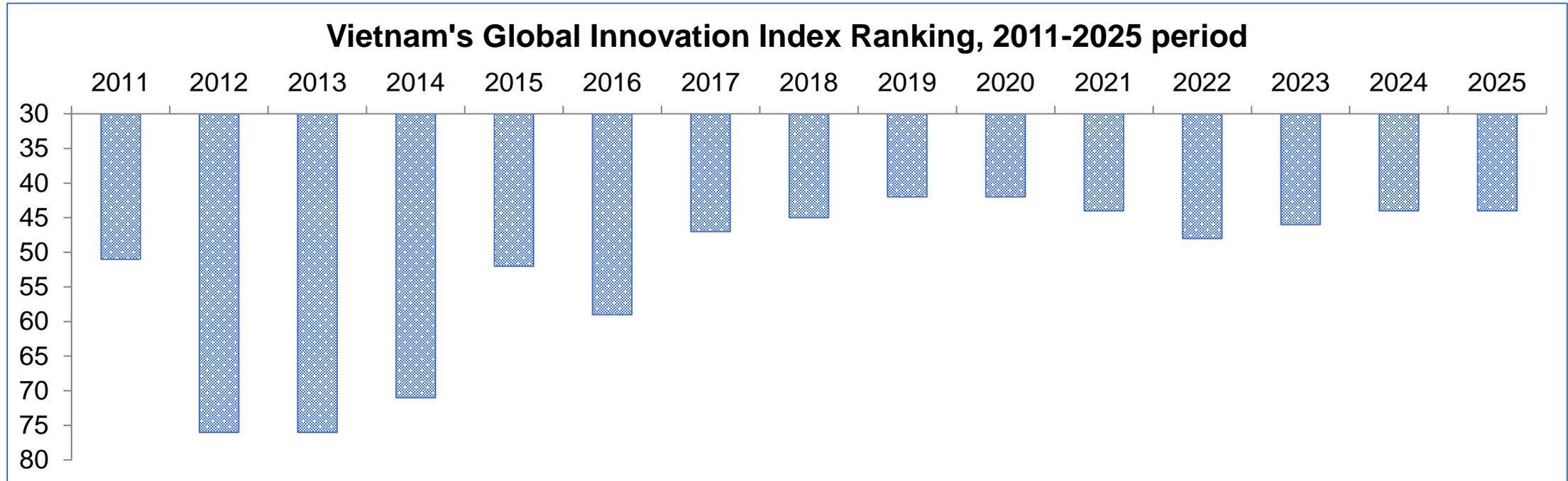
Human capital



- Vietnam has made **substantial gains** in human development over the last few decades: From 1990 to 2023, Vietnam's Human Development Index (HDI) value **rose by nearly 50%, reaching 0.766**.
 - Despite this progress, the quality of human capital remains a major constraint, primarily seen through **low labor productivity**.
- Policy implication: **Modernizing Education; Strengthening School-Business Links; Updating Curricula**

Policy Implications

Innovation



- Vietnam has demonstrated a remarkable commitment to innovation, resulting in a continuous upward trend in the GII rankings, rising from **76th in 2012** to **44th in 2024** and maintaining that rank in **2025**.
 - While the progress is excellent, achieving a true economic breakthrough requires focused effort.
- Policy implication: **Strengthening Fundamental Pillars:** Institutions, Education and Training, Digital Infrastructure and Venture Capital; **Boosting Capacity and Competitiveness**

Policy Implications

Macroeconomic stability

- **CPI has been kept at appropriate levels:** rising from 1.84% in 2021 to an estimated 4.0% in 2025. Annually, inflation has been managed effectively within set targets.
 - **Strong fiscal discipline:**
 - Public debt, government debt, and external debt are all well-managed. By the end of 2025, public debt is estimated to be around **35–36% of GDP**, and the average state budget deficit for the 2021–2025 period is around **3.1–3.2% of GDP**, meeting the target of not exceeding 3.7%.
 - **Budget Mobilization** has been solid, averaging about **18.3% of GDP (2021-2025)**.
 - **Credit Rating** has yielded positive results. Fitch and Moody's assigned Vietnam ratings such as **BB+** and **Ba2** with a "Stable" outlook, reflecting confidence in Vietnam's financial governance.
 - Monetary policy tools have been managed **synchronously and flexibly**, working closely with fiscal policy.
- Policy implication: **Continue to maintain this stability** in order to foster a favorable environment for sustained economic growth, which is essential to avoid falling into the Middle-Income Trap.



THANK YOU FOR LISTENING