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

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1. Introduction

The Middle-Income Trap (MIT) describes a situation where a country that has achieved middle-income status struggles to advance to the high-income level due to factors like rising costs and loss of competitive edge. Nations caught in this "trap" no longer benefit from cheap labor costs like low-income countries, nor do they possess the advanced infrastructure, highly skilled workforce, and modern technology that characterize high-income nations. Only a select number of countries successfully transition from low-income all the way to high-income status. According to the World Bank (WB), since the 1990s, only 34 middle-income countries have successfully broken through to high-income levels, leaving the remaining 108 countries stuck in the MIT. Many of these countries have ambitious strategies to become high-income within the next few decades, but the WB notes that these goals are becoming increasingly difficult to achieve. Countries that have low economic openness are considered more vulnerable to this trap.

Vietnam is currently classified by the WB as a lower-middle-income economy. The country officially moved beyond the low-income threshold in 2009 when its GNI per capita reached $1,064. By 2024, this indicator had risen significantly to approximately $4,490, reflecting consistent year-on-year growth. While Vietnam has undoubtedly achieved considerable success when measured against its past performance, reaching the developed, high-income status of regional peers like Japan, South Korea, or Singapore presents significant difficulties. In recent years, Vietnam's economy has been celebrated for achievements such as a high growth rate compared to global and regional standards, stable inflation, and improved trade and payment balances. However, the economy also faces several persistent issues, including ineffective investment, low quality of labor, an economic model heavily reliant on natural resources, an underdeveloped financial market, potential risks within the banking system, environmental pollution, and corruption.

The 13th National Party Congress set clear national goals: for Vietnam to become an upper-middle-income country by 2030 and a high-income country by 2045. Yet more than 15 years after escaping the low-income group, Vietnam remains in the lower-middle-income category.

Given this economic backdrop, it is crucial to assess whether Vietnam is currently in the trap and to propose actionable recommendations to help the country avoid it. By applying two distinct analytical methods - the absolute approach and the relative approach - empirical results suggest that Vietnam is likely to avoid the lower MIT. However, the situation regarding the upper MIT is more complex. If the current economic growth rate continues without substantial improvement, Vietnam is at risk of falling into the upper MIT. This finding clearly indicates that Vietnam needs to prioritize and improve the efficiency of its input resources: Investment efficiency, Human capital, Innovation and Macroeconomic stability.

The remainder of this paper is structured as follows: Section 2 reviews existing literature on the MIT. Section 3 focuses on identifying key lessons from international experiences. Section 4 provides an overview of Vietnam's economic growth and GDP per capita. Section 5 presents the empirical investigation into whether Vietnam is currently in the trap. Section 6 discusses policy implications. Finally, the conclusion is provided in Section 7.

2. Literature review of the Middle-Income Trap

2.1 What is the Middle-Income Trap and what factors affect it

What is the MIT

It is important to establish from the beginning that there is no universally accepted definition for the MIT. The term was indirectly introduced by Garrett (2004), who observed a stagnation in the growth rates of middle-income countries starting in the 1980s. The phenomenon is subject to various interpretations across academic research, which has fueled considerable debate. Consequently, some researchers classify certain countries as being "trapped," while others argue that these same countries have successfully escaped. A notable example is Poland: Woo et al. (2012) considered the country to be "stuck" in the MIT at the time of their study, whereas Agenor and Canuto (2012), Felipe, Abdon, and Kumar (2012), and Spence (2011) concluded that Poland had successfully avoided the trap.

The core of the MIT concept can be summarized by several key perspectives:

Garrett (2004) posited that the MIT occurs when a country is unable to compete simultaneously with high-income economies (with their knowledge-intensive economic structures and high-quality institutions) and low-income economies (with a cost advantage in low-skill labor).

Gill and Kharas (2007) described trapped countries as those whose growth rate is slower than both rich and poor nations. These countries are caught between poor nations, which have advantages in cheap labor and natural resources, and rich nations, which excel in advanced science and technology. Countries in the MIT lack a comparative advantage, whereas poor countries benefit from labor-intensive sectors and rich countries from technology-intensive sectors.

The ADB (2011) study referred to countries that are "unable to compete with low-income, low-wage economies in manufactured exports and with advanced economies in high-skill innovations...such countries cannot make a timely transition from resource-driven growth, with low-cost labor and capital, to productivity-driven growth."

According to the World Bank (2021), the MIT is an economic phenomenon where a nation, after achieving a certain income level through readily available advantages, becomes stuck at that threshold. It fails to transition to high-income status due to rising costs and diminishing competitive advantages.

Kamil and Jakub (2017) classified the existing interpretations of the MIT into five categories: (i) Nonempirical, descriptive interpretations, (ii) Fixed-Income Threshold, (iii) Relative-Income Threshold, (iv) Time Threshold, and (v) Indices.

(i) Nonempirical, descriptive interpretations

The first group comprises descriptive, non-empirical interpretations of what the MIT entails. The most notable examples include those by Gill and Kharas (2007), Garrett (2004), and the World Bank (2021), as previously mentioned. Generally, they define the trap as a situation where a country can no longer sustain a robust convergence rate by relying on basic growth engines, most notably low wages. On the one hand, the country cannot compete with advanced nations, which compete not on price but on quality, demanding a high degree of innovation. On the other, the country also fails to compete with low-income nations that offer even lower wages. As a result, the nation finds itself caught in the middle - hence, falling into the MIT. The main advantage of this interpretation is that the trap is not fixed at a specific income level, index, or relative income. It can be applied to various economies that are (or could be) stuck in the trap.

(ii) Fixed-Income Threshold and (iii) Relative-Income Threshold

The second group of definitions includes empirical interpretations that set a specific income level as the threshold for the MIT. The third group of definitions encompasses studies that use a relative income threshold. Specific details regarding these two categories will be provided later in the paper.

(iv) Time threshold

The fourth group is defined based on the number of years a country needs to transition from one income group to another. This approach was proposed by Felipe, Abdon, and Kumar (2012). They set the thresholds at 28 years in the lower-middle-income group (ranging from $2,000 to $7,500 GDP per capita, PPP, constant 1990 prices; with an average annual growth rate of 4.8%) or 14 years in the upper-middle-income group (from $7,500 to $11,500 GDP per capita, PPP, constant 1990 prices; with an average annual growth rate of 3.5%). A country exceeding this threshold number of years is classified as being stuck in the MIT. According to Felipe, Abdon, and Kumar (2012), in their sample of 38 lower-middle-income and 14 upper-middle-income countries in 2010, a total of 35 nations were identified as trapped.

(v) Indices

The fifth group includes studies that construct specific indices to assess whether a country is falling into the trap. The two most common indices are the Catch-Up Index (CUI) and the ESCAPE Index.

- Catch-Up Index (CUI): Proposed by Woo et al. (2012), this index suggests that a country is caught in the MIT when it shows no tendency to converge with the global economic leader (i.e., the United States). The CUI is relatively

simple: it is calculated by dividing a country's income level by that of the US; those with a CUI above 55% are classified as high-income, those below 20% as low-income, and the rest as middle-income.

- ESCAPE Index: The more complex ESCAPE Index was proposed by PwC in 2014. A team of economists led by Hawksworth (2014) designed the index to indicate how well various emerging markets are positioned to escape the trap. This index combines 20 key indicators across five dimensions: (i) economic growth and stability, (ii) social progress and cohesion, (iii) communication technology, (iv) political, legal, and regulatory institutions, and (v) environmental sustainability. According to the ESCAPE Index, countries on track to escape the trap include China, Chile, Malaysia, and Saudi Arabia, while Brazil, India, Indonesia, South Africa, and Turkey are more likely to be trapped.

It should be noted that while these indices attempt to quantify the MIT, they are generally simple, and neither has undergone rigorous statistical testing. Furthermore, they often produce inconsistent results (such as classifying China differently).

Within the scope of this study, based on the research by Felipe, Abdon, and Kumar (2012), the MIT is understood as the phenomenon where a country, after reaching the middle-income threshold, experiences a slowdown in growth and becomes stuck at this level for more than 42 years (28 years in the lower-middle-income group and 14 years in the upper-middle-income group).

Underlying causes of the Middle-Income Trap

In his research, Agenor P.R. (2015) synthesizes the factors influencing countries' susceptibility to the MIT, drawing on previous empirical studies. The author posits that several factors affect whether a country falls into the MIT, including: diminishing returns to physical capital, exhaustion of cheap labor and imitation gains, insufficient quality of human capital, lack of access to advanced infrastructure, and lack of access to finance.

Diminishing returns to investment capital: During the early stages of economic development, high investment rates generate significant economic growth benefits. However, as the economy develops, the effect of diminishing marginal returns erodes these growth benefits over time. Without the implementation of new policies to stimulate economic growth, a country will be unable to continue its transition from a middle-income to a high-income status. To successfully overcome the MIT, maintaining the contribution of investment capital to economic growth requires ensuring that this capital is mobilized and utilized efficiently. It is important to note that capital is sourced from two main channels: domestic and foreign. Domestic capital accumulation is generated from the savings of households, businesses, and the government. Foreign capital includes Foreign Direct Investment

(FDI), trade surpluses, and external borrowing, among others. Therefore, countries seeking to sustain their growth momentum and escape the MIT must prioritize investment from both domestic and foreign sources.

Exhaustion of Cheap Labor and the Latecomer Advantage: Another explanation for the slowdown in growth is based on a Lewis-type development process[1]. According to this perspective, the factors and advantages that drove high growth during the early phase of rapid development - namely, cheap labor and the imitation of foreign technology - disappear after reaching the middle- and upper-middle-income levels. Indeed, in the initial phase, low-income countries can compete in international markets by producing labor-intensive, low-cost products using imported foreign technologies. These countries can achieve significant early productivity gains by reallocating labor from low-productivity agriculture to higher-productivity manufacturing. However, productivity growth derived from sectoral reallocation and technology imitation eventually becomes depleted.

While imitation is the primary driver of productivity growth in the early stages of development, widespread innovation - defined as the application of new ideas, technologies, or processes to production activities - is the critical growth engine once an economy has been developing for years. Imitation primarily targets low-skilled labor, whereas innovation necessitates skilled labor. Both imitation and innovation are costly, but imitation is less expensive. By initially specializing in low-skill intensive activities, a low-income country may not provide sufficient incentive for workers to invest in education, thereby slowing down the accumulation of human capital necessary to drive widespread innovation at a later stage. Consequently, while a developing economy can use an imitation-based strategy to escape the low-income poverty trap, that very strategy often becomes a major impediment to a successful transition to innovation-driven growth. This requires the development of new sources of growth to maintain a sustainable rate of increase in per capita income.

Insufficient quality of human capital: Another factor that can explain the MIT is the poor quality of human capital. The quality of labor input, encompassing the skills, knowledge, and discipline of the workforce, is arguably the most crucial element of economic growth. Most other factors, such as capital, raw materials, and technology, can be purchased or borrowed, but the same cannot easily be done for human resources. Factors like machinery, equipment, and production technology can only achieve their maximum effectiveness when utilized by a workforce that possesses an appropriate level of education, health, and labor discipline. Poor quality human capital limits a nation's ability to assimilate more advanced foreign technologies and

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[1] Also known as the Lewis dual-sector model, describes economic development as a structural transformation where a large surplus of underemployed labor from a traditional, low-productivity agricultural sector moves to a modern, high-productivity industrial sector. This transfer is driven by higher wages in the modern sector, and as the industrial sector expands, it accumulates capital and creates more jobs, leading to a virtuous cycle of economic growth.

expand innovative activities, thereby hindering the productivity growth essential for a country to sustain high economic growth rates.

Furthermore, *lack of access to advanced infrastructure* and *limited access to finance* are also factors that may cause a country to fall into the MIT.

Modern infrastructure is typically categorized into two types: basic infrastructure, which includes foundational elements such as roads, electricity, and simple telecommunication systems, and advanced infrastructure, which primarily consists of sophisticated Information and Communication Technologies (ICTs) and high-speed communication networks. It is widely recognized that access to broadband is instrumental in establishing both domestic and international knowledge networks, thereby accelerating dissemination, research, innovation, and economic growth. Furthermore, broadband networks serve as a critical platform that other sectors can utilize to develop crucial services, such as distance education and telemedicine, and foster the creation of digital content. All these outcomes are essential for increasing overall productivity.

Concurrently, there is growing evidence that limited access to finance is a significant constraint on innovation and growth in both developed and developing countries. A major reason for this is the difficulty faced by innovative firms in securing external funding.

2.2 The MIT from an absolute and relative perspective

The MIT from an absolute perspective

The absolute approach to defining the MIT involves setting a specific, fixed income level as the point where countries may become "trapped." Since 1978, the World Bank (WB) has published the World Development Report, reflecting the development of each country's economy, population, education and health outcomes. In particular, the WB classifies all countries into distinct income groups based on per capita income, calculated using the Atlas method, [2] and the classifications are updated annually on July 1, based on the GNI per capita of the previous calendar year.

A challenge arises because the WB's classification typically uses GNI per capita, which differs from the GDP per capita data commonly published by other international organizations (like the IMF or ADB). To address this, Felipe et al. (2012) analyzed the GDP per capita (in 1990 PPP dollars) of 124 nations. They performed necessary adjustments to ensure their income groupings closely matched the World Bank's classifications. Ultimately, they proposed four widely-used thresholds: Low-

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[2] The Atlas method used by the World Bank calculates the dollar value of per capita income based on the Atlas conversion factor. This factor is derived by taking the average exchange rate of a country over the past three years and adjusting for relative inflation changes. The benefit of this calculation method is its ability to reduce the distorting effect of short-term exchange rate fluctuations on income reporting.

Income (below $2,000), Lower-Middle-Income ($2,000-$7,250), Upper-Middle-Income ($7,250-$11,750), and High-Income (above $11,750).

Beyond the World Bank framework, other researchers have proposed alternative fixed thresholds:

- Spence (2011) suggested a fixed range for the MIT between $5,000 and $10,000 per capita (PPP). He argued that this is the developmental stage where transitioning to higher income levels becomes most difficult.
- Eichengreen, Park, and Shin (2013) introduced a threshold based on the concept of a growth slowdown. They studied middle-income countries that maintained at least 3.5% average GDP growth for multiple years. They defined a sudden slowdown as a drop in the 7-year average growth rate of at least 2 percentage points. Their analysis identified two peak income levels where such slowdowns are most likely to occur: between $10,000 and $11,000 and between $15,000 and $16,000 per capita (both in PPP, constant 2005 prices).

Overall, the primary advantage of the absolute approach is its clarity. By using fixed thresholds, it is easy to determine whether a country has successfully escaped the MIT. Although per capita income does not fully capture a country's development level, it is known to be strongly connected to other key quality-of-life indicators, such as life expectancy, child mortality, and school enrollment rates.

In this study, the MIT from the absolute perspective will be analyzed 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.

The MIT from a relative perspective

The Relative Approach to the Middle-Income Trap (MIT) involves using an income threshold defined as a percentage of a benchmark country's income. In 2012, the WB and the Development Research Center of the People's Republic of China collaborated on a study titled "China 2030: Building a Modern, Harmonious, and Creative Society." Using the Maddison Project database, the researchers classified economies into three income groups: low-income, middle-income, and high-income, based on each country's GDP per capita as a percentage of the United States (measured in 2005 PPP dollars). Under this framework, middle-income economies were defined as those whose GDP per capita fell between 5% and 40% of the US figure. Economies below 5% were low-income, and those exceeding 40% were high-income. Because of this study, many experts have adopted this classification as a

standard relative criterion for comparing a country's income level (using the PPP method) against that of the United States.

Different researchers have proposed slight variations for this relative measure:

- Woo (2012) classified middle-income countries as those with GDP per capita ranging from 20% to 55% of the US's figure. This calculation used GDP and population data from Maddison (2010), measured in 1990 international Geary-Khamis dollars.
- Robertson and Ye (2013) proposed a narrower range. According to their research, 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 (measured in 2010 PPP dollars).

Generally, for the relative approach, most studies choose the United States (US) as the developed nation for comparison because: (i) It is a high-income country; (ii) It represents the world's technological frontier; (iii) It is widely considered a country with long-term balanced growth.

Within the scope of this particular study, the MIT from the relative perspective, will be analyzed 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).

3. International Experiences

A select group of Asian economies, notably Japan, South Korea, Taiwan, Singapore, and Hong Kong, have successfully fostered economic development and escaped the MIT. A common characteristic among these economies involves leveraging the benefits of globalization and implementing effective policies to attract foreign capital and technology. Furthermore, these nations proactively adjusted their economic structures at different stages based on areas where they held a comparative advantage over rivals.

They systematically transitioned from labor-intensive industries to capital-intensive sectors, eventually moving into high-technology industries. Japan, South Korea and Taiwan are now global industrial powerhouses specializing in sophisticated, high-end products such as electronics, semiconductors, and chemicals. These countries possess strong global brands and are essential partners in international supply chains. Conversely, Singapore and Hong Kong function as crucial financial and service hubs, attracting numerous investors and tourists. While Singapore maintains a relatively advanced manufacturing sector, Hong Kong possesses virtually none. These economies exhibit distinct strengths and challenges within the rapidly changing global economic landscape.

However, countries structurally similar to Vietnam, such as Indonesia, Malaysia, Thailand, and the Philippines, have either recently faced or currently risk falling into

the MIT. These nations rely significantly on export-oriented manufacturing, exhibit a high dependence on Foreign Direct Investment (FDI), and lack a robust presence of high-technology industries. As labor costs inevitably increase, these economies struggle to compete with nations that retain lower labor expenses. Furthermore, these countries often confront enduring domestic issues related to economic structure, corruption, and the overall business environment.

3.1 Successful countries in escaping the MIT

Japan

Japan's journey to becoming a high-income nation was marked by periods of rapid growth and significant structural change, allowing it to successfully overcome the challenges of the MIT. Though its GDP per capita was significantly lower than that of the UK in 1870 (just 23%), Japan maintained consistent growth, achieving lower middle-income status by 1929. Despite severe economic contraction following World War II, the nation engineered a swift and remarkable recovery. This post-war rebound, often termed the "Japanese Miracle," saw per capita GDP growth average 9.9% annually until 1951, restoring pre-war income levels. This success immediately highlighted the long-term challenge: sustaining growth beyond the initial recovery phase required fundamental modernization.

This high-growth trajectory was driven by a crucial structural reallocation of resources from primary industries toward higher-productivity manufacturing and services. Consequently, from the mid-1950s through the early 1970s, the economy sustained high growth, enabling Japan to converge with the UK's income level by 1970.

The economic transition was guided by two distinct policy periods:

- Post-War Controls: Initially, the government managed the economy tightly through programs like the "Priority Production System," which favored strategic industries (e.g., coal and steel). However, this approach led to significant fiscal deficits and inflation.
- The Dodge Plan (1949): This program was pivotal, introducing stabilization policies that required budget balancing, elimination of government price controls, and a unified exchange rate. This action effectively converted the controlled economy into a market system.

Following stabilization, the government focused on international competitiveness and industrial deepening. The 1955 Five-Year Plan prioritized balancing external payments and restructuring industry toward heavy sectors (e.g., steel and machinery). This involved creating public financial institutions, such as the Japan Development Bank (JDB), to supply capital to private firms, supported by strategic tax cuts and a strong emphasis on education promotion.

Japan's successful escape from the middle-income trap resulted from a smart combination of focused economic policies and strong commitment from capable

leaders and officials. Strategic investments in education significantly enhanced the skills and academic qualifications of the workforce, directly contributing to economic expansion. These sustained efforts not only propelled Japan to becoming one of the world's leading economies, but also ensured a stable recovery in its international trade, with balanced payments and diverse revenue sources supporting long-term, sustainable post-war growth.

Korea

Following the Korean War (1950-1953), South Korea was one of the world's poorest nations, sharing characteristics with other developing countries: war devastation, extremely low income, limited natural resources, and reliance on foreign aid. By 1960, even after the post-war reconstruction period, per capita income was merely $80.

South Korea's "economic miracle" began under the administration of General Park Chung Hee in the early 1960s. The state initiated economic growth through a series of Seven Five-Year Economic Plans, achieving notable economic success. Specifically, South Korea surged from a low-income country in 1969 to achieving high-income status by 1995. This dramatic leap, accomplished in just over three decades, demonstrated a successful escape from the MIT. The Fifth Five-Year Plan, in particular, accelerated the rise in per capita income starting around 1985.

Analysis points to four primary factors that underpinned South Korea's success in overcoming the MIT:

- Effective and flexible government intervention: This was a critical element. The government played a flexible, consistent, and effective regulatory role, continually adjusting economic goals to match changes in economic structure, income levels, and shifting policy priorities. These plans, while directional, exerted a strong influence over the economy. The government was ready to intervene forcefully when market mechanisms failed to achieve goals, but also reduced intervention (even through privatization) when the market functioned efficiently.
- Dynamic industrialization policy: Industrial policy was central to South Korea's development strategy, enabling the restructuring of the economy towards industrialization and modernization. The government initially provided strong protection to nascent industries. All available monetary and fiscal policy tools were deployed to support key sectors like cement, fertilizer, and petrochemicals.
- High-quality human resources: A significant driver of rapid economic development was a high-quality education system and a skilled workforce. Recognizing its lack of natural resources, the government strategically viewed education as a top strategic priority and the foundation for nation-building, capitalizing on the nation's cultural value of learning.

- Focus on science, technology, and continuous innovation: The role of science and technology was prioritized from the early 1960s with the first economic development plan. Policy evolved over time: early efforts focused on establishing infrastructure and introducing, absorbing, and applying foreign technology. By the 1980s, policies shifted to promoting advanced Research and Development (R&D) to enhance national scientific capabilities. This foresight ensured continuous investment in technological advancement, allowing TFP (Total Factor Productivity) to sustain growth when comparative advantages in labor and capital began to diminish.

3.2 Unsuccessful countries in escaping the MIT

Thailand

Thailand is recognized as one of the successful economies in Southeast Asia in terms of historical economic development. However, the Thai economy appears to be stuck in a phase of stagnation, struggling to find prospects for sustained long-term growth despite its inherent potential. In principle, economic growth driven by industrialization should transition through the development of the manufacturing sector.[3]

Nevertheless, Thailand remains largely concentrated on its former labor- and resource-intensive industries. A comprehensive economic restructuring has not occurred; the current Thai industrial base is mainly focused on processing and assembly, indicating that the nation has not achieved technological mastery but remains dependent on foreign technology. Furthermore, private capital is predominantly directed toward civil construction rather than the manufacturing sector, which traditionally serves as the engine of the Thai economy[4].

It is assessed that the quality of Thailand's investment environment, coupled with ongoing political instability, has eroded the confidence of private investors. Concurrently, a shortage of skilled labor presents an additional barrier to the country's growth.

A critical, underlying factor contributing to current social instability is the unevenness of economic growth. Bangkok and its surrounding areas have developed rapidly into a high-income region due to a high concentration of industries, creating a stark contrast with the underdeveloped regions across the rest of the country. Consequently, the inequality and disparity in development policy

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[3] Thailand's economy grew significantly from 1978 until the mid-2000s, driven by industrial growth, with the industrial sector reaching 46% of GDP.

[4] Thailand's export-to-GDP ratio has surged from 47% to approximately 67% over the last decade due to robust changes in its export structure. Exports to East Asia have rapidly increased, and Thai export products have moved further up the value chain. However, Thailand's traditional comparative advantages are diminishing due to the rise of regional competitors like China and Vietnam. Currently, Thailand faces pressure from both low-cost, labor-intensive exporters and higher-tech goods from more developed nations. This environment has deterred Thai investors from continuing to fund previously competitive industries.

across regions and social groups have generated negative social consequences, culminating in the political crises observed in Thailand in recent years.

Philippines

In the 1950s, the Philippines was the most developed nation in Southeast Asia, surpassing even South Korea in economic standing. By 1960, the Philippines' GDP per capita was double that of Thailand. However, by 1984, Thailand had caught up, and around 2000, the two countries reversed their 1960 positions. This raises a key question: Why did the Philippines fall behind?

Poor and inconsistent leadership, particularly during the regime of President Ferdinand Marcos (1965-1986), is widely considered a foundational cause of the nation's economic failure. While subsequent administrations, such as that of President Gloria M. Arroyo, aimed for high-income status, persistent political instability, weak infrastructure, and high social disparity continue to pose unresolved challenges. Crucially, the Philippines has maintained a low investment-to-GDP ratio for two decades, resulting in the poor infrastructure that hinders business activity. Compounding this is weak public finance management; tax revenue as a percentage of GDP remains below pre-1997 levels, while the national debt remains high at around 75% of GDP.

Philippine enterprises have simultaneously lost international competitiveness due to an environment that lacks the necessary incentives for businesses to invest in technology, improve productivity, and reduce excessively high business costs. Widespread corruption further permeates society, linking economic activities closely to political patronage and allowing privileged groups to dominate development mechanisms.

A study by the Asian Development Bank (ADB) identified several fundamental barriers to the Philippines' growth: (i) overly tight financial conditions; (ii) weak infrastructure, particularly in transport and electricity distribution; (iii) low investor confidence due to political instability; and (iv) manufacturing sector development that failed to align with market demand. In summary, the Philippines' failure to escape the MIT can be attributed to several core structural weaknesses:

- Low Savings and Investment: A low domestic savings rate has deprived the Philippines of the necessary capital to accumulate factors vital for long-term growth, particularly technology.
- Weak Financial Governance: Although the fiscal landscape has improved over recent decades, measures to generate sufficient government revenue have not kept pace. This failure restricts the government's ability to provide essential economic and social services required for macroeconomic stability.
- Lack of Determined and Consistent Reform: Political instability has diminished the reform momentum among policymakers, specifically hindering efforts to eliminate protectionism and monopolies, and address agrarian issues.

3.3 Lessons for Vietnam

By studying the successful and unsuccessful policies of these Asian nations, several critical lessons emerge for Vietnam to effectively avoid the MIT:

- Investment in human capital and education: Investing in education and training is paramount for enhancing labor capabilities, thereby boosting productivity and economic competitiveness. Countries like Japan and South Korea prioritized human resource development through substantial investment in education, promoting R&D, encouraging innovation, and maintaining high quality standards. While Vietnam's educational metrics are comparatively strong among developing nations, the lack of high international market competitiveness remains a challenge. Addressing funding shortages, inadequate infrastructure, and disparities in access to education is essential to improve overall skill levels.

- Promoting innovation and entrepreneurship: Developed nations have consistently prioritized innovation and entrepreneurship through various incentives, often by encouraging foreign investment to accelerate technological advancement. They also foster a culture of innovation through dedicated events and competitions. Asian countries caught in the MIT, however, struggle with resource shortages, complex startup procedures, and limited entrepreneurial opportunities in rural areas. For Vietnam, avoiding the trap requires actively cultivating a startup-friendly ecosystem, supporting Small and Medium Enterprises (SMEs), and training talent in innovation.

- Infrastructure investment and global integration: Investing in high-quality infrastructure - including modern transport, industrial facilities, IT, and energy - is crucial for economic promotion. Moreover, strengthening international trade and foreign investment attraction is key. High-income Asian economies aggressively pursued R&D, produced competitive, high-quality goods, and developed critical sectors like manufacturing and financial services. Vietnam can emulate these successful models by improving its business environment, leveraging global economic linkages, and offering incentives for FDI.

- Macroeconomic stability: Maintaining macroeconomic stability is fundamental to escaping the MIT. Successful Asian economies achieved this through fiscal discipline, prudent monetary policy, and stable exchange rates. Japan and South Korea successfully encouraged investment and innovation while maintaining balanced budgets and managing foreign reserves to ensure price and money supply stability. Countries like Indonesia and Thailand are still striving to diversify their economies away from over-reliance on export manufacturing. To secure a successful transition, Vietnam must prioritize stability and improve its competitive edge, strategically applying the successful policies of its high-income Asian peers.

4. An overview of GDP growth, GDP per capita in Vietnam

4.1 GDP growth

Vietnam's economic growth rate has generally slowed down during the 1990-2024 period, showing a decrease in performance across subsequent time frames. The average annual growth was approximately 7.4% between 1990 and 1999, and then 6.86% for 2000-2009. This trend continued, with the rate dropping to about 6.58% from 2010 to 2019, and further to 5.14% between 2020 and 2024.

This slowdown is mainly caused by the diminishing effectiveness of traditional growth drivers, such as cheap labor and natural resources. Furthermore, Vietnam's deep integration into the global market made it particularly vulnerable to major worldwide crises, including the 1997-1998 Asian financial crisis, the 2008-2009 European debt crisis, and the 2020-2021 COVID-19 pandemic.
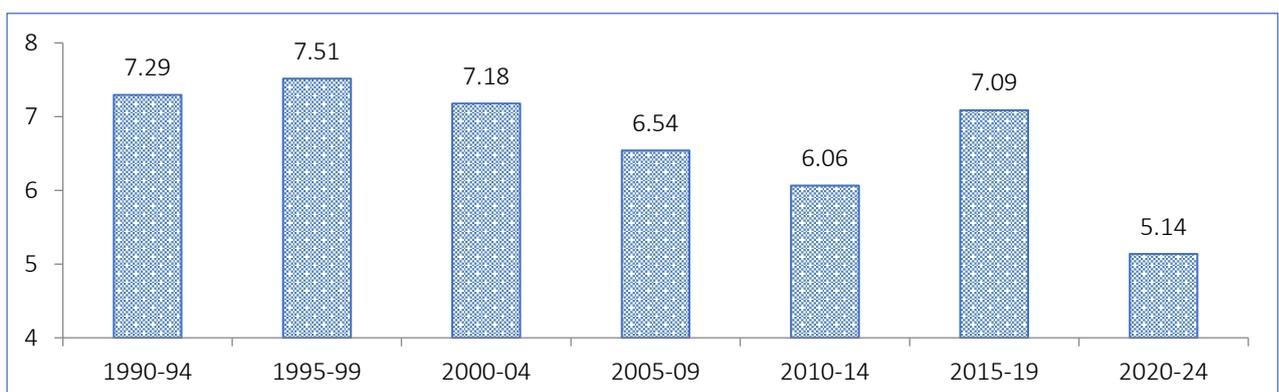
Figure 11. Vietnam's growth rate in the period 1990-2024
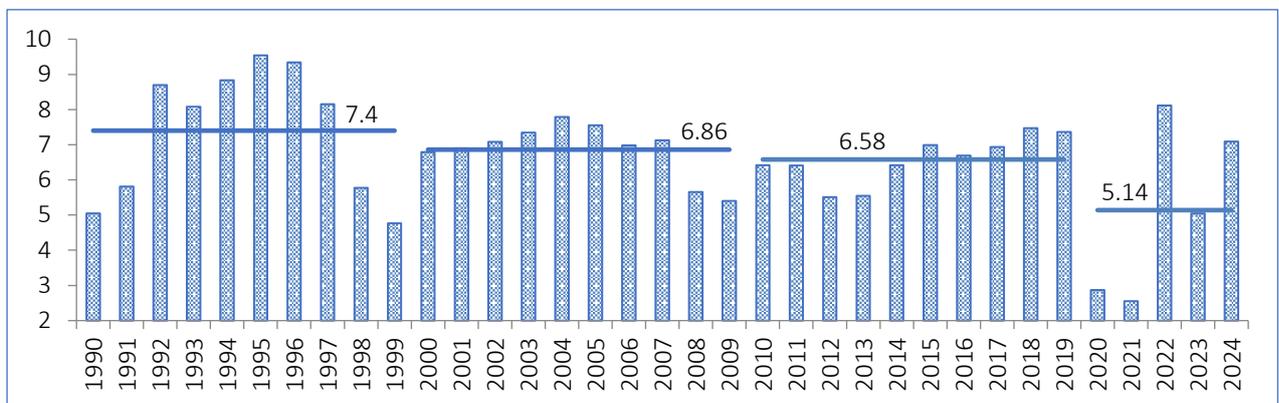
Source: National Statistics Office

Although the five-year growth rate improved noticeably during 2015-2019 compared to the two preceding periods (see Figure 3-2), the 2020-2024 period experienced the lowest growth, averaging only 5.14% per year. This low rate was due to the severe negative impacts of COVID-19, which caused many countries to blockade their economies, leading to a widespread stagnation of economic activity—a situation Vietnam also faced.
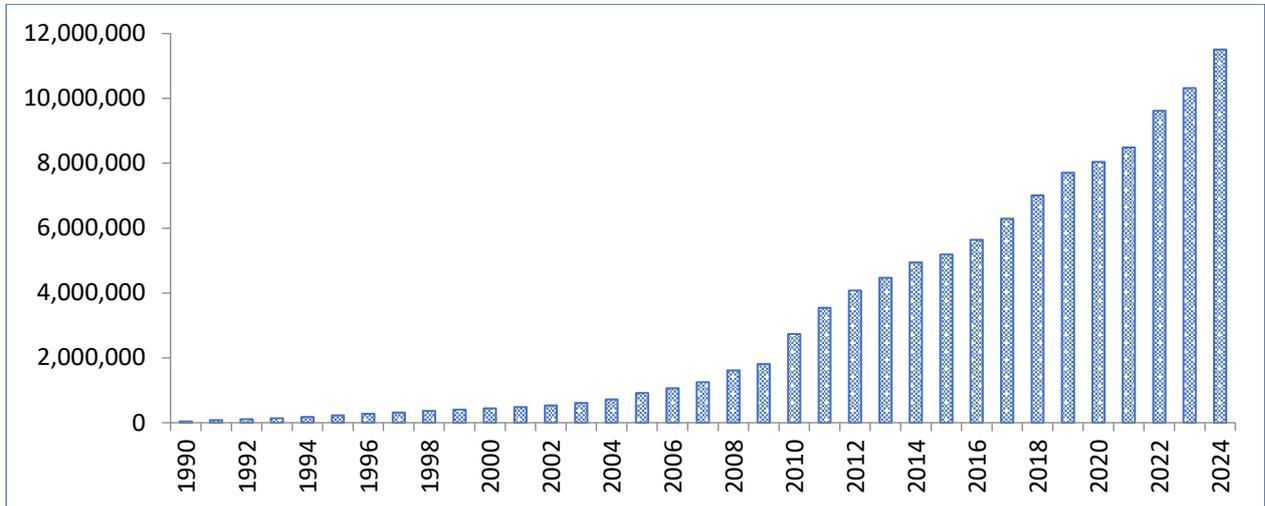
Figure 22. Average 5-year growth rate of Vietnam, period 1990-2024

Source: Calculation based on data of National Statistics Office

Over nearly 35 years, the size of the economy (measured at current prices) has expanded dramatically, increasing by over 190 times to reach more than VND 11,511 trillion in 2024. This figure is more than double the size in 2015 (VND 5,191 trillion) and over twelve times the size in 2005 (VND 914 trillion).
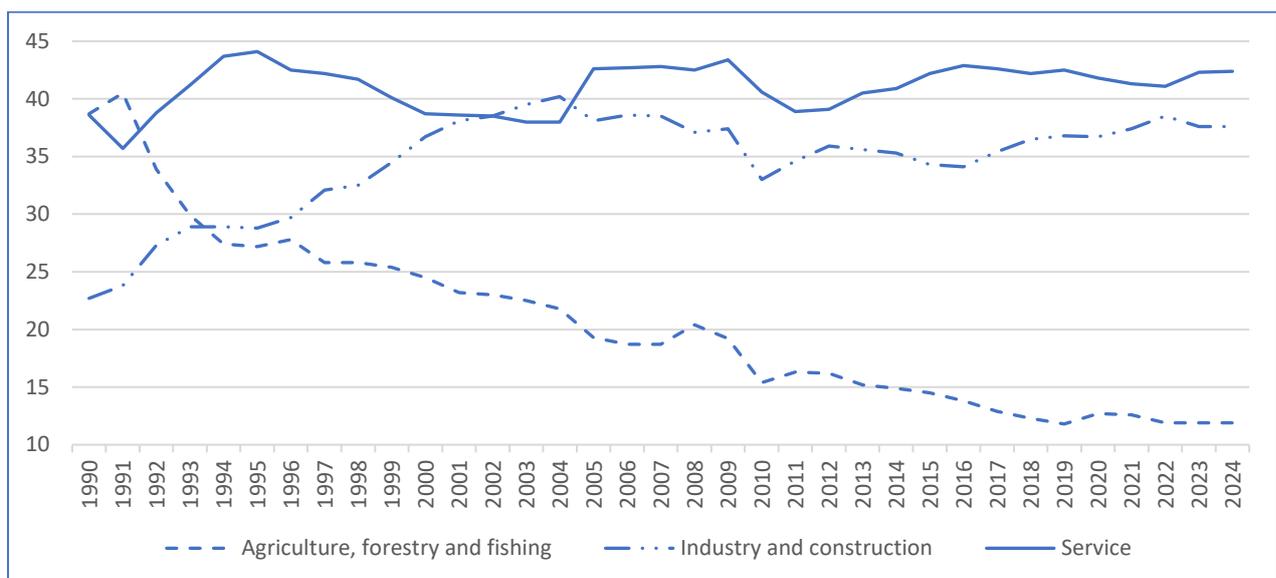
Figure 33. Size of the economy at current prices, period 1990-2024

The economic structure has notably shifted away from agriculture, forestry, and fishery toward other sectors. The share of agriculture, forestry, and fishery in GDP decreased by over three times, falling from 38.7% in 1990 to 11.9% in 2024. Throughout this time, the service sector consistently contributed more to GDP than the industrial and construction sector. On average, the industrial and construction sector contributed approximately 34.6% annually, while the service sector contributed about 41%.

Figure 44. Structure of the Economy, period 1990-2024
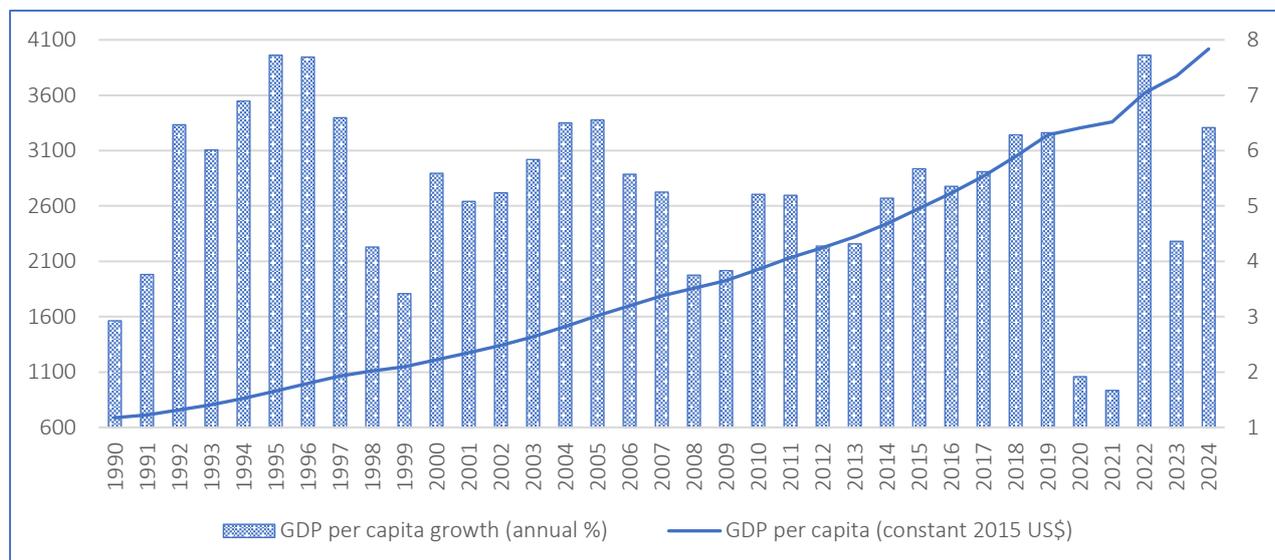
4.2 GDP per capita

Vietnam's GDP per capita has shown remarkable progress between 1990 and 2024. Starting from just a few hundred USD in the early 1990s, the economy has grown consistently thanks to effective reform policies, strong attraction of foreign investment, and a drive toward industrialization and modernization. This long-term increase in GDP per capita not only reflects higher income levels but also demonstrates the country's dedication to improving quality of life for its citizens.

According to the latest World Bank data,[5] Vietnam's GDP per capita (at current prices) reached $4,490 in 2024. Vietnam is notable for being one of the few nations that managed to successfully navigate the economic challenges posed by the COVID-19 pandemic. Before the pandemic in 2019, GDP per capita was $3,290. It continued to rise to $3,400 in 2020, then to $3,540 in 2021, $3,980 in 2022, and $4,150 in 2023.

In fact, Vietnam's GDP per capita has seen a sharp escalation since around 2005. From 2005 to 2024, it surged by about 590% (from $650 to $4,490), meaning the country's GDP per capita increased nearly sevenfold in approximately two decades.

This impressive growth trend is also evident when analyzing GDP per capita using constant 2015 US dollars. In this measurement, per capita GDP increased from $1,610 in 2005 to $4,017 in 2024, representing a substantial 150% growth rate over almost 20 years. Overall, Vietnam's GDP per capita growth stands out as one of the most impressive internationally, reflecting the dynamism of the Vietnamese economy and its remarkable development journey.

Figure 55. GDP per capita and growth rate, period 1990-2024

A closer look at the annual growth rates of GDP per capita highlights recent resilience. During the challenging years of 2020-2021, the annual growth rate was 1.8%. In the subsequent three-year period, 2022-2024, the average annual growth

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[5] World Development Indicators

rate accelerated to approximately 6.17%. While this was slightly lower than the 6.3% rate recorded in 2018-2019, it is still a positive and strong indicator given the global context of the pandemic and ongoing worldwide economic instability.

The continued rise in GDP per capita confirms Vietnam's significant economic advancement, successful efforts to improve living standards, and deepening integration into the global economy.

5. Empirical evidence

5.1 Methodology

The absolute approach

For the definition of the MIT using an absolute approach, this study chooses to classify Vietnam's income status based on the World Bank's classification scheme, in conjunction with the framework developed by Felipe, Abdon, and Kumar (2012). Specifically, a country is classified as being in the low MIT if it has persisted at the lower-middle-income level for more than 28 years; a country is classified as being in the high MIT if it has persisted at the upper-middle-income level for more than 14 years. The corresponding income threshold is defined as follows (for 2024):

- Low-income: Below $1,136.
- Lower-middle-income: Between $1,136 and $4,495.
- Upper-middle-income: Between $4,496 and $13,935.
- High-income: Above $13,935.

The relative approach

The relative approach employed in this analysis utilizes the definition posited by Robertson and Ye (2013) in conjunction with the calculation of the Catch-up Index (CUI) developed by Kant (2019) to investigate the case of Vietnam. The CUI was prioritized over the ESCAPE Index because the CUI requires less complex data (only requiring a country's income data, specifically GDP per capita). In contrast, the ESCAPE Index demands a relatively complicated dataset, which includes factors like economic growth and stability, social progress and cohesion, information technology, political/legal/ governance institutions, and environmental sustainability. Therefore, the CUI is better suited for calculating whether Vietnam is at risk of falling into the MIT.

According to Robertson and Ye (2013), a country is categorized as belonging to the middle-income group if its GDP per capita ranges between 8% and 36% of the benchmark country's GDP per capita. The United States (USA) is established as the natural candidate for the benchmark country, as asserted by Jones (2002), due to its sustained average annual GDP per capita growth rate of 1.8% over the last 125

years. This stability suggests the USA operates near the technological frontier and is on a balanced growth path.

In Kant's study (2019), the author delineated the methodology for calculating the CUI. Specifically as follows:

y_{J0}: Country J's per-capita RGDP for the base year

y_{BM0}: Benchmark country's per-capita RGDP for base year

R_{J0}: Country J's base year per capita RGDP ratio

$$R_{J0} = \frac{y_{J0}}{y_{BM0}}$$

For each subsequent year, similar ratios of a country's annual per-capita RGDP to that of the benchmark country are computed. Thus, for year t,

$$R_{Jt} = \frac{y_{Jt}}{y_{BMt}}$$

Assuming the benchmark country is the richer country for all t. Then,

$$R_{Jt} = \frac{y_{Jt}}{y_{BMt}} < 1, for\ all\ t$$

Country J's catch-up index for year t is the ratio of its per capita RGDP ratio for year t to its base per capita RGDP ratio. Let I_{jt} represent this index. Then,

$$CUI = I_{Jt} = \frac{R_{Jt}}{R_{J0}}$$

If the value of the catch-up index is greater than 100, or it increases, it indicates catching-up, i.e., an increase in Country J's (poorer country's) income ratio to the frontier's. If it is less, or it decreases, it indicates falling behind or a decrease in Country J's income ratio to the frontier's.

Economic growth trend since the country entered the middle-income group

In addition to the absolute and relative approaches, this study also employs a simple regression equation to examine whether Vietnam's economic growth rate has tended to decline since the country entered the middle-income group. This analysis is based on the following equation:

$$\Delta GDP_t = \alpha + \beta Dummy_t + e_t$$

where: ΔGDP_t: represents the economic growth rate at time t;

        Dummy: is a dummy variable, taking a value of 0 for years before Vietnam joined the middle-income group and 1 for years when Vietnam was classified within the middle-income group;

        α: is the intercept (constant term);

β: is the coefficient of the dummy variable. Interpretation: If $\beta < 0$, it indicates that the economy's growth rate has tended to decline since entering the middle-income group. Conversely, if $\beta > 0$, it suggests that the economy's growth rate has tended to increase since entering the middle-income group.

5.2 Data and variables

For the absolute approach, this research employs the GNI per capita, Atlas method (current US$) collected from the World Development Indicators (WDI) - World Bank, covering the period 1990-2024.

For the relative approach, the study utilizes data from the World Bank (databank.worldbank.org), specifically GDP per capita measured in Purchasing Power Parity (PPP) - constant 2021 international dollars - to effectively mitigate the impact of inflation when comparing average incomes between Vietnam and the United States. The series covers the 1990-2024 period.

To compare with other ASEAN countries, the study also collects data series for Malaysia, Thailand, Indonesia and Philippines.

5.3 Empirical results

The absolute approach

Based on World Bank data, Vietnam officially entered the lower middle-income group in 2008, when its GNI per capita reached $1,000. As of 2024, Vietnam has remained in this group for 17 years. Given the country's historical average GNI per capita growth rate of 8.62% annually during the 1990-2024 period, it is highly likely that Vietnam will graduate to the upper middle-income group in 2025. If this growth rate holds, the projected GNI per capita for 2025 would be approximately $4,877, placing it above the current lower middle-income ceiling.

Figure 66. Forecast of GDP per capita of Vietnam
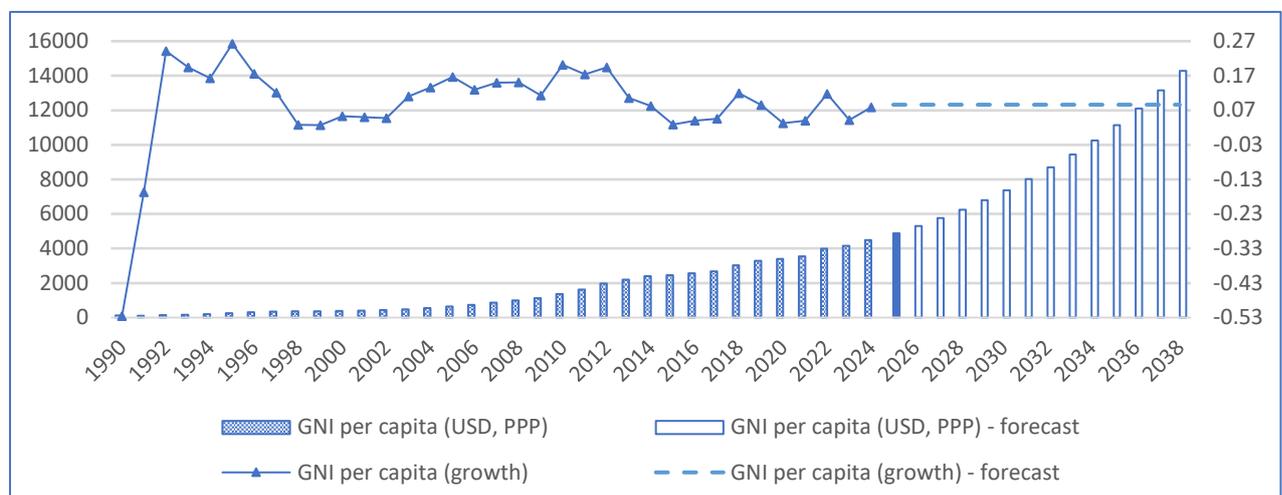
Source: Author's calculations based on data of World Development Indicators - World Bank

However, the situation is different for the upper MIT. Assuming Vietnam joins the upper middle-income group in 2025, the country must transition to high income status within 14 years (by 2038) to avoid falling into the upper MIT, according to the time-based definition. This means Vietnam's per capita income in 2038 must meet the high-income threshold set by the World Bank. If Vietnam manages to maintain its average income growth rate of 8.62% per year, its GNI per capita would reach approximately $14,283 by 2038. This figure is just slightly above the current high-income threshold of $13,935 (based on the 2024-2025 classification). Crucially, the WB's income threshold is updated annually and tends to rise over time due to inflation and global growth. Therefore, successfully avoiding the upper MIT remains a very significant challenge for Vietnam.

The relative approach

It was calculated that the Vietnam/US GDP per capita ratio was 5.56% in 1990, which then increased to 19.1% in 2024. According to the criteria established by Robertson and Ye (2013), Vietnam is currently categorized as a middle-income country (as in the range of 8% to 36%). Vietnam has been classified within this middle-income group since 2001, when its GDP per capita relative to the US reached 8.31%. Consequently, Vietnam has maintained its middle-income status for 24 years.

Calculations for Vietnam's Catch-Up Index (CUI) indicate that the value is greater than 100 and shows an increasing trend over time. This result reflects the narrowing income gap between Vietnam and the United States.

**Figure 77. The CUI of Vietnam, period 1991-2024**
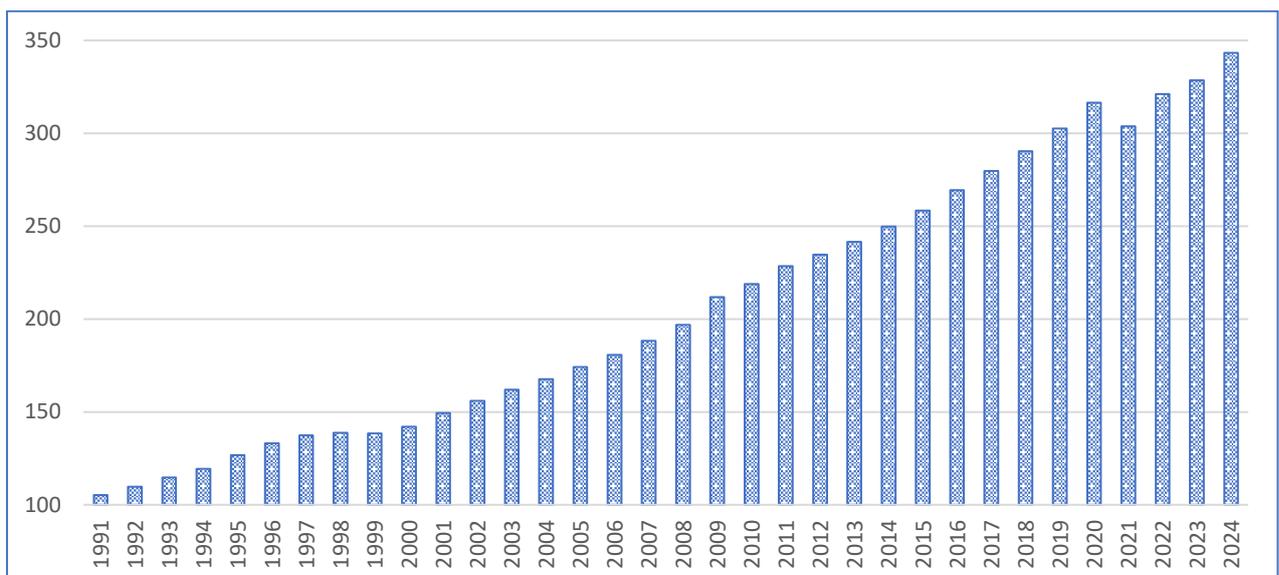
Source: Author's calculations based on data of World Development Indicators - World Bank

When compared with four ASEAN countries of similar development (Malaysia, Thailand, Indonesia, and the Philippines), Vietnam generally exhibited the highest

GDP per capita growth rate among the five nations. Specifically, during the 1990-2024 period, Vietnam's average annual GDP per capita growth was 5.27%, compared to 3.26% for Malaysia, 2.98% for Thailand, 3.38% for Indonesia, and 2.48% for the Philippines.

Figure 88. The average growth of GDP per capita for the period 1990-2024 of 5 ASEAN countries
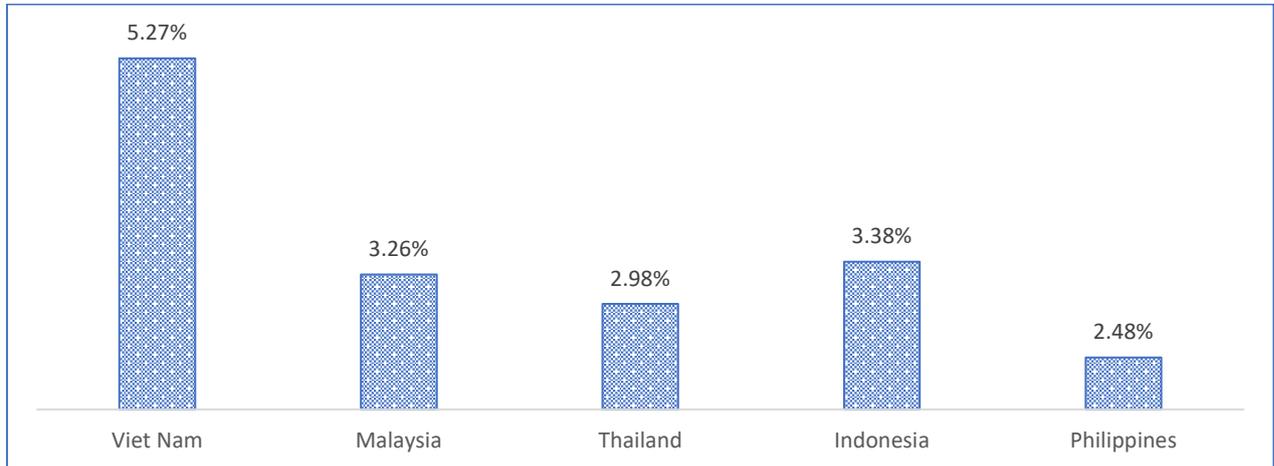
Source: Author's calculations based on data of World Development Indicators - World Bank

It is noteworthy that while Vietnam only entered the middle-income group in 2001, the other four countries had all achieved this status prior to 1990 (based on both absolute and relative approaches). Furthermore, Malaysia, Thailand, and Indonesia reached the upper-middle-income group in 1996, 2011, and 2020, respectively.

Moreover, while Vietnam's GDP per capita was only about 50% of Indonesia's in 1990, this gap has significantly closed: by 2024, Vietnam's average income is roughly 99% of Indonesia's. According to IMF forecasts,[6] Vietnam is even projected to surpass Indonesia by 2029, with an average income of $17,646 international dollars (PPP, constant 2021 international $) per capita, compared to $17,619 international dollars per capita for Indonesia.

Regarding the high-income threshold, if Vietnam's GDP per capita maintains an average growth of 5.27% per year and the US average GDP per capita grows by 1.56% per year in the coming years, Vietnam's income will be equivalent to 36.38% of the US income by 2042, moving into the high-income group, according to the classification by Robertson and Ye (2013). Thus, Vietnam would need approximately 42 years to transition from the middle-income group (entered in 2001) to the high-income group.

Furthermore, if we consider the Middle-Income Trap (MIT) phenomenon - defined by Felipe, Abdon, and Kumar (2012) as a country being stuck in the middle-income range for over 42 years before achieving high-income status (28 years in lower-

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[6] World Economic Outlook database 04/2025

middle and 14 years in upper-middle) - Vietnam looks like it will escape the MIT, but it is fragile.

Analysis of the upper MIT yields mixed yet cautious findings. While the time-based relative approach (Robertson and Ye, 2013) suggests Vietnam may avoid the trap, achieving high-income status around 2042 (42 years after entering middle-income status), the absolute approach presents a significant challenge. Maintaining Vietnam's historical average growth rate (8.62% annually) would only place its GNI per capita slightly above the current World Bank high-income threshold by 2038. Given that this threshold continually rises due to global growth and inflation, successfully graduating to high-income status remains a very fragile and challenging prospect for Vietnam, particularly when viewed against the stringent absolute income criteria and the time constraint defined by Felipe et al. (2012).

Economic growth trend since the country entered the middle-income group

The study continues to examine the economic growth trend of Vietnam for the period 1990-2024. As mentioned in the Methodology section, a dummy variable takes a value of 1 for the 2008-2024 period - when Vietnam officially joined the group of middle-income countries - and a value of 0 for the 1990-2007 period. The results of the Ordinary Least Squares (OLS) regression are as follows:

Table 11. Vietnam's growth trend after joining the middle-income group

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
α	7.21	0.33	21.79	1.48E-21	6.54	7.89	6.54	7.88
β	-1.15	0.48	-2.40	0.02	-2.13	-0.17	-2.13	-0.17

Source: Author's calculations based on National Statistics Office of Vietnam

Coefficient α (= 7.21): This intercept represents the average economic growth rate for the base period (when the dummy is 0), which is the 1990-2007 period (before Vietnam attained middle-income status). The very low P-value (1.48E-21) confirms that this growth rate is highly statistically significant, averaging approximately 7.21%.

Coefficient β (= -1.15): This coefficient captures the change in the average economic growth rate during the 2008-2024 period (when the dummy is 1) compared to the base period. The value β = -1.15 indicates that Vietnam's average economic growth rate decreased by approximately 1.15 percentage points after joining the middle-income group. The P-value = 0.02 < 0.05, less than the conventional 5% significance level, the decrease in the average growth rate is statistically significant. This allows the rejection of the null hypothesis (H_0: β = 0), concluding that entry into the middle-income group had a statistically significant negative impact (a deceleration) on Vietnam's economic growth trend.

The study proceeds to refine the analysis by excluding the two years impacted by the COVID-19 pandemic (2021-2022) from the estimation period. This is done to

isolate the structural slowdown trend from the temporary, significant negative shock of the pandemic.

Table 22. Vietnam's growth trend after joining the middle-income group,

excluding two years impacted by the COVID-19

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
α	7.21	0.27	26.41	0.00	6.65	7.76	6.65	7.76
β	-0.71	0.41	-1.72	0.09	-1.54	0.13	-1.54	0.13

Source: Author's calculations based on National Statistics Office of Vietnam

The negative magnitude of the slowdown (β) decreases substantially, from -1.15 to -0.71, suggesting that the pandemic years (2021-2022) contributed an additional -0.44 percentage points to the observed growth deceleration, highlighting the severity of the temporary shock. While the coefficient β remains negative in the second regression (β = -0.71 < 0), its P-value increases to 0.09. At the conventional 10% significance level, this result is still statistically significant (0.09 < 0.10). This suggests that, even when excluding the negative impact of the COVID-19 pandemic, Vietnam's growth rate still shows a tendency to slow down after entering the middle-income group.

In summary, the OLS results provide empirical evidence of a significant deceleration in Vietnam's average economic growth after its transition to middle-income status, a finding often associated with the challenges of the MIT.

Combining the results from the absolute and relative approaches, the empirical evidence suggests that Vietnam is highly likely to fall into the MIT. This necessitates that Vietnam formulate and implement practical policies and solutions to avoid this "trap."

6. Policy Implications

Based on the lessons learned from Section 3 - International Experiences, this section will suggest several policy implications for Vietnam to avoid falling into the MIT, specifically focusing on: investment efficiency, human capital, innovation, and macroeconomic stability.

6.1. Investment efficiency

Investment efficiency in Vietnam remains low, which is demonstrated by the Incremental Capital Output Ratio (ICOR - measuring the efficiency of capital utilization)[7] continuing to increase and remain at a high level. The ICOR for the 2010-2019 period stood at 5.8. Due to the impact of the COVID-19 pandemic, the ICOR

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[7] ICOR, or Incremental Capital Output Ratio, is an economic metric that measures the amount of investment capital needed to produce one additional unit of output. It indicates the efficiency of capital use in an economy, where a lower ICOR signifies higher efficiency because less capital is required to generate more output. It is calculated by dividing the annual investment as a share of GDP by the annual GDP growth rate. A lower ICOR is better, as it means capital is being used more efficiently to create output. A higher ICOR indicates inefficiency, suggesting a greater amount of capital is needed to produce a given increase in output.

surged to 14.27 in 2020 and 15.57 in 2021. However, in the 2022-2024 period, as the pandemic was brought under control, this ratio returned to 6.13, which is comparable to the pre-pandemic era.

Figure 99. Vietnam's GDP growth rate and ICOR coefficient, 2010-2024 period
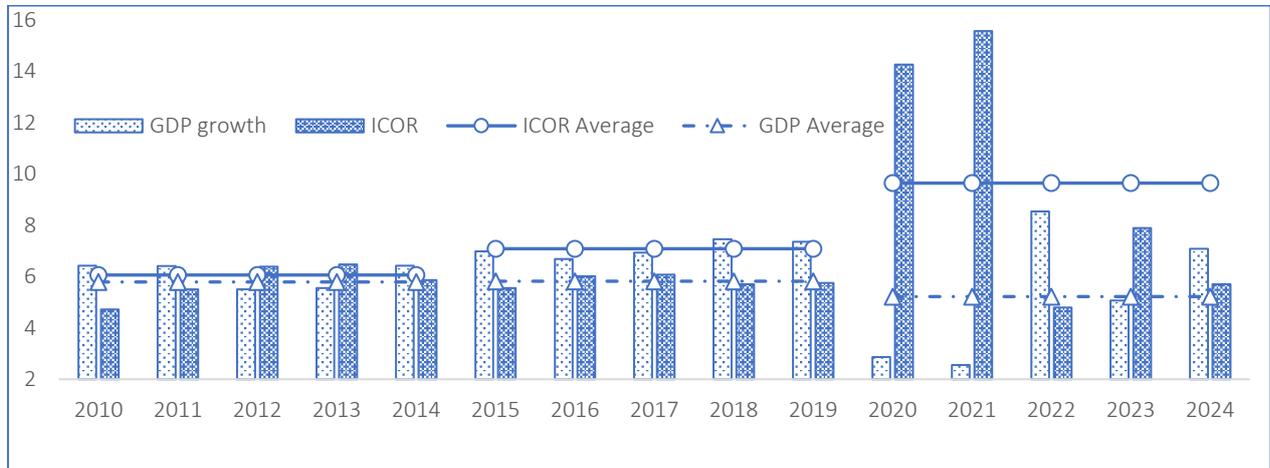
Source: Author's calculations based on National Statistics Office of Vietnam

Nevertheless, when compared with other nations that underwent similar stages of development as Vietnam, the country's ICOR remains relatively high. For example, the ICOR of Taiwan was 2.7 (during 1961-1980 and 1981-1990); South Korea was 3.0 (during 1961-1980) and 3.2 (during 1981-1990); Japan was 3.2 (during 1961-1970); China was 4.1 (during 1991-2003); and Thailand was 4.1 (during 1981-1995).

Therefore, in the coming years, Vietnam must concentrate on improving the efficiency of investment capital. In both the short and long term, investment capital, especially public investment, remains a crucial driving force for socio-economic growth, generating spillover effects and supporting the activities of all economic sectors. The objective is to concentrate resources to achieve strategic breakthroughs in infrastructure development, avoiding dispersed, wasteful investment, and enhancing capital utilization efficiency. Key solutions include:

- Ensuring synchronization and focused execution to shorten project completion times and accelerate the commissioning of works for public use.

- Promptly reviewing and resolving difficulties in capital allocation and disbursement to eliminate bottlenecks and speed up implementation. Concurrently, flexibility should be introduced to allow the adjustment of capital from low-efficiency projects to urgent, socio-economically significant projects.

- Maximizing resources for infrastructure development while addressing constraints to mobilize socialized capital. The State should avoid direct investment in areas or projects that enterprises and citizens are capable of undertaking.
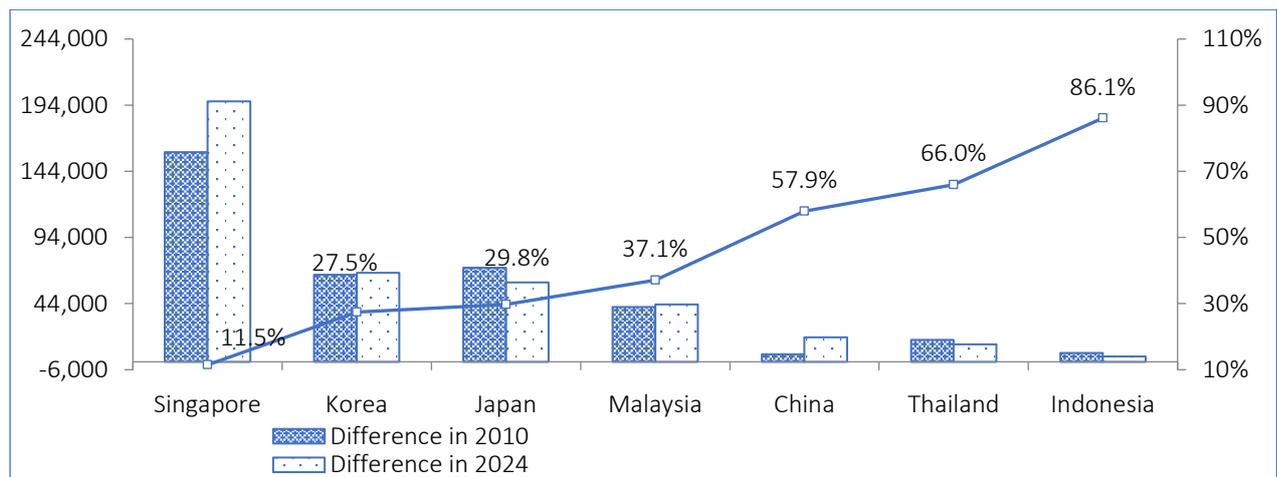
6.2. Human capital

The quality of Vietnam's human resources has shown marked improvements. From 1990 to 2023, Vietnam's Human Development Index (HDI) value increased from

0.492 to 0.766, representing a nearly 50% rise. It continues to be higher than the average for countries at the same income level, despite lower public expenditure on health, education, and social protection. This reflects significant achievements in universal education and healthcare over the past years. Overall, the quality of Vietnam's human resources has clearly improved, with a growing number of workers possessing the cultural background and technical expertise suitable for their assigned jobs.

However, the proportion of the workforce that remains untrained in Vietnam is still quite large, training quality is low, and the occupational structure is irrational, leading to low labor productivity compared to regional and global peers. Vietnam's labor productivity in 2024 is estimated at 25,499 USD[8], which is only 11.5% of Singapore's productivity level, 27.5% of South Korea's, and 29.8% of Japan's. Compared to other countries in Southeast Asia, Vietnam's productivity is higher only than that of Cambodia (by 2.79 times), Myanmar (2.04 times), and Laos (1.36 times). The situation of "surplus of graduates, shortage of skilled workers" remains a persistent challenge in the labor market.

Figure 1010. Vietnam's labor productivity compared to some Asian countries

Source: International Labour Organization (ILO) and calculations based on ILO data

Human capital development is the decisive factor for enhancing resource utilization efficiency, especially amidst the 4.0 Industrial Revolution. To develop worker skills, consequently, a radical reform of the education and training system is necessary. This involves diversifying post-secondary education types and boosting private sector involvement to provide advanced learning opportunities.

A strong linkage between schools and businesses is crucial. Currently, few companies proactively strategize the nurturing of human resources or close collaboration with training institutions. Enterprises must specify their personnel needs to avoid the simultaneous surplus and shortage of labor. Implementing joint

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[8] Output per worker (GDP constant 2021 international at PPP)

training models and innovation centers attached to businesses is essential for this connection.

Furthermore, curricula must be modernized to be streamlined, practical, and relevant, prioritizing technical sciences and vocational guidance. It is necessary to add majors like ICT, AI, and blockchain to meet digital era demands. Ultimately, investment must be increased, and the national education system should be perfected towards a lifelong, open learning society.

6.3. Innovation

Represented by the Global Innovation Index (GII), Vietnam's GII ranking has improved over the years, rising from 76th in 2012 to 44th in 2024 and maintaining this rank in 2025. Vietnam consistently holds the second position among the lower-middle-income country group (after India). Within the ASEAN region, Vietnam has surpassed Thailand, ranking 3rd only after Singapore and Malaysia.

The fact that Vietnam has led the innovation index among countries at a similar economic level for many consecutive years demonstrates the stability and effectiveness of its policies regarding Science, Technology, and Innovation (ST&I), as well as the sustained interest in applying ST&I across various sectors.

Figure 1111. Vietnam's Global Innovation Index Ranking, 2011-2025 period
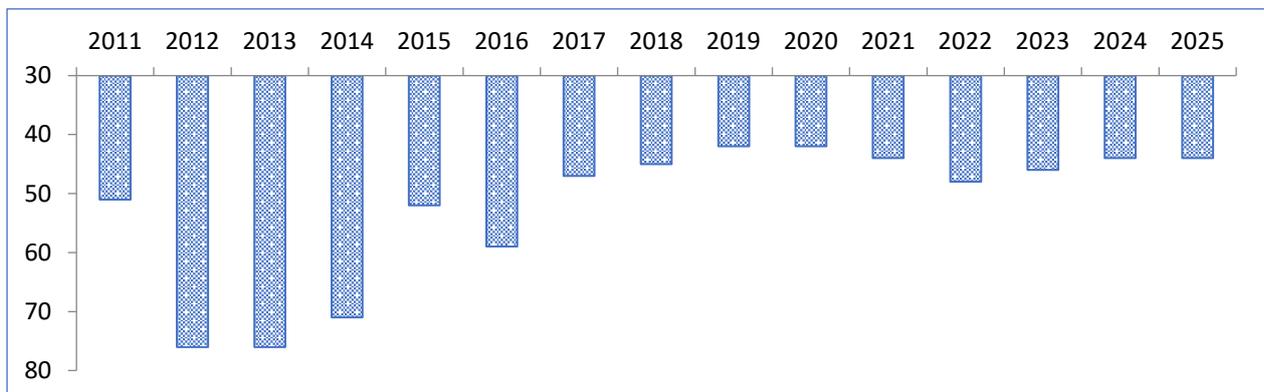
Source: WIPO, Global Innovation Index

However, to achieve a breakthrough, according to GII report (2025), Vietnam needs to continue concentrating on improving fundamental pillars such as institutions, education and training, digital infrastructure, and venture capital, while simultaneously enhancing research capacity, scientific publications, and competitiveness in creative industries. This is considered one of the most critical elements of economic growth and is key for several countries in successfully escaping the MIT.

6.4. Macroeconomic stability

In recent years, Vietnam's macroeconomic situation has generally been stable: inflation has been controlled; public debt, government debt, and foreign debt are

well-managed, remaining significantly below the ceilings and thresholds approved by the National Assembly.

- Commodity price levels are fundamentally stable, and annual inflation has been controlled at appropriate levels within the set targets, thereby supporting socio-economic growth and development. The average Consumer Price Index (CPI) increased by 1.84% in 2021; 3.15% in 2022; 3.25% in 2023; 3.63% in 2024; and is estimated to increase by about 4.0% in 2025.

- The mobilization rate into the state budget averaged about 18.3% of GDP for the 2021-2025 period. Public debt, government debt, external debt, and the state budget deficit have been well-controlled, remaining far below the allowable limits.[9] Furthermore, national credit rating efforts have achieved many positive results.[10]

- Monetary policy tools have been managed synchronously and flexibly, coordinated closely with fiscal policy, thereby contributing to the stabilization of monetary and foreign exchange markets, controlling inflation according to targets, and ensuring sufficient and timely capital supply for the socio-economic recovery and development process.

Therefore, in the coming period, Vietnam should continue to maintain macroeconomic stability, thereby fostering economic growth to avoid falling into the MIT.

7. Conclusion

The MIT is defined as the phenomenon where a country's economic growth decelerates significantly after achieving middle-income status, resulting in stagnation at this level for more than 42 years. This study utilizes two distinct approaches: the absolute approach (based on the maximum time allowed for transitioning between income groups) and the relative approach (GDP per capita as a percentage of the US GDP) to assess Vietnam's vulnerability.

The core cause of the MIT relates to the stagnation of the growth model, as initial growth drivers become depleted. Key contributing factors include: diminishing returns to investment capital, the exhaustion of cheap labor and imitation gains, poor human capital quality, and inadequate access to advanced infrastructure and finance. Escaping the trap requires a bold policy shift, moving the economy from a low-growth equilibrium to a high-growth equilibrium, primarily through investment in human capital, ST&I, R&D, and institutional reform.

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[9] By the end of 2025, public debt is estimated to be around 35-36% of GDP; government debt about 33-34% of GDP; external debt about 33-34% of GDP; and the average state budget deficit for the 2021-2025 period is about 3.1-3.2% of GDP, meeting the target of not exceeding 3.7% of GDP.

[10] By 2025, Fitch Ratings assigned Vietnam a national credit rating of BB+ with a "Stable" outlook; Moody's rated Vietnam Ba2 with a "Stable" outlook.

International experiences indicate that successful escapists (Japan, South Korea, Taiwan) strategically restructured their economies from labor-intensive to high-technology sectors, effectively leveraging globalization and aggressively investing in R&D and education. Conversely, countries structurally similar to Vietnam (Thailand, Philippines) face MIT risk due to over-reliance on FDI and export-oriented manufacturing, compounded by internal issues such as corruption and weak governance.

Regarding Vietnam, the results from the absolute and relative approaches, combined with the OLS empirical evidence, suggest that Vietnam is highly likely to fall into the MIT; even in the absence of external shocks (COVID-19), Vietnam faces a structural trend of slowing growth, underscoring the necessity of proactive reform to sustain high-speed development. To successfully navigate the MIT, the government must prioritize the four strategic policy pillars outlined: Enhancing investment efficiency; Developing human capital; Fostering innovation and Maintaining macroeconomic stability.

By strategically addressing these constraints and transitioning the economy toward a high-growth equilibrium driven by innovation and high-quality human capital, hopefully Vietnam can turn the current risk into an opportunity to achieve its goal of becoming a high-income developed nation by 2045.

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