

Nguyen Ngoc Son

Policies for Vietnam to Overcome the Middle-Income Trap in the Era of Economic Rise

Abstract. Since initiating market reforms, Vietnam has experienced impressive growth, elevating it to middle-income country status. However, following the 2009 global financial crisis and the Covid-19 pandemic, the pace of Vietnam's economic expansion has slowed. There are growing concerns that Vietnam may be at risk of falling into the middle-income trap, including: i) a deceleration in growth and an increasing risk of falling behind; ii) low labor productivity, which is increasingly lagging behind other nations; iii) low Total Factor Productivity (TFP); iv) inefficient use of capital; and v) slow progress in economic restructuring. To avoid the middle-income trap, Vietnam must adopt policies that promote new drivers of growth required in the era of nation's rise in parallel with the digital era, the era of innovation and creativity. This article explores the general concept of the middle-income trap, examines the specific challenges Vietnam faces, and proposes strategies to help the country overcome current obstacles.

Keywords: Vietnam, middle income trap, Manufacturing value added (MVA), GNI, GDP, Total Factor of Productivity (TFP).

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Политика для Вьетнама по преодолению ловушки среднего дохода в эпоху экономического подъёма

Аннотация. Вьетнам добился впечатляющих темпов роста после проведения экономических реформ, поднявших его до статуса страны со средним уровнем дохода. Однако экономический рост страны замедлился после мирового финансового кризиса 2009 года и последствий пандемии Covid-19. Становятся всё более очевидными признаки приближения Вьетнама к ловушке среднего дохода: а) замедление экономического роста и возрастание риска отставания; б) низкий уровень производительности труда и увеличение разрыва по этому показателю с другими странами; в) низкая совокупная факторная производительность (СФП); г) низкая эффективность капиталовложений; д) медленная реструктуризация экономики. Для преодоления ловушки среднего дохода Вьетнаму необходима политика, создающая новые движущие силы для роста. Статья рассматривает общие проблемы, связанные с ловушкой среднего дохода, определяет конкретные проблемы, с которыми сталкивается Вьетнам в этом контексте, и предлагает стратегии по их решению.

Ключевые слова: Вьетнам, ловушка среднего дохода, добавленная стоимость обрабатывающей промышленности (ДСОП), ВНД, ВВП, совокупная факторная производительность (СФП).

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Introduction

After several decades of rapid growth, Asian economies are now struggling to maintain their dynamics, while many countries facing warnings of falling into the middle-income trap. Some Asian countries are facing numerous challenges in maintaining high and sustainable growth within the context of integration, the fourth industrial revolution, and the rise of AI.

The term “middle-income trap” was first introduced by Gill and Kharas in their work “An East Asian Renaissance” [Gill, Kharas 2007]. They argued that middle-income countries in Asia need to undergo three key transformations to sustain growth: (1) shifting from diversification to greater specialization in production and employment; (2) moving from an investment-driven model to one based on innovation; and (3) transitioning from simply equipping workers to adapt to new technologies to preparing them to create new products and processes. Without these transformations, Gill and Kharas (2007) warned, economic progress would stagnate, and these nations risk falling into the middle-income trap, as seen in many middle-income countries in the Middle East and Latin America [Ibid.: 17—18].

The middle-income trap typically arises when a country, having relied on certain natural endowments or initial advantages, fails to transition beyond a particular income threshold. According to Kenichi Ohno [2015], the level at which this trap becomes apparent varies depending on resource availability and other advantages, including land, demographics, and natural assets. The World Bank’s 2024 Annual Report [2024] highlights that developing countries face greater difficulty escaping the trap due to high debt, aging populations, and increasing protectionism in advanced economies. The report outlines a recommended sequence of policy focus by income level: Investment for low-income countries, Technology Learning for lower-middle-income countries, and Innovation for upper-middle-income countries.

K.P. Yurchenko and I.N. Savelyeva [2019] emphasize the renewed importance of industrial policy as a strategic tool for managing economic growth. Their analysis, employing comparative graphical and correlation methods, illustrates the vulnerability of the Russian economy to the middle-income trap, worsened by its dependence on natural resources. The proposed economic trajectory calls for a balanced application of traditional instruments, supported by empirical assessments drawn from comparable contexts, as a feasible approach to macroeconomic management.

According to Kenichi Ohno [2014], many symptoms of middle income trap are already visible in Vietnam. The three main cause are: i) lack of private-sector dynamism

in productivity, competitiveness, and innovation; ii) inability to cope with high growth like the rich — poor gap, environmental pollution, corruption, and so on; iii) improper management of macroeconomic shocks in the age of globalization.

Tran Van Tho [2016] also highlights risk of falling into the middle-income trap and advocates for a transition from gradual to deep structural reforms. Key areas include reforming state-owned enterprises and economic conglomerates, improving the market mechanisms for production factors, and designing strategic policies. Nguyen Ngoc Son [2016] proposes incentives to help Vietnam overcome the middle-income trap such as renewing the growth model, enhancing private economic development, improving institutional quality, fostering innovation, science and technology.

In Vietnam, discourse surrounding the middle-income trap began in 2008, when the country first reached lower-middle-income status, based on per capita GNI. At that time, the risk of falling into the trap appeared distant, as Vietnam had only just crossed the income threshold and seemed to have a long development path ahead. However, nearly 17 years later, the possibility is no longer remote. Today, many symptoms of the middle-income trap have become increasingly visible in Vietnam.

Research methodology

This study adopted the World Bank's framework for analyzing the middle-income trap to assess Vietnam's economic growth and income trends. The analysis utilizes data from the World Development Indicators (WDI) and the General Statistics Office (GSO) of Vietnam. According to the World Bank's 2022 classification, 26 economies are categorized as low-income (with a GNI per capita of USD1,135 or less, calculated using the WB Atlas method), 54 as lower-middle-income (GNI per capita between USD 1,136 and USD 4,465), 54 as upper-middle-income (GNI per capita between USD 4,466 and USD13,845), and 83 as high-income (GNI per capita of USD13,846 or more).

The study collects, synthesizes, and analyzes key economic indicators such as GDP, GNI, GDP per capita, GNI per capita, labor productivity, Total Factor Productivity (TFP), and the Incremental Capital-Output Ratio (ICOR). These data provide a comprehensive overview of Vietnam's economic growth, which is compared with selected East Asian economies to develop policy recommendations for Vietnam to escape the middle-income trap.

The study uses the World Bank's middle-income trap approach. In addition to data from the GSO and WDI, this paper draws on findings from existing studies on the middle-income trap in both global and Vietnamese contexts. These studies provide crucial evidence to support the paper's analysis of strategies to avoid the middle-income trap.

Research results

Many Asian countries have successfully implemented strategies to catch up with the economic powerhouses of North America and Western Europe. Japan, Korea, Singapore, and Taiwan were pioneers in this catch-up strategy (Figure 1).

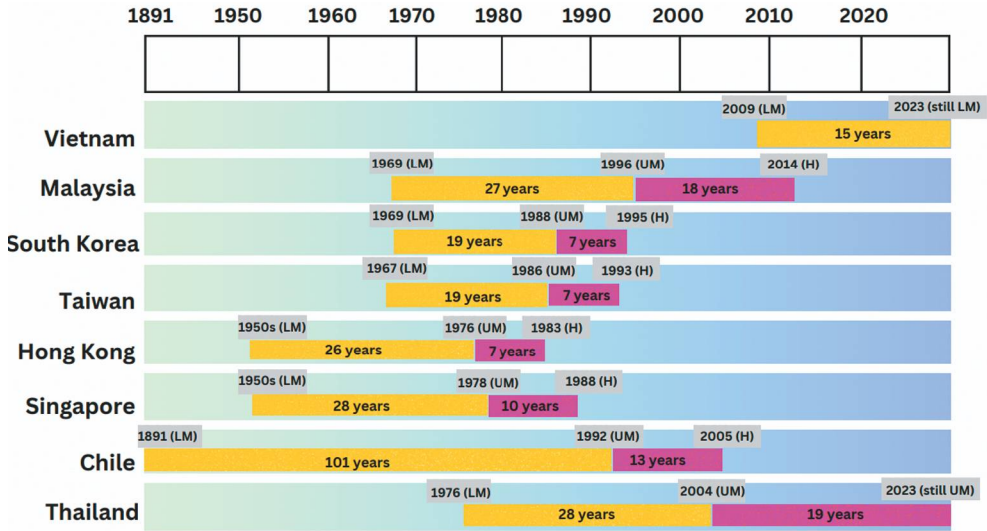


Fig. 1. Roadmap for countries to overcome the middle-income trap.
Source: World Development Indicators 2024.

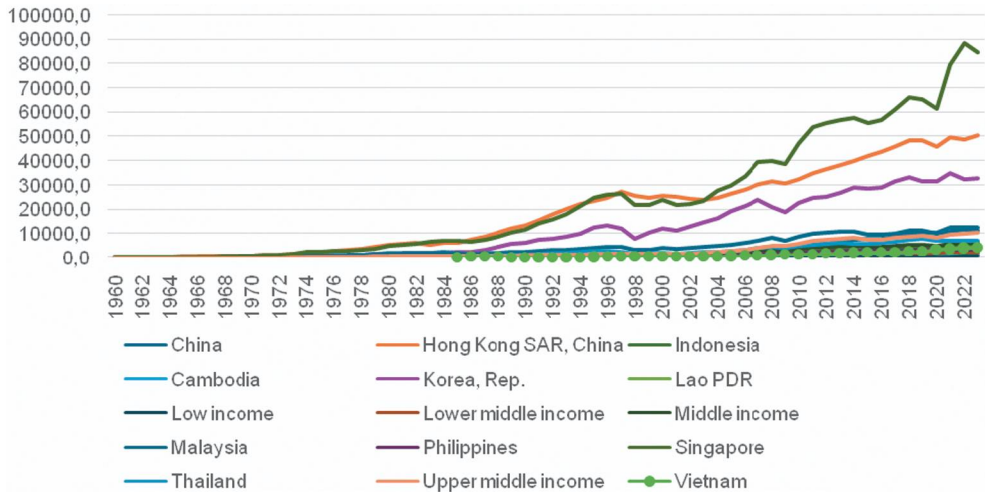


Fig. 2. GDP per capita in selected East Asia countries.
Source: WDR 2024 team using data from WDI (World Development Indicators).

According to Tran Van Tho [2016], the world today can be divided into four groups: Group 1 consists of low-income countries. Group 2 includes countries that reached middle-income status long ago but have since stagnated. Group 3 comprises emerging economies that recently reached middle-income (upper-middle-income) levels. Group 4 consists of advanced high-income countries (Figure 2).

The main causes leading to the middle-income trap include: (i) Poor institutional quality; (ii) Lack of dynamism in the private economic sector; (iii) Inability to address

social issues arising from rapid growth, domestic and international integration; (iv) Inability to respond to external shocks, including those associated with globalization and climate change. According to Tran Van Tho [2016] and Kenichi Ohno [2014], among the countries considered to be catch up in the middle-income trap, Malaysia has encountered the first cause, while China and Thailand are facing the second issue. The Philippines and Vietnam are affected by all four of the aforementioned causes, each of which must be addressed thoroughly.

In Vietnam, the risks associated with the middle-income trap are becoming increasingly apparent. Economic growth has slowed markedly compared to pre-crisis periods, productivity remains low and continues to lag behind that of other nations, and structural transformation has been both slow and shallow. Moreover, Vietnam has made little headway in global competitiveness rankings. The country is also facing a host of socio-economic challenges, such as widening inequality, environmental degradation, social instability, and a growing crisis of confidence. These problems are not unique to Vietnam but are common among many ASEAN countries.

Symptoms that Vietnam is at risk of falling into the middle-income trap

i) Slowing growth and rising risk of lagging behind

Since the implementation of market reforms, Vietnam has maintained relatively strong growth compared to both regional and global averages. From 1990 to 2023, the country's average annual growth rate was 6.3 %, outperforming the global average of 3.0 % and the 5.5 % average for middle-income countries. However, growth has

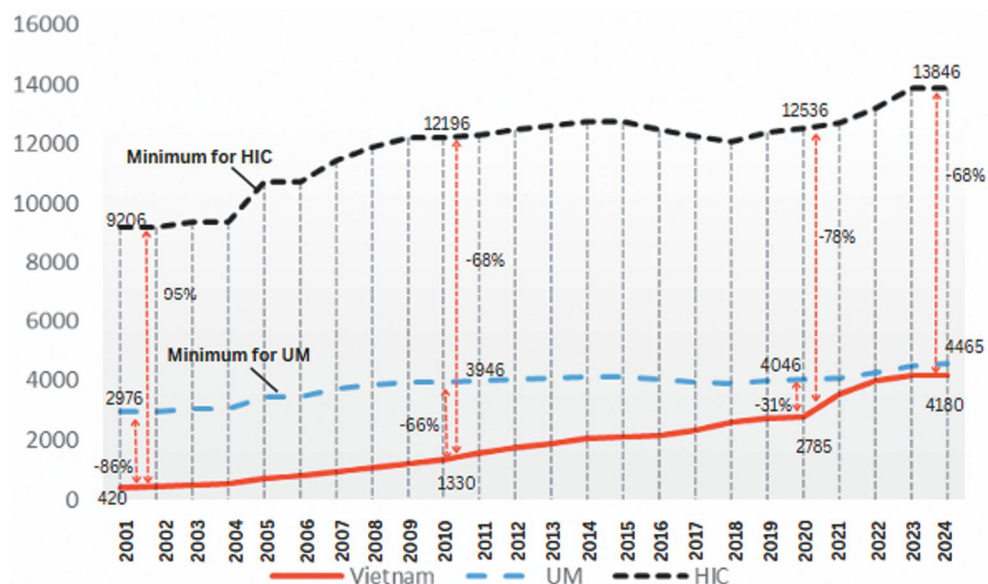


Fig. 3. Vietnam's GNI per capita and the minimum threshold for UPMIC and HIC.

Source: World Development Indicators 2024.

significantly declined during the 2011–2023 period, particularly when compared to the robust performance from 1991 to 2010 (see Table 1). The sharpest deceleration occurred during 2020–2023, when growth averaged just 4.6 % [WDI 2023]. Applying the Rule of 70, it is estimated that — given current rates of GDP and population growth — it could take Vietnam approximately 30 years to reach the income level characteristic of high-income countries.

As of 2024, Vietnam’s gross national income (GNI) per capita was USD 4,180, which remains below the upper-middle-income threshold of USD 4,465 and far short of the high-income threshold of USD 13,846. This reflects a 6.4 % gap relative to the upper-middle-income threshold, suggesting Vietnam could potentially reach this level before 2030 (see Figure 3). Conversely, the gap between Vietnam’s GNI per capita and the high-income threshold stands at 68 %. At the current pace of growth, it would take Vietnam roughly 30 years to close this substantial gap.

ii) Extensive growth model

It is clear that Vietnam’s recent growth strategy has been largely dependent on extensive factors such as capital accumulation and natural resources. This model has been characterized by outsourcing and a significant reliance on foreign actors, including

Table 1. Economic growth rates of Vietnam and other countries in the world

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2001–2023
World	4.5	3.3	2.7	2.9	3.12	3.13	2.82	3.46	3.29	2.64	-2.93	6.26	3.09	2.72	2.89
Japan	4.1	0.0	1.4	2.0	0.30	1.56	0.75	1.68	0.64	-0.40	-4.15	2.56	0.95	1.92	0.66
Lao PDR	8.5	8.0	8.0	8.0	7.61	7.27	7.02	6.89	6.25	5.46	0.50	2.53	2.71	3.75	6.32
Malaysia	7.4	5.3	5.5	4.7	6.01	5.09	4.45	5.81	4.84	4.41	-5.46	3.30	8.65	3.68	4.46
Singapore	14.5	6.2	4.4	4.8	3.94	2.98	3.59	4.51	3.52	1.35	-3.87	9.69	3.84	1.08	4.58
Viet Nam	6.4	6.4	5.5	5.6	6.42	6.99	6.69	6.94	7.47	7.36	2.87	2.55	8.12	5.05	6.26
Cambodia	6.0	7.1	7.3	7.4	7.14	6.97	6.93	7.00	7.47	7.05	-3.10	3.03	5.24	5.40	6.76
China	10.6	9.6	7.9	7.8	7.43	7.04	6.85	6.95	6.75	5.95	2.24	8.45	2.99	5.20	8.29
Brunei Darussalam	2.6	3.7	0.9	-2.1	-2.51	-0.39	-2.48	1.33	0.05	3.87	1.13	-1.59	-1.63	1.41	0.68
Myanmar	9.6	5.6	7.3	8.4	8.17	6.99	5.86	6.14	6.27	6.58	-9.05	-12.02	4.04	1.00	7.18
Thailand	7.5	0.8	7.2	2.7	0.98	3.13	3.44	4.18	4.22	2.11	-6.05	1.57	2.46	1.88	3.26
Rep. Korea	6.8	3.7	2.4	3.2	3.20	2.81	2.95	3.16	2.91	2.24	-0.71	4.30	2.61	1.36	3.52
Philippines	7.3	3.9	6.9	6.8	6.35	6.35	7.15	6.93	6.34	6.12	-9.52	5.71	7.58	5.55	4.97
Indonesia	6.2	6.2	6.0	5.6	5.01	4.88	5.03	5.07	5.17	5.02	-2.07	3.70	5.31	5.05	4.88
United States	2.7	1.6	2.3	2.1	2.52	2.95	1.82	2.46	2.97	2.47	-2.21	5.80	1.94	2.54	2.04
Low income	7.0	0.8	-3.2	3.3	4.39	-0.57	2.02	3.04	3.42	4.23	0.34	2.07	3.74	3.01	3.57
Lower middle income	6.9	4.8	5.2	5.7	6.11	5.93	5.69	5.46	5.44	4.06	-3.59	6.65	5.82	5.29	5.32
Middle income	8.2	6.5	5.6	5.6	5.17	4.83	4.81	5.38	5.01	4.08	-1.21	7.51	3.85	4.54	5.49
Upper middle income	8.5	6.9	5.8	5.6	4.94	4.55	4.58	5.35	4.90	4.09	-0.59	7.72	3.36	4.35	5.53
High income	3.0	2.0	1.5	1.6	2.14	2.33	1.83	2.48	2.37	1.85	-3.91	5.58	2.64	1.64	1.85

Source: World Development Indicators 2023.

technologies introduced through foreign direct investment (FDI) enterprises, foreign markets, and the production and export activities of FDI companies.

This capital-driven model in Vietnam has predominantly led to the formation of bubbles in the real estate and investment sectors, rather than generating substantial improvements in productivity or national competitiveness. The model, which heavily reliant on FDI and other forms of capital inflow, is now facing numerous structural instabilities. A considerable share of FDI enterprises in Vietnam remain concentrated in outsourcing and operate with medium- to low-level technologies. As a result, the Vietnamese economy has been lagging in competitiveness while simultaneously suffering from increasing environmental degradation. The negative environmental impact is especially evident in heavy industrial zones — most notably in steel, cement, chemical, and paper production sectors. In recent years, the FDI sector has been a significant contributor to GDP growth, further deepening Vietnam's economic dependence on foreign capital and enterprises across several dimensions of development.

iii) Low labor productivity

From 2011 to 2020, Vietnam's average annual labor productivity growth stood at approximately 5.29 %, with the highest rates recorded during 2015—2019. However, this momentum was disrupted during the period from 2020 to 2022, primarily due to the negative impact of the COVID-19 pandemic. In 2023, labor productivity growth declined further to 3.65 %, continuing the downward trend that has persisted since the 2016—2020 period.

Vietnam's labor productivity remains among the lowest in the Southeast Asian. In terms of nominal GDP, Vietnam's labor productivity in 2023 reached USD 7,151 per capita, which represents merely one-sixteenth of Singapore's productivity, one-tenth of Japan's, one-ninth of South Korea's, one-third and one-sixth of Malaysia's and

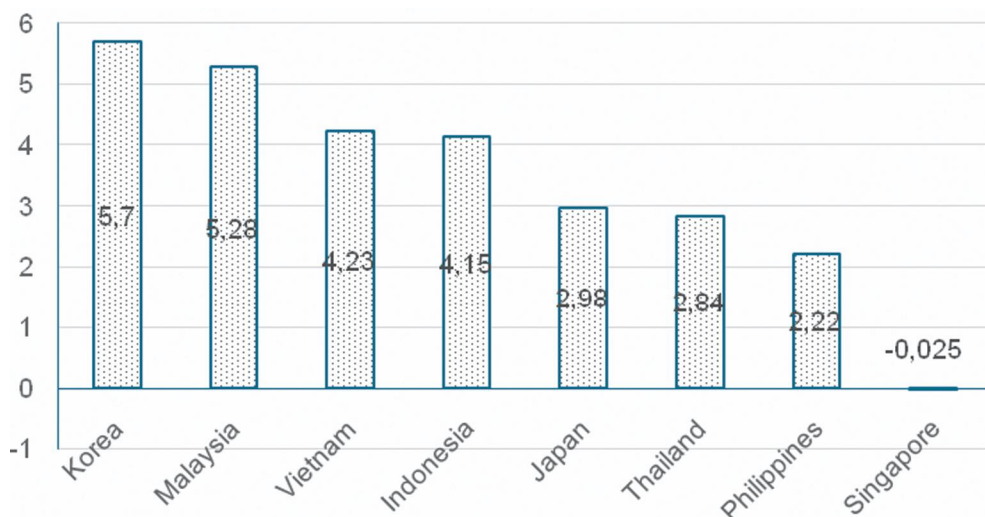


Fig. 4. Labor productivity growth rate of Vietnam compared to other Asian countries (2023).

Source: APO 2024.

Thailand's productivity, respectively. When adjusted for purchasing power parity (PPP), Vietnam's labor productivity is approximately one-seventh of Singapore's and one-third of that of both Japan and South Korea. Although Vietnam's productivity is higher than that of the Philippines and comparable to Indonesia, it continues to fall significantly behind the levels observed in Malaysia and Thailand.

Table 2. Labor productivity of Vietnam and other countries

Country Name	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Japan	69 385	68 834	67 679	67 304	65 776	68 150	69 012	69 871	69 389	69 586
Lao PDR	6748	6603	6491	6579	6530	6530	6299	6030	5719	5420
Malaysia	24 862	24 088	23 417	21 824	21 699	22 931	22 509	22 021	21 268	20 671
Singapore	11 1382	107 747	104 923	103 169	96 117	99 588	100 133	97 584	93 838	91 232
Viet Nam	7151	6805	6546	6185	6044	5733	5372	5058	4757	4472
Cambodia	3020	2881	2762	2669	2654	2754	2650	2543	2469	2378
China	23 867	22 907	21 765	21 079	19951	19128	17982	16823	15707	14712
Thailand	11 834	11 431	11 110	11 002	10 871	11 603	11 290	10 956	10 464	10 042
Korea, Rep.	62 584	61 176	60 903	61 109	59 184	59 023	58 307	56 823	55 749	54 712
Philippines	9196	8878	8724	8796	8670	8988	8729	8384	7712	7418
Indonesia	8949	8642	8418	8246	7886	7991	7838	7609	7420	7147
United States	130 942	128 220	127 387	128 591	125 547	121 590	120 679	118 967	118 260	118 222
LIC	2077	2059	2111	2126	2143	2181	2166	2168	2176	2185
LMIC	6608	6371	6368	6309	6153	6281	6191	6001	5790	5566
UPMIC	21 148	20 490	19 795	19 478	18 618	18 218	17 593	16 901	16 182	15 620
HC	91 490	89 954	89 617	89 369	86 054	87 301	86 940	86 182	85 366	85 093

Source: World Development Indicators 2024.

iv) Low Total Factor Productivity (TFP)

Total Factor Productivity (TFP) has shown noticeable improvements and plays a vital role in enhancing Vietnam's economic growth. Between 2011 and 2015, TFP contributed approximately 33.5 % to overall economic growth, which increased to about 45.42 % during the 2016—2020 period. The upward trend continued, but TFP contribution slowed down to 37.5 % in 2021, 43.8 % in 2022, and an estimated 44.8 % in 2023, according to the General Statistics Office (Table 3).

Despite these improvements, Vietnam's TFP and labor productivity remain substantially lower than those of regional counterparts. As a result, the country's growth model continues to be characterized by extensive growth, with the combined contribution of capital and labor reaching 55.2 % of GDP, significantly higher than the TFP contribution to growth in Malaysia, Thailand, China, South Korea, and Japan.

Table 3. Contribution of TFP to growth in Vietnam, %

Period/Year	GDP Growth Rate	TFP Growth Rate	TFP contribution to GDP growth
2011—2015	6,17	2,07	33,5
2016—2020	6,25	2,83	45,42
2021	2,87	0,79	27,78
2022	8,02	3,51	43,8
2023	5,05	2,28	44,8

Source: VNPI 2024.

v) Low capital efficiency

Vietnam's growth continues to depend heavily on capital accumulation. The total social investment rate consistently exceeded 35 % during the 2021—2023 period. However, the efficiency of capital use remains a significant concern.

Between 2011 and 2019, Vietnam's Incremental Capital-Output Ratio (ICOR) fluctuated within the range of 5.5 to 8.5 (Figure 5). The ICOR is influenced by various factors, including labor quality (knowledge content), the efficiency of resource allocation, the ability to adopt technology.

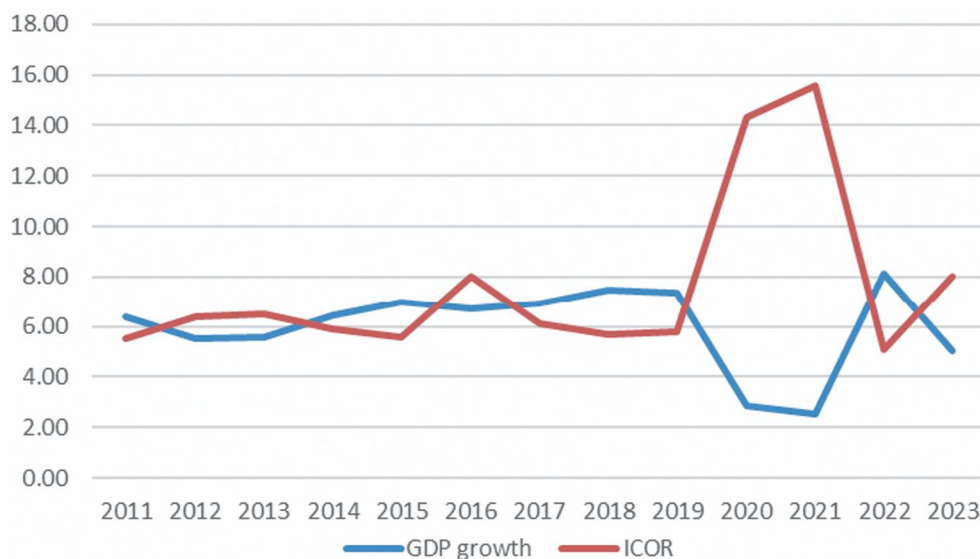


Fig. 5. GDP growth rate and ICOR of Vietnam from 2011—2023.

Source: Compiled by the author from the data of the General Statistics Office of Vietnam.

vi) Slow economic restructuring

Since 2001, Vietnam's industrial sector has undergone a gradual and slow transformation in terms of technological advancement. According to the United Nations Industrial Development Organization (UNIDO) classification method (2013),

the share of resource-based industries declined from 42.7 % in 2010 to 38.5 % in 2023. Similarly, low-tech industries decreased from 41.2 % in 2010 to 32.2 % in 2023. In contrast, the share of medium- and high-tech industries rose, reaching approximately 40 % by 2023 [UNIDO 2024].

In terms of Manufacturing Value Added (MVA) per capita, Vietnam has made notable progress—from USD 423 in 2011 to USD 829 in 2020, and further to USD 872 in 2023. This growth has narrowed the gap between Vietnam's indicator and the MVA threshold characteristic (USD1,000 per capita) of newly industrialized countries. Currently, Vietnam ranks 101st out of 143 countries in terms of per capita MVA. Within Asia, Singapore occupies the top position (2nd out of 143), followed by Japan (3rd), South Korea (6th), Taiwan (17th), Malaysia (41st), and Thailand (49th) [UNIDO 2025].

How to overcome the middle-income trap

The key drivers for Vietnam to overcome the middle-income trap include political, economic, cultural, and social factors that strongly influence the creation of economic growth, enabling Vietnam to reach high-income country status in the shortest possible time.

The first driver: National aspiration to become a high-income and prosperous country

Vietnam is located in one of the most dynamic regions in the world, with highly favorable geopolitical conditions. To become a high-income country and follow the successful path of countries like Japan, South Korea, Israel, and Singapore, national aspiration especially among the leadership and intellectual elite is essential. Nations whose leadership and intellectuals are deeply concerned with their country's destiny and capable of formulating development strategies aligned with global trends and the people's aspirations tend to develop rapidly and improve their global position. Japan's development into a modern country was driven by the vision and aspiration of the Meiji-era leadership. South Korea became a leading nation after the Korean War. Israel has earned global admiration since the establishment of the Jewish state. The Vietnamese nation, after thousands of years of nation-building and defense—through resistance to the Northern dynasties, French colonization, and American imperialism—has preserved its cultural identity and independence. This strong national aspiration must now be activated in peacetime to help Vietnam become a prosperous country.

The second driver: Innovation in the growth model

To build a solid foundation for a new development phase, Vietnam needs a new growth model to avoid the middle-income trap and move toward high-income status. This new growth model must, first, rely on endogenous resources, reducing excessive dependence on FDI and external factors. While FDI has significantly contributed to Vietnam's economic growth, the dominance of low- and medium-tech FDI projects risks turning Vietnam into a destination for outdated technologies. Many large-scale projects in steel, cement, food processing, and paper production have caused serious environmental pollution, with damages outweighing benefits. Even higher-tech FDI projects are largely focused on processing and assembly, with multinational corporations

using their technological and managerial superiority to transfer profits abroad, leaving domestic firms at a disadvantage. Therefore, Vietnam's growth must be driven by value creation from Vietnamese enterprises and citizens, based on science, technology, innovation, and the digital economy. Second, the new growth model must focus on generating domestic value by leveraging the large-scale production capacity of the FDI sector. This includes enhancing linkages between domestic and FDI enterprises, developing FDI marketing strategies, building capacity among local firms, strengthening collaboration, improving logistics services, and training industrial human resources. A national productivity movement must be promoted with a clear policy framework that includes a vision, objectives, policy areas, action plans, and monitoring mechanisms.

The third driver: Improving the quality of institutions and building inclusive institutions

Scholars of new institutional economics argue that national prosperity is determined by institutions. Inclusive political institutions guarantee broad participation, political accountability, and rule of law. Inclusive economic institutions stimulate economic development by encouraging investment, enabling market-based resource allocation, and fostering participation by ensuring equal opportunities. Vietnam must treat institutional improvement as one of the strategic breakthroughs. This requires improving public administration efficiency, strengthening anti-corruption efforts, ensuring transparent property rights, enforcing the legal system, and reducing transaction costs. Only through higher institutional quality can Vietnam optimize resource use, enhance competitiveness, and overcome the middle-income trap.

The fourth driver: The golden population structure and a high-quality workforce

Globally, few countries like Vietnam possess both a large population and cultural, linguistic homogeneity, while also being in the "golden" population period. This creates favorable conditions for increasing national and household savings, boosting investment, and promoting development. The golden population structure reduces the dependency burden, promoting savings and investment, and spurring economic growth. While the golden population structure serves as a driver for Vietnam to escape the middle-income trap, low labor productivity remains a barrier. The key issue for Vietnam today is enhancing labor productivity. Labor productivity is the cornerstone of Vietnam's policy development as it is directly linked to the middle-income trap and deindustrialization.

The Vietnamese government should pay greater attention to nominal wage trends in relation to labor productivity. To create a virtuous cycle between wages and labor productivity and avoid future pitfalls, three requirements must be met. First, the government must collect, analyze, and provide information and data related to wages and labor productivity, not only covering the minimum wage but also reflecting actual market wage levels. Second, Vietnam must establish a social code in which wage increases can match but must not exceed productivity growth. The government, employers, and workers should collectively agree on this principle, recognizing that the benefits of increased productivity are shared among all parties without compromising the national economy's competitiveness. Third, the tripartite entities, government, employers, and workers, should commit to making maximum efforts to enhance productivity as a shared national objective.

The fifth driver: The process of integration and globalization

Globalization, international economic integration, and trade liberalization are prominent trends in today's global economy. Since 1986, Vietnam has promoted integration under the motto of "diversifying and multilateralizing foreign relations." Integration is a powerful force for reform, enabling Vietnam to align with international standards, attract external resources, and access foreign markets. Participation in global trade and investment networks allows Vietnam to adopt new technologies, learn from best practices, and expand economic opportunities—thus creating an essential driver for escaping the middle-income trap.

The sixth driver: The dynamism of the private economic sector

Among the three main economic sectors—state, FDI, and private—the FDI sector has been the key driver of GDP growth, especially through export expansion. However, the domestic private sector has not yet become the growth engine it is expected to be. Its competitiveness remains weak due to limited capital, poor management, outdated technology, and restricted market access compared to state-owned and FDI enterprises. To build a growth model based on domestic factors, particularly the private sector, the government must be more determined in improving the investment environment and reducing inequality between private, state, and FDI sectors. Only by developing a dynamic and competitive private sector can Vietnam break through the middle-income barrier.

Conclusion

After a few years of attaining lower-middle-income status, the middle-income trap is no longer a distant threat for Vietnam—it has become a present and tangible reality. Growing evidence indicates that the country has either fallen into the trap or is facing a very high risk of doing so. This is not only evident but also of serious concern, especially considering the persistent issues of low labor productivity, low Total Factor Productivity (TFP), and low capital efficiency. Structural shifts that have been achieved were driven mainly by FDI and trade opportunities, and not by the strength of domestic firms and workers.

In order to avoid the middle-income trap, several concrete strategies have been proposed: National aspiration to become a high-income and prosperous country; Innovation economic growth model from quantity based model growth to quality based model growth once; Improving the quality of institutions and building inclusive institutions; Taking advantage of the the golden population structure and a high-quality workforce; Maximizing benefits from the process of integration and globalization; and leveraging the dynamism of the private economic sector.

To effectively implement these strategies, policy learning is essential in order to enhance policy capacity in Vietnam. This requires the collection and comparison of international experiences. Such knowledge gathering can be pursued through government-led initiatives, the mobilization of domestic private experts, or with the support of qualified foreign advisors.

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