The Middle-Income Trap: Issues for Vietnam and other ASEAN Countries

Tran Van Tho

Abstract:
The problem faced by many ASEAN countries is whether they can avoid the middle income trap and advance to the high income level. What are the conditions for them to avoid such trap? This paper attempts to offer an answer to this question by building an analytical framework on the factors which determine each development stage of an economy, and by comparing the current situation of four ASEAN middle income countries with the experience of Korea, the country succeeding in overcoming the middle income trap to reach the high income level in the late 1990s. The paper concluded that for ASEAN middle income countries (Malaysia, Thailand, the Philippines and Indonesia) to avoid the trap, they should strengthen R&D capability, emphasize the quality and appropriateness of human resources, and improve the institutional system for nourishing a dynamic private sector. These efforts can be expected to result in the dynamic changes in the structure of comparative advantage toward higher skill and more innovation-intensive contents. For a lower middle income country like Vietnam, reforms and policies to increase the productivity of capital, land and other resources are essential to avoid the early appearance of the trap.