



Eurasian
Development Bank

**The Middle-
Income Trap:
*Navigating
the Ambiguity
of the Concept***

Working paper 25/9

Almaty — 2025



Vinokurov, E., Fedorov, K., Romanov, I., Sobolevskaya, M. (2025) *The Middle-Income Trap: Navigating the Ambiguity of the Concept*. Working Paper 25/9. Almaty: Eurasian Development Bank.

Abstract

This study examines the middle-income trap hypothesis, a concept widely debated in economic literature. This a situation in which economic growth slows down after reaching a middle level and the country is unable to move into the group of high-income countries for a long time. It occurs when the initial successes of industrialisation gradually become exhausted and new growth incentives are not formed quickly enough. But can we really be certain whether a country has fallen into the “trap”? The latter is not a rhetorical question – of the 92 countries classified as middle-income economies by the World Bank in 2000, 27 have moved into the high-income group. The study aims to systematize numerous definitions of the concept and assess how definitional differences influence conclusions about development paths and income group transitions. An econometric analysis reveals that these differences have minimal impact on the factors affecting transition probabilities, making discussions about the fundamentals of trap formation largely definition-independent. Econometric testing also confirms a long-term relationship between sharp economic slowdowns and upward income transitions. At the same time, the definitional diversity complicates applying the hypothesis to specific countries.

Keywords: economic development; middle-income trap; middle-income countries; economic growth; total factor productivity

JEL: E02, O4, O10, O15, O31, O32, O57, J11, J24

Data Availability Statement

The data that support the findings of this study are openly available at: https://figshare.com/articles/dataset/Data_MITH_2024-12_rar/28060127

Acknowledgement

The authors extend their heartfelt gratitude to Alexey Kuznetsov, Head of the Research Department at the Eurasian Development Bank; Aigul Berdigulova, Senior Analyst at the Eurasian Development Bank; Anton Dolgovechny, Senior Analyst at the Eurasian Development Bank; and Victoria Babajanyan. Their invaluable contributions and unwavering support have significantly enriched the quality and rigor of this research.

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SUMMARY

This paper examines the middle-income trap hypothesis (MITH). According to this concept, middle-income countries face structural problems that are specific to them and hinder their progression to the high-income category. The paper systemically categorises different definitions of the MITH and evaluates how these variations affect econometric results and policy implications.

The paper draws the following main conclusions:

1. Academic debate on the middle-income trap is characterized by a high degree of conceptual uncertainty.

Different definitions of the “trap” lead to widely varying estimates of how many and which countries are caught in this “trap.” There are three main approaches to defining MIT:

- *Qualitative. Based on expert assessment.*
- *Absolute quantitative. Based on fixed per capita income thresholds.*
- *Relative quantitative. Based on comparison of per capita income with other countries, such as the United States or the OECD average.*

2. Econometric analysis shows that the factors influencing the transition between income groups are not strongly dependent on the type of definition.

Econometric testing was conducted to determine the significance of factors contributing to transitions to higher income groups and significant slowdowns in economic growth as defined by [Aiyar et al. \(2013\)](#) or [Eichengreen et al. \(2012, 2014\)](#): demographic indicators, macroeconomic variables, indicators of innovation potential, and the quality of institutions.

The following results were obtained:

- Many of the factors considered have a significant impact on the likelihood of a substantial slowdown in economic growth and transition to a higher income group.
 - The same variables influence both the significant slowdown in growth and the transition processes, regardless of how income groups are defined.
3. The correlation between episodes of significant economic slowdown and long-term prospects for transition between income groups is statistically significant:
 - Episodes of sharp growth slowdowns have a statistically significant impact on the transition to higher income levels, especially if income groups are defined in relative terms.
 - A significant slowdown in growth may be an early indicator of the formation of a “trap,” although not with 100% certainty.

4. A number of factors significantly influence the probability of transitions between income groups. Taking them into account can help countries escape the “middle-income trap”:
 - Creating favorable macroeconomic conditions, including sustainably low inflation.
 - Maintaining public debt at moderate levels.
 - Increasing investment attractiveness; attracting both domestic and foreign investment.
 - Developing innovative potential and human capital through education.
 - Improving the quality of public institutions.
 - Supporting stable demographic dynamics.

5. The idea of the “middle-income trap” can be useful as a concept that stimulates and structures public debate on development issues. At the same time, the lack of uniformity in definitions seriously reduces its usefulness as a tool for diagnosing specific economies.

The study contributes to the debate on “economic development traps.” According to its findings, the diversity of definitions does not hinder the study of the factors underlying transitions between income groups and the formation of the “middle-income trap.” MIT is not a universal phenomenon, but it can be a useful basis for reflection on the challenges of economic development, especially for countries seeking to move from the middle-income group to the high-income group.