

Can India Escape the Middle-Income Trap?

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Introduction

- The **World Development Report 2024**, published by the **World Bank**, highlights the challenge of the **middle-income trap**, where countries experience a slowdown in growth as they reach higher income levels.
- The report identifies the **3i approach—investment, infusion, and innovation**—as essential strategies for countries aiming to transition from middle-income to high-income status.
- This approach requires dynamic state policies, particularly relevant to India's ambitions for sustainable economic growth.

What is the Middle-Income Trap?

- The middle-income trap refers to the stagnation of per capita income growth when economies reach around **11% of the U.S. per capita income**.
- This phenomenon hinders further progress toward high-income status.
- **Global Scenario:** Over the last 34 years, only **34 middle-income economies** have successfully transitioned to high-income levels, emphasizing the difficulty of escaping this trap.

Lessons from Other Economies

- **South Korea:**
 - **State-Driven Growth:** South Korea's escape from the middle-income trap was characterized by a **strong state intervention** model. The government actively directed private sector activities, focusing on **export-driven growth**.
 - **Supportive Policies:** Successful companies were rewarded with access to new technologies, while underperforming firms were allowed to fail. This approach ensured that state resources were efficiently allocated.
 - **Role of Chaebols:** South Korean business conglomerates, or **chaebols**, became global leaders in innovation due to their emphasis on investment and technology adoption.
- **Chile:**
 - **Natural Resource Focus:** Chile's growth was facilitated through targeted state support for **natural resource sectors**, such as the **salmon industry**.
 - **Export Strategy:** The Chilean government ensured the success of specific export sectors through intervention and support, helping the country to climb up the income ladder.
- **European Union's Role:**
 - Most European countries that escaped the middle-income trap benefited from **EU membership**, which facilitated **free movement of capital and labor**—advantages that are not available to non-European nations.

Challenges for India

- **Global Economic Headwinds:**
 - The global economic environment has changed significantly since the time of South Korea's rapid growth. Today, **world export growth** has slowed, and **protectionism** is on the rise, making it difficult for countries like India to access foreign markets.
 - India also faces the challenge of **premature deindustrialization**, where the contribution of manufacturing to GDP declines at lower levels of income than seen historically.
- **Stagnation in the Manufacturing Sector:**
 - Despite India's push for industrial growth, the **manufacturing sector** has struggled to become a robust engine of economic expansion.
 - This has been exacerbated by increased reliance on **agricultural employment** following the pandemic, reversing earlier progress in **structural transformation**.

- **Income Disparity and Low Wage Growth:**

- While India's GDP growth has been estimated at **around 7%** recently, this growth is not reflected in **real wage increases**.
- Data from the **Periodic Labour Force Survey (PLFS)** shows that nominal wage growth has been around 5-7%, barely keeping up with **inflation**.
- Low wage growth means that **consumption demand** remains weak, which could hinder India's ability to escape the middle-income trap.

- **Challenges of Democracy:**

- Unlike South Korea and Chile, whose export-driven growth models were facilitated by **authoritarian regimes**, India operates within a **democratic framework**.
- This makes it crucial to balance **state intervention** with **democratic principles**, such as labor rights and freedom of expression.

Strategies for India's Transition

- **Leveraging Investment and Innovation:**

- India needs to focus on **enhancing domestic investment** and fostering an environment conducive to **innovation**.
- This includes supporting **startups, tech companies, and research and development**.

- **Encouraging Responsible Business Practices:**

- For India to follow a path similar to South Korea's, it is vital to ensure that **state support** is based on **merit and performance** rather than **political connections**.
- This will ensure efficient allocation of resources and avoid crony capitalism.

- **Strengthening the Service Sector:**

- With manufacturing facing challenges, India's **service sector** has the potential to be a key driver of growth.
- It is essential to enhance the productivity and global competitiveness of **IT services, healthcare, education, and financial services**.

- **Inclusive Economic Growth:**

- Addressing **income inequality** and ensuring that **workers share in economic growth** is critical.
- Policies aimed at improving **social safety nets** and **educational opportunities** can empower more people to participate in India's growth story.

Conclusion

- India's journey towards escaping the **middle-income trap** is fraught with challenges, from **global economic shifts** to **domestic structural issues**.
- However, by adopting a balanced approach that combines **state intervention, investment in innovation, and adherence to democratic values**, India can chart a path towards sustainable high-income status.
- Examples of countries like **South Korea** and **Chile** offer valuable lessons, but India must tailor these lessons to suit its unique economic and political context.

Q1. When was the World Bank established?

The World Bank was established in 1944 to help rebuild Europe and Japan after World War II. Its official name was the International Bank for Reconstruction and Development (IBRD). When it first began operations in 1946, it had 38 members. Today, most of the countries in the world are members.

Q2. What is the meaning of a Developing Country?

According to the UN, a developing country is a country with a relatively low standard of living, undeveloped industrial base, and moderate to low Human Development Index (HDI). This index is a comparative measure of poverty, literacy, education, life expectancy, and other factors for countries worldwide.

Source: [Can India escape middle-income trap?](#)

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