

Nepal's Path to Avoiding the Middle-Income Trap-Learning from Global Experience

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ABSTRACT

There is no clear explanation in economic theory that why only few developing countries transmitted to high income economy but many fail to grow and stagnated in middle income for long period. However, the phenomenon Middle Income Trap (MIT) cover significant explanation why countries are unable to graduate from a middle-income status to a high-income status. This research finds that Nepal will remain in lower middle-income status up to 2081 & require an additional 59 years to achieve high income status, if the current economic growth rate persists. We have used time threshold methods to determine required year for Nepal to graduate to upper middle- & high-income economy. This paper suggest to make significant investment on infrastructure, education, R&D, capital intensive industrialization to enhanced total factor productivity, support for innovation intensive product and good governance to avoid MIT.

Keywords: Middle-Income Trap, Economic Catch-up; development Economics, political economics, Nepal

Introduction

The Rapid economic growth experience by number of countries during the 1950s has allowed a substantial number of countries to promote on middle-income status. But only few countries succeed to jumped on the high-income categories. Most of the countries stuck in, what has been called a middle-income trap (MIT). The main idea of MIT is challenges that middle-income countries face to maintain sustaining high growth rates after transitioning from low-income status (Gill et al. 2007). World Bank, IMF and other international organization provide abundant policy and development fund to under developed and developing countries only few of them succeeded to become high income but most of them fail and stay log period in middle income status (Jwa, S. H. 2017 a).

Nepal is independent country, never colonized by any foreign power. Unfortunately, it bears numbers of internal conflict and political uncertainty since 1960. Nepal's economic growth seems quarreling due to Poor governance, insufficient innovation and entrepreneurship. Particularly per capita GDP was 332.46 current US dollar in 1975 which increase to 1324.03 current USD in 2023.If we discuss about Nepal's GNI per capita, it was 566.66 (constant 2015 US\$) in 2001 however it's slowly increases and cross the threshold level of low-income category by maintaining 1044.06 GNI per capita (constant 2015 US\$) in 2020.The World bank categorized income level of countries based on GNI per capita (constant 2014): - \$1,045 or less – low Income, \$1,045 to \$4,125- Lower middle-income , GNI per capita above \$4,125 but less than \$12,736-higher middle-income and GNI per capita of \$12,736 or more-High income countries. This classification is made on May 2016. Nepal met the standards to graduate to lower middle-income status from low-income status on 2020. Nepal improved the poverty level, enhanced economic growth and foster education and health services.

Approximately **17.4%** of total population in Nepal were living below the national poverty line in 2020, Which is a significant decline from the past poverty level. Nepal used a **national poverty line of NPR 20,735 per person per year** (approximately USD 0.68 per person per day in purchasing power parity terms). This poverty line is adjusted for inflation and based on food and noon food items consumption capacity. However, slow economic growth, burden of external debt and inequality is still remained as challenge for Nepal.

Despite internal conflict and unstable government Nepal made considerable progress in Income, poverty alleviation, life expectancy & literacy between 2000 and 2022. Democracy and new constitution¹ of Nepal insured the fundamental right for Nepalese people and open a window for economic reformation, development maintaining peace, prosperity and equality in Nepalese society. Nepal's **Human Development Index (HDI)** improved from **0.446** in 2000 to **0.602** in 2022. Where the **Bagmati Province** achieved an HDI of **0.658**, (medium human development), while the **Madhesh Province** had an HDI of **0.548**, indicating low human development it seems higher regional disparity but overall Nepal enhanced HDI.

Nepal officially aims to get promoted on lower middle income (LMIC)categories by 2026 since Nepal is listed on **Least Developed Country (LDC) from 1971.Nepal achieved required criteria set by UN² on 2020 & get recommendation to graduate lower middle-income status**

¹ Nepal got new constitutions on September 20 1015 after replacing interim constitutions of Nepal 2007 which is one of the most important milestones for Nepal's democracy and economic development.

² UN criteria for LCD graduation: -1, Gross national Income (GNI) per capita Achieving or surpassing the threshold of \$1,222 (as of 2024 thresholds)

by United Nations Committee for Development Policy (CDP) but Nepal appeal for 3-year extension to be listing on low-income countries thus officially Nepal will be lower middle-income country in 2026. National planning commission Nepal had made long-term strategies to get promoted on prosperous middle income (HMIC) country by 2030³. To leap forward in prosperous middle-income, Nepal's required steady GDP growth of 6 percentage every year (National Planning Commission & Asian Development Bank. 2016). Once country progression to middle income status labor costs increases compare to low-income country and cut down the support and opportunity benefit from foreign countries for export and trade including higher tariff which hurdles the country to escape from the middle-income range to reach high income status.

Nepal sets economic development policy to reduced poverty, accelerate infrastructure development policy, health and education which enhanced macroeconomic stability maintaining Prosperous Nepal, Happy Nepali. These economic reforms might be the key to achieve sustnabe development goal (SDG) by 2030 (Nepal Panning Commission 2020). The COVID-19 pandemic worsened Nepal's economic vulnerabilities, accounts substantial challenges to its progress toward becoming a **lower-middle-income country (LMIC)** and graduating from the **Least Developed Country (LDC)** category. The pandemic creates economic recession globally while, Nepal experience severe setback on tourism, international trade and agriculture as those are the main economic sector of Nepal.

Middle Income Trap (MIT) is well-documented phenomena in development economics and widely researched issue in developing countries. However, there is lack of research about MIT in case of Nepal. MIT is a concept which regards the situation where LDC countries get promoted to MIC but struggle to cross the threshold for HIC. MIC stuck longer period in this status due to diminishing growth rate, expensive labor force, lack implementation of 3 I⁴ Strategies **World Bank**. (2024). Even though Nepal is going to graduate on Lower middle-income countries due to continuous improvement on health education, poverty elevation, life expectancy and improvement on per capita income but GDP of Nepal is significantly dependent on remittance income and low productivity agriculture which is challenge to escape form middle income trap.

3, Economic and Environmental Vulnerability Index (EVI) Stability against economic and environmental shocks.

³ National planning commission set 2030 to achieve sustnabe development goals and become higher middle-income country.

⁴ 3I strategies is a frame work of Investment, Imitation and Innovation made by world bank to help countries to transition to high income country from middle income country.

Similarly, corruption, lack of good governance and transparency Nepal is not efficiently utilizing foreign aid to foster economic growth (Shah and Hwang 2022). Once Nepal graduate to MIT Nepal will loss **duty-free and quota-free market access** to many developed countries under the **Generalized System of Preferences (GSP)** and other preferential trade schemes for Least Developed Countries (LDCs). Similarly, Nepal has to bears raised tariffs on Nepali exports, such as Tobacco, tea, handicrafts and agricultural product. Nepal will loss the some of the **concessional loans** and **grants** provided by world bank, IMF which Increased pressure on the national budget to deal with government debt.

In this regards this paper will explore the answer for the following research question:

- 1, Will Nepal be the victim of both lower middle and upper middle-income Trap?
- 2, How long does it take for Nepal to become High income country?

The reminder of this study is organized as follows. Section 2 presents the concept of MIT and reviews the literature. Section 3 formalized the methodological approach. Section 4 presents data analysis & findings While section 5 contains, economic trend in Nepal and make comparison with its peering countries, Finally we wrap off presenting conclusion and policy implication in section 6.

2. Literature review (Middle income trap)

Initially by Gill and Kharas (2007) introduce the term Middle Income Trap (MIT) explaining middle-income countries fails to accelerate economic growth in pace due to high labor cost, increased tariff in foreign market country staggged in middle income level for extended period. Middle-income economies often get stuck because they are caught between cheap producers and high-tech innovators. Their wages are too high to compete with low-cost exporters, but their technology is not advanced enough to compete with richer countries (world bank 2010). There are conflicting views on MIT due to the differences in definitions of the trap and different methodologies to test its existence (Lee 2019). However, it is visible that many middle-income countries are struggling to leap forward to high income status thus this is still burning issue.

Empirically MIT can be defined using threshold for lower middle income and upper middle-income range. Aiyar et al., (2013); Felipe et al., (2012) define MIT using fixed income and period threshold method. While, Woo et al., (2012) define MIT based on per-capita income of particular country relative to per capita income of US or other advance countries. Some countries week in various factor like demography, governance, corruption, industrialization, trade openness, available physical capital including infrastructure, skilled main power and investment may play circular role to stagnated in middle income status for long time (Aiyar et al. 2013). Lee

(2013), said that country having insufficient innovation capabilities are the key constraint to escape from MIT.

MIT seems to be challenging for developing countries to graduate from lower middle-income status to higher middle-income countries and higher middle-income countries to high income status. World bank report⁵ **August 1, 2024 shows** more than 100 countries including some frontier nations China, India, Brazil, and South Africa are facing complications of MIT, which deter their energies to upgrade to high income status in upcoming few decades. Some middle-income Asian countries aggressively devoted for innovation and entrepreneurship to produced high quality goods and services to escape from Middle income trap but still stuck in MIT (Collier & Page, 2009).

Only Few succeeded to leap up elevating poverty by utilizing available physical and human capital resource. Asian rising star such as Singapore, Taiwan, South Korea are the example they successfully upgrade them from low-income countries in 1960 to high income (Advance) economy in 1980s,1990s and 1990s respectively. Singapore uplift to high income economy creating open economy, enhancing good governance, focusing financial services and international trade. While, Korea and Taiwan follow rapped industrialization, export-oriented policy, investment on human capital development, technology and infrastructure.

Eeckhout and Jovanovic (2007) said that the difficulties for middle-income nations under increased labor mobility are more significant compared to those faced by either low-income or high-income nations. They demonstrate, middle-income countries undergo the minimal variation in factor-price proportions following the opening of labor markets, meaning that broader occupational options contribute the least far benefit within economy.

There is long route to follow for countries to get high income status from low income, lower middle income and higher middle-income status. Smooth economic development is rare generally there exist economic shock & hazard. Countries should have to upgrade labor-based production to technology based higher productivity, aggressive capital accumulation, urbanization and industrialization with improving government efficiency and governance, however countries fail to do so stagnated in Middle Income trap (Felipe 2012).

Some Asian countries prove that innovation and government initiation with good governance, R&D, export-oriented policy helps to avoid MIT. South Korea avoids middle income trap by increasing foreign investment, innovation, research & development activities. Korea prioritized

⁵Press release, August 1,2024- "Middle Income Trap hinder Progress in 108 developing countries ", World Bank.

entrepreneurship, make export friendly policy, provide subsidy for domestic firm, monitor performance of national industries in monthly, quarterly and yearly basis. Korean government provide support to acquired technological innovation from abroad, provide tax subsidies to those competitive firm and support to strive in international market (Jwa, S. H., & Lee, T. 2024).

Similarly, Kuomintang government in Taiwan implement public owned enterprises friendly policy to prevent large private company but country economic growth stuck after 1980 denoting failure of the current policy due to limitation of international subcontracting structure focused on SMEs. Afterward Taiwan government decide to provide support for large private sector, continuously inspiring them for innovation, entrepreneurship and information communication technology (ICT) development. Taiwan built ICT industrial complexes and actively supported the development of ICT companies in 1990. Taiwan Semiconductor Manufacturing Company (TSMC) established in 1987 is one of the most globally competitive corporations in the IT sector. TSMC is the one who helps Taiwan to escape from MIT. Overall economic development based private corporation supporting industrial policy implemented by Taiwan Government policy prove as the key strategies to avoid middle income trap in Taiwan (Jwa, S. H., & Lee, T. 2024).

Nepal achieved its lower middle-income threshold since 2020, present economic trends show it has higher chance to stagnated in lower middle income and upper middle-income trap. Tiwari et al., (2016) examined economic mobility and pathways to Nepal. Their research highlighted the obstacles Nepal faced in maintaining persistent economic progress to avoiding the middle-income trap. They discussed the importance of strategies that foster equitable growth and expand pathways for socioeconomic advancement in Nepal.

The National Planning Commission has committed to formulating Nepal's Long-Term Development Strategy, 2030, which will act as a framework for the country's transition from Least Developed Country status by 2022, attaining the Sustainable Development Goals in the post-Millennium Development Goals period, and advancing to middle-income nation status by 2030⁶. However there is not proper research whether Nepal succeed to achieved upper middle income status by 2030 and what policy measures that Nepal need to adopt to overcome from middle income trap. This paper analysis the current trend of economic growth, per capita income other relevant economic variable and calculate time required for Nepal to progression on high income country.

Once Nepal graduate to lower middle income and upper middle-income categories it will loss

⁶ The international seminar was organized by the National Planning Commission in collaboration with ADB on 28 March 2016 in Kathmandu.

trade benefit, loosed the opportunity of getting **concessional loans** and **grants** provided by foreign intuition which may increase pressure on the national budget to deal with government debt. However, escaping from MIT can create more employment opportunity, technological advancement, reduction in inequality, enhance living standard of people. That’s why this paper explore how countries like south Korea and Taiwan avoid middle income trap and suggest the path way for Nepal to follow. This research has significant importance to the policy maker & government of Nepal and other middle-income countries to formulate policy to avoid potential MIT.

3. Research Methodology

This paper used quantitative method to identify weather Nepal can escape from Middle income categories earlier then threshold period of middle-income trap or not. We have used 2 widely used methods to explore the required year for Nepal to escape from middle income status. Initially we used time threshold methods developed by Felipe et al. (2012). Additionally, we have tested the Catch-up Growth method developed by Carnovale (2012). Unfortunately, catch-up methods suggest that Nepal is still in low-income status. Thus, our discussion is based on time threshold methods to escape MIT.

3.1 Time threshold method

Felipe et al. (2012) explores time threshold method to established a cut-off period to determine whether a country is at risk of falling into the middle-income trap (MIT) by analyzing empirical data on the income transitions of 124 countries. Their findings suggest that a country is considered to be in the lower-middle-income trap if it remains in the lower-middle-income category remain LMIC for 28 years or more. Similarly, if a country stuck on in the upper-middle-income category for 14 years or more. These thresholds are based on the median duration (in years) observed among countries that successfully transitioned from the lower-middle-income or upper-middle-income stage to promote on High income status. This approach highlights the importance of faster sustainable economic growth to avoid stagnation in income transitions.

We will follow Felipe et al. (2012) time(year) threshold method to identify weather Nepal get stagnated on Lower Middle-income trap and Higher middle-income Trap. We can calculate time required to jump up to next income status using following equation: -

$$Y_1=Y_0(1+g)^t \dots\dots\dots(i)$$

Where,

Y_0 = Current Gross National Income (GNI)

Y_1 = Minimum GNI required to upgrade on next income status,

g = Average GNI growth rate

t = required period (Years)

$$\text{Time required to leap on next income status (T)} = \frac{\text{Ln}\left(\frac{Y_1}{Y_0}\right)}{\text{Ln}(1+g)} \quad [\text{From equation 1}] \dots\dots(ii)$$

Where,

Minimum GNI = The threshold amount set by World bank in particular income group (Atlas method) (Current US\$)

GDP (2023) = The GDP per capita (current US\$) in 2023,

Ave. Gr. = The average per capita income growth rate in between 2004 to 2023

We have used the minimum threshold point of GNI per capita declared by World Bank⁷ to calculate time required to graduate on next income level for each of the income categories). Similarly, we will calculate average GNI per capita growth rate of Nepal to escape middle income trap using cutoff period 28 years to decide whether Nepal stuck in the lower-middle-income trap and 14 years to conform an upper-middle-income trap.

3.2 Catch-up growth method

we have calculated Catch-Up Index (CUI) following Woo (2011) definition and calculation methods. The author defined high-income, middle-income and low-income country by the ratio (expressed in percentage) of the income level of the country to the income level of USA, which is world widely accepted as leading economy. We also choose USA as leading high-income country to bench mark catch-up index of Nepal using Nepal's GDP per capita, PPP (current international \$). Woo (2011) said CUI higher than 55% defines high-income countries, a CUI between 20% and 55% defines middle-income countries, and a CUI lower than 20% defines low-income economies. We have calculated CUI of Nepal by dividing per capita GDP of Nepal (PPP)

⁷ GNI Per Capita Thresholds for 2024 (Atlas Method, Current US\$): -The World Bank has set the following income thresholds to classified country in different income categories: -Low-income economies: GNI per capita of \$1,135 or less, Lower-middle-income economies: GNI per capita between \$1,136 and \$4,465, Upper-middle-income economies: GNI per capita between \$4,466 and \$13,845, High-income economies: GNI per capita of \$13,846 or more.

by per capita GDP of the USA(PPP) and multiply by 100. We found CUI 3.7 in 1999,4.29 in 2009,5.25 in 2014 and jumped to 6.2 in 2018 and noted 6.5 In 2023.In this classification Nepal required a long-time duration to promoted on lower middle-income status. That means still Nepal is in Low-income status in this measure.

However, we will follow common income threshold method and treat Nepal as listed in lower middle-income country. Based on that situation this paper will explore the economic condition of Nepal and compare with foreign country. Finally, this research will recommend policy to escape from MIT and long term sustainable economic development.

4. Data analysis and Findings

Table no 1: calculation of average nominal and real growth rate

Year	GNI Per-capita	Nominal GNI Per-capita growth	Per capita GDP	Real GNI per capita
1999	210		208.646668	
2000	220	4.761904762	223.830289	
2001	230	4.545454545	240.795115	
2002	230	0	238.891403	-1.8952
2003	250	8.695652174	246.429707	2.48574
2004	280	12	279.58775	3.18592
2005	300	7.142857143	309.024168	2.91982
2006	330	10	340.431796	2.83744
2007	370	12.12121212	385.449768	2.80403
2008	430	16.21621622	464.817392	5.25
2009	480	11.62790698	473.078751	4.04292
2010	530	10.41666667	585.278492	3.77156
2011	620	16.98113208	785.518656	2.69782
2012	750	20.96774194	788.202937	4.62298

2013	840	12	803.269595	3.27951
2014	860	2.380952381	821.455225	6.52132
2015	870	1.162790698	875.543635	3.33779
2016	860	-1.14942529	877.256455	-0.1618
2017	970	12.79069767	1034.28375	8.52111
2018	1120	15.46391753	1179.19843	6.97727
2019	1240	10.71428571	1203.14295	5.82287
2020	1190	-4.03225806	1154.21518	-4.1324
2021	1250	5.042016807	1252.75077	2.40283
2022	1380	10.4	1385.91066	4.83141
2023	1430	3.623188406	1377.62604	2.62666
Average growth rate		5.639616585		3.67471

(Note: -Above data has been extracted from World bank development indicator, Atlas method (current US\$), We have calculated Nominal GNI per-capita growth using formulae (current year GNI -Previous year GNI) Divided by previous year GNI multiply by 100)

Table no:2, Calculation of required number of years for graduation

Condition	Original equation	GNI instead of GDP
Formulae Felipe et al. (2012)	$\frac{\ln(\frac{Y_1}{Y_0})}{\ln(1+g)}$	$\frac{\ln(\frac{Y_1}{Y_0})}{\ln(1+g)}$
Required time to progression on upper middle-income status	57.93	55.9
Required time to progression on higher income status	117.48	115.51

Here,

Current Gross National Income GNI 2023 (Y_0) =1430

Minimum GNI required to upgrade Upper middle-income status (Y_1) = 4,125US\$

Minimum GNI required to upgrade Upper middle-income status (Y_1) = 12736\$

Nominal Average GNI growth rate(g)=5.64

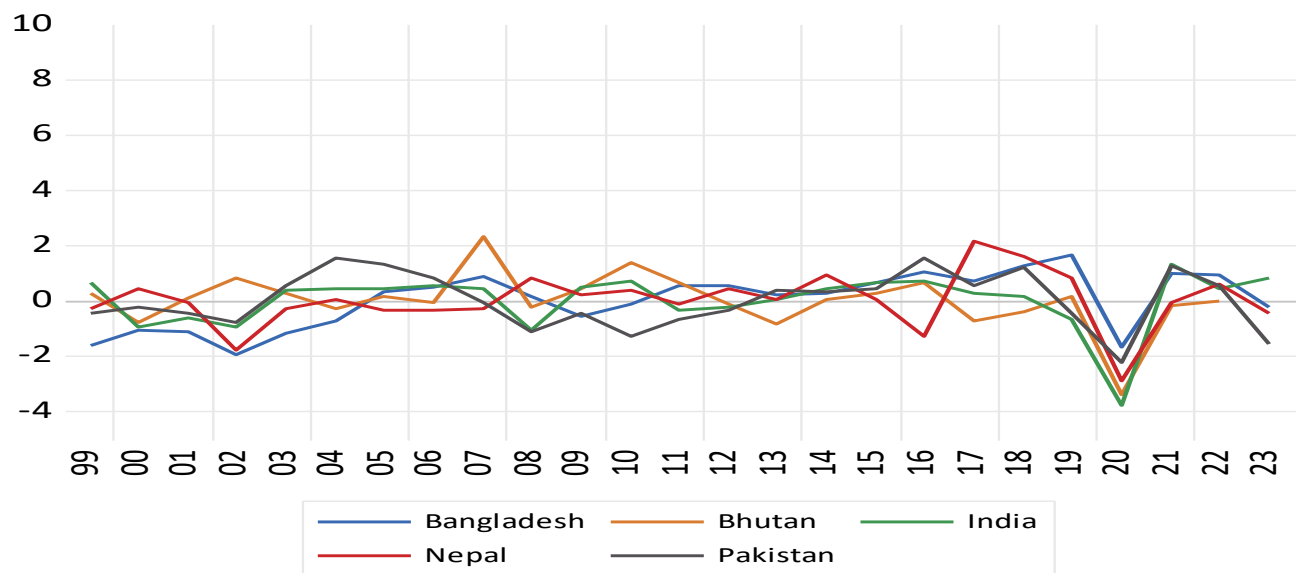
Required period (Years) (t)=?

=Nepal required 57.93 years promote on upper middle-income status if current growth rate is consistent where as it took (117.48-57.93) =59.55 years to cross upper middle-income status.

Thus, Nepal will badly staged in Middle income Trap as it needs almost 58 years to escape lower middle-income status which is greater than threshold level of 28 years set by Felipe et al. (2012). Once Nepal achieved upper middle-income status additional 59.55 years is needed to progression to high income country which is also longer than threshold level of 14 years if same growth rate without significant economic reform or miracle happens in Nepal's economy. This result suggest that Nepal is not implementing 3I strategies suggest by World bank to accelerate economic development in faster pace to avoid possible middle-income trap.

5. Current economic trend in Nepal and neighbor countries (India, Bangladesh, Bhutan⁸)

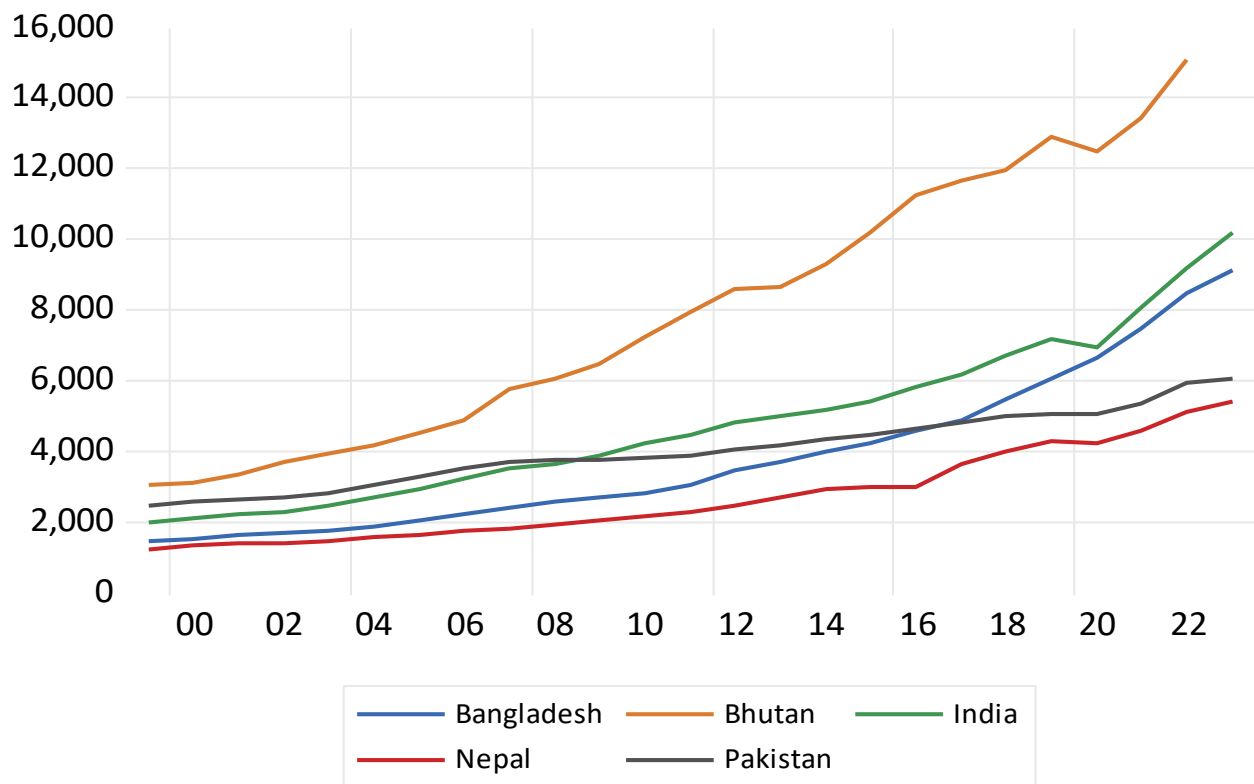
Figure 1: -GDP per capita growth (annual %) SAARC countries



⁸ There are 8 countries in SAARC list but due to unviability of continuous data we have exclude Afghanistan, Pakistan, Sri Lanka, Maldives

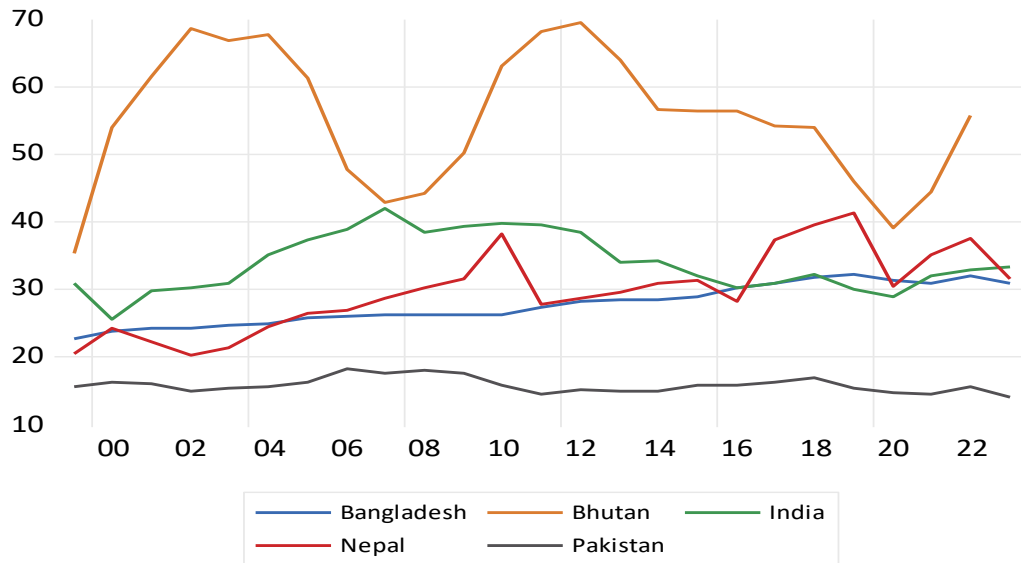
Above figure shows that Nepal’s per capita income growths was highest among its neighboring SAARC countries in 2000, Unfortunately which comes down then other except Bangladesh in 2002. Again, Nepal improves condition and perform similar with other mentioned countries up to 2014. Devastating earthquake hits Nepal in 2015 due to that disaster Nepal lost the way of economic growth and recorded around -2 per annum in 2016. Again, achieved highest GDP growth in comparison to other SARC countries in 2017. Finally, GDP growth of Nepal start to fall altogether with peering countries due to massive COVID-19 Outbreak in 2019.Eventualley it seems Nepal is struggling to maintain economic growth after COVID shocked due to political instability, corruption etc.

Figure 2: Per capita GDP current US\$



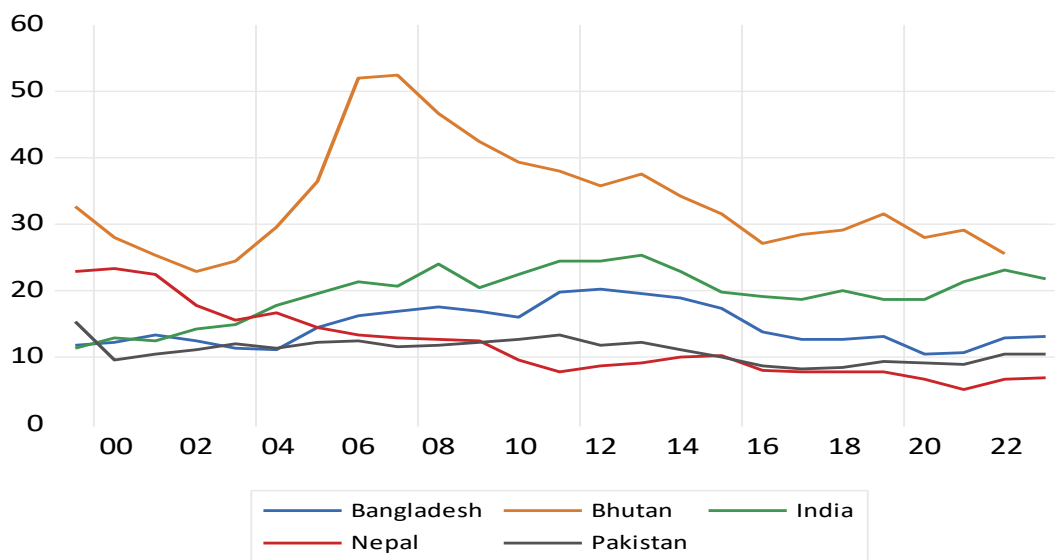
Nepal has one of the lowest Per-capita income percentage of Gross Domestic Product among above mentioned SARC countries. Bhutan significantly enhances its per capita income. Nepal and Bhutan have 1000 USD Gap on per capita income in 2000 but Nepal’s per-capita income goes up very slowly while Bhutan’s per-capita income hiked quakily and recorded above 15000 per person and seems tremendous gap per person in 2022. While Bangladesh, India and Pakistan also did great job to enhance per capita income in comparison to Nepal

Figure: -3 Gross Capital Formation (GCF)



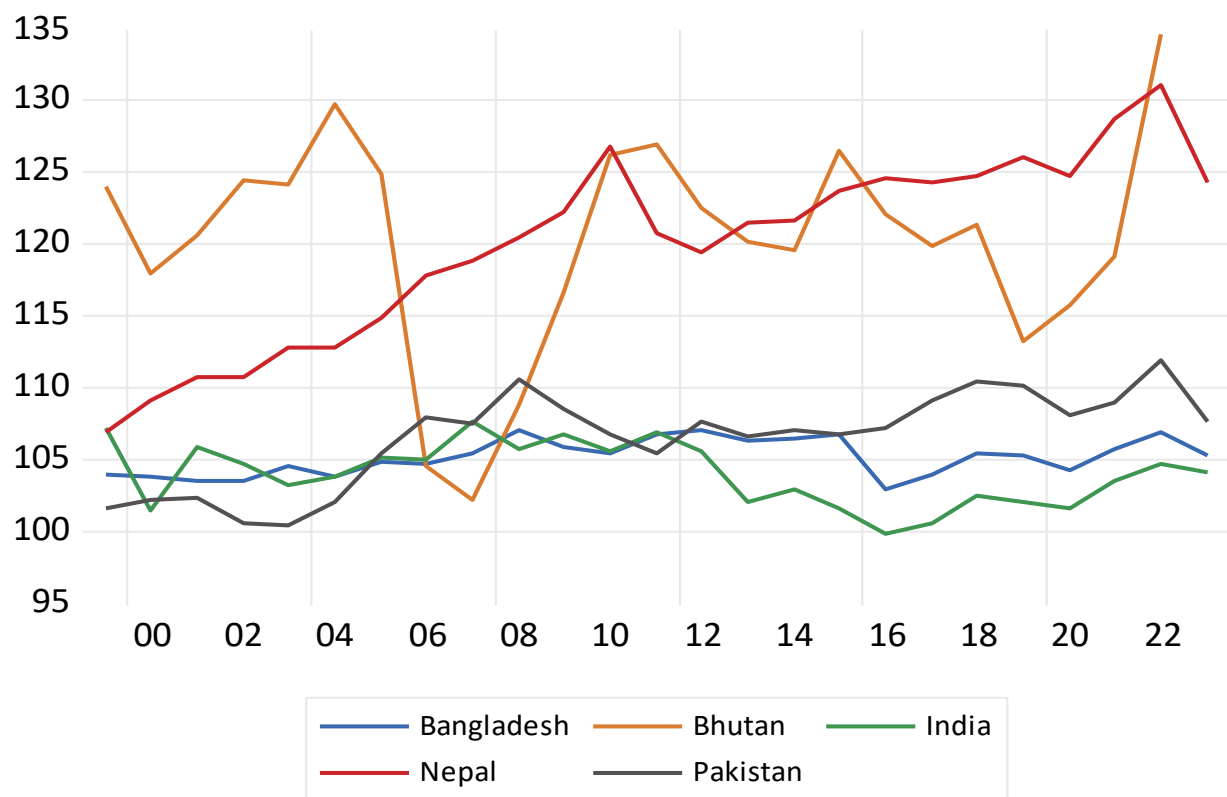
Gross capital Formation can be taken as proxy for physical capital investment of country. Above figure shows that Bhutan has highest investment on physical capital (Road, bridge and other infrastructure) which is one of the main reason Bhutan has highest per capita GDP among other SAARC countries. It suggests that Nepal should increase investment on creating physical capital to accelerate sustainable economic growth.

Table no 4, Export of goods services (%of GDP)



Above figure illustrate the condition of Export of goods and services (% of GDP) of SAARC countries. We noticed that around 2000, Nepal's did considerable amount of goods and services exports but afterward Nepal's export continuously declined. Remarkable in 2009 export of Nepal recorded one of the lowest among SAARC countries and still it's the lowest. Export attracts foreign currency thus any of country having higher foreign currency can accelerate economic growth unfortunately neither government nor private sector is pushing exports in Nepal. Even though Bhutan is one of the smallest countries in SAARC list but it has exporting one of the highest amounts of goods and services.

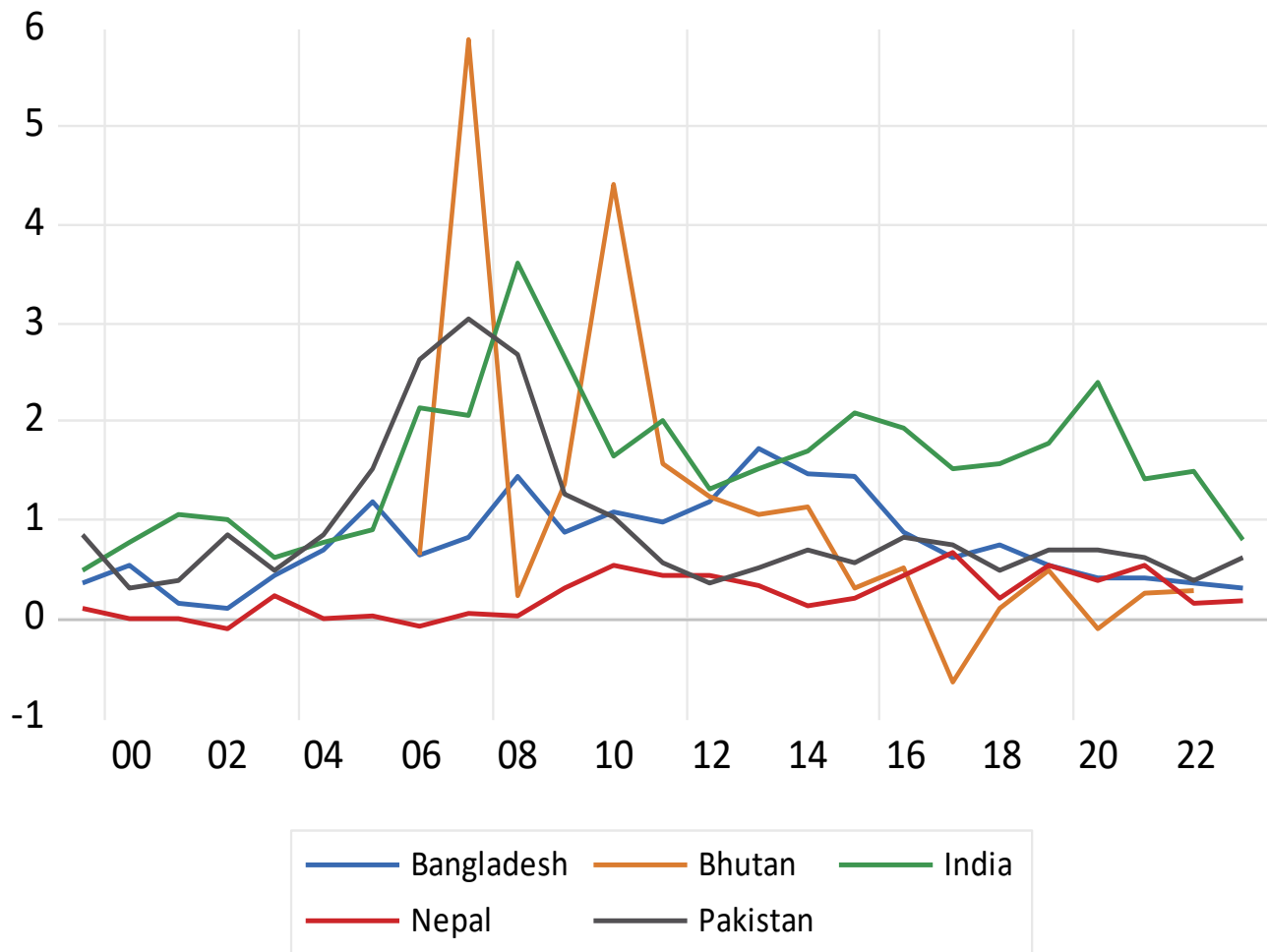
Figure 5: General government expenditure % of GDP



Above figure shows that Nepal has highest general government expenditure among SAARC countries. If Nepal utilized expenditure in productive sector efficiently Nepal could enhance its per capita GDP but it seems Nepal is spending a lot for consumption expenditure including wages, salary and social securities. Increased administrative costs associated with establishing and maintaining layers of federal, provincial, and local government which increased economic burden in Nepal. Due to lack of proper capacity in local government depends upon federal government for fund and decision-making which hurdle economic growth. From the above comparison with SAARC countries rest of the countries except Nepal is doing better with lower

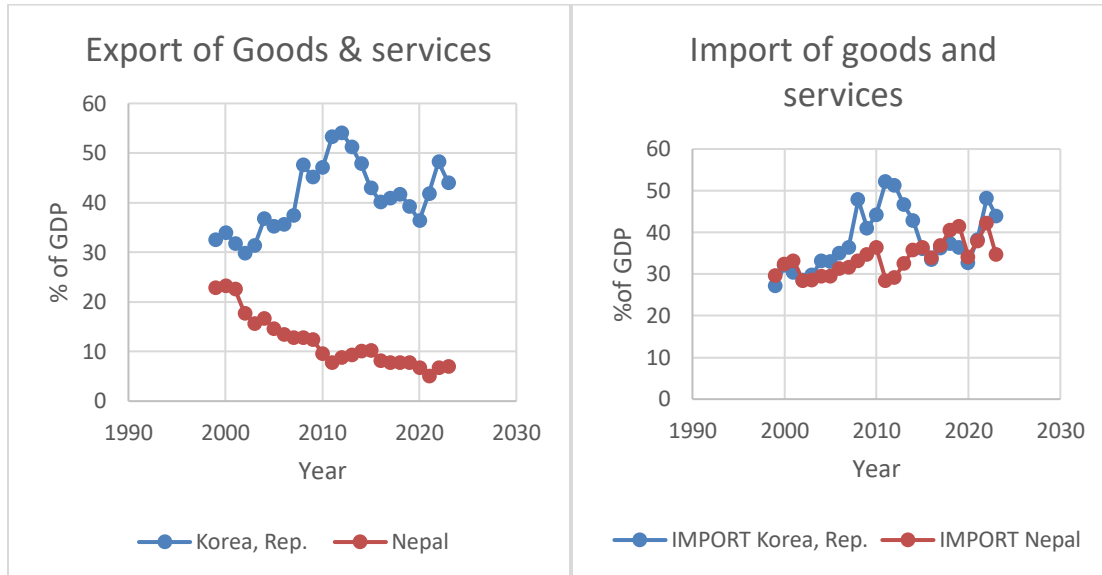
general government expenditure thus Nepal has to think quakily to reduced general government expenditure, for that Nepal can cut of some un necessary layer of decentralization and reduced some unproductive government expenditure.

Figure 6: Foreign Direct Investment % of GDP



Above figure reveals that Nepal received one of the lowest amounts of FDI in comparison to other SAARC countries. This might due to unstable government, low efficiency, lack of skilled main power and lack of connectivity and complicated policy. It seems government should make policy revision and make it FDI friendly so Nepal can attract FDI. Government can declare economic jones to attract FDI providing tax subsidies. FDI is one of the powerful tools, any developing countries can imitate the technology of advanced economy through FDI and helps their countries industrialized.

Figure 7: -Import & export of goods and services Nepal vs Korea



(We have used data available in world bank world development indicator data base to draw the figure)

Data (WDI-data base)⁹ shows South kores has tremendous ratio on exports of goods and services and trade while Nepal has tiny amount of trade and export. On the other hand, Nepal has almost equal amount of import relative to GDP. Which is one of the significant reason Nepal is unable to maintain economic growth due to insufficient production, export and trade but higher import from foreign countries to. Nepal has to follow the strategies used by success story of high-income countries like south Korea to escape from MIT enhancing export, technology-based production and trade.

6. Conclusion&policy implications

This study reveals that Nepal face tremendous challenges to avoiding the Middle income trap (MIT).This paper shows that Nepal need 58 years from now to progress from lower middle income to upper middle income status and additional 60 years to reach high income status. This time duration is far from the threshold sets by Falipe at al.(2012),which indicates that Nepal is at risk of long stagnation. Low export of goods& services, high general government expenditure, low FDI and low gross capital formation comparison to other neighbor countries suggest the

possible slow economic growth. Additionally political instability, weak governance, corruption, poor economic performance is responsible to hold Nepal in Middle income trap.

By reviewing extensive number of influential literature, we find that South Korea & Taiwan successfully avoid MIT by improving total factor productivity, industrialization, human capital development, technological advancement, provide support for competitive private corporation to compete in foreign market, investing sufficient amount on R&D, subsidies for innovation driven corporation. This paper recommends Nepal and other middle-income countries to follow the road map what South Korea and Taiwan followed in the past to overcome MIT.

Additionally governmental Nepal should be proactive and efficiently implement the 3I strategies (**World Bank** 2024). Economic strategies starting from enhancing Investment (I) followed by Imitation (II) from developed countries and wrapping up with innovation (III). Country should follow the sequence of I, once successfully achieve 1 I and moved to another I is called 3I strategies. Initially it is desired to increase investment of physical Capital (Infrastructure) and human capital (skilled main power development). After maintaining basic investment needs Nepal should focus on imitation using FDI and other tools from advance countries. South Korea also used the imitation strategies in the past. They have imported the vehicle from Japan and disassemble that and invent new car on their own El Fakir, A. (2008). Nepal has to inspired from those kinds of success story of rising Asian economy. Thirdly combining investment and imitation Nepal should prioritize innovation and focus on industrialization which could be the path way that Nepal can achieve sustainable economic growth and avoid middle income trap.

Future study incorporating many advance countries to explore how they manage to escape from MIT, and exploring number of middle-income countries why they are staged in MIT would provide significant understanding and policy recommendation to avoid MIT. Additionally, exploring MIT using advance econometric methods can add up the consistency of MIT phenomenon.

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