

# WORLD DEVELOPMENT REPORT 2024

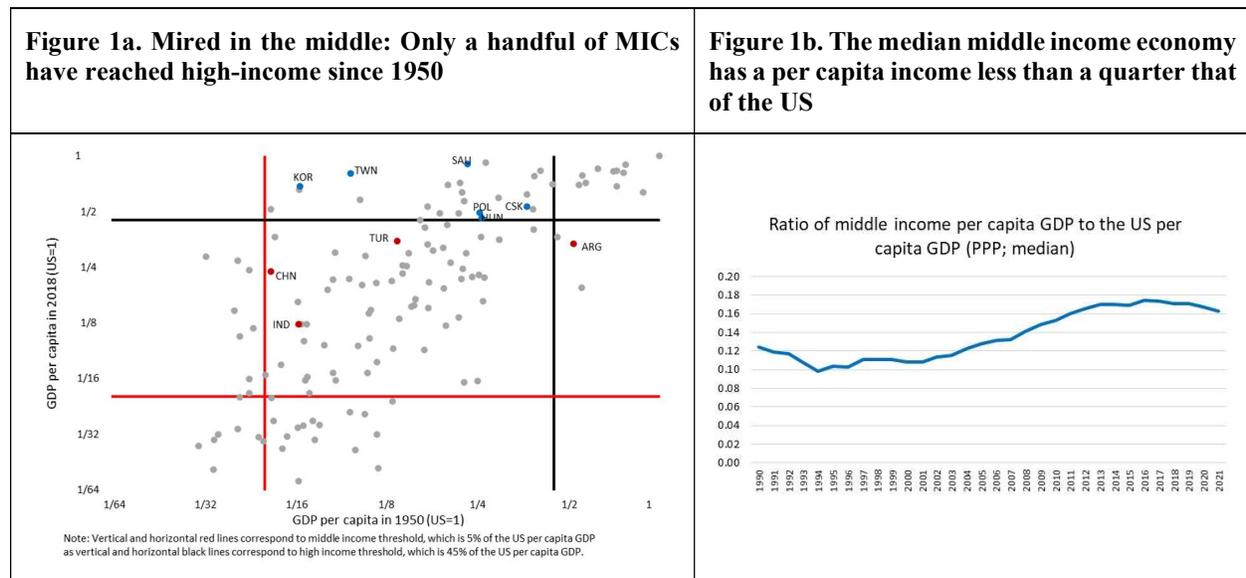
## Economic Growth in Middle-Income Countries

The World Bank’s **2024 World Development Report** will explore the challenges of economic growth in middle-income countries.

Under the World Bank’s income classifications, the world currently comprises 28 low-income, 108 middle-income, and 81 high-income economies. Constituting about 75 percent of the world’s population, middle-income countries today account for about 40 percent of global economic activity, 50 percent of the world’s extremely poor people, and 60 percent of global carbon dioxide emissions.

Between 1990 and 2019, 31 middle-income countries transitioned to high-income (Figure 1a) status. Ten of them—including Hungary and Poland—benefited by joining the European Union (whose economic model is characterized by vigorous trade and capital flows, freer enterprise, and social inclusion) during a period of healthy growth in Europe’s advanced economies. Others such as Kuwait and Saudi Arabia had the good fortune of being endowed with natural resources and timing policy reforms to coincide with high commodity prices. The rest—mostly East Asian economies such as South Korea and Taiwan, China—became high-income countries by making early land reforms and investments in education, postponing immediate gratification by saving a lot and keeping imports artificially expensive, and opening up progressively to trade and investment relations with advanced economies.

For countries that were neither extraordinarily fortunate nor fierce, progress through the middle-income stage has been slower. The median middle-income economy still has a per capita income less than a fifth that of the United States (Figure 1b). It is understandable why middle-income countries are not satisfied with the status quo.



Source: WB staff calculations using the Maddison Project database.

Source: WB staff calculations using the World Bank WDI.

Their chances have not been getting better. During the last decade the global economy went from healthy to hobbling and from largely integrated to increasingly fragmented. Foreign trade and investment channels are becoming constricted by geopolitical tensions and the shrinking space for government policies has resulted from multiple crises and populist pressures. Climate-change concerns have put additional pressure on all countries to change their growth strategies. With these headwinds, today’s middle-income countries will have to [make miracles](#) if they want to develop at the pace of economies that grew to high-income

during the last few decades. They will have to radically transform *enterprise*, meet the *expectations* of an increasingly restless middle class, and transition to *energy* sources that are much less emissions-intensive than the energy sources that today's advanced economies relied upon when they were middle-income countries.

Even without these headwinds, middle-income countries would face long odds in growing to high-income status—a condition the World Bank called “[the middle-income trap](#)” in 2007. While the middle-income trap has been treated as a growth problem of countries within a range of per capita GNI, it should be seen as a stage of development. Escaping that trap is not just about reaching a particular income; it is about successfully transforming a country's economic development model. Growth necessitates incessant change—in organizing the means of production of goods and services, in the distribution of economic rewards, and in the husbandry of natural resources. The passage through middle-income may be the phase of growth when change is most frenetic, likely making policymaking harder than it is in either low- or high-income economies.

During the last three decades, major advances have occurred in our thinking about economic growth, perhaps none more relevant for middle-income economies than [modern Schumpeterian growth theory](#). With its focus on creative destruction, this strand of economic theory has three attributes that make it especially well-suited for middle-income countries:

- *Heterogeneous agents*. The theory is premised on differentiation among firms (e.g., small and large, new and old) and workers (e.g., unskilled and skilled, rural and urban), and can usefully be extended to distinguish between energy sources (e.g., clean and carbon-intensive, reliable and risky).
- *Deliberate dynamics*. The theory recognizes the importance both of creation (startups, investment, and innovation) and destruction (firm closures, skill obsolescence and stranded assets) in the process of structural change and economic development.
- *Institutional inertia*. The theory provides insights into the forces of preservation of societal arrangements, status quo biases in industrial organization and public policy, and the catalyzing role of economic crises.

The *World Development Report 2024* and activities associated with it will make a concerted effort to bring the insights of Schumpeterian growth economics to bear on the problems faced by policymakers in middle-income countries.

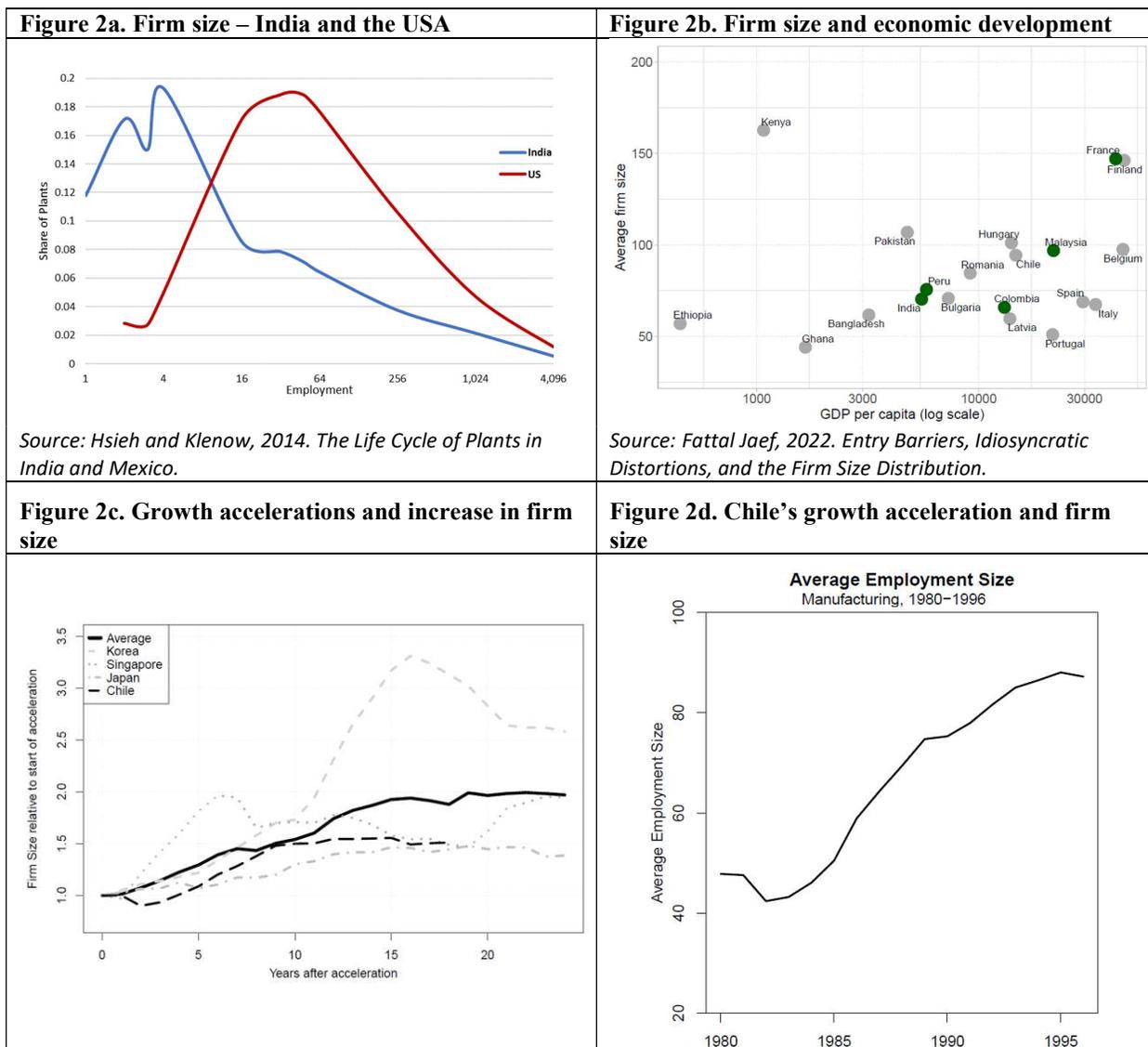
## Proposed Structure

The report will have three parts, one each on the facts, framework, and policies.

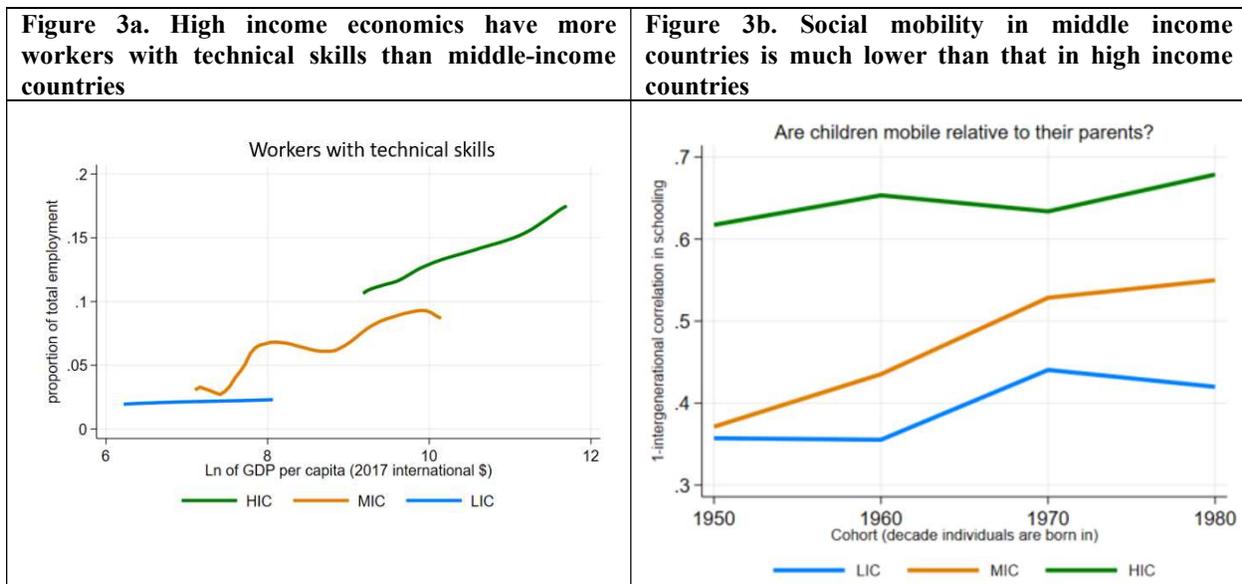
Part 1 will ask how development in middle income countries differs from development in low- and high-income countries, and whether a middle-income trap still exists. The report will examine the transformation of *enterprises*, *expectations* of the middle class, and the portfolio of *energy* sources:

- *Medium-sized firms*. Middle-income growth is ordinarily characterized as requiring a shift from investment in physical capital to innovation and—as a related matter—from relying less on large (old) enterprises and more on small (new) firms that are more innovative. A competing hypothesis is that success requires symbiosis between large, medium-sized, and small firms, and the effectiveness of economic policies in middle income is more reliably proxied by the “filling in” of the firm size distribution by the rapid expansion of innovative businesses and the timely exit of less successful ones. The average firm size is smaller in, say, India than in the United States, reflected by the smaller share of medium-sized firms (figure 2a). This pattern is evident also in a broader sample in which the average firm size in Colombia, India, and Peru is much smaller than high-income countries such as France

(figure 2b). The evidence suggests that economic development is accompanied by rising firm size (figure 2c) as seen during Chile’s accelerated growth after the Latin American debt crisis (figure 2d).



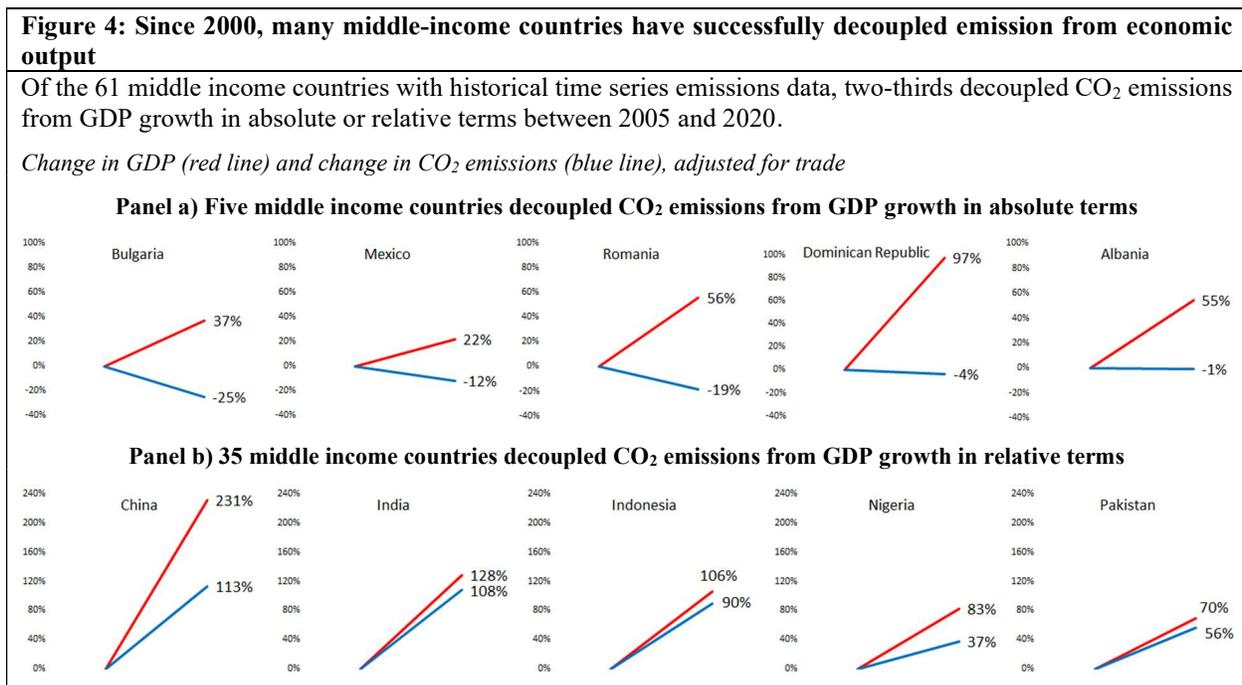
- Middle-class households.** Middle-income growth is often characterized as necessitating a shift from universal primary schooling to secondary education. But it also requires an expansion of technical, professional, and managerial skills. The transition from middle- to high-income is associated with transition from low- to higher-skilled and high-productivity activities (figure 3a). Success in the middle-income phase might more reliably be seen as the growth of the middle class, or the “filling in” of the income distribution through greater social mobility—both upward and downward—so that it concurrently makes the elite class more contestable. Notably, social mobility in middle-income countries is about 40 percent lower than in advanced economies (figure 3b). The misallocation of talent arising from low social mobility reduces economic efficiency and, arguably, fuels social stress and economic instability.



Source: World Bank Jobs database.

Source: Global Database on Intergenerational Mobility 2021.

- *Mid-carbon fuels.* Rising incomes in middle-income economies will lead to a surge in demand for energy. Increasing access to consumer durables, electricity, and energy is necessary for improving living standards. At the same time, the growth of large middle-income economies can increase global carbon dioxide emissions and exacerbate climate change. The ultimate impact on global greenhouse gas emissions depends on the carbon intensity of production, reflecting both the energy mix and its energy intensity of production. The report will examine how middle-income economies can continue to wean themselves off fossil fuels through low-carbon technologies (figure 4), while contributing to the shift to renewables worldwide by reducing the costs of green intermediates like solar, wind and battery power, as China has done during the last two decades.



Source: WB staff calculations using the Global Carbon Project and World Bank WDI data.

Note: CO<sub>2</sub> emissions are consumption-based emissions, removing emissions embodied in exports.

Part 2 of the report will examine the forces of creative destruction that shape enterprise, societal aspirations, and energy markets. The analytic framework will propose how the forces of creation, preservation, and destruction can be balanced to speed up progress.

- *Creation—a natural force sometimes made weaker by government.* The forces of creation tend to be strong unless weakened by government regulations or macroeconomic uncertainty. These forces are always a country-specific mix and involve new interactions through trade, urbanization, and social and spatial mobility. They involve making new goods and services, inventing novel methods of production and distribution, and creating new markets.
- *Preservation—the strongest force that often needs to be weakened.* Economic and social inertia is often the most powerful force, holding back both creation and destruction. Institutions—both formal rules of the game and informal conventions—bake economies onto specific paths. Scale economies and vested interests tend to dissuade entrants and protect uncompetitive firms and preserve existing arrangements, and consuming resources better channeled into new activities.
- *Destruction—ordinarily a weak force that is more potent during crises.* Although they are as essential as the forces of creation, the forces of economic destruction are generally weak—except in the case of economic and ecological crises. Crises often create the conditions for destroying outdated arrangements—in labor, capital, land, and energy markets—in ways not seen in good times. A related implication is that economic contractions must be kept short since creation does not gather speed until recovery starts.

Part 3 of the report will discuss what middle-income countries can do to join the ranks of high-income countries. Among other questions, this section will address three current policy imperatives:

- *Keeping markets competitive:* Big firms—both private and state-owned—have a central role in investment and innovation but, by exercising varying types of state capture, they put stresses on competition regimes. Growing global trade since the 1950s has helped regulators keep domestic markets competitive, but rules-based trade has been under threat since the 2000s. This raises questions such as: Can middle-income countries regulate private enterprise and grow as quickly as in the past without productivity-promoting competition regimes in global markets?
- *Making elite echelons contestable:* Elite bargains have lifted millions from poverty but have also increased perceptions of inequality and—perhaps more importantly—of socioeconomic immobility and unfairness. During the last decade, this has triggered populist discontent in seemingly successful middle-income countries such as Chile, Colombia, Kazakhstan, and Peru. Political instability invariably comes with a huge economic cost. This leads to the question: Can middle-income countries create the conditions needed for growth if socioeconomic mobility is falling?
- *Engineering a steady energy transition:* Since the industrial revolution, economic growth has been based on emissions-intensive activities. Economic benefits have come with growing environmental costs. After economic progress spread to parts of East Asia, South Asia and Sub-Saharan Africa, climate change became an important part of international development. Over the last decade, as global extreme poverty fell below 10 percent and emerging-market economies' share of global GDP neared 50 percent, climate action has become the central focus of multilateral institutions such as the United Nations, the European Union, multilateral development banks, and even the IMF. The growing pressure on middle-income countries to cut emissions raises the question: Can middle-income countries become high-income economies without the use of fossil fuels when no economy ever has?

The *World Development Report 2024* will be completed on a streamlined schedule so that it is finalized before the Annual Meetings and published before the end of 2023. It will be prepared by a team from across the World Bank Group, including staff from Development Economics (DEC); Equitable Growth, Finance, and Institutions (EFI); Human Development (HD), Infrastructure (INF) and Sustainable Development (SD). Somik Lall (Lead Economist, Development Economics) is Director of the report. Professor Ufuk Akcigit (University of Chicago) will be the lead academic, and Joyce Ibrahim will be the task team leader. The report will be prepared under my overall supervision. For more information, please write to Joyce Ibrahim at [wdr2024@worldbank.org](mailto:wdr2024@worldbank.org).

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