WORLD DEVELOPMENT REPORT 2024

WORLD BANK GROUP
INSTITUTE FOR ECONOMIC DEVELOPMENT

The Middle-Income Trap
Breaking the Growth Barriers

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Based on work by World Bank economists

Outline

1. Global economic update
   - Falling growth prospects, sudden slowdown, greater uncertainty

2. Problems facing middle-income countries
   - Slower growth, structural stasis, shrinking spaces

3. Main features of a middle-income economy
   - Inefficient use of capital, talent and energy

4. Avoiding the middle-income trap
   - Discipline incumbents, reward merit, and capitalize on crises

Selected Indicators by Income Group

(percent of total), 2022

	Population *(share of global population)*	GDP *(share of global economic activity)*	Extreme poverty *(share of global population)*	CO_2 emissions *(share of global emissions)*
Low income	8.9%	0.6%	36.5%	0.5%
Lower middle income	40.3%	8.3%	55.4%	15.7%
Upper middle income	35.1%	30.3%	7.1%	48.6%
High income	15.7%	60.8%	1.0%	35.2%

Source: WDR 2024 staff using the World Bank WDI, WB Poverty and Inequality Platform, and Global Carbon Project 2022 data

Global economic prospects

- Secular stagnation in advanced economies
  - Across the world
  - Worst in Western Europe

- Middle-income traps in emerging economies
  - Across the world
  - But not in the European Union

- Lost decade in low-income countries
  - No income growth during the last ten years
 - Growing gaps with other economies

Weaking potential growth rates

Potential growth
(Percent)
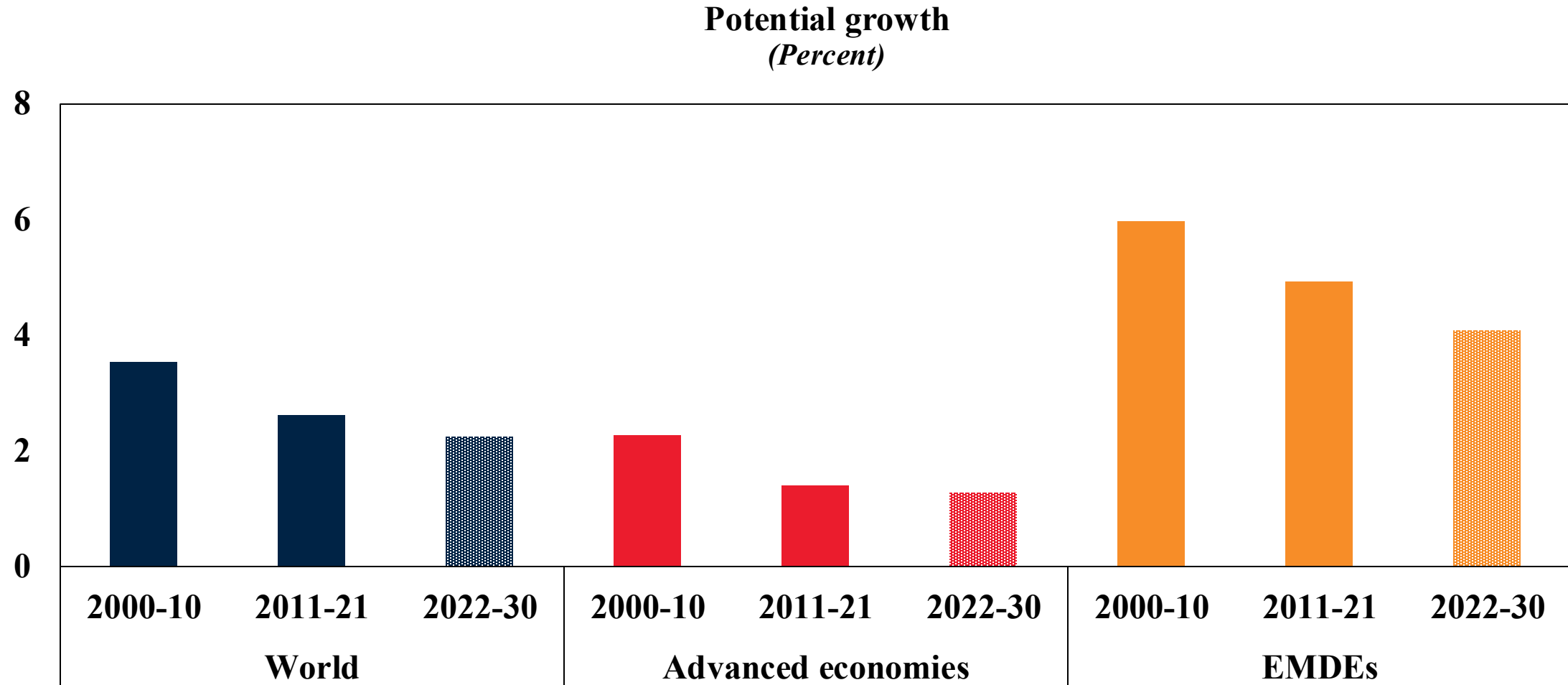
Source: Kose and Ohnsorge (2023).
Note: Period averages. Potential growth is measured by production function. Shaded bars indicate forecasts.

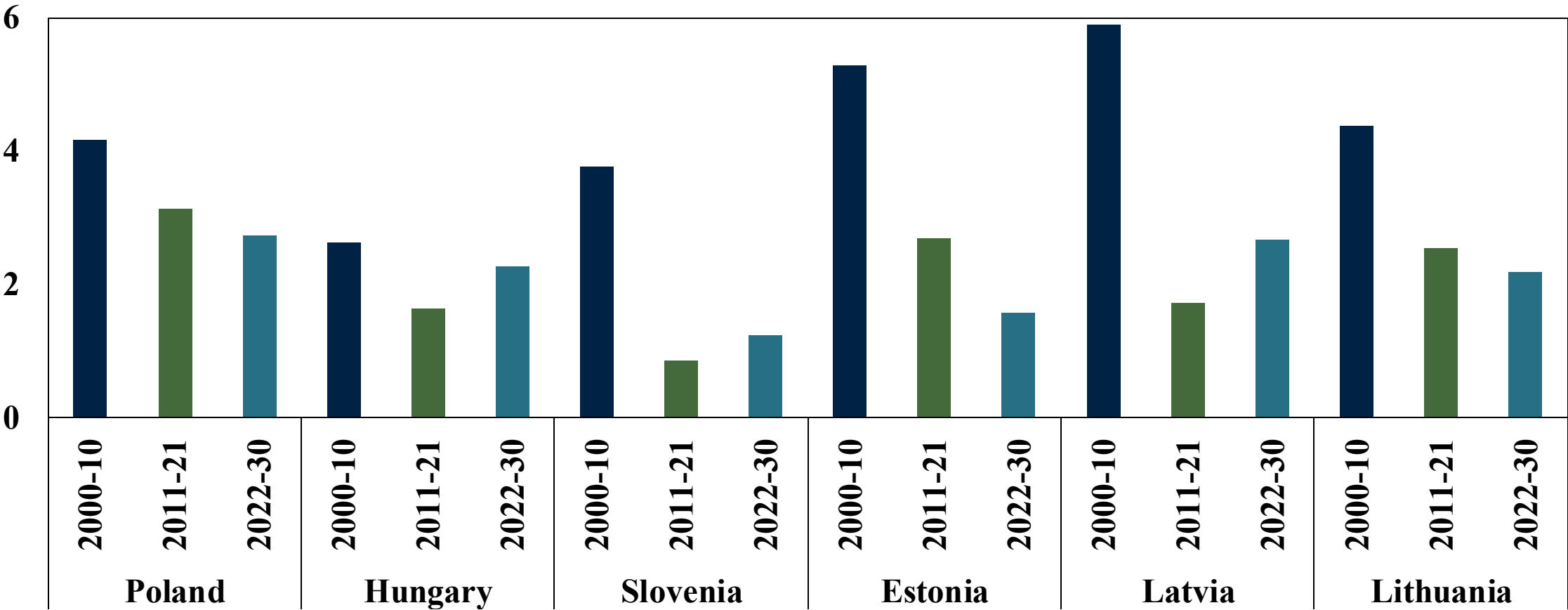# Europe: Potential growth in advanced economies

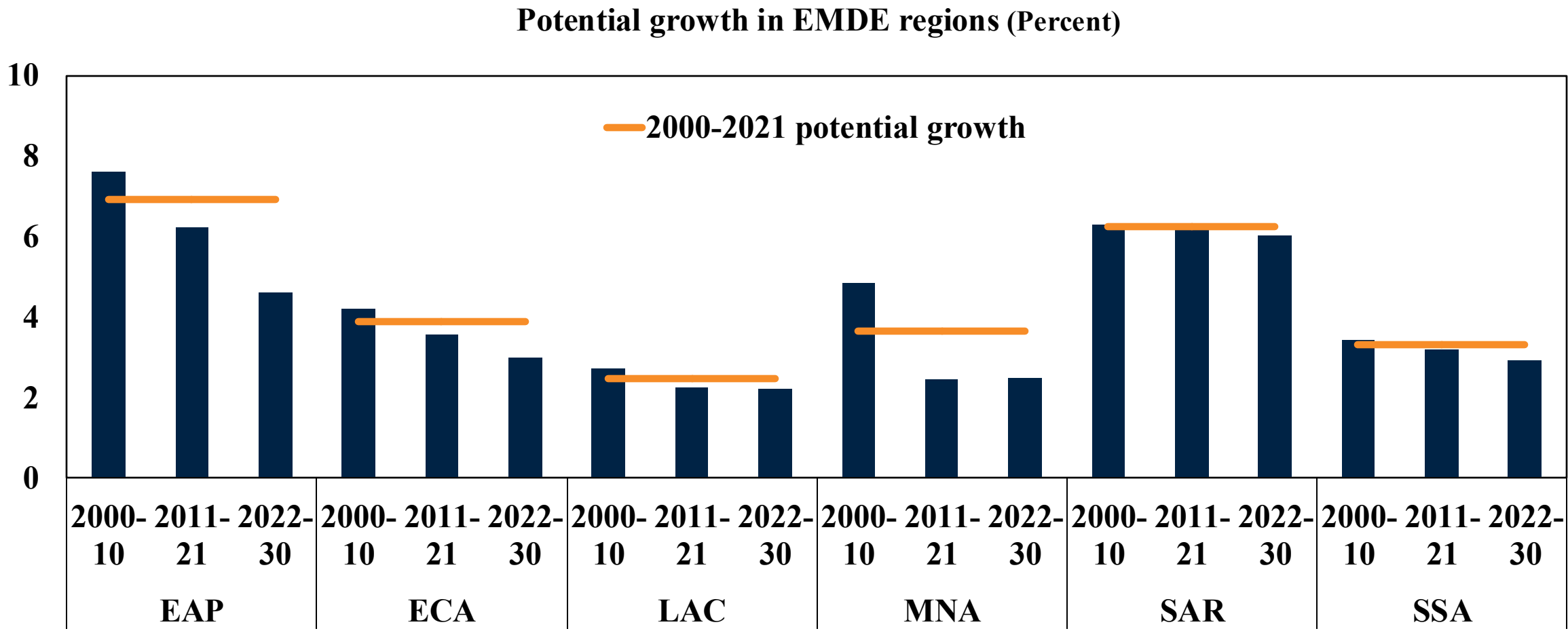**Potential output growth**
(Percent)

Europe: Potential growth in emerging markets

Potential output growth
(Percent)
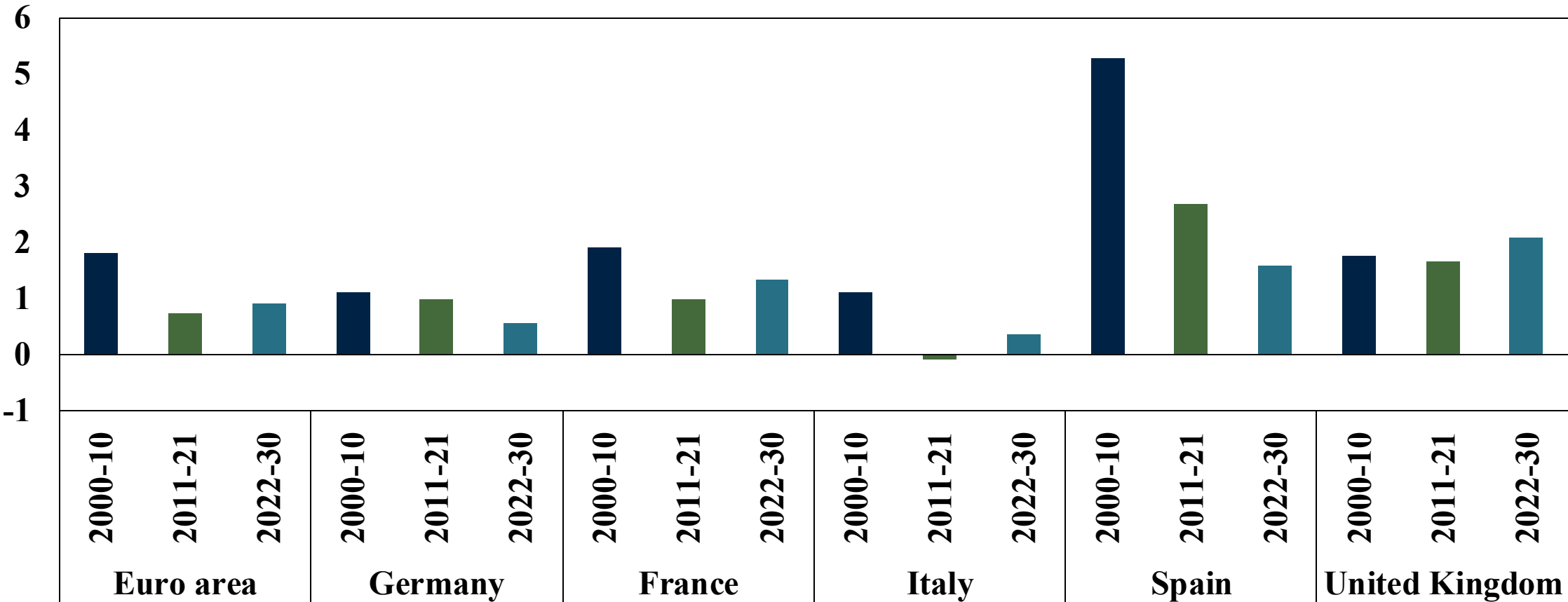
Source: Kose and Ohnsorge (2024).
Note: Based on the production function approach. The book and underlying data are available for download at www.worldbank.org/en/research/publication/long-term-growth-prospects.

Worsening prospects everywhere, except in South Asia

Potential growth in EMDE regions (Percent)

Legend: ▬ 2000-2021 potential growth

X-axis groups (each with bars for 2000-10, 2011-21, 2022-30):
EAP, ECA, LAC, MNA, SAR, SSA

Source: World Bank.
Note: EAP, ECA, LAC, MNA, SAR, and SSA refer to, respectively, East Asia and Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, South Asia, and Sub-Saharan Africa. GDP-weighted arithmetic averages using potential growth estimate based on production function approach.

The list of risks becomes longer every year

 Conflict and geopolitical tensions

 Persistently high interest rates

 Trade fragmentation
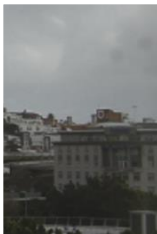
 Food and energy market disruptions

 Financial stress

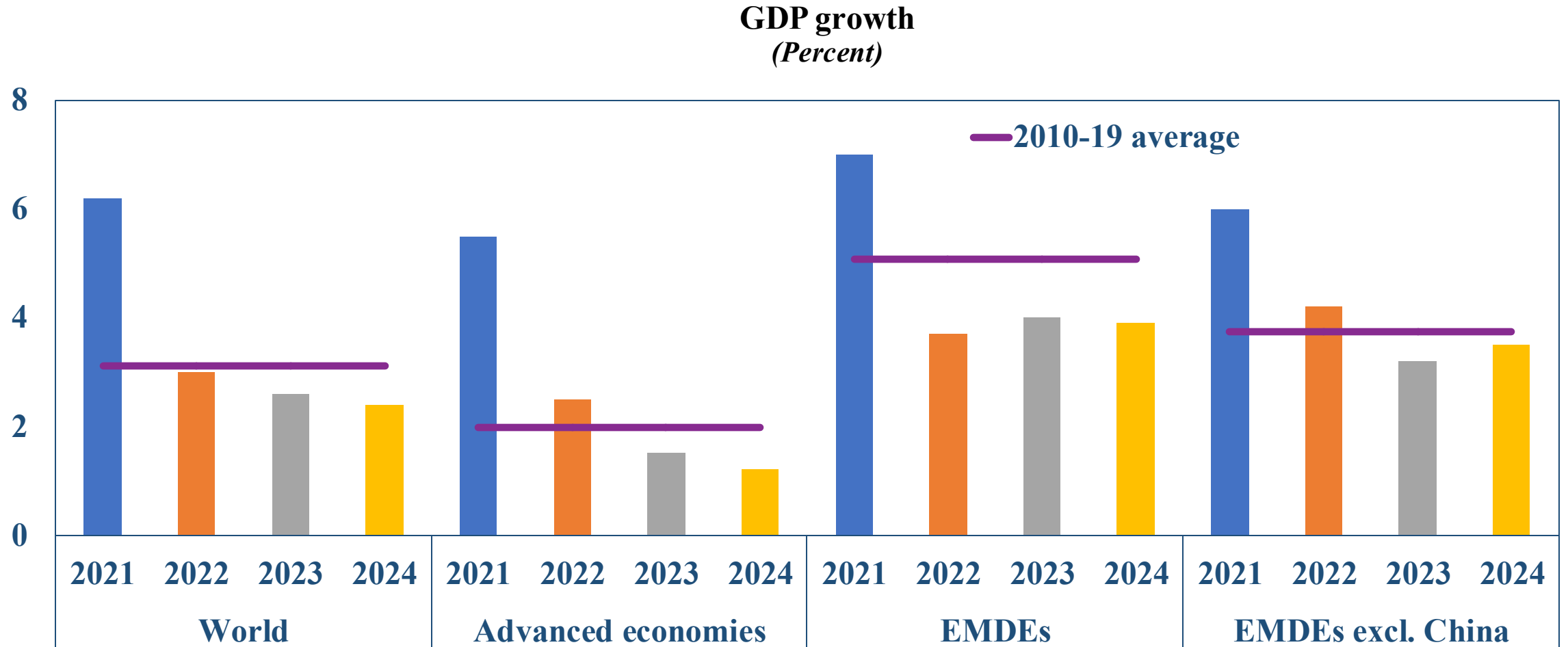 **Climate-related disasters**

 Additional inflation shocks

 Weaker-than-expected near-term growth in major economies

 Weaker long-term growth globally

Growth lower than before 2020—for all country groups

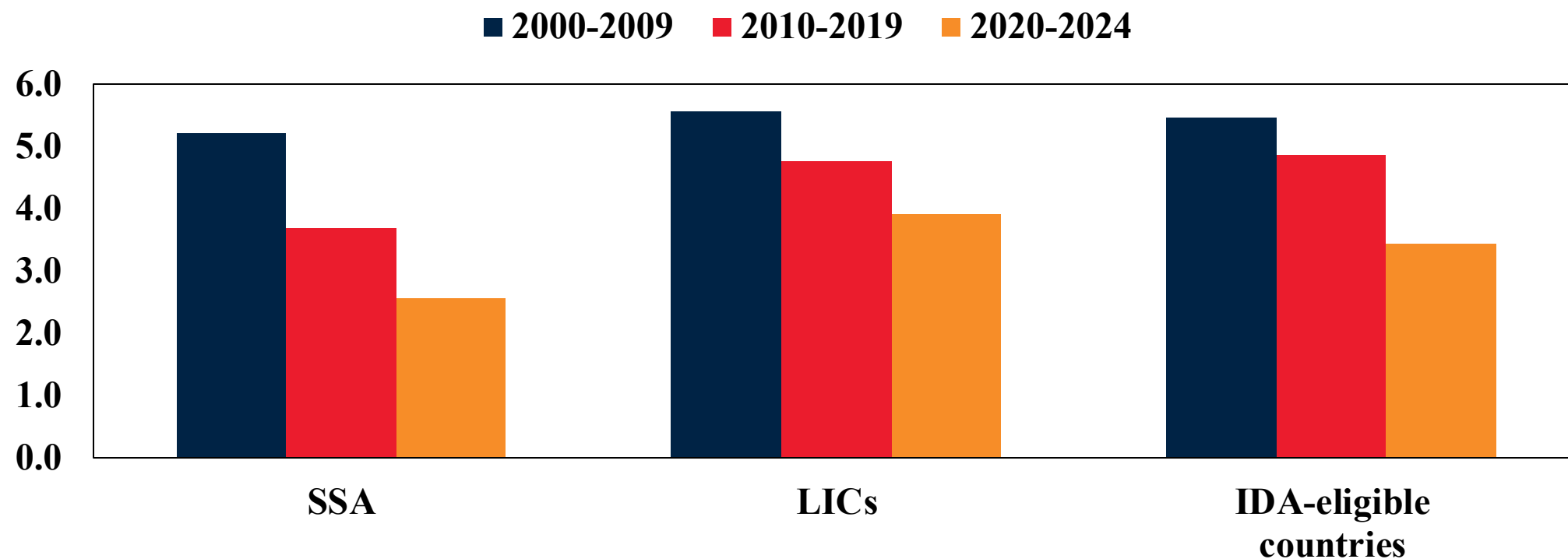**GDP growth**
(Percent)

Source: World Bank.
Note: Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates. Data for 2023 are estimates and data for 2024 are forecasts in the January 2024 *Global Economic Prospects* report.
EMDEs = Emerging Market and Developing Economies.

Growth in Africa and LICs has slowed

Growth in Sub-Saharan Africa, LICs, and IDA-eligible countries (annual, percent)
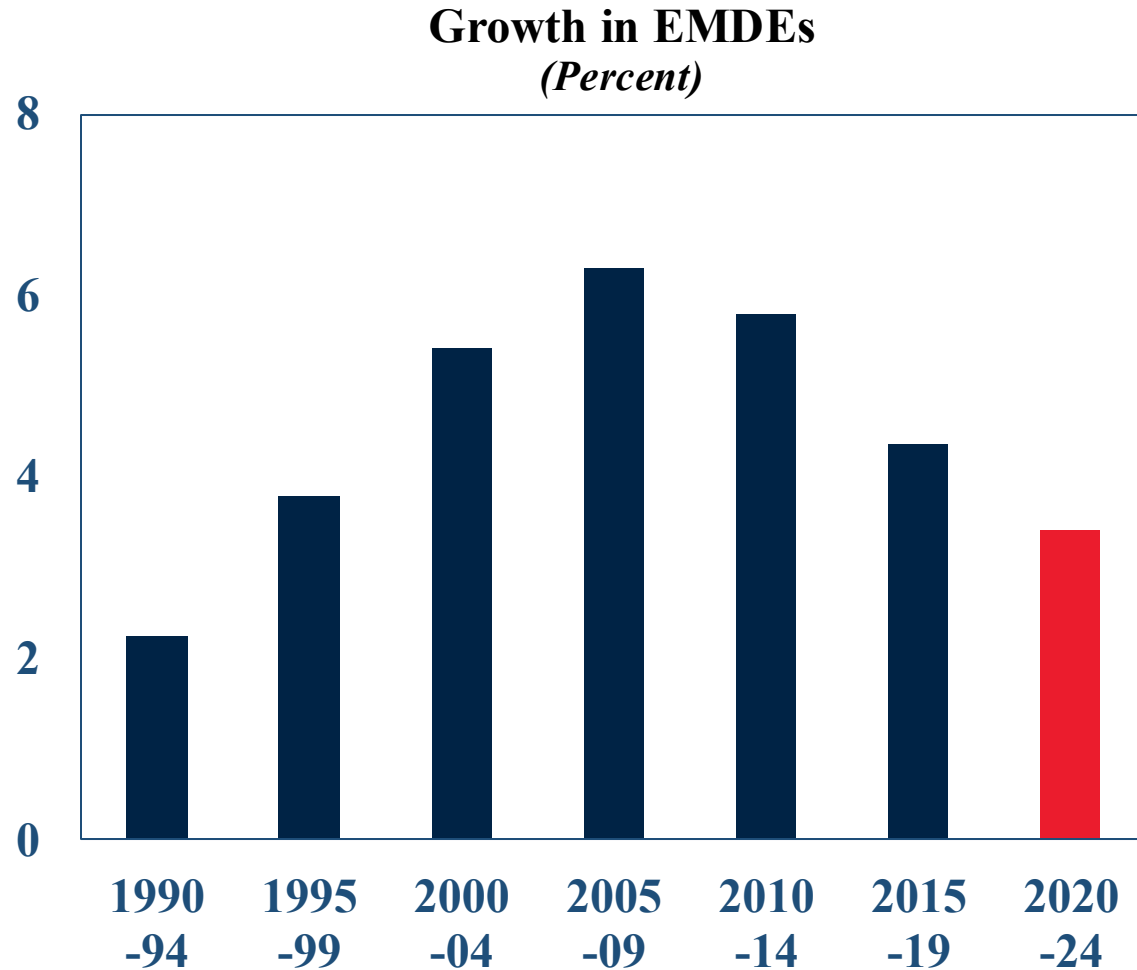

Source: World Bank.
Note: LICs= low-income countries; SSA = Sub-Saharan Africa; Growth rates calculated using GDP weights at average 2010-19 prices and market exchange rates. Data show annual average growth.

Weakest growth in EMDEs since the mid-1990s

At the end of 2024, a third of IDA countries had per capita incomes below 2019 levels

Growth in EMDEs
(Percent)

Lower GDP per capita in 2024 than in 2019
*(Percent of countries)*
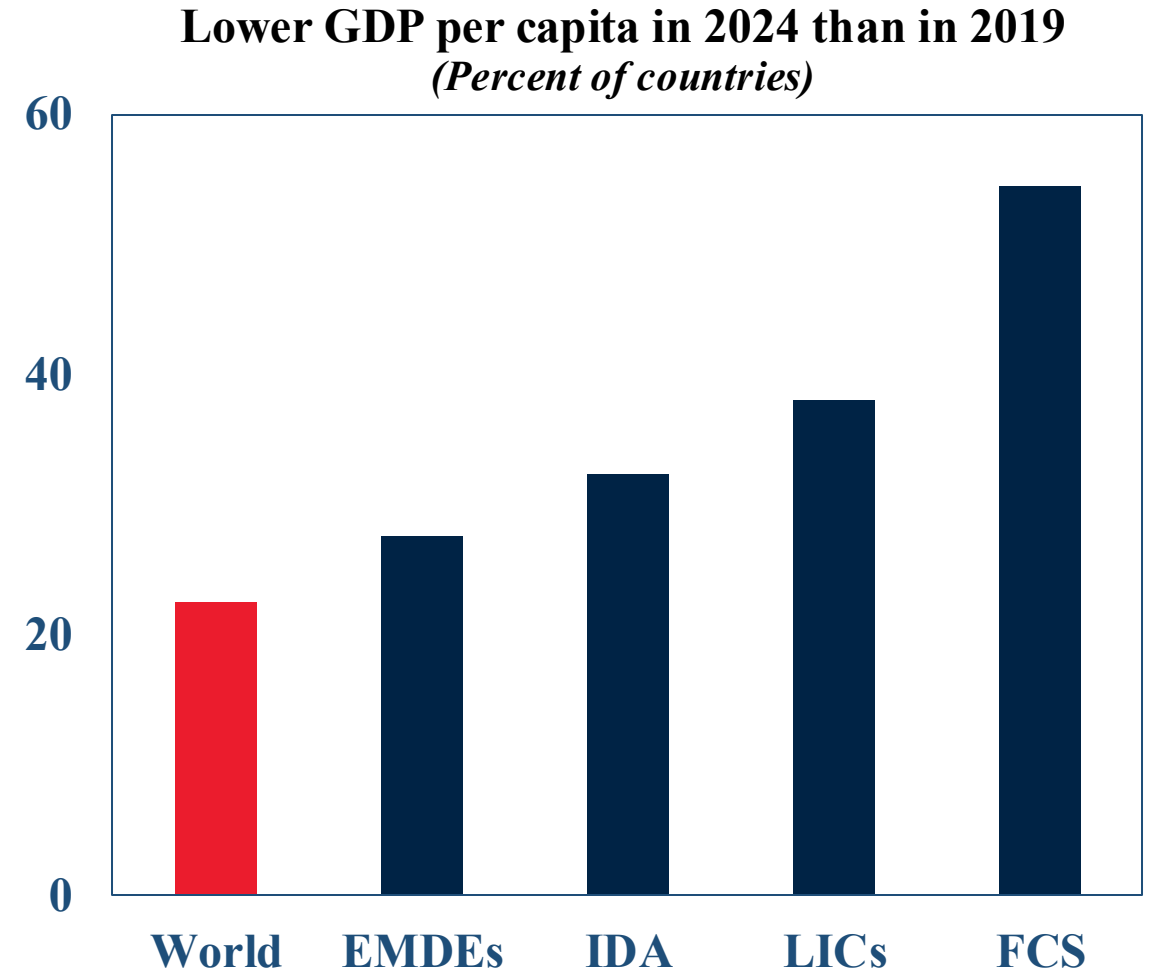
Source: World Bank.
Note: Data for 2023 are estimates and data for 2024 are forecasts in the January 2024 *Global Economic Prospects* report. Left Panel. Figure shows the non-overlapping 5-year average growth in EMDEs. Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates. Right Panel. Figure shows the share of countries in respective groups with real GDP per capita in 2024 lower than in 2019.
IDA: International Development Association; LICs: Low-income countries; FCS: Fragile and conflict-affected situations.

Middle-income Africa is falling behind

Cumulative change in per capita income relative to advanced economies (Percentage points)
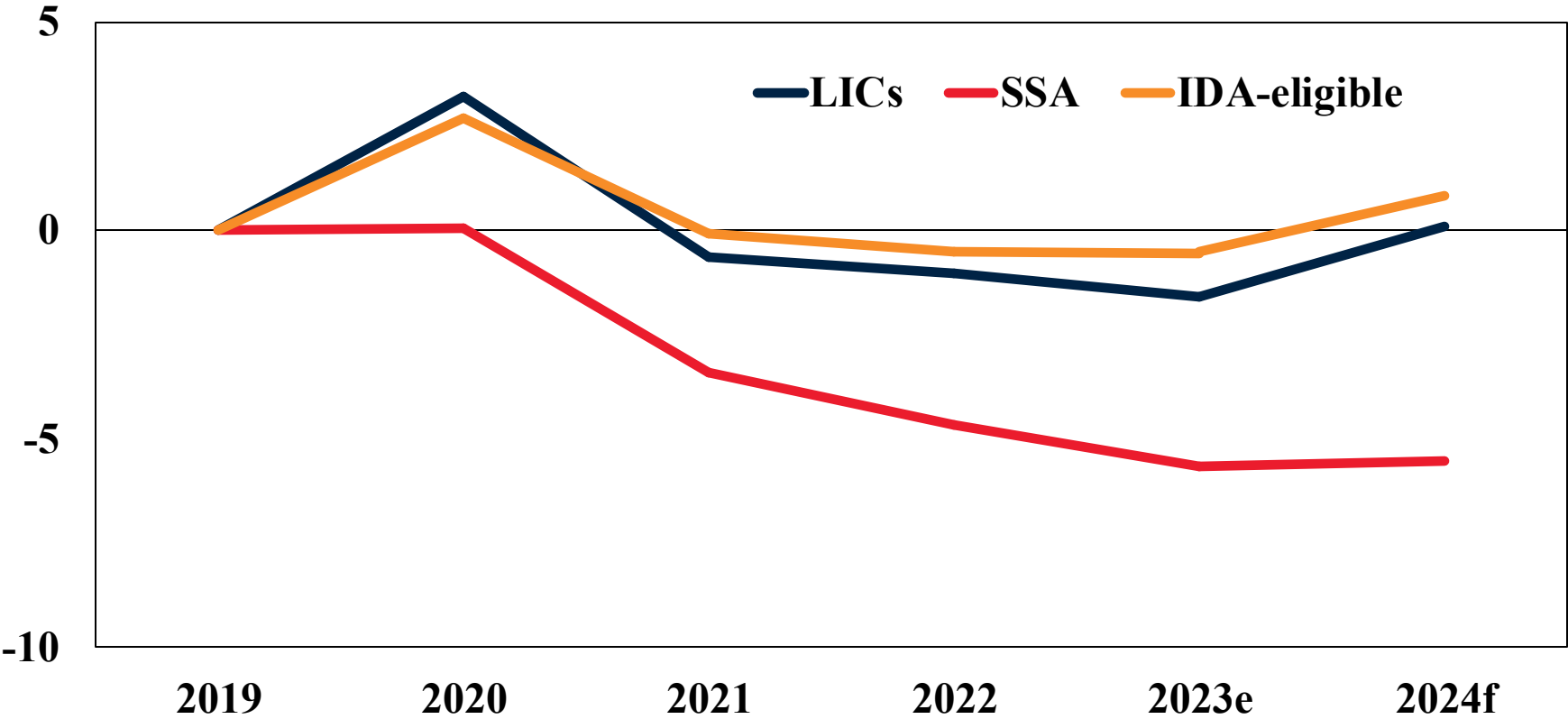
Source: World Bank.
Note: LICs= low-income countries; SSA = Sub-Saharan Africa; Growth rates calculated using GDP weights at average 2010-19 prices and market exchange rates.

The most fragile longitudes

Middle-income facts

- **Growth slowdowns**
  - Three times more likely than advanced economies
  - Sooner and more severe where economic freedom is lower
- **Inefficient structures**
  - Less capital, talent and other resources than rich countries
  - Much less efficient in use of capital, talent and energy
- **Growing headwinds**
  - Demography and debt at home
  - Trade fragmentation and geopolitics abroad

Aspiration: "To get rich is glorious"

China → 14th Five-Year Plan → median per capita GDP of developed nations by 2035—greatly expanding the middle class.

South Africa → 2030 National Development Plan aimed to raise per capita incomes from $2,800 in 2010 to $7,000 by 2030.

Viet Nam → Socio-Economic Development Strategy for sustained per capita GDP growth of 7 percent through this decade, with a transition to high-income status by 2045.

India → Prime minister's vision to make the nation a developed economy by 2047, the centennial of independence.
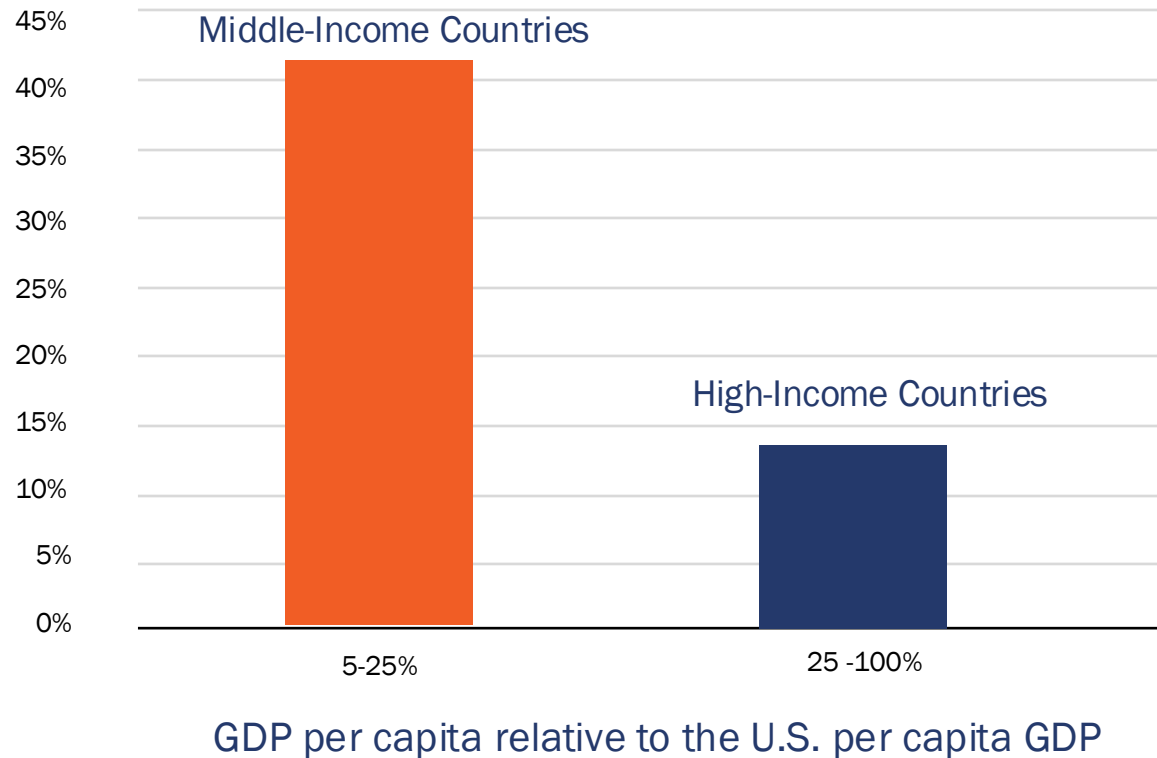
Reality: To get rich is hard

The per capita income of middle-income countries relative to the US has stagnated since 1980
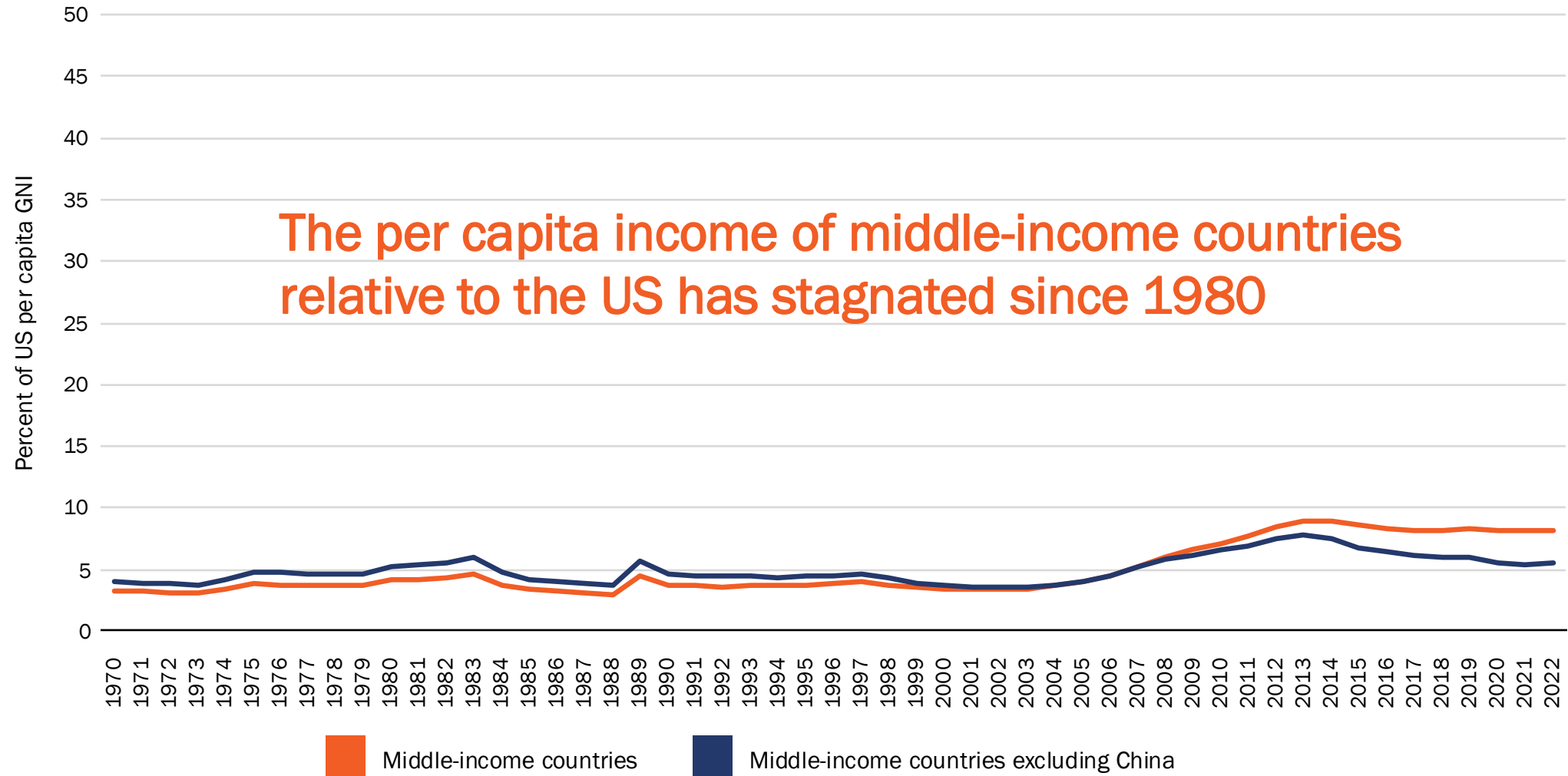
Slowing growth

Slowdowns are more likely in middle income

Likelihood of growth slowdowns

A middle-income country is three times more likely to experience a slowdown compared to a high-income country
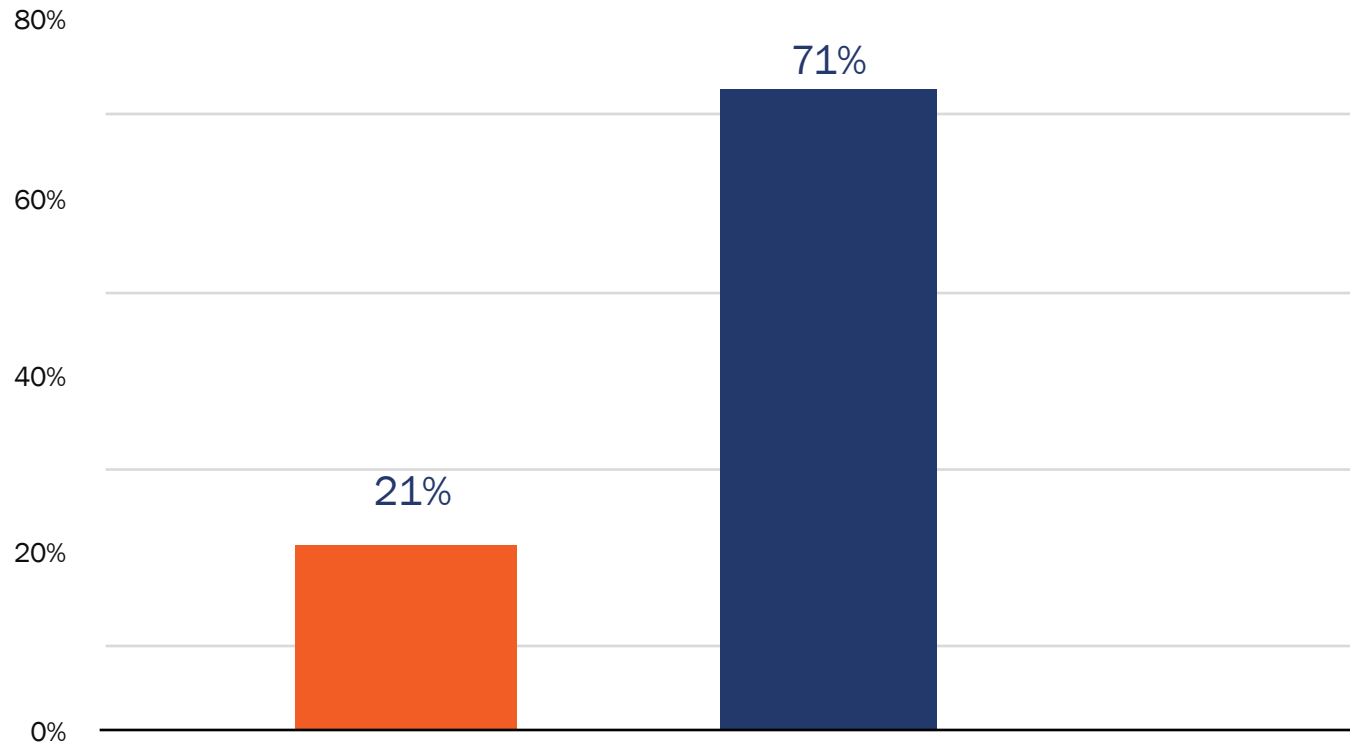
GDP per capita relative to the U.S. per capita GDP

Source: WDR 2024 team using data from the Penn World Tables 10.01.

Structural stasis
Middle income economies have less capital, and use it less efficiently

Middle-Income Countries

If capital accumulation were enough, work in middle-income economies would be nearly three quarters as rewarding as in the US, not a fifth

- GDP per worker relative to the US GDP per worker
- Physical capital and human capital relative to that in the United States

Source: WDR 2024 team using data from the Penn World Tables 10.01.

Shrinking spaces
Middle-income countries now face a more hostile trade environment
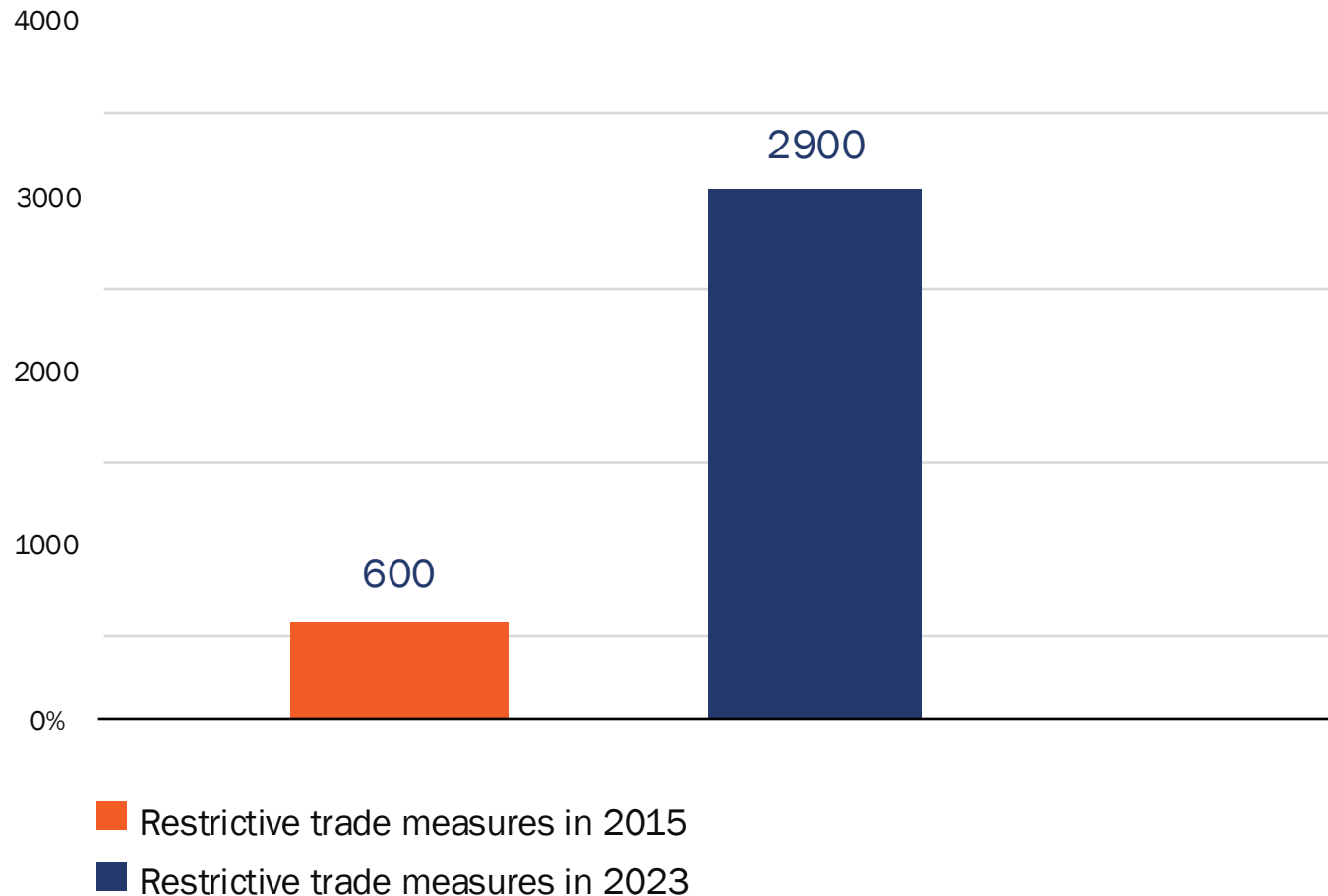
Restrictive trade measures in 2023 were five times as many as a decade ago

- Restrictive trade measures in 2015
- Restrictive trade measures in 2023

Source: Global Trade Alert

Inefficient economies

- Capital use
  - Unproductive firms stay in business

- Talent allocation
  - Women and less advantaged are kept out of rewarding work

- Energy efficiency
  - Energy to output ratios are high

Inefficient use of capital

Efficient firms don't expand, and unproductive ones don't exit quickly enough
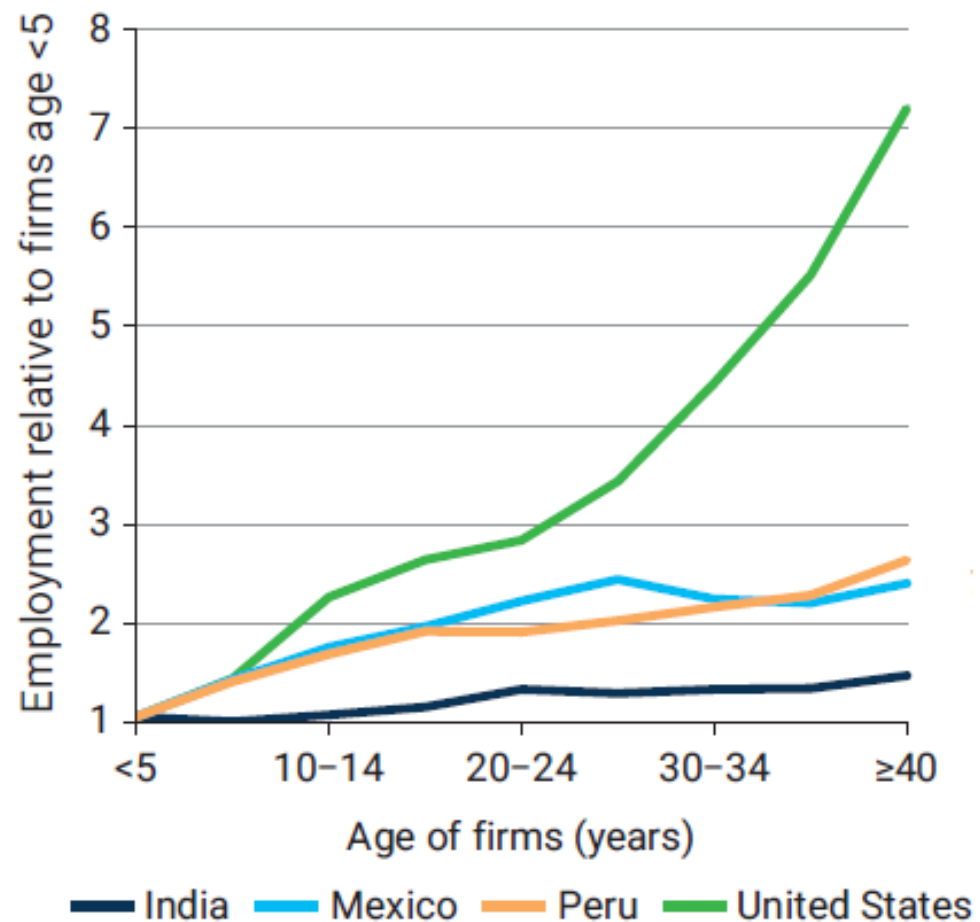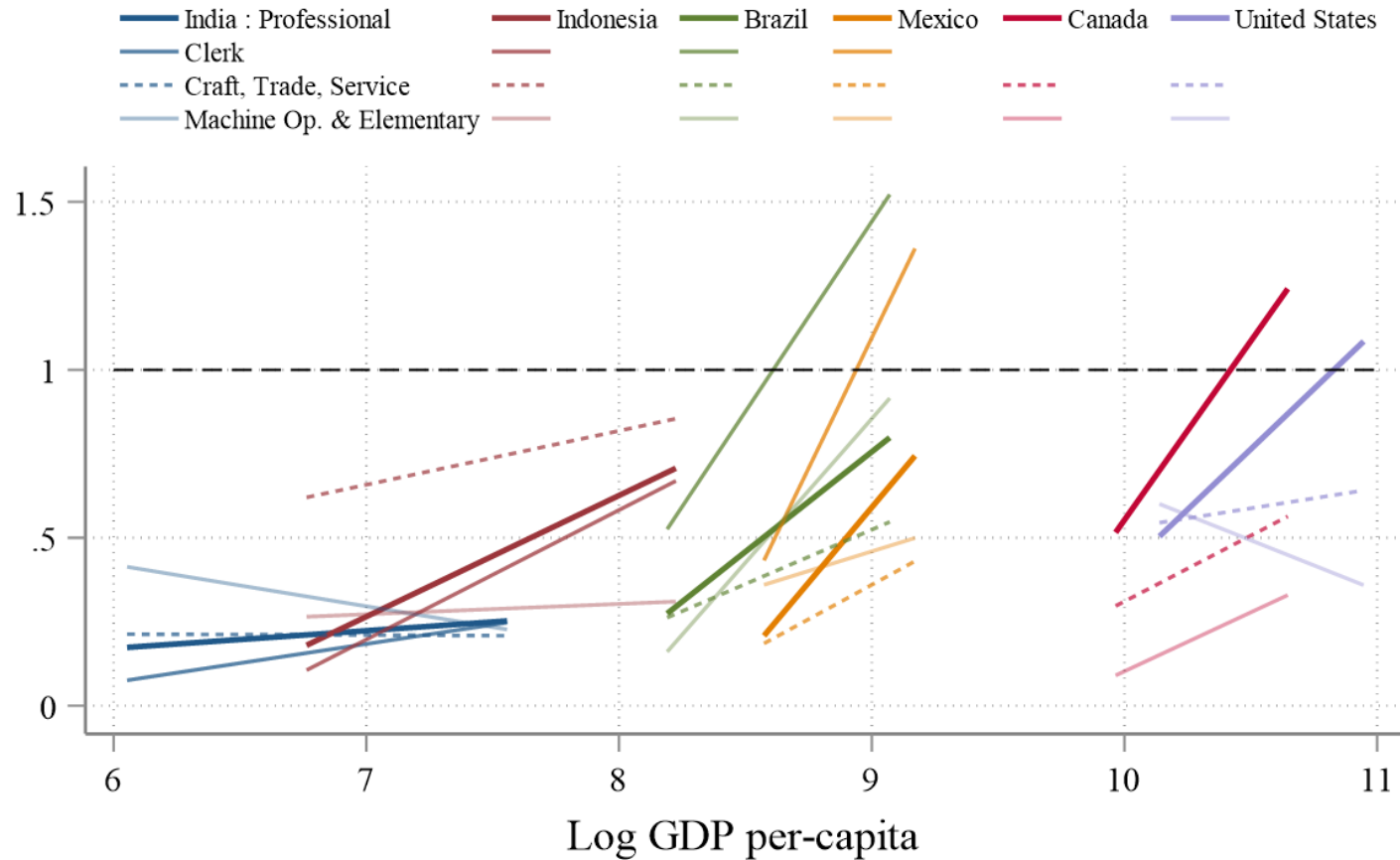
Inefficient use of talent

In India (1983-2018), fewer than 3 women work in professional and managerial occupations for every 10 men

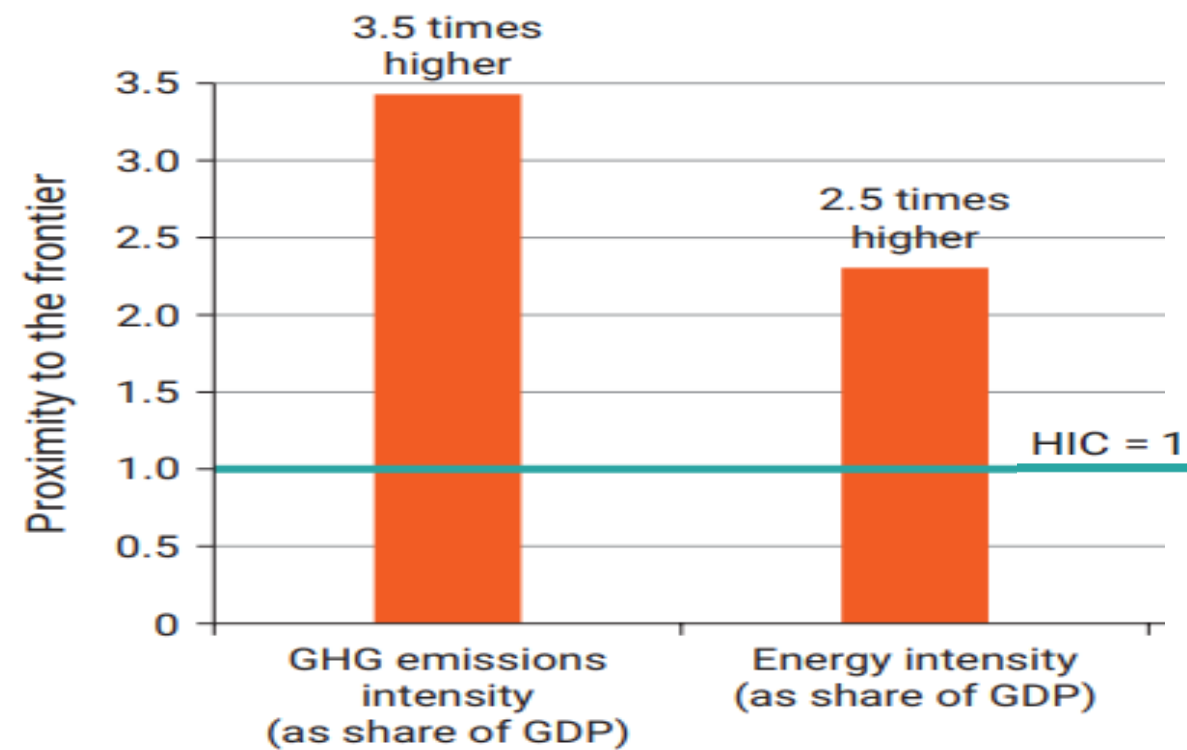Share of women in professional occupations

Source: WDR 2024 estimates based on census and labor force survey data; Chiplunkar and Kleineberg (2024)

Inefficient use of energy

The typical MIC economy is 2.5 times more energy intensive relative to high income economies

Avoiding the Trap

- Two transitions are needed, not one
  - Investment, infusion and innovation

- Schumpeterian growth theories
  - Three generations of thinking

- Balancing creation, preservation and destruction
  - Disciplining incumbents, rewarding merit, and capitalizing on crises
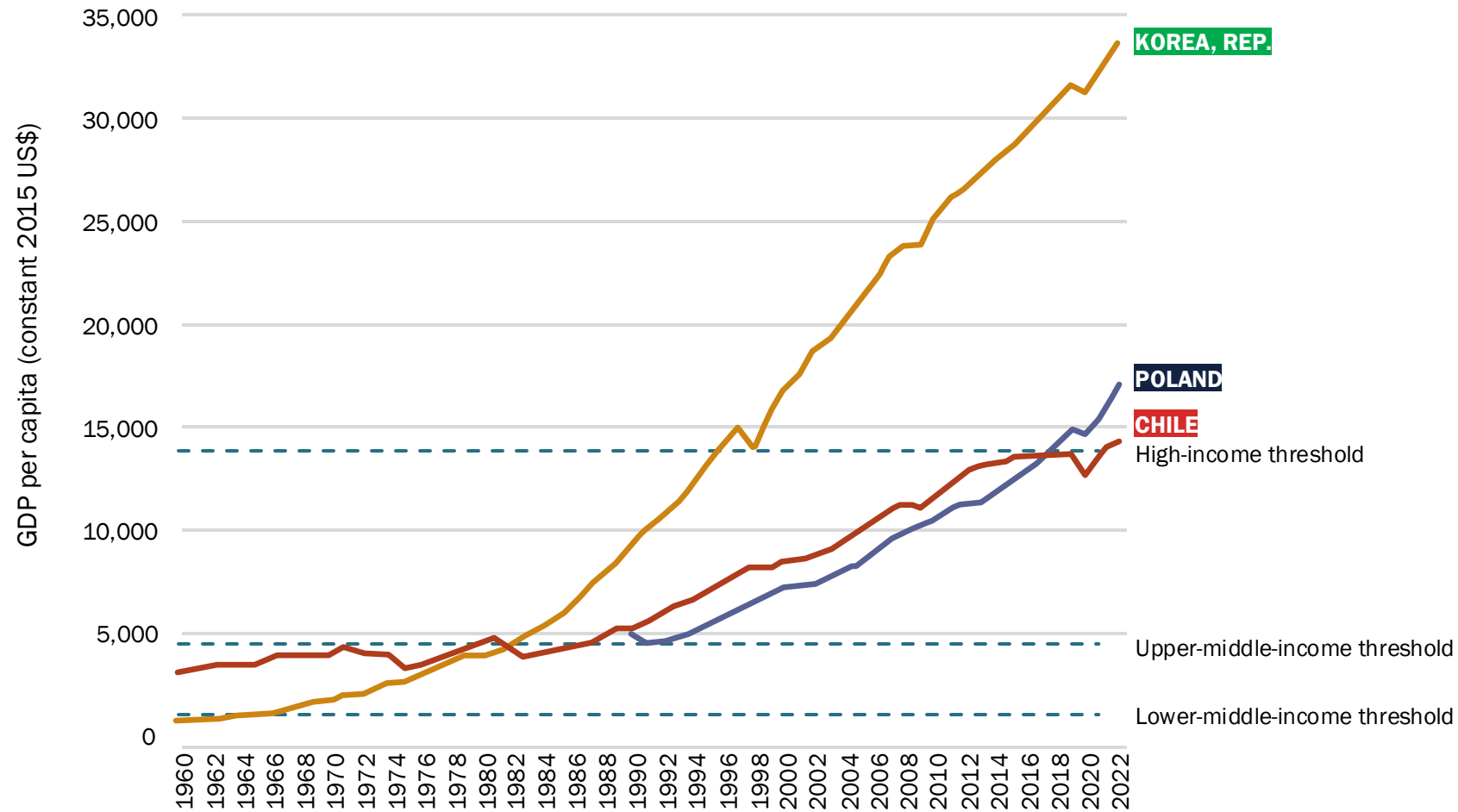
Two transitions, not one
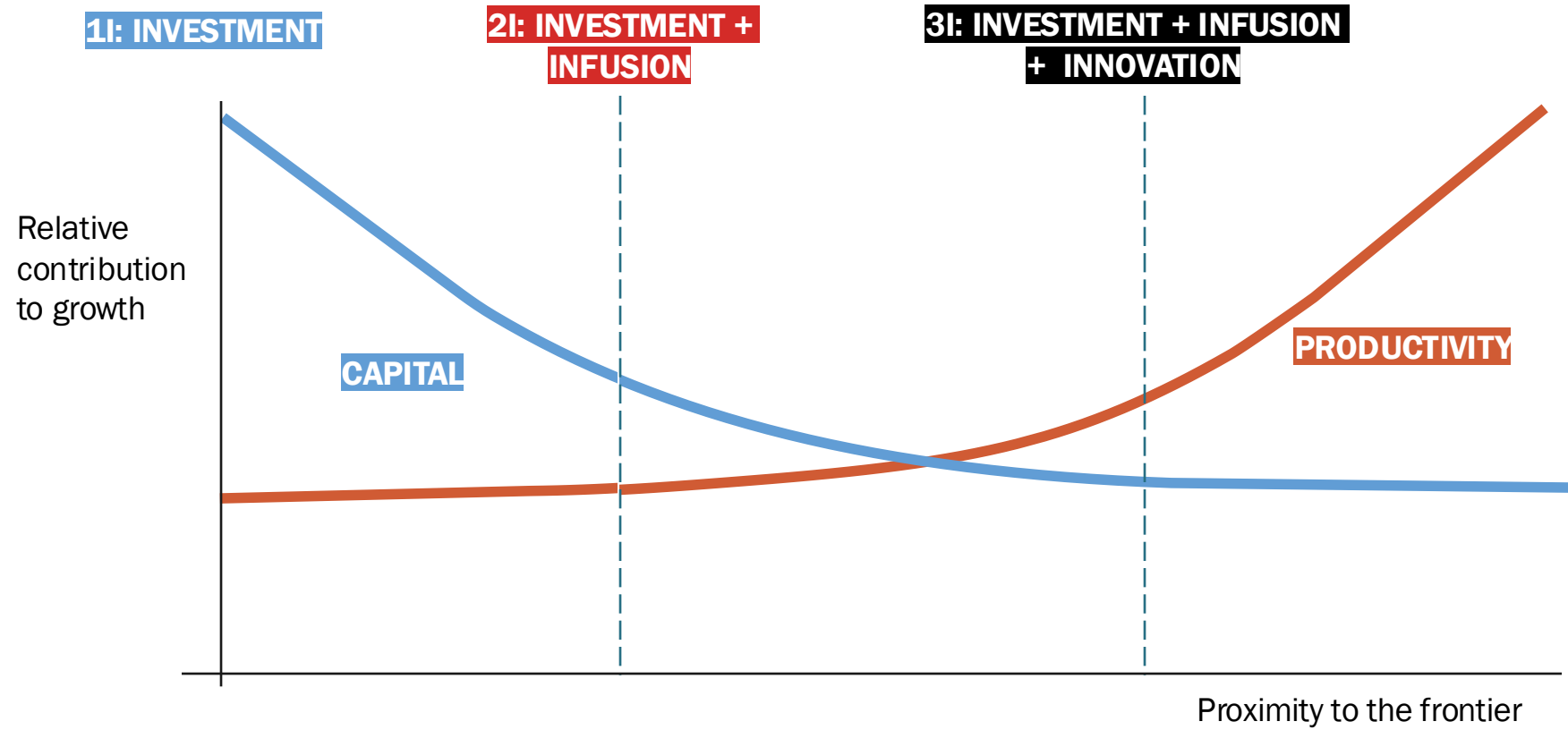
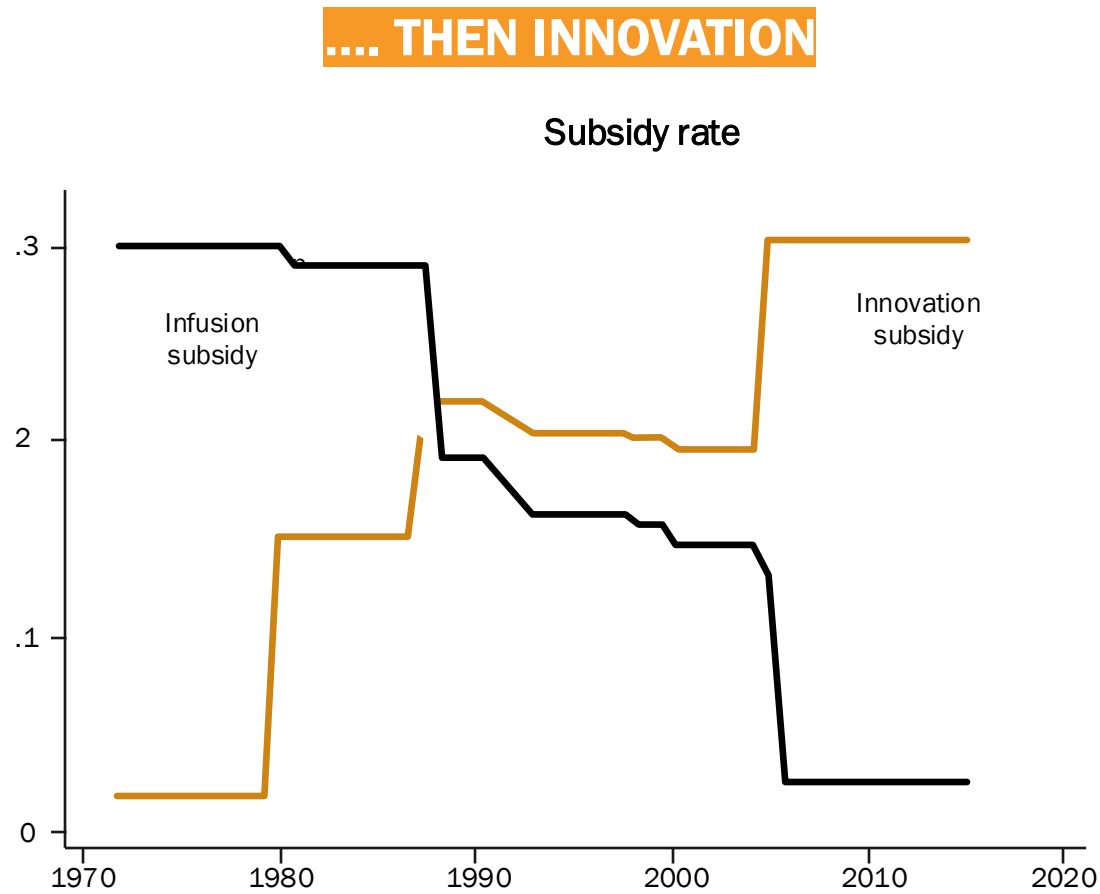# Growth strategies must evolve as economies become complex

	INVESTMENT	INFUSION	INNOVATION
Low income	X	x	x
Lower middle income	X	X	x
Upper middle income	X	X	X

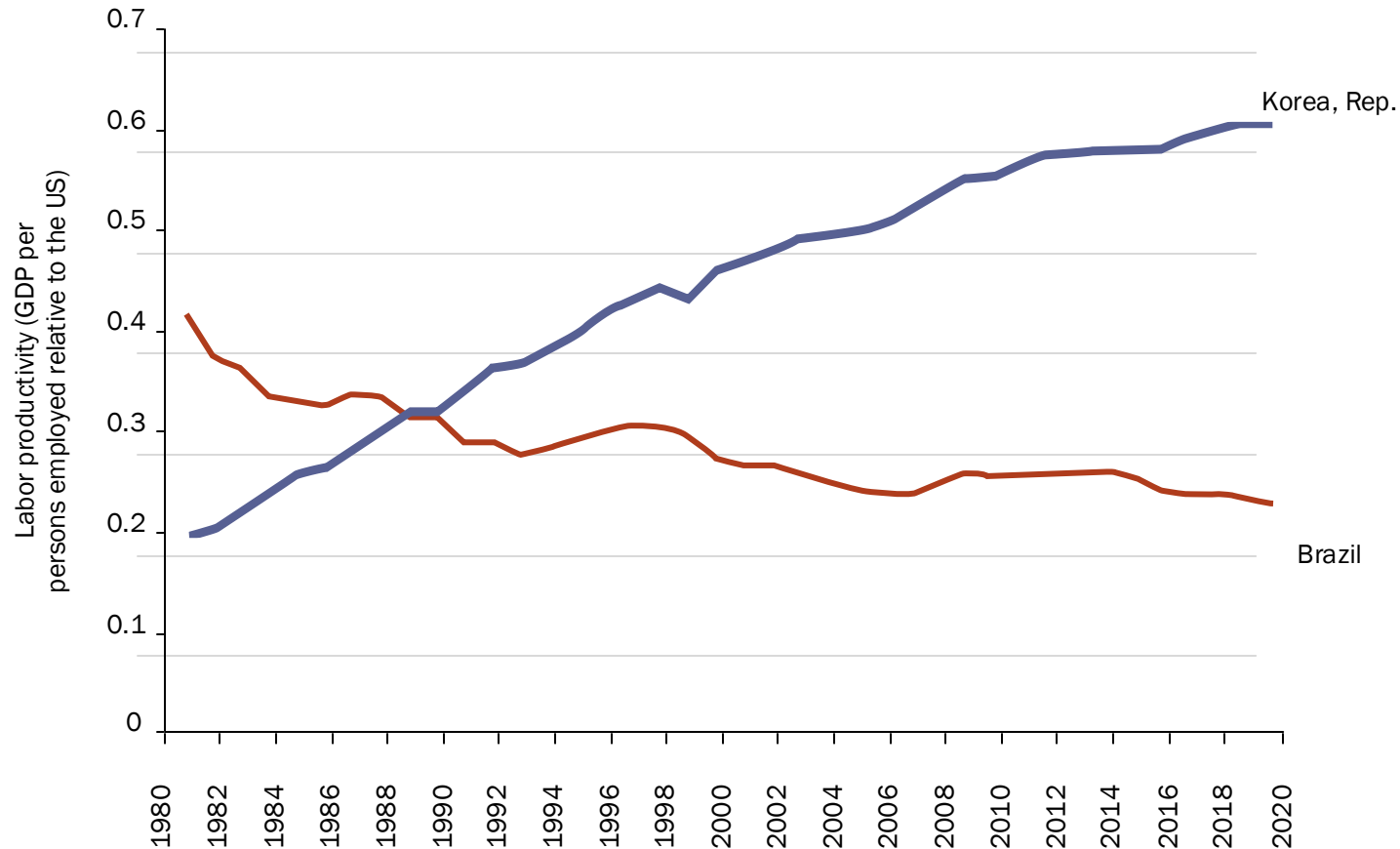# Infusion: "reform and opening up"

Korea's strategy: add infusion to investment, then add innovation

FIRST INFUSION ...

.... THEN INNOVATION

Subsidy rate

Infusion subsidy

Innovation subsidy
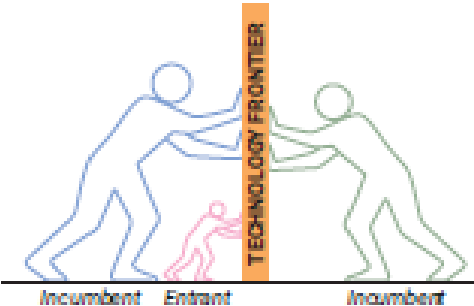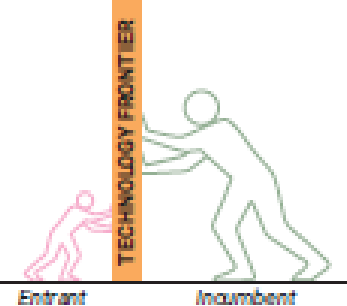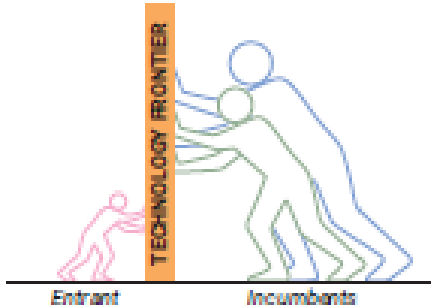
Brazil strategy: Skip infusion

Leapfrogging prematurely to innovation—and into the middle-income trap

Source: WDR 2024 team using data from the Penn World Tables 10.01.

Discipline incumbency, reward merit, and capitalize on crises

	DISCIPLINING INCUMBENCY	REWARDING MERIT ACTIVITIES	CAPITALIZING ON CRISES
Enterprise	X	x	x
Talent	x	X	x
Energy	x	x	X

Source: WDR 2024 team.

What will it take?

- Big shifts in thinking
  - From firm size, income inequality and renewable energy
  - To value added, socioeconomic mobility, and emissions intensity
- Much better data
  - Enterprise surveys, household and labor force participation, and emissions
  - Unreliable information will distort public and private decision-making
- A greater sense of urgency
  - India, for example, has favorable domestic and external factors
  - A greater focus on economic growth

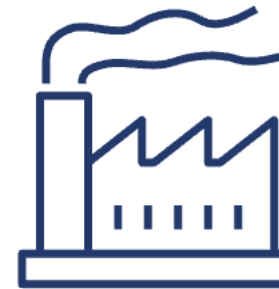# Efficiency requires shifts in thinking

From firm size

From inequality

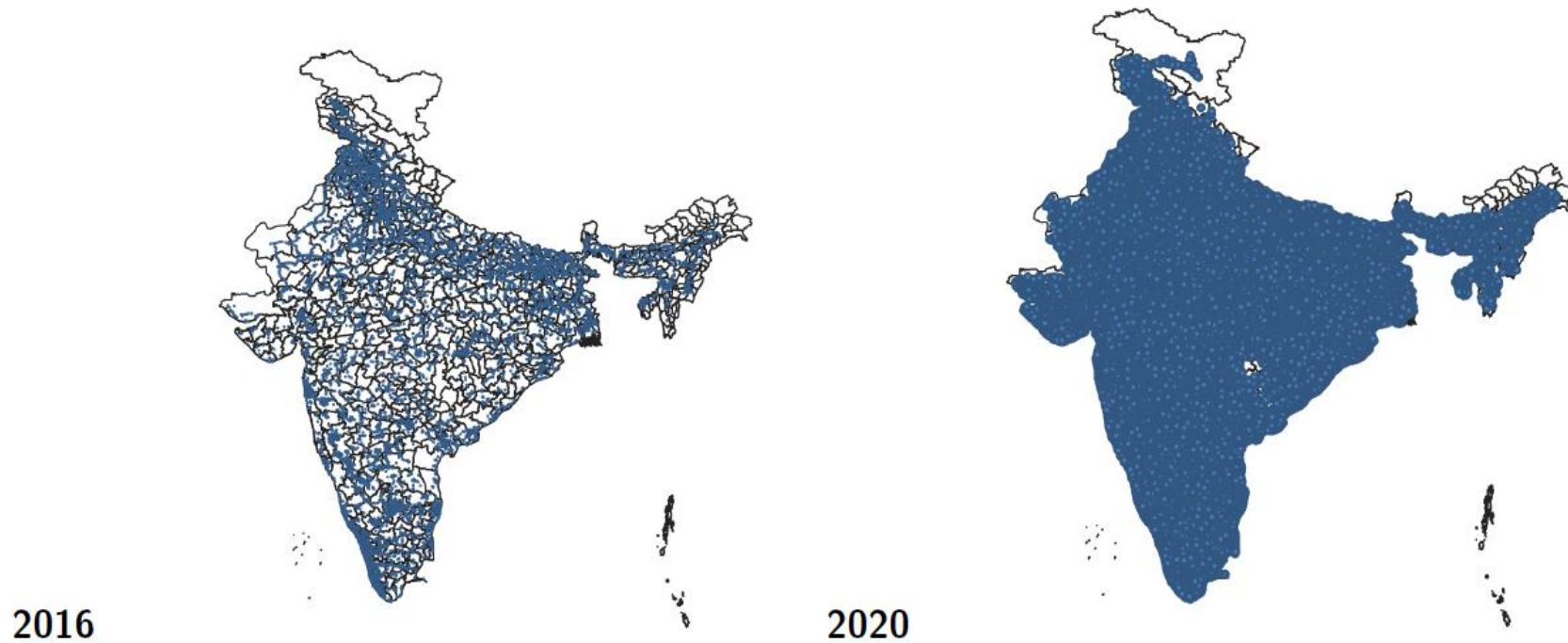From energy sources

To value added

To social mobility

To energy uses

33

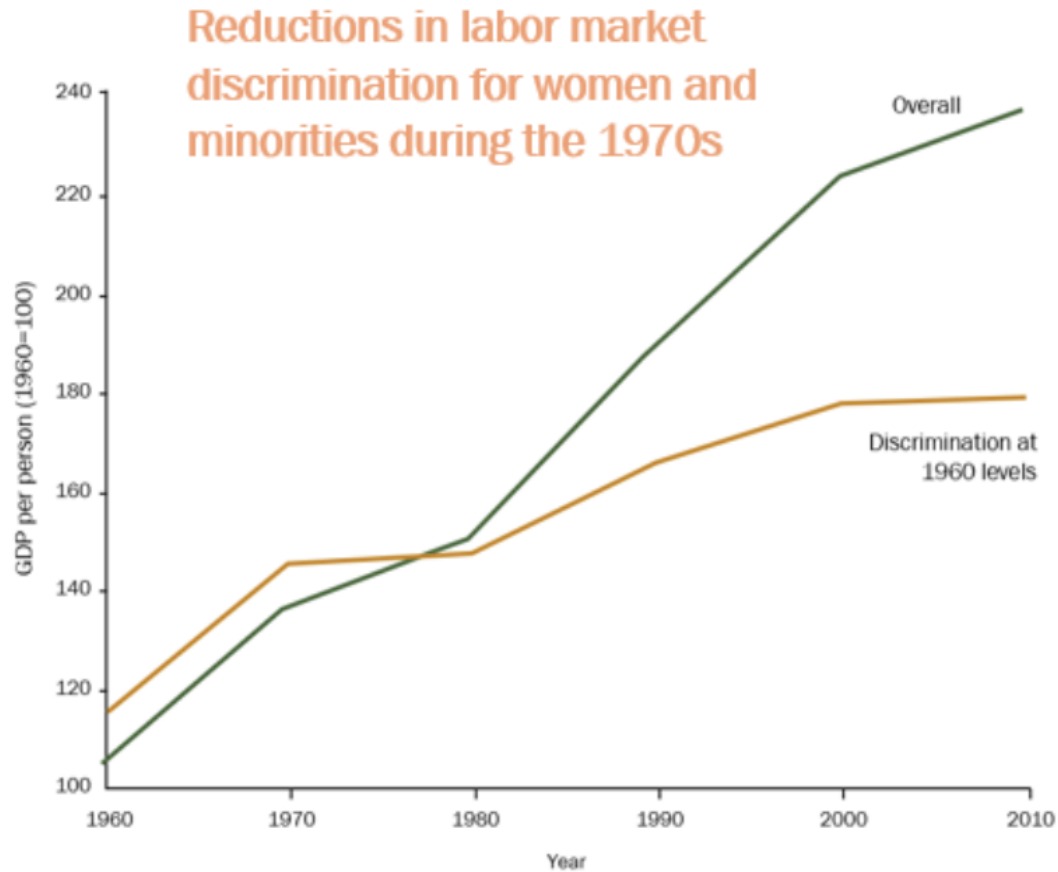# Big firms have played a big role in India's digital infrastructure

Rapid rollout of 4G Jio Towers starting September 2016 brought previously excluded areas under 4G

2016

2020

→ The average distance to a tower decreased from 15.1 km in 2016 to 2.1 km in 2020

Source: Alok, Ghosh, Kulkarni, and Puri 2024

The US is reaping a huge dividend to anti-discrimination laws

Reductions in labor market discrimination for women and minorities during the 1970s

In the 1970s, 94 percent of doctors and lawyers in the United States were white men; today that ratio is less than half

Middle income countries will have to discipline state-owned firms

- India loses $38 billion every year due to air pollution
  - Premature deaths
  - Greater morbidity

- Disciplining SOEs in the power sector is the key to reducing air pollutants in the short term

CENTRAL SECTOR 32%

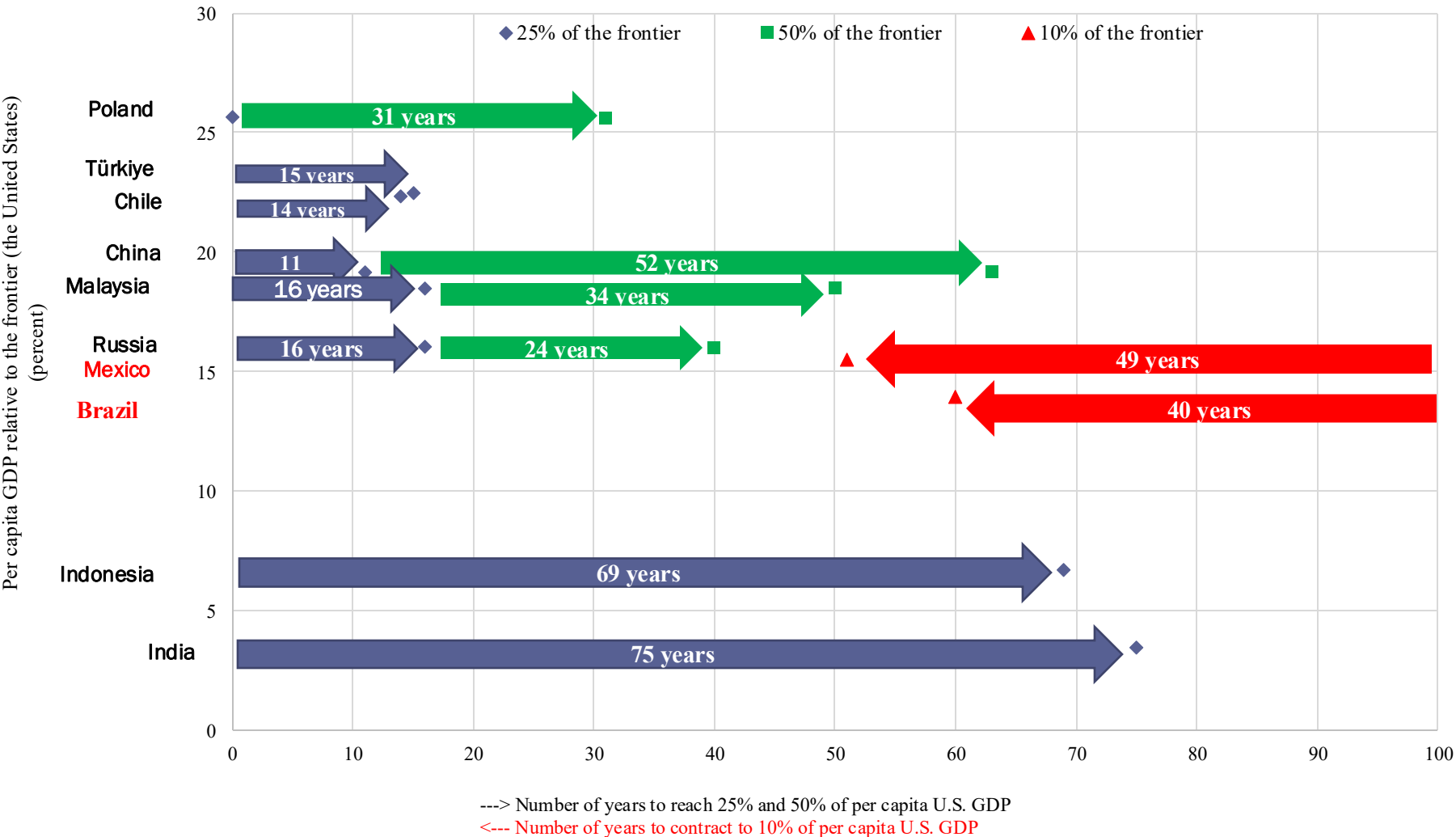STATE SECTOR 33%

PRIVATE SECTOR 35%
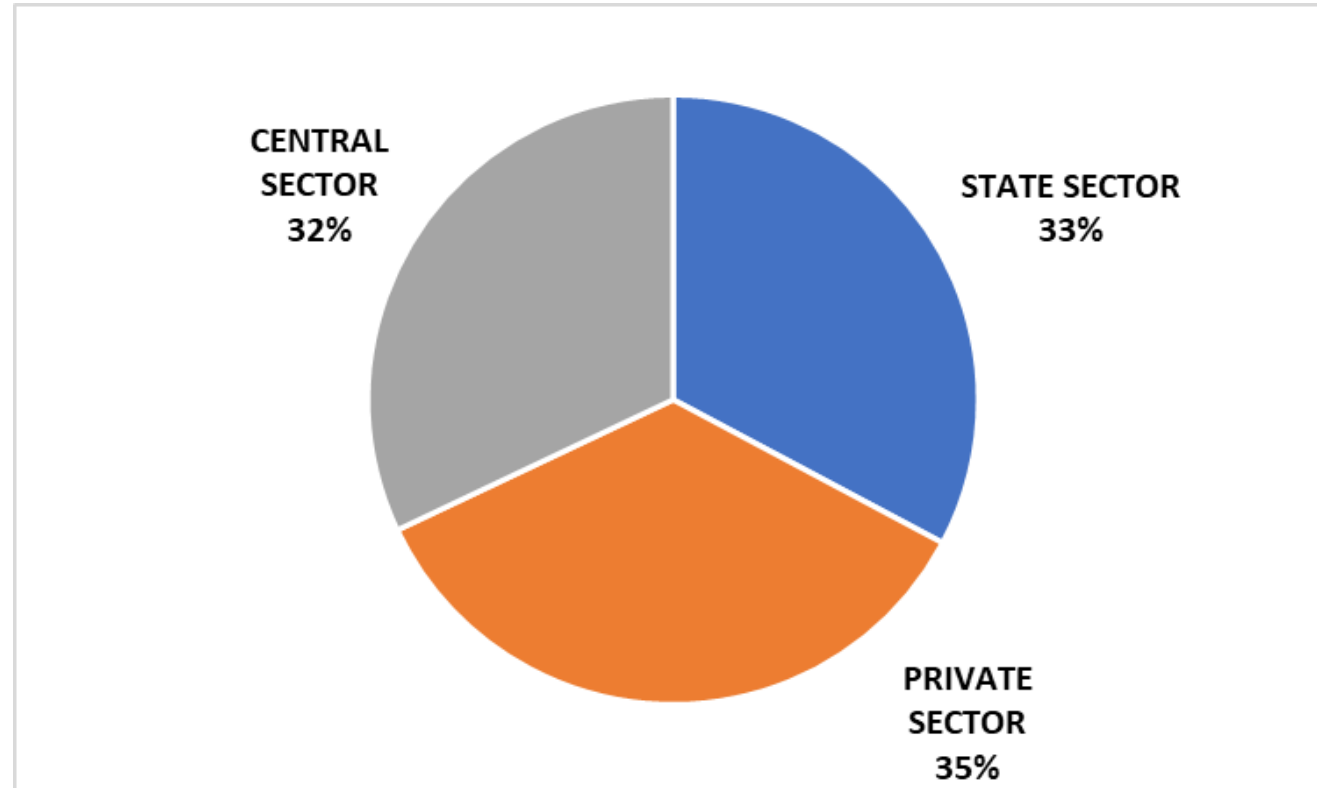
Coal based power production

Middle-income countries will have to make miracles

Or else India will need 75 years just to get to 25 percent of US income levels

Read the 2024 World Development Report!

https://www.worldbank.org/en/publication/wdr2024

- ❑ **Middle-Income Transitions (Facts)**
  - Slowing growth, structural stasis, shrinking spaces
- ❑ **Creative Destruction (Analysis)**
  - Creation, preservation and destruction
- ❑ **Making Miracles (Policy)**
  - Discipline incumbency, reward merit, and capitalize on crises