Summary

Part 1: Middle-Income Transitions

Chapter 1: Slowing Growth
Is growth in middle-income countries slower than that in countries at other income levels?

• Yes. Growth slowdowns occur more frequently in middle-income countries than in low- or high-income countries.
• Development strategies that served countries well in their low-income phase—capital investment, in particular—yield diminishing returns.
• Countries with weaker institutions—and especially those with lower levels of economic and political freedom—are susceptible to slowdowns at even lower levels of income.

Chapter 2: Structural Stasis
Is growth in middle-income countries different from that in countries at other income levels?

• Yes. Successful middle-income countries will have to engineer two successive transitions to develop economic structures that can eventually sustain high-income levels.
• The first transition is from a 1i strategy for accelerating investment to a 2i strategy focusing on both investment and infusion in which a country brings technologies from abroad and diffuses them domestically—a process broadly applicable to lower-middle-income countries.
• The second transition is to switch to a 3i strategy, which entails paying more attention to innovation—a process more applicable to upper-middle-income countries.

Chapter 3: Shrinking Spaces
Is growth in middle-income countries now harder to achieve?

• Yes. Foreign trade and investment are in danger of becoming constricted by geopolitical tensions, and populism is shrinking the room for governments to act.
• Rising debt and adverse demographics are crowding out private investors and reducing public investment.
• Accelerating climate action will require large investments in infrastructure and regulatory reforms that may stall productivity.

Part 2: Creative Destruction

Chapter 4: Creation
Who creates value?

• Both incumbents and entrants can create value. Incumbents bring scale. They can compete with entrants in the market to jointly expand a country’s technological capabilities, thereby moving the country closer
to the global frontier. *Entrants bring change*—enterprises with new products or production processes, workers with new skills and ideas, or energy sources such as renewables that embody new technologies. By doing so, they expand a country’s technology frontier.

What is the implication of having both incumbents and entrants as value creators?
- Policy makers will have to stop relying on superficial measures of structural efficiency such as firm size, income inequality, and energy sources. The imperative for today’s middle-income economies is “efficiency”—in the use of capital, labor, and energy. Policy makers will need to heed the value added of firms, social mobility, and emissions intensity. They are more reliable and more realistic metrics for policy making, but they also require collecting more information.

**Chapter 5: Preservation**

*How do incumbents preserve the status quo?*
- Incumbents’ dominance can buy economic, social, and political power. By capturing political and social institutions, incumbents have an outsized say in who learns where and what, who gets a sought-after job and what they are paid, and who gets to start a business.

*How do discrimination and patriarchal gender norms hold back the potential of women?*
- Patriarchal norms and systems of belief that give men greater status and authority and define strict gender roles and responsibilities hold back women from benefiting from attractive educational and job opportunities.

Discrimination can be pervasive, affecting the businesses women own, the jobs they get, the pay they receive, what their families spend on educating them, and their ability to manage financial accounts.

**Chapter 6: Destruction**

*Why is destruction important for structural change?*
- The destruction of outdated arrangements—enterprises, jobs, technologies, private contracts, policies, and public institutions—is essential to creating value through infusion and innovation.

*Who are the antagonists blocking creative destruction in response to today’s energy crisis?*
- Incumbents, usually state-owned enterprises, have the strongest incentive to maintain the status quo and limit competition from low-carbon energy providers.
- Many G20 economies are introducing incentives for producing and deploying low-carbon technologies. Some measures may unintentionally preserve enterprises in advanced economies and destroy them in middle-income countries.

**Part 3: Making Miracles**

**Chapter 7: Disciplining Incumbency**

*How can middle-income countries weaken the forces of preservation that protect incumbents from healthy competition?*
- By promoting contestable markets, middle-income countries can strike a balance between supporting incumbents and ensuring that they do not abuse their market power.
• Institutional arrangements that promote contestability include retracting protection of incumbents such as market leaders and state-owned enterprises and norms that work against women.
• Openness to foreign trade, investment, and talent helps with technological upgrading.
• Interventions that target errant incumbents to destroy harmful arrangements include adopting competition laws and ensuring the effectiveness of competition authorities, as well as using fiscal policy to make elites contestable.

Chapter 8: Rewarding Merit
How can middle-income countries strengthen the forces of creation by rewarding merit—that is, those forces that aid in the efficient use of talent, capital, and energy?
• To reward merit, middle-income countries can upgrade their talent pools, select efficient learners, and tap the productive power of women.
• To efficiently use capital, middle-income countries can move away from coddling small firms or vilifying large firms, let go of unproductive firms, modernize the management of firms, and connect entrepreneurs with mentors and markets.
• To decouple carbon emissions from a growing economy, middle-income countries can effectively price carbon emissions and scale up deployment of low-carbon energy by respecting the merit order—the sequence followed by grid operators selling power to the market.

Chapter 9: Capitalizing on Crises
How can middle-income countries capitalize on crises to destroy outdated arrangements and make way for creation?
• Because middle-income countries need to recalibrate their mix of investment, infusion, and innovation, crises can become a necessary evil because they provide the momentum to weaken the status quo.
• To capitalize on today’s climate and energy crises, middle-income countries can support global decarbonization by infusing global technologies domestically to join low-carbon value chains for global markets. They can also invest in deploying low-carbon energy if it reaps economic returns.
• Middle-income countries face critical needs: growth, decarbonization, and energy security. Solutions will require decoupling emissions from a growing economy while extending affordable, secure energy to all firms and families.