FOXLEY, Alejandro and Barbara STALLINGS (eds.), 2016, *Innovation and Inclusion in Latin America. Strategies to Avoid the Middle Income Trap, New York,* Palgrave Macmillan. 235 pp.

The middle income trap is a concept that is almost a decade old. It refers to economies that become stagnant and cannot become or delay too much in becoming high income economies. The typical case is that of an economy that starts to grow but loses its rhythm, increasing its distance from developed economies. Although this discussion is about a different phenomenon, it overlaps with the discussion about the lack of convergence between different countries.

Improvement in the terms of trade of raw materials, capital flows, and foreign investment, as well as low international interest rates, generated a cycle of economic growth in the majority of Latin American economies. This was a phenomenon that lasted for at least a decade with an interruption during the international financial crisis of 2008-2009, which all of the economies of the region were able to cope with - both because of their preceding macroeconomic policies as well as those applied to overcome this crisis. Nevertheless, between 2012 and 2013, these conditions changed as a result of the decline in the growth of the Chinese economy and the oversupply of raw materials relative to demand. All the economies of the region are now growing at a slower rate and the future also does not look encouraging according to the international price forecasts prepared by the World Bank and the IMF for the years 2021 and 2025. It is because of this current situation in the region that this publication is more relevant than it might otherwise be.

This book is the result of a collaboration between the Chilean Corporación de Estudios para Latinoamérica (CIEPLAN) and American University's Center for Latin American and Latino Studies, with the support of the Inter-American Development Bank. It is an improved but shortened version of a document entitled *Economías latinoamericanas, cómo avanzar más allá del ingreso medio* published by CIEPLAN in December 2014. The book reviewed here is part of a series entitled *Studies of the Americas* and includes eight articles. There is one each by the editors, Alejandro Foxley and Barbara Stallings as well others by Keun Lee; Patricio Meller and Joaquín Gana; Gonzalo Rivas; Frederic Deyo; Robert Blecker; Osvaldo Larrañaga and María Eugenia Rodríguez. The articles address the concepts that are key to dealing with the middle income trap: innovation, inclusion, education and productivity, and institutions.

The articles by the editors of the book present their own contributions but also discuss those of the other authors. Stallings provides a comparative analysis of the economies of the region and those of East Asia. The topics selected reflect her key themes: inputs and differentiated results in terms of technological innovation; differences in social inclusion measured by education, the Gini, levels of poverty; and finally, differences in institutional quality between the two regions that may explain why the Asian countries have not fallen into the middle income trap. An innovative issue highlighted by this author is that the development of small and medium-sized enterprises in production networks promotes inclusion. For his part, Foxley starts by employing a comparative perspective to analyze each of the components that explain the middle income trap: incapacity to improve productivity and competitiveness, excessive inequality (of opportunity, not assets or income) and social backwardness, and the instability of the institutional system in providing stability, transparency, and good government. At the same time, he proposes the need to reach overarching sociopolitical agreements and to creatively take advantage of sovereign funds for technological innovation and the creation of infrastructure. The previously published document in Spanish also highlighted the need to construct a national vision of a shared strategy and to take advantage of the challenges of climate change and of "policies for a new city,"* that could be the source of employment and growth.

Lee's article reviews the lessons to be learned from East Asia economies, noting that sustained growth, investment in higher education and in research and development, intra- and inter-sectoral diversification by promoting productive articulations, and wider associated effects (externalities), all are key to overcoming the middle income trap. At the same time, since the private sector in Latin America has less capacity for technological innovation, other mechanisms are proposed such as joint private-public investment, technological development with foreign entities, the promotion of learning through foreign investment, support to research institutions managed by the academic sector, international mergers and acquisitions, and the establishment of research centers abroad. Finally, the article proposes – with obvious risks – that the economies of the region specialize in "short-cycle" technologies with rapid change of technologies.

In their text, Meller and Gana evaluate the possibilities of technological innovation in Latin America, focusing on the importance of multinational enterprises for the transfer of modern technologies. They start by noting that the region is blasé regarding technological analysis (opening black boxes) of the importation of capital goods and, on the other hand, is indifferent regarding the need to disseminate new technologies. As a response to this situation, the authors propose taking advantage of different lessons from different economies such as Brazil, Costa Rica, and Ireland, in terms of how to boost research in multinational enterprises in the region, supporting the consolidation of centers of excellence

* Translation by *Apuntes*.

in universities, and reinforcing the development of intermediate organizations, such as the Fundación Chile, among others.

Rivas provides a review of public interventions in innovation policies in Latin America, stressing that while in the majority of cases these have been positive, they are of insufficient magnitude, there is a lack of articulation among them, and they are not long-lasting. The author proposes the strengthening of institutions specialized in innovation, application of a systematic focus, development of criteria of selectivity, support for linking agents, promotion of linkages through foreign investment, and the evaluation of possibilities for developing joint innovation efforts together with various countries.

Deyo's article presents lessons to be learned from the experiences of China and South Korea, referring to the Philippines and Taiwan to a lesser degree. He starts by evaluating the role played in these countries by educational policies, worker training, and the development of small businesses linked to the industrial sector.

The only article that analyzes a specific Latin American economy – Mexico – is Becker's. He describes the paradox of an economy with high export growth rates and high levels of technology but with low gross domestic product (GDP) growth and no convergence to the United States. This author's recommendations include greater investment in infrastructure, setting a competitive exchange rate, the diversification of export markets, the promotion of technological innovation, and reaching equilibrium between the sources of internal and external demand, through the application of a better macroeconomic policy and the redistribution of income.

Larrañaga and Rodríguez also discuss a specific issue – in this case, the need to reconcile the demands of the middle classes with the necessity for an educational system that is an effective space for equalizing opportunities and social integration at the same time that it provides high quality education. Two alternatives are proposed: private schools financed by the state, or public schools of excellence with greater or lesser autonomy.

This is a good book and highly recommendable. Nevertheless, not all of the key concepts needed to escape the middle income trap are included (or are not sufficiently emphasized). In reality, the phenomenon has common characteristics and relevant proposals for the majority of the economies in the region, but the list is much larger and the degree to which each factor contributes to explaining the problem is different in each country. The next book should take on the task of analyzing each one of the economies of the region, proposing and analyzing arguments and including new elements. Among the latter, the book should deal with the need to avoid extreme inequalities in assets and income that affect social order, generate less economic growth, and endanger political stability. Another key theme is to avoid the appreciation of national currencies, a factor that corrodes the productive capacity of the different regional economies (only mentioned by Becker). Other causes for concern are the incomes of the population as a source of demand; avoiding an anticyclical monetary and fiscal policy when the international economy is in difficulties; and the valorization of capitals in the financial sphere, beyond the sphere of production ("finantiarization"), another of the important but complicated issues to consider.

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