

## FOCUS

# Strategies for Developing Countries

### The Bank's new Chief Economist outlines key concepts and strategies of development and transition

Justin Yifu Lin became the World Bank's new Chief Economist in June 2008. He succeeds François Bourguignon, now head of the Paris School of Economics; Lord Nicholas Stern, who holds the IG Patel Chair at the London School of Economics; Nobel Prize winner Joseph Stiglitz; and former U.S. Treasury Secretary Lawrence Summers. Lin brings a unique perspective to the job—as professor and founding director at the China Center for Economic Research at Peking University; an adviser to his country's central, regional, and municipal governments; and a first-hand expert on China's transition. He has a PhD from the University of Chicago (where he wrote his dissertation on China's household responsibility system, with a committee composed of D. Gale Johnson, T. W. Schultz, and Sherwin Rosen) and is a specialist in agricultural policy, rural industrialization, and development strategy.

In 2007 Lin delivered the Marshall Lectures at Cambridge University on “Development and Transition: Idea, Strategy, and Viability.” In these lectures he compares strategies that he calls “comparative advantage defying” and “comparative advantage following” based on his personal observation and understanding of the reasons behind development successes and failures. He describes how developing countries—by using what he calls “the advantage of backwardness”—can leapfrog to achieve dynamic growth and converge with developed countries. Ideas and continual technological upgrading are the most important driving forces for growth. But the dominant thinking about industrialization in developing countries erred because it assumed incorrectly that the result of development—possessing advanced industries—was the cause of development. It is the process that counts.

A country's endowments of human and physical capital, labor, and natural resources—which are accumulated and altered over time—determine its wealth and, with their relative prices, determine endogenously what the most competitive technologies and industries in the country are at that time. A developing country that relies on its comparative advantages to guide its choice of industry and technology will be competitive in domestic and international markets, produce the largest possible economic surplus, accumulate the largest possible capital, and upgrade its human capital, technology, and industry in the fastest possible way. A developing country attempting to violate its comparative advantages will encounter stagnation and various economic crises.

The most important concept for understanding the cause of various institutional distortions in developing countries is viability. An enterprise will be viable in a competitive market only if its technological and industrial choices are consistent with its comparative advantages. Many developing country governments, influenced by erroneous economic ideas, have attempted to develop industries that are overly capital intensive, rendering them nonviable, and were obliged to support them with protection and subsidies. The institutional distortions are therefore endogenous to the viability constraints of the enterprises.

Pragmatism is the best approach for development, Lin argues. Development amounts to practical solutions drawn from universal forms of knowledge (like economics and the social sciences) but depends heavily on local experience. The more successful development experiences (China, Japan, the Republic of Korea, Southeast Asia) and the more successful transition experiences (Eastern Europe, China again) have involved importing and transplanting useful policy lessons from the West, adapting them to local circumstances, and undergoing a learning process in which local experience was critical.

Political wisdom derived from Chinese culture—*shishiqiushi* (finding truth from the facts), *jiefangsixiang* (freeing one's mind from dogmatism), and *yushijujin* (adapting to the changing environment)—could be relevant to reform-minded governments in other developing and transition economies, says Lin. He adds that the experience of China convincingly demonstrates that “in a gradual, piecemeal reform . . . the government should not have a predetermined, grand blueprint. Instead, it should follow a diagnostic approach, finding out the most crucial binding constraints on incentives and resource allocation and introducing reform measures that are effective but which can be regarded as ‘halfway measures’ by market fundamentalists. In the process, the government should encourage and pay attention to local and private initiatives in institutional innovations.”

East Asian countries have created one economic miracle after another since the end of World War II, thanks to development policies closely following their comparative advantages and transition policies designed pragmatically—and with a high social capacity inherited from their long-established civilizations.

But the success of East Asia has involved an element of luck. Resource constraints and a long-established civilization are neither necessary nor sufficient conditions for successful development—as demonstrated by the success of Botswana, Chile, and Mauritius. What is crucial is leadership. Lin ends his Marshall Lectures by quoting Arthur Lewis: “All nations have opportunities which they may grasp if only they can summon up the courage and the will. . . . It is possible for a nation to take a new turn if it is fortunate to have the right leadership at the right time.”

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Justin Yifu Lin. 2007. “Development and Transition: Idea, Strategy, and Viability.” *Marshall Lectures delivered at Cambridge University, October 31–November 1.*