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The New

STRUCTURAL ECONOMICS

and Its Insights for Pakistan's Development



Pakistan Institute of Development Economics

LIVE WEBINAR



PAKISTAN INSTITUTE OF DEVELOPMENT
ECONOMICS ISLAMABAD, PAKISTAN

THE NEW STRUCTURAL ECONOMICS AND ITS INSIGHTS FOR PAKISTAN'S DEVELOPMENT



Speaker: Professor Justin Yifu LIN

Webinar Moderator: Dr. Nadeem ul Haq (Vice Chancellor PIDE)

Tuesday June 22, 2021
05:00-06:30 PM (PST)



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Professor Justin Lin is the Dean of New Structural Economics at Peking University; Dean of South-South Cooperation & Development. Honorary Dean of National School of Development at Peking University. Senior Vice-President and Chief Economist at World Bank from 2008 to 2012, before that, served for 15 years as founding director and Professor at the China Centre for Economic Research at Peking University. Professor Justin Lin is a counsellor of the State Council and a member of the standing committee of China People's Political Consultative Conference. Mr. Lin is the author of more than 20 books and he is a corresponding fellow of the British Academy and a fellow of the Academy of Sciences for Developing World.

Key Messages

- Dynamic growth pace is the dream of every country including Pakistan. Economic growth is a process for structural change; that is current technological innovation in industries, which in turn increases labor productivity and reduces transactional costs through continuous improvements in infrastructure and mechanisms.
- Developing countries can take advantage of the backwardness in technological innovations, industrial upgrades, and institutional innovation and can potentially grow faster in comparison to advanced countries.
- Most of the developing countries are trapped in low and middle-income status since WWII, and this phenomenon is puzzling. Developing countries, despite having the required potential, are not able to realize it.
- One of the major reasons for the inability to realize the said potential is the focus on the wrong ideas which guide the actions. There is a strong need to look into the ideas embodied in developmental economics.
- The first generation of development economics appeared after the world war and was called 'Structuralism'- which focused on the aspiration of the developing countries to catch up. To catch up, developing countries needed to have the same level of production as the high-income countries, but that was not attainable due to rigid structural and cultural issues. The market wasn't able to allocate the scarce resources to the industries for advancement.
- To facilitate industry growth and development, governments across the globe followed the policy that focused on the mobilization and investment of the resources needed by the modern industry through the proactive involvement of the state. For a decade this policy resulted in rapid dynamic growth and countries started to build modern industries, but growth slowed down and economies became stagnant. The gap between the high-income countries and low-income countries grows wider.
- The second generation of development economics was focused on the transition of the economies from the government debt model to market net models. This approach was considered "worse" by Neo-Liberalism, as they argued that the performance of the developing economies will derail further. This led to the development of successful economies in the 1980s and 1990s, with a hybrid model of market economy and state control.
- The main hypothesis of the new structural economics is that the industry structure is endogenous to endowment structure at a specific time. In the light of new structural economics, the countries trapped in the low and middle-income status can't have dynamic structural transformations. To attain dynamic economic growth, economies need to follow the comparative advantage by the factor endowment to develop industries and competitive technologies.
- Addressing the structural failures historically in the light of the new structural economics, it was argued that structuralism advised governments to develop modern industries, which were prevailing in the high-income countries and were far too advanced for the low and middle-income countries, which defied the comparative advantage. As a result, firms were non-viable in open competitive markets, forcing the governments to provide subsidies and protection. Furthermore, this led to misallocation of the resources, rent-seeking, corruption, and political capture.
- According to new structural economics, the industrial policy is the major and important tool for facilitation, because there is always a need to provide incentives for the first movers and to solve the coordination issues in the hot and soft infrastructures. The government resources and capacity is limited, which needs to be used strategically, and that when effective and efficient industrial policy plays a vital role.
- Historically the industrial policies in the developing countries failed because they ignored the comparative advantage, rather focused on the non-viable sectors. According to the new structural economics, the successful industrial policy will target the sectors that confirm the economy's latent comparative advantage which could be done through the study of historical evidence. Another aspect of successful industrial policy is to target industries in dynamically growing countries with similar endowment structures that means the economy having the same comparative advantage.

- According to new structural economics, the 'growth identification and facilitation; first step is to find the high-income countries with similar endowment structures and to identify dynamically growing tradable industries within the country that have performed well in the economy for the last two decades. The second step is to identify private domestic firms (existing or nascent) and to identify constraints to quality up-gradation or firm entry. In step three; identifying the industries where no domestic firms are currently present, and seeking FDI. In step four; Government should facilitate the spontaneous self-discovery by the private enterprise and provide support for the necessary scaling up of private innovations. Step five addresses the Government's pragmatic approach to coordination and facilitation through the formation and creation of special economic zones and industrial parks. Step six; focuses on the facilitation of the pioneer firms.
- Successful economies were able to tap the window of opportunity arising from the relocation of the light manufacturing in the world to jumpstart the industrialization process and structural transformations. Pakistan can grow at the rate of 8-10% annually for the next two decades if it can capture the investment from China in the labor incentive resource relocation industries.

Questions raised from the Audience

During the discussion, the questions were raised which were answered in detail by the Professor. Questions included:

- Endowment structure is usually understood as physical endowments, but does the endowment structure of new structural economics take into account the institutional endowment, past histories, and historical development of the economy?
- Should we be thinking of fixing the institutions first and then turn to capture the new industrial structures?
- How can the government make choices between the pragmatic approach and other approaches that are offered by the global institutions?
- New Structural Economics framework places a huge responsibility on the government in each step of the growth identification and facilitation framework. Do you think it is possible without good institutions?

In response to the questions posed Professor Lin argued that the government needs to opt for a pragmatic approach as Pakistan has limited resources and implementation capacity. People of Pakistan cannot wait for better institutions, which might take decades to improve. Pakistan needs a pragmatic approach and starts identifying sectors that have a latent comparative advantage. Professor Lin believed that other approaches proposed by the donor and first world country institutions are based on putting the high-income countries as reference economies and then pushing the low-income country to achieve that set of industries and growth. In the new structural economic framework, the pragmatic approach is based on the endowment structures and comparative advantages of the country. Further, he explained that steps for the identification and facilitation are not entirely government mandates. Except for the first step, all the other steps are primarily based and focused on the private sector involvement.

Concluding Remarks

The new structural economic growth identification and facilitation is a better framework for Pakistan to capture the opportunities. Pakistan needs the right industrial policy to facilitate the private sector to specialize comparative advantage to become a competitive nation.



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