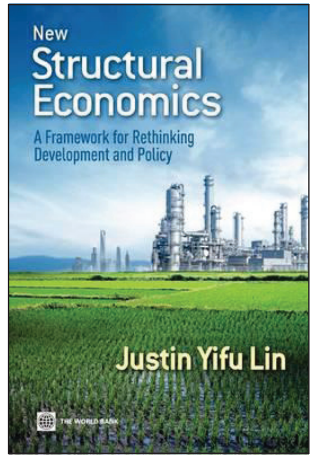
Book review*



Author:	Justin Yifu Lin
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Institution:	The National School of Development, Beijing University (Professor and honorary dean); China Center for Economic Research (Founding director); World Bank (Former chief economist and senior vice president)
Title:	*New Structural Economics: A Framework for Rethinking Development and Policy*
Year of publishing:	2012
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Type:	Scientific-popular book
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Existing body of knowledge in the field of development economics has recently become extended with another valuable contribution of Professor Justin Yifu Lin entitled *"New Structural Economics: A Framework for Rethinking Development and Policy"*. The book is product of author's long line of research on development economics, particularly his research programme conducted between 2008 and 2011 during tenure at World Bank. Through seven interrelated chapters author presents key arguments of new approach to development economics labelled as New Structural Economics in a very understandable manner, backed up with empirical evidence and supplemented with number of tables and figures. The manner of presentation is such that it makes subject matter understandable also to those readers with little or no familiarity with the development economics.

The quest for sustainable growth has been one of the most intriguing questions for both scholars and policy makers ever since the age of Industrial Revolution. At that time, global growth was largely driven by few western European industrialised countries, the United States of America, Australia, Canada and New Zealand. In decades that followed few developing economies such as Japan, the Asian Tigers (Hong Kong SAR, the Republic of Korea, Singapore and Taiwan) and more recently China, Brazil and India have managed to narrow development gap with advanced

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economies. However, as author notes, high growth rates in developing world are more an exception than the rule with only about one third of low income countries being able to reach middle-income level between 1960 and 2009.

Motivated by these failed development attempts as well as examples of successful catching up with developed economies, Lin attempts to explore the nature and determinants of economic growth in order to provide policy makers with tools for unleashing of their countries growth potential and to reduce poverty. Thus, the book deals with one of the burning economic and social problems of modern times which has attracted attention of economists for centuries and resulted in post-World War II period in entire sub discipline of economics known as development economics. The arguments are presented through seven chapters: *1 New Structural Economics – a Framework for Rethinking Development and Policy; 2 The Growth Report and New Structural Economics; 3 Growth identification and Facilitation: The Role of the State in the Dynamics of Structural Change; 4 Applying the Growth Identification and Facilitation Framework: The Case of Nigeria; 5 Financial Structure and Economic Development; 6 Development Strategy, Institutions and Economic Performance and 7 The Path to a Golden Age of Industrialization in the Developing World.*

The background of book is built against earlier contributions within development economics. Historically, these can be divided into several waves. The first wave of research, undertaken mostly by post war economists, explained development gap with structural differences caused by market failures. Drawing on Keynesian foundations these scholars have advocated government intervention as a tool for remedy of market failures and facilitation of structural change. The failure of this old structural approach to reduce development gap has paved the way to the second wave of research theoretically nested in neoclassical doctrine. The salient feature of this approach is the emphasis on the role of economic incentives, failures of government intervention and inclination towards a-structural market based approach to economic development. Despite being promoted by many international development agencies this approach, also known as Washington consensus, has also fallen short to optimum. Drawing on these historical lessons Lin advances the introduction of New Structural Economics as the third wave of research in development economics.

At first glance it is unclear what distinguishes New Structural Economics from earlier development thinking. However, as Lin notes, the development paths of economies leading world growth as well as those of catching up developing economies during the second half of the 20th century had little in common with the thinking of either first or second wave scholars. The author does not completely discard earlier contributions in the field. Instead, a book can be understood as an attempt to bring together best from old structural approach and neoclassical economics. While the market mechanism is assigned pivotal role as the basic mechanism for resource allocation it is being suggested at the same time that active role of governments is needed in coordination of investment for industrial upgrading and diversification. Moreover, in his view, upgrading inheres with large externalities to firm's transaction costs which have to be compensated by government.

According to Lin the economic growth to large extent depends on the industry growth. The structure of an economy is determined by its factor endowments and economic development is driven by changes in factor endowments and technological developments. The most efficient way for countries to upgrade their factor endowments is to follow comparative advantage to determine their industrial structure and to exploit this comparative advantage by emphasising industries that exploit the relative abundant factors of production. As developing countries often lack technology, it is suggested that they should either borrow or adopt technology available in advanced countries.

New Structural Economics argues that the development path of lagging economies should start with identification of their endowment structure and search for growing tradable industries in fast growing countries with similar endowment structure but several times higher per capita income. Further step in this direction is identification of existing private domestic firms in those industries and the removal of constraints to quality upgrading or further firm entry. Moreover, in industries without domestic firms FDI or firm incubation programs should be employed together with measures to scale up successful private innovation. In this context, Lin identifies special economic zones and industrial parks as important measures. Finally, the role of government is needed to compensate pioneer firms through temporary tax incentives, direct credits for investments and access to foreign exchange.

Through this book Lin attempts to make a step towards world without poverty. In his belief, each developing country has the potential to grow dynamically for several decades, reduce poverty and move in middle-income or even high-income group within span of few generations. Contrary to earlier neoclassical wisdom, important role in this process belongs to governments which have to establish the right policy framework to facilitate the private sector's development in line with comparative advantages and enable exploitation of latecomer's advantages. To this end, books' underlying logic stands as an alternative to previously dominant Washington Consensus. Hence, the recipe to economic success is the one that helps policy makers in developing countries to identify the industries in which their economies may have a latent comparative advantage and remove constraints to facilitate private domestic and foreign firms' entry to and operation in those industries.

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