

“Development and Transition: Lessons from China”

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September 23, 2011



Over the past 30 years, China has experienced unprecedented GDP growth, with annual rates spiking as high as 15.9 percent and never dipping below 3.5 percent. But is expansion at these levels sustainable? Can other developing nations — even China itself — hope to match that pace?

Justin Yifu Lin, chief economist for the World Bank, thinks the answer to both questions is yes, with two provisos. First, although widespread expansion is often based on technology, developing countries should not aim to be technology innovators, said Lin, speaking at the N.T. Wang Annual Lecture. A better strategy, Lin explained, is to “borrow or imitate technology and enjoy lower cost and risk” while focusing on exploiting competitive advantages such as a surfeit of labor or raw materials.

A second condition for achieving China-like growth is judicious policy interventions, he said. China's dual-track system, implemented after the 1979 reform, is instructive, he noted. "China's labor-intensive sectors and agricultural sectors were consistent with the country's competitive advantages, so they grew very quickly in the open market system," he said. At the same time, the government continued to provide necessary protection subsidies to older sectors such as telecommunications. "As the competitive sectors grew larger and larger, they created the conditions and resources that enabled the government to reform the older sectors," he said. This dual approach provided stability needed for dynamic economic growth and prevented the economic chaos and collapse that befell many other developing regions such as Latin America in its so-called lost decade, the 1980s.

China's sustained economic success is likely but by no means assured, Dr. Lin said. The country needs to continue to identify sectors that can exploit competitive advantages and bolster aging industries until they're self-sufficient, he said. If both things happen, annual growth of 8 to 9 percent for another 10 to 15 years is probable, he predicted, and the economy will become as large and as important as that of the United States.

The benefits of a vigorous, growing China will reverberate not only within its border but in economies across the globe, he noted: "In an open system, the growth in one country will be an opportunity for anyone in the world."

This talk was cosponsored by The Jerome A. Chazen Institute of International Business and the Center on Japanese Economy and Business at Columbia Business School, and the APEC Study Center at Columbia University.

