

»» New Structural Economics (NSE): A groundbreaking new development strategy?

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A few weeks ago, the book, "Beating the Odds" was published. In it, two renowned international development economists, Justin Lin (former Chief Economist of the World Bank) and Célestin Monga (acting Chief Economist of the African Development Bank) call for a change in thinking in the field of development economics. They are making a case for an approach called "New Structural Economics" (NSE). It stands for industrial policy centred on countries' respective comparative advantages and orientation towards exports as today's most promising development strategy for poorer countries.

The authors reason that previous development approaches have not shown sufficient results because they either identify the wrong causes for structural differences between poor and rich countries (structuralism) or they ignore these and place too much trust in market forces (Washington Consensus). Instead of copying the best practice expertise of today's industrialised nations, poorer countries should orient themselves more in line with the experiences of successful emerging economies that have factor endowment and comparative advantages similar to their own.

Core concept: Structural change through alignment with comparative advantage

With this approach, NSE places the focus of development economics analysis back on structural change. Similar to early structuralists, it attributes an important role to the state during promotion of structural change. But instead of promoting capital-intensive and highly modern industries with import substitutions and protective tariffs, it advocates for orientation in line with the comparative advantages of a nation and for export-oriented policies. This is because a country can only remain competitive and prosperous in the long term if it exploits its comparative advantages. The optimum economic structure of a

nation and its comparative advantages are dependent on factor endowment (labour force, human and physical capital, natural resources), among other things. Because technologies, relative prices and even factor endowments change through time (sometimes also depending on the level of development), the search for comparative advantages and their systematic use ("upgrading") is a constant task.

Active government industrial policies as a central tool of NSE

However, the new structuralists believe that significant coordination problems and externalities will occur during this important upgrading process, so that the free play of market forces will lead to suboptimal results ("market failure") and the state will need to intervene to direct the situation with proactive industrial policies.

According to NSE, cornerstones of this type of industrial policy are:

- identification of comparative advantages,
- constant adjustment of economic and institutional infrastructure to the new requirements,
- compensation of pioneering companies in which the positive externalities they generate is compensated (new knowledge about market potential and suitable technologies that is available freely for others), and
- promotion of new industries by supporting entrepreneurs and efforts to gain foreign direct investments through special economic zones.

Proponents praise the economic core, critics castigate the one-sided economic perspective of NSE

Many development economists see it as right and important to place more focus on promoting structural change again and to emphasise the fundamental importance of comparative advantages. The conclusion that government played a crucial role in

nearly every case of successful industrialization also finds little opposition.

However, even proponents of national industrial policies doubt that politicians can identify and offset comparative advantages and industry-specific externalities better than the market process itself ("government failure").

A further major point of criticism of NSE is that it focuses solely on economic efficiency and ignores other social, economic and political issues that are just as crucial for the development process. For example, NSE does not offer convincing answers to the questions of how to deal with issues like elites who resist reform, social inequality or the ecological effects of economic growth. With respect to global Sustainable Development Goals (SDG), focusing on the economic dimension is a serious setback.

The focus on exports and creation of special economic zones propagated by NSE is also controversial among development economists on the basis of many disappointing experiences.

Conclusion: An important contribution to the discussion about development economics, but not a "new" development strategy

The NSE approach is tied to the thinking of early structuralists, expands this thinking to global value chains and arrives at a new balance between the market and the state in the process. It also provides plausible explanations for the limited effectiveness of earlier development strategies and offers specific advice on shaping active industrial policies. The main point of criticism against old and new structuralists is that a development strategy solely focused on economic growth does not go far enough in the age of global sustainability goals. ■