

Structural Transformation and Development

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Three Regions, Three Sectors, Three Models, Three Outcomes???

Policy Lessons

Region	Sector	Model	Outcome
China	Manufacturing	Activism	Success
India	Services	Accident?	Ambiguous
Sub-Saharan Africa	Commodities ("rents")	Acceptance?	Ambiguous -

China

- **Marriage of strong capability plus rigging incentives (horizontally, “macro-industrial policy) via mercantilism**
- **Policy instruments: Closed capital account + financial repression + intervention (+ Lewis + fiscal prudence)**

India

- **Early investments in higher education plus early import substitution**
- **Weak capability plus fortuitously rigged incentives (in favor of skills and skill-intensive diversification)**
- **Big and unintended benefit: endogenous increase in education/human capital formation**
- **Costs of defying comparative advantage: Non-inclusiveness, pace and sustainability**

Sub-Saharan Africa

- **Commodity- and aid-reliance**
- **Weak capability plus weak/perverse incentives (now also from foreign capital and from China's rise)**

Policy Lessons

- **Capabilities/institutions less amenable to reform**
- **Incentives are only real margin of maneuver**
- **Micro or macro-industrial policy?**
- **Weak capabilities forces tilt toward macro-industrial policy (MIP) and evidence supports use of MIP (Rodrik, 2008; Rajan and Subramanian, 2011)**
- **Instruments of MIP: Mostly negative (less aid, less foreign capital, less commodity revenues) and perceived to achieve other objectives**
- **Unless the IDEA takes hold that: structural change is key and on par with other objectives AND that instruments of MIP may need to privilege attaining change over others, little hope!!!**