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PROLOGUE

When a senior World Bank official phoned me from Washington, D.C., in January 2008 to offer me the position of senior vice president and chief economist of the World Bank Group, I was in the middle of spring break, busy preparing my teaching and research priorities for the next semester and attending to various economic policy matters. I was not expecting the call, but it was not a total surprise—two months before, I had met with World Bank President Robert Zoellick in his hotel room in Beijing for an hour and a half, an hour longer than scheduled, when he was visiting China. It was not a formal job interview—at least it did not feel like one at the time. The stated purpose was to discuss China's inflation, widening income disparities, rural development, and other domestic issues. In response to Zoellick's inquisitive mind, polite manner, and eyes burning with intensity, I gradually extended the discussion to the main challenges facing the world economy, the way to achieve more inclusive growth and reduce poverty, the potential role of foreign aid and multilateral organizations, and many other issues. At the end of the meeting, I gave him a copy of my Marshall Lectures delivered at Cambridge University a year earlier.[1] It summarized my research on economic development and transition issues in China and other countries.

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An Intriguing Offer

The job offer was both exciting and humbling. Being asked to serve presented an extraordinary opportunity and was a sign of changing times. For the first time since the World Bank was created in 1944, a national from a developing country was being invited to serve as its chief economist, guide its intellectual leadership, and shape the economic research agenda of the institution. To meet the challenges of development, the institution had to be an agent of change. To be effective in this role it must combine its finance with ideas and knowledge. The development economics vice presidency, which I was being asked to lead, increases understanding of development policies and programs by providing intellectual leadership and analytical services to the Bank and the broader development community. Its aim is to improve the effectiveness of Bank operations and meet the needs of its client countries for high-quality services.

But giving up my exciting work—even momentarily—was not easy. I had served for 15 years as professor and founding director of the China Centre for Economic Research at Peking University. In those years I had developed strong and fruitful relations with many students, colleagues, and friends, some of whom counted on me in pursuing fascinating research questions. I had also been closely involved in economic policy discussions in China since coming back home in 1987 after four years completing a Ph.D. at the University of Chicago and a year of postdoctoral research at Yale University. Our remarkable economic success was a source of both pride and intellectual curiosity. I was eager to continue working on the increasingly challenging issues facing China. In an environment in which many prominent economists were predicting difficult times ahead, it was quite tempting to stay home and contribute to the debate and search for solutions.

At the same time, the World Bank offer was a lifetime opportunity to work on development issues in many different contexts, and perhaps to shape the global conversation on growth and poverty reduction strategies. The broad responsibilities of the position include helping accelerate poverty reduction and contribute to progress toward the Millennium Development

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Goals by providing countries with the knowledge necessary to make more informed policy choices. That knowledge has also been used over the years to inform global public advocacy initiatives. And developing it involves research, data, analysis, global monitoring, projections, statistical capacity building, and policy review and advice.

The development economics vice presidency covered all these dimensions, sponsored research projects in other parts of the Bank, and produced flagship reports to set the agenda of international development as well as two top scholarly journals in the field. It had among its staff some of the world's best-known development economists. And economists who had been World Bank chief economists were among the most respected names in the field: Nobel laureate Joseph Stiglitz, Larry Summers, Stanley Fischer, Anne O. Krueger, Hollis B. Chenery, Michael Bruno, Lord Nicholas H. Stern, and François Bourguignon. Following in the footsteps of such people would be a great honor—and a daunting responsibility.

Helping countries to attain sustained dynamic growth to eliminate poverty and achieve prosperity has been my life's pursuit since I was a child. I realized that joining the World Bank would allow me to share my insights on this subject with many others, undertake an ambitious research program to examine unresolved challenges in economic development, and shed new light on the causes of economic take-off or lagging growth in poor regions.

Indeed, the Bank had made an intriguing offer, one I could not refuse.

I asked for a week to think through what moving to Washington would mean for my personal and professional life. I needed to organize a leave of absence from the university and to make arrangements for my Ph.D. students and my successor. But I was ready for the challenge.

Strange Childhood Memories from Africa

A week after I took the position in June 2008, I was on a flight to South Africa, Rwanda, and Ethiopia. It was not my first trip on the continent, but in many ways it was an initiatory journey. Why not go to Latvia, Mexico, or Nepal for my first official trip?

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Why Africa? Probably because I saw the continent as the last frontier for development economics, the place where new knowledge and new solutions could yield the greatest payoffs. Thanks to much-improved macroeconomic policies, higher commodity prices, and significant increases in aid, capital flows, and remittances, economic growth south of the Sahara had accelerated from 3.1 percent in 2000 to 6.1 percent in 2007. Similarly, per capita growth in gross domestic product (GDP) had increased from 0.7 percent a year over 1996–2001 to 2.7 percent a year over 2002–08. The proportion of Africans living on less than $1.25 a day had fallen from 58 percent in 1996 to 50 percent in 2005. The prevalence of deadly diseases such as AIDS was stabilizing and even declining in some countries. Sixty percent of the children were completing primary school, and child mortality was falling in a large group of countries.

A new wave of empirical research by development agencies, academic institutions, and leading economists from various backgrounds even suggested that several African economies were on the verge of an unprecedented economic take-off.[2] The strong performance and resilience of these economies were not accidents but the results of sustained efforts in most countries in the past two decades. At least five fundamental changes were at work: more democratic and accountable governments; more sensible economic policies; the end of the debt crisis and changing relationships with donors; the spread of new technologies; and the emergence of a new generation of policymakers, activists, and business leaders.[3] And the security situation was also improving.[4]

True, the development challenges were still overwhelming. Many African economies still exhibited signs of limited structural transformation, reflecting the slow progress since independence. The region was overwhelmingly rural in 1960, with agriculture accounting for some 40 percent of GDP and 85 percent of the labor force. Although the rural share of the population fell steadily over the past five decades, it was still 63 percent in 2000, significantly higher than in other regions. A World Bank study noted:

> Economic growth has not been accompanied by an increase in productive employment—particularly troubling since 7–10 million young

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> Africans enter the labor force every year. A skills deficit hinders Africa's ability to compete in the global economy, and opportunities for African entrepreneurs, especially women, remain constrained by limited access to information, innovation, and adequate tools to create viable businesses. . . . Because of its high dependence on rainfed agriculture, Africa is vulnerable to extreme weather events such as faster desertification, rising sea levels, and more frequent droughts. Africa may be the continent worst hit by climate change. The delivery of basic services continues to fail poor people—with high degrees of teacher absenteeism in schools and money often failing to reach frontline service providers.[5]

The continent also performed poorly on governance indicators and lagged behind on infrastructure development, with major deficits in transport, roads, water, telecommunications, and energy. Private investment averaged only 15 percent of GDP due to the continent's infrastructure deficit and business regulations. Africa's market share of global exports had declined from 3.5 percent in the 1970s to 1.5 percent in 2008. In addition, the global economic crisis, coming on the heels of the food and fuel price crises of 2008, was threatening the hard-won progress. Still, I felt there was ground for optimism about the continent's economic future. Looking beyond the complex difficulties at hand, I had a sense that hope was back and that perhaps a little push in the implementation of good policies could bring the same positive results observed elsewhere in the developing world, most notably in Asia.

I started my field trip in South Africa by attending the Annual Bank Conference on Development Economics, a gathering of academic and policy researchers working on development issues. President Thabo Mbeki opened the meeting, with some 800 researchers from all over the world in attendance. I gave a speech based on my Marshall Lecture at Cape Town University. I argued that the best way to reduce poverty and to have dynamic, inclusive growth is to take a country's comparative advantage as the guiding principle in its economic development. That allows the economy to be most competitive and to create the most jobs for the poor. Trevor Manuel, minis-

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ter of finance of South Africa, chaired the session, commented on my speech, and became a supportive friend.

I then went to Rwanda to explore the constraints and opportunities for harnessing the country's potential for growth, especially in the rural sector. In the eastern province I visited farmers' cooperatives for agribusiness, mushroom production, and technology extension. I also met with government officials, including President Paul Kagame, a tall, serious former military man with a calm demeanor and hearty voice. We discussed agricultural modernization, especially irrigation in Rwanda. I suggested that although it was important to mobilize international funding and donor support for building microdams, it was also important to mobilize farmers in the off-peak seasons to build small ponds near each household farm through their own efforts in order to harvest rain. They could then buy small diesel or electronic pumps to extract underground water and to turn rainfed agriculture into irrigated agriculture. The country could produce pumps, starting with assembly and foreign direct investment, to serve the rural market. The president was quite interested in this basic suggestion. He was perhaps thinking about the African proverb "One does not use a sword to kill a snail," similar in spirit to China's proverb "One need not use an ox butcher's knife to kill a chicken."

In Ethiopia I spent the first few days in the Nazareth and Rift Valley areas, holding seminars and discussions with agricultural extension workers and women farmers and visiting export-oriented agricultural and cooperative union members. In Addis Ababa I met with business leaders, academics, and policymakers. I also met with Prime Minister Meles Zenawi, another former military leader with a sharp mind and unmatched intellectual curiosity. Prior to our three-hour brainstorming session, I had collected a series of simple items ordinarily sold in local stores, all produced overseas. These included a box of matches made in Nepal and a plastic electric switch and other basic products made in China.

After discussing the traditional issues of macroeconomic stabilization, such as inflation and the balance-of-payments deficit, on which we quickly agreed, I showed Zenawi the items I had purchased in local markets and

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asked him why Ethiopia—a country with some 85 million inhabitants and an old and sophisticated business tradition, a proud nation that had withstood all kinds of foreign invasions throughout its long history and had never been colonized by any foreign power—could still afford in the twenty-first century to import such basic light manufacturing products, including matches from Nepal, another poor but smaller and landlocked country. As for the products "made in China," which required few skills and little technology to make but were still imported by Ethiopia, I indicated that I was proud as a Chinese citizen to see our industries dominate world markets, even for very basic goods. But as the World Bank chief economist and as a citizen of the world concerned with the fight against poverty in Ethiopia, I was puzzled by the many costly missed opportunities that each of these imported products represented.

Besides costing the economy large sums of foreign exchange that could be used to purchase crucial capital goods, new technology, or cutting-edge medicines, the country's development strategy was contributing to high underemployment and fueling poverty. I proposed that the government, in addition to continuing its export-promotion efforts, encourage industries that substitute their own goods for imports of simple manufactured goods. The potential benefits were obvious: the savings from import substitution would have the same effect as earning foreign exchange from export promotion. Further, the substitution industries would create jobs for the poor and train entrepreneurs for further industrial development. The key was to design and roll out the strategy in a way that would avoid government involvement and the waste of public money in industries inconsistent with Ethiopia's comparative advantage—industries that would be uncompetitive, unviable, and costly. And that was indeed possible.

Traveling in these three African countries, I could see everywhere images from my childhood. I was touched by the farmers longing to improve their lives and build better futures for their children. Their eyes reminded me of the eyes of farmers I had seen when I was a young child in Taiwan, China, in the 1960s and 1970s, and when I first went to the mainland in 1979. It was a strange feeling to go back in time in my own country in my mind while

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visiting these distant places. I was impressed not only by their national leaders' commitments for their nations' futures and their thirst to understand and learn from the experiences of other countries but also by the excitement and thirst for knowledge of junior professionals, academics, students, and businesspeople. The many difficulties they faced daily did not seem to reduce their enthusiasm for and commitment to working for a better future.

Rwanda, Ethiopia, and even South Africa in some respects have an old Asian flavor in their current economic and sociopolitical complexion: their population density, traditional agriculture, small and weak industrial sector, pervasive poverty, and yet strong and committed governments and stable societies, with diligent people everywhere are similar to the conditions in much of East Asia a generation ago.

I had the same feeling well beyond Africa. My trips to other developing countries in the following months and years also brought back memories of Asian countries from several decades ago, when they were struggling with poverty, poor governance, and weak capacity—and were considered basket cases by many top economists.

Yes, I always had the strange feeling of being back in my childhood. The images that struck me everywhere, the energy and the optimism of the people, and the intensity of my interaction with various development stakeholders convinced me that with good ideas, the right development strategies, and some financial means, these poor countries could achieve Asian-type economic performance in the coming decades and become newly industrialized economies. Talking to policymakers, I quickly came to the conclusion that my responsibility was to draw lessons from world history, policy experiences in other countries, and economic analysis to help them formulate appropriate strategies—strategies that would take into account their visions, strengths, constraints, and goals.

This would have to be done with conviction and humility, recognizing the differences in circumstances and possibilities in each place. Just like Europe, Latin America, or Asia, Africa is not a country. It is a diverse continent with more than 50 different countries, each with its own history, culture, strengths, and weaknesses. Embarking on the task of economic develop-

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ment, policymakers should keep in mind what Deng Xiaoping, the architect of China's reform and opening, told Ghana's President Jerry Rawlings in 1985: "Please don't try to copy our model. If there is any experience on our part, it is to formulate policies in light of one's own national conditions."[6] The main purpose of this book is to outline a road map for such country-centered development strategies.