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## New Thoughts in Need

A Comment on World Bank's "Reaching the Rural Poor:  
Strategy for Rural Development"<sup>1</sup>

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**Abstract:** In the past 50 years, the rural development strategies, proposed by the World Bank and other international development agencies, aimed to enhance agricultural productivity, with focuses on improving production infrastructure, research, extension and marketing of agricultural product. Such strategies made important contributions to the increases of agricultural supply, calorie intakes, and nutrition improvements. However, because of agricultural product's low income elasticity and price elasticity, the increases in agricultural supply made limited contributions to the increase of farm income. Rural poverty is an unsolved problem in the developing countries that followed the above development strategy. In this paper, I propose to treat the reduction of rural labor as the goal of rural development strategy. Only by reducing rural labor, it is possible to increase rural income with the increase of agricultural production. However, the possibility to accommodate a large out-migration of rural labor depends on the national economy to follow its comparative advantage and develop labor-intensive industries at its early stage of development. Otherwise, the out-migrated rural labor may become urban job-less poor. Only the out-migration of rural labor becomes the main development goal the traditional attempt to increase agricultural productivity can solve the poverty issue in rural area.

**Key Words:** Rural Development, Poverty, Migration, Comparative Advantages.

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<sup>1</sup> This is my speech presented on the consultation conference organized by the World Bank in Hanoi, Vietnam on the 26-27<sup>th</sup> 2002 for the World Bank's new rural development strategy, "Reaching the Poor: Rural Development Strategy." I would like to thank Mr. Chen Yong for his help in preparing the speech.

First, I'd like to congratulate the World Bank, not for this new research paper with high-quality, but for its courage to admit the failure of past rural development strategies and for its courage to search unremittingly for a new one. Both kinds of courage are not so common among governments and international organizations.

This consultation is intended to improve the new strategy's chance of success. In order to achieve this goal, I'd speak out my sincere opinion on the subject. In my opinion, although this paper has certainly learned useful lessons from past failures, it is still in danger of failure as the old strategy.

To be a successful strategy on rural poverty alleviation, the new strategy should consider the characteristics of the poor people in rural areas, the characteristics of their production and the political environment around them. Only when we have acquired a thorough understanding of these characteristics and based relevant measures on them will it be possible for the strategy to be successful.

The characteristics of rural poor people include mainly two aspects. They are:

Firstly, their most important asset is their own abundant labor force, which I believe is their comparative advantage. We all have 24 hours a day, which is equal for everyone. For the rich, they have a lot of other assets: land, capital, good education, personal relations and political-economic network. But for the poor, except for their labor force they have no asset that could bring in income. Because of this, unless their labor becomes relatively scarce and valuable, it's impossible to increase their income and improve their social status.

Secondly, rural poor people live merely at subsistence level and are unable to cope with shocks. Their subsistence is easily imperiled by natural disaster, disease or great sudden fluctuations in product prices. At the same time, because they are poor, they are fully obsessed with the daily necessities and are thus apathetic to political issues. Consequently, they will have little political influence in general.<sup>2</sup> For these reasons, government of many countries generally has an urban bias, giving low priorities to the needs of the rural poor. The emphasis of public investment is in the urban areas.

The production activities of rural people living under poverty line have their own characteristics as well. Because they are poor, they produce mainly farm products, which have low income and price elasticity. Because of this, overall economic growth will have only minimum stimulating effects on the demand for farm produce. The production increase of an individual rural household may of course increase its income. However, when most of them increase production, because of the low price elasticity of farm produce, the price will go down and incur significant losses to peasants.<sup>3</sup>

In the past, the rural development strategies of World Bank and other international organizations all emphasized on the increase of agricultural productivity. They provide loans and financial aids to encourage governments to increase their investment on rural irrigation and transportation facilities, improve rural education and so on. At the same time, they established about 20 international agricultural research

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<sup>2</sup> If the rural poor cannot manage to survive, they sometimes will take violent measures, which may result in the collapse of incumbent government or even dynastic changes. However, when the revolution is over, the poor will resume the status of little political influence.

<sup>3</sup> If the increased produce could be exported to international market, it will help to increase the price elasticity of farm produce. Unfortunately, most countries have imposed various barriers for the import of farm produce. Therefore, the opportunity for a developing country to increase its export is pessimistic. In addition, the overvalued exchange rate in most developing countries further impairs the

institutions to provide better seeds and agricultural technologies for developing countries, like the International Rice Research Institute in the Philippines, the International Center for Improvement of Maize and Wheat in Mexico. However, since the governments in developing countries have adopted the urban-biased policy, they increase rural investment perfunctorily only to obtain the loans and financial aids. Because the governments lack real interests in rural area, the investment usually cannot effectively translate into improved rural infrastructure. More importantly, even if they did precisely what the World Bank and other international institutions have recommended, like improving the rural infrastructure, promoting better seed varieties etc., and as a result they indeed upgraded the agricultural productivity and increased the agricultural supply, they may still fail to alleviate the poverty problem. Because when the income elasticity and price elasticity of agricultural products are low, output increase usually does not lead to increased income for the peasants.<sup>4</sup>

In order to win the anti-poverty war completely, new rural development strategy should lay great emphasis on the reduction of rural labor force. When rural labor force reduces, people farm in rural areas will have more land and resources to work on. As a result, the relative scarcity and the relative value of rural labor will increase and so does the income of the rural poor who have only their labor as the primary asset. At the same time, when the farm hands become non-farmhands, they will become consumers for agricultural products. The supply curve of agricultural products will thus shift to the left and demand curve to the right. Consequently, the prices of agricultural products will go up and so do the marginal product value of farm labor and its earnings. The income of rural people will in this way increase as the farm labor keeps on

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competitiveness of their export of farm produce.

<sup>4</sup> When productivity is upgraded, the supply of agricultural products will increase, people living under poverty will have better nourishment. This is proved by the increase in the life expectancy in developing countries. The contribution of past rural development strategy in this aspect should not be neglected.

decreasing. Apart from this, the reduction of rural labor and rural population will also help to ease the tension between population and environment.

As we reduce the rural population and labor force, we should ensure that those people who stopped farming could find jobs in non-agricultural sectors in urban areas, or they will only turn into unemployed urban-poor. The overall social welfare will not improve. Unfortunately, most developing countries adopted the kind of economic development strategy that does not conform to their comparative advantages, like the “heavy-industry-oriented development strategy” in India and many socialist countries and the “import-substitution strategy” in Latin America. These industries have high capital intensity, which requires a large amount of investment but needs only a small amount of labor. They will not create much employment opportunities to absorb the transferred rural labor. Since these industries do not conform to the comparative advantages of their home country, they are not viable in a competitive market. Hence the government has to provide them with many favorable policies including low-interest rate loans, market monopoly and so on. This will result in either of the following:

Put restrictions on the migration from rural areas to urban areas, and let the population under poverty line stay in rural areas, just as we do in China.

Allow rural people to migrate to urban areas. But since industries in urban areas cannot create enough jobs, when rural people migrate into cities, they will only change from the status of rural poor to urban poor.

The development of industries without comparative advantages also needs continuous infusion of fund. When the domestic funds were exhausted, they can manage for a while on international funds. But since they have no competitiveness in the international market, they cannot

earn enough profit to repay the principal and the interest. When they have to repay foreign loans, financial and monetary crisis will occur. Furthermore, due to the development of these industries, domestic industries that have the comparative advantages cannot be fully developed for the lack of development funds. Under these circumstances, if the country is forced to open its door and adopt the free trade policy, crisis will occur immediately. Then, the poor, no matter where they are, will be the group that is most seriously hurt. Therefore, in order to win the anti-poverty war in rural areas and let developing countries enjoy a sustainable, steady and rapid development, we have to find a new development strategy.

This new strategy should follow the comparative advantages of the particular country and regard the development of industries with comparative advantages as its top-priority. When the government has created a benevolent environment, it can successfully lead enterprises into industries consistent with its comparative advantages. These enterprises will be viable. They no longer need the favorable policies or administrative intervention or monopoly power to survive. Rent seeking and corruption will thus lose its breeding ground and the efficiency of the economy will be improved significantly. In most developing countries, labor is their relatively abundant resource; therefore their comparative advantage lies in the labor-intensive industries. Development of these industries will not only create jobs for urban population but also help to absorb the excessive labor force in rural areas. Reduction of rural population thus becomes possible. Since these enterprises are competitive, they are highly capable to absorb risks, which will contribute the macro stability. Moreover, the practice of this strategy will help the country to successfully assimilate into the globalization process. Because its domestic industries are consistent with its comparative advantages, they are competitive in international market. Therefore, practice of free trade policies will only benefit its economy.

Unfortunately, many developing countries have adopted development strategies that are inconsistent with their comparative advantages. If the new strategy mentioned above is correct, how should we manage the transition from the old strategy to the new one?

In socialist countries, the transition from traditional development strategy to new ones provides two scenarios: one is the Shock Therapy practiced in former Soviet Union and Eastern Europe; the other is the gradualist approach in China and Vietnam. The empirical evidences show that the latter is more successful. Therefore it deserves a closer examination by international academia and development institutions. The gradual reform in China has undergone following phases: China started as a single track economy (where everything is under state control) then it changed into a dual track economy (where part of the economy is controlled by the government and part is determined on the market), and then let the two tracks gradually converge to a new single track (i.e. the market track). How did the government manage the transition? The government allows non-state sectors to play an increasing role in the economy by their own growth. Since their development is based on China's comparative advantage, they are very competitive. Their development thus created a lot of new resources, which could be used to compensate those who bear the transition costs. In this way, China's gradual approach can manage to maintain economic stability and achieve rapid economic growth at the same time.<sup>5</sup>

On the basis of above analysis, it's safe for me to draw the following conclusions: first, this new rural development strategy of the World Bank should attach more importance to the overall economic development strategy. Although this paper has used a whole page to discuss the overall political environment, I think it is still far from enough. In order

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<sup>5</sup> For detailed discussions of Chinese economic transition, please refer to Justin Lin, Cai Fang Lizhou. 1996. *The Chinese Miracle: Development Strategy and Economic Reform*. Hongkong: Chinese University Press.

to solve the problem of rural poverty, a developing country should calculate its rural development in the context of its overall economic development strategy. More importantly, it should adopt the right kind of national economic development strategy i.e. a strategy that tries to exploit its comparative advantage. Second, since many developing countries have adopted the old strategy inconsistent with their comparative advantages, this research paper needs to pay more attention to the management of transition from the old strategy to the new one. It should come up with concrete suggestions on the smooth transition. Third, because the hard-core of the rural development is to reduce rural population, we need to improve the functioning of labor market and pay more attention to the issue of migration. At the same time, in order to improve the adaptability of the transferred rural population, we should vigorously promote rural education. Fourthly, it also needs to pay more attention to disaster relief, because during the transition period the rural poor live near mere subsistence level and they are too fragile to cope with any kind of disasters. Finally, as more and more rural people transfer out of agricultural sector, the demand for agricultural products will increase and the labor force in the sector will decrease. On this condition, traditional measures to increase agricultural productivity will also become effective in the reduction of rural poverty.