

World Development Report 2009 :

Reshaping Economic Geography – Implications for Sri Lanka ?

The Institute of Policy Studies of Sri Lanka (IPS) and the World Bank, Sri Lanka organized a one day conference on, "World Development Report 2009 Reshaping Economic Geography: Implications for Sri Lanka" on 18 March at the Galadari Hotel, Colombo with Dr. Sarath Amunugama, Minister of Public Administration and Home Affairs, and Deputy Minister of Finance as the Chief Guest.

Dr. Saman Kelegama, Executive Director, IPS made the welcome and introductory remarks, while Ms. Naoko Ishii, Country Director, World Bank made the opening remarks. The World Bank's "World Development Report (WDR) 2009" was introduced during the inaugural session by Indermit Gill, Team Leader, WDR 2009, followed by critical analyses of the report by local experts.

As economies grow from low to high income, production becomes more concentrated spatially. As countries develop, the most successful ones also institute policies that make living standards of people more uniform across space. The way to get both the immediate benefits of the concentration of production and the long-term benefits of a convergence in living standards is economic integration. Although the problems of economic integration defy simple solutions, the guiding principle does not have to be complex. The policy mix should be calibrated to match the difficulty of the development challenge, determined by the economic geography of places. Today, policy discussions about geographic disparities in development often start and end with a consideration of spatially targeted interventions. The World Bank's WDR 2009 reframes these debates to include all instruments for economic integration—institutions, infrastructure, and incentives.

The Conference "World Development Report 2009 Reshaping Economic Geography: Implications for Sri Lanka" examined these issues from a Sri Lankan perspective. Regional disparities in economic development are a critical development issue in Sri Lanka. The country has long seen economic growth and prosperity concentrated in the Western Province whilst other provinces have failed to live up to potential.

Overall, the sessions examined why production becomes more concentrated spatially as economies grow, how economic integration can be used to promote spatial transformation, revisit the debates on urbanization, territorial development, and regional development.

Meanwhile, the World Bank in a statement says that the fate of Sri Lanka's rural areas and cities, and its role in the regional economy is intertwined, through human, physical and political geography. Development requires changing these elements for the better. These transformations are the subject of the World Bank's ***World Development Report (WDR) 2009, Reshaping Economic Geography***: rising economic density as cities grow, migrating workers and businessmen who reduce their economic distance to

opportunity, and the need to reduce economic division between neighbors to bring prosperity and peace to the entire neighborhood.

Rising densities, reduced distances, and fewer divisions—these are the essential prerequisites for progress. Two centuries of experience point to this. And two decades of economic analysis confirm that economic growth does not spread smoothly across space. As economies advance, production becomes more concentrated spatially. Some places—growing cities, leading regions and connected countries—are favored by entrepreneurs.

*"The world's most geographically disadvantaged people know all too well that growth does not come to every place at once," says **Indermit S. Gill, Director of the World Development Report and Chief Economist, Europe and Central Asia.** "Markets favor some places over others. To fight this concentration is tantamount to fighting prosperity. Governments should facilitate the geographic concentration of production. But they must also institute policies that make the provision of basic needs—of schools, security, streets, and sanitation—more universal."*

Lifting people out of poverty requires shifting populations from villages to cities. This process of migration should be welcomed and encouraged, says the new WDR. Globally as well as nationally people move in order to reduce distance to markets that are prospering. At the turn of the century, the leading western province accounted for 1.5 million internal migrants in Sri Lanka, or around 45 percent of all migrants in the country.

Instead of worrying about the size of metropolises, cities and towns, the WDR calls for policymakers to worry about making sure that these places work well. "Trying to spread out economic activity can hinder growth and does little to fight poverty" says Somik V. Lall, Senior Economist, World Bank. "For rapid, shared growth, governments must promote economic integration which, at its core, is about the mobility of people, products, and ideas."

The most effective policies for promoting long-term growth are those that facilitate geographic concentration and economic integration, both within and across countries. The new WDR calls for an approach focused on common institutions, connective infrastructure, and targeted interventions. Common institutions include regulations affecting land, labor and commerce, and social services such as education and health financed through taxes and transfers. Infrastructure refers to roads, railways, ports, airports, and communications systems. Interventions used by governments include slum clearance programs, special tax incentives to firms to move to remoter areas, and preferential trade access for poor countries.

The 2009 World Development Report makes a strong case for international integration through trade. Its findings and policy messages are especially pertinent these days, as the financial crisis has been encouraging protectionist tendencies, in both developing and developed countries. These will jeopardize both the recovery and longer term progress.

Geography matters greatly in deciding what is needed, what is unnecessary, and what will fail, argues the report. By calibrating the blend of these policies, developing nations can reshape their economic geography, much as today's high income economies did in the past. If they do this well, the authors conclude, their growth will still be unbalanced, but their development will be inclusive.

The WDR's findings are relevant for Sri Lanka, a country where some view the Western Provinces growth as a source of concern, rather than as a source of encouragement; where the need for distributing growth to lagging regions is high on the agenda; and where infrastructure bottlenecks get in the way of Sri Lankan goals of becoming a regional logistics hub. By emphasizing the importance of common institutions, the WDR tries to reshape these debates. Instead of a narrow focus on places that are not doing well and policies that excessively focus on spatial targeting, it highlights the importance of integrating the leading and lagging provinces. It points to the risk that attempts to fight rising economic density in some parts of Sri Lanka which may result in economic prosperity being spread thinly.

The economic history of the world's most prosperous economies shows that agglomeration of economic activity and the mobility of people and products lead to success. Compare a country's poor past with its prosperous present and you can see that development involves transforming the country from a place where the economic production is spread evenly but living standards are uneven, to a place where the economic landscape is spiky but the social landscape is smooth. From early developers such as the United States to more recent ones such as South Korea, geographically unbalanced growth has been the rule. In Sri Lanka, with 30 percent of industrial establishments, the Western Province adds 76 percent of industrial value. International experience shows that while it is important to appropriately manage this concentration of economic production, it is also critical to pursue policies that make basic living standard more uniform across space. If this is done well, growth may be unbalanced growth, but development will be inclusive.