

***Growth can be imbalanced, but inclusive - World Bank
Govt must not force development**

by Devan Daniel

Academics, public officials and businessmen discussed the World Bank's 'The World Development Report 2009: Reshaping Economic Geography' (WDR) at length at a seminar organised by the Institute of Policy Studies last week.

The 383 page report is extensive, draws from experiences from many countries and is armed to the teeth with statistical data.

The gist of the report's message seems to be this: Development will always be uneven across a country's geography and governments will do little good by trying to replicate the success of a commercial-hub city in other areas by forcing certain policies down the private sectors throat.

The WDR says, while allowing the uneven development to continue, proper linkages must be created so that lagging regions have access to markets and jobs, while social development must be evenly spread across the regions where better schooling, health services and housing receive equal attention and maintained at the highest possible levels.

The WDR and Sri Lanka?

With the war nearing its end the government has already began development activities in the East and the North in varying degrees and hopes to step on the gas once fighting ceases.

The obvious reaction of the government is to develop the war-torn regions and to distribute or replicate the Western Province's growth, which contributes a little more than 50 percent of Sri Lanka's GDP, among the other regions through extensive infrastructure developments and give various concessions to the private sector to set up factories in targeted areas.

The seminar organised by the IPS was to begin a debate on the WDR and its significance for Sri Lanka.

"The WDR talks about achieving inclusive development when economic growth is imbalanced as is most often the case," Dr. Saman Kelegama, Executive Director of the Institute of Policy Studies, said in his opening remarks at the seminar.

Dr. Kelegama said the current crisis in the global economic downturn should be made of use to rectify the domestic economy.

"It is at a time like this that many of the problems the economy is facing are discussed openly. Some are arguing that the current global situation should be used as an opportunity to put the domestic economy in place and rectify the imbalances in the economy that we have been speaking about for the past two decades," he said.

Why the WDR?

Dr. Kelegama points that often in the economic debate, in addition to discussing the problems of the macroeconomy, a topic that is frequently highlighted is the regional disparities.

"The fact that 50 percent of GDP being concentrated in the Western Province and the Province becoming the fastest growing region has been a topic of discussion," he said.

Why the imbalance...

Dr. Kelegama cites a study by the World Bank in 2007 which said that the Western Province experienced accelerated growth because market reforms triggered rapid growth in the manufacture and services sectors based in the province.

"Due to the lack of market reforms and market based policies in the agriculture sector which is the dominant sector in the other provinces there has not been similar levels of development," he said.

Take a closer look...

Dr. Kelegama said the WDR takes a look at these issues more closely.

"It argues that transformations along the three dimensions of density, distance, and division are essential for development and should be encouraged.

"If we do this well, our growth will still be unbalanced but development will be inclusive. This is an interesting suggestion and has many implications for policy," Dr. Kelegama suggested.

Over investing...

Incentives are a popular vehicle used by any government to drive economic growth. Incentives can take the form of subsidies and tax concessions.

H. N. Thenuwara, Assistant Governor of the Central Bank said that incentives are an enormous problem leading to gross misallocation of resources and slower growth.

He asked whether the infrastructure drives in rural areas was an attempt to create demand or a result of demand.

"The over supply of capital to a particular region would lead to decay if economic activity is not centralized there," he said pointing out that economic development cannot be forced on to different areas of the country as highlighted in WDR.

So many roads, but...

Taking over from Thenuwara, S. Amarasekera, Secretary, Ministry of Highways and Former Director General, Regional Development, said no amount of infrastructure developments at the micro level would bring results if not connected with the central economic centre, the Western Province.

"So many rural roads are being built but they are not connected to highways connecting to economic centre then these roads will be under-utilized," he said.

He also pointed out that infrastructure costs in rural areas are very high.

Planning...

Lloyd Fernando, Programme Director, Distance Learning, Post Graduate Institute of Management and Former Secretary, Ministry of Policy Implementation stressed the need for planning.

"The Eastern Province needs to be developed and progress must be made in this regard. This kind of approach necessarily takes on political and social dimensions. But you cannot force development. The Western Province's growth has much to do with the fact that the province has historically been the hub for economic activity.

"Careful planning and reforms to public administration will be key," Fernando said.

WDR and the Private sector...

According to the WDR, institutional reforms, incentives and infrastructure development are key in realizing inclusive growth when growth is imbalanced.

Anura Ekanayake, Vice Chairman, Ceylon Chamber of Commerce, said out of the policy measures in institutions, infrastructure and incentives to make economic growth inclusive despite the unbalanced nature of growth, institutional reforms would play a greater role.

"Sri Lanka has limited fiscal space to provide adequate infrastructure and incentives, but institutions probably offer enormous opportunities for inclusive growth," he said.

He went to say that incentives, such as subsidies, handouts, even tax holidays and protectionist policies led to dependence while institutional reforms could lead to empowerment.

"The policies currently in place continue to nurture dependence and policy makers need to take the next step and formulate institutional policies that would empower the people and take them out of dependence," he said.

Nothing new...

However, many commented that the WDR was not proposing anything new or anything practical in light of the political realities in the country.

Ms. Ramani Gunatilaka, a freelance consultant, said that if Sri Lanka was to adopt the kind of policy framework suggested in the WDR, politicians would have to make far reaching transformations and become less territorial in terms of geographical locations and other dividers such as ethnicity and religion.

Sunil Chandrasiri, Dean, Faculty of Graduate Studies, University of Colombo, said the concepts introduced in the World Bank's report had been advocated by economists such as Paul Krugman as far back as in 1979.

Willie Mendis, Senior Professor of Town and Country Planning, University of Moratuwa, said academics had been talking about the urbanization of rural towns since the 1960's.

"We have been talking about it for so long and the problem we have; is how are people encouraged to move to other parts of country?" he said noting that government policies had been formulated way back in 1946 for integration of the regions which has never taken place to date.

Soon after independence the economy of the country was centred on rural Sri Lanka, but over the years urban areas began to dominate the economic landscape particularly in the city of Colombo in the Western Province.

What the WDR says...

- Higher Densities – No country has grown to high income without urbanizing
- Shorter Distances – Growth seldom comes without the need to move closer to density
- Fewer Divisions – Growth seldom comes to a place that is isolated from others

The way forward...

- By improving the efficiency of rural/urban transformation
- By optimizing the trade-off between agglomeration benefits and congestion costs from concentration
- By differentiating policy priorities for areas at different phases of urbanization
- Spatially blind instruments to build density Improve land markets and property rights
- Spatially connective infrastructure to overcome distance associated with congestion
- Invest in infrastructure to improve connectivity between cities and towns
- Identify where transport costs impinge the most on economic performance
- Bring basic social services to entire population

- (Internal) migration—probably the strongest force to overcome economic distance
- Reduce transport costs to improve integration.