

## World Development Report 2009

### **Mis-shaping or reshaping world economy?**

**By Santhush Fernando**

Hats off to World Bank! This was the comment coming from all or most who attended the Conference on “World Development Report 2009 and Implications for Sri Lanka” organised by the local think tank- Institute of Policy Studies (IPS).

World Bank should indeed be thanked for coming out with this great book together with attractive pictures and graphs, even though with much delay. Like any other report of donor agencies, it is very useful to a country like Sri Lanka, not because the World Bank’s ‘one-fits-for-all’ solutions do work for our nation, but as valuable material for our own policymakers to figure out where we have gone wrong- just as wrong deductions made by Dr. Watson, always led Sherlock Holmes to the truth!

The 3 D’s- Density, Distances, and Division

World Development Report 2009 or “WDR” as it is known in the multi-lateral donor fraternity, looks at 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 neighbours to bring prosperity and peace to the entire neighbourhood.

However, “Rising densities, reduced distances, and fewer divisions-which are the essential prerequisites for progress” with over “two centuries of experience pointing to this” says, World Bank.

“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.”

#### **Urbanisation- panacea for all woes?**

“The world’s most geographically disadvantaged people know all too well that growth does not come to every place at once. 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” says Director of the World Development Report, Indermit S. Gill.

Gill rightfully says that markets favour some places over others, and to fight this concentration would tantamount to fighting prosperity.

However Gill goes on to say that, “Lifting people out of poverty requires shifting populations from villages to cities.” This is more or less in line with World Bank view that urbanisation serves as a universal remedy in achieving Millennium Development Goals (MDG), which still the world is nowhere close to accomplishing.

“This process of migration should be welcomed and encouraged... 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.”

Though mobility of people in search of greener pastures should not be curtailed by government intervention, should the state go an extra mile to encourage urbanisation, especially in a country like ours?

### **Sri Lanka a model?**

Complimenting WDR rather than disapproving, Minister Dr. Sarath Amunugama said even an emerging global super power like China, which the World Bank cited as a role model, was abandoning its quasi-capital ‘Shezhen model’ and investing more in the rural economy, just as Sri Lanka was doing for the last few decades.

“China is now moving away from its ‘Shezhen model’ and diverting its attention into the country-side to make the peasantry more consumption-oriented. We in Sri Lanka should be happy. We are indeed a model in investing in rural areas. We have provided roads, schools, fertiliser subsidy, and agricultural incentives for ages.” Minister Amunugama said.

### **GDP concentration in WP no worry: WB**

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, in 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.”

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;

However policymakers should take immediate notice of the remark that infrastructure bottlenecks get in the way of Sri Lankan goals of becoming a regional logistics hub.

“By emphasising 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.”

### **Concentration: Road to prosperity?**

World Bank experts did not mince their words when they stated that, “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...”

Though there are examples from early developers such as the United States to more recent ones such as South Korea, geographically unbalanced growth has been the rule; World Bank has yet again repeated its mistake of applying the same “cure-all” solution across the board.

However development does involve transforming a 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.

“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.”

### **3 I’s- Institutions, Infrastructure, and Interventions**

The new WDR calls for an approach focussed on common institutions, connective infrastructure, and targeted interventions. Common institutions include regulations affecting land, labour 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 programmes, special tax incentives to firms to move to remoter areas, and preferential trade access for poor countries.

“We are in a deep, painful, long-drawn economic down turn-whether we call it a recession or a depression. So in such limited fiscal space, room for infrastructure is less. Hence we have two options: strengthening institutions for empowerment of the poor or focussing on infrastructure and incentives, and continuing to nurture dependents. This is the time for empowerment of institutions.” said Dr. Anura Ekanayake of the Ceylon Chamber of Commerce (CCC).

### **Protectionism: Boon or bane?**

The 2009 World Development Report makes a strong case for international integration through trade against protectionism. 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 jeopardise both the recovery and longer term progress.

Geography matters greatly in deciding what is needed, what is unnecessary, and what will fail. 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, ... their growth will still be unbalanced, but their development will be inclusive.

### **Mixed-up language or twisted words?**

Even academics at the recently concluded IPS Conference have pointed out that Urban Development and Economic Development are in fact not the same concept, as World Bank believes.

“Urban planning should be differentiated from economic planning,” says Senior Professor of Town and Country Planning at the University of Moratuwa, Prof. Willie Mendis.

“I had to clear the dust off my transparencies for this Conference, to speak on social agglomeration, which in fact I had presented way back in the 60s. Even though delayed this report should be commended.” Prof. Mendis said.

“World Bank has mixed up its language. We can have imbalanced economic growth, but should ideally be inclusive geographically-balanced development. We have been advocating spatial development. However universal agglomeration is not desirable.”

### **Development vs. Disaster**

“Furthermore, World Bank has not touched on social and environmental factors. This is a major lacuna, which if not factored into development would lead to disaster.”

World Bank was indeed humble enough to accept that it did not take into account the social and environmental impact, as its ‘economists’ mostly focussed on economy.

“In fact this report should not be a conversation-ender but rather a conversation starter and conversation-shaper.” replied World Bank’s Chief Economist for Europe and Central Asia, Indermit Gill.

“When talking about development, we need to focus more on the estate community of Sri Lanka, which is not seen here. There, not only distance but also the division factor of this marginalised people, too has to be noted,” said an academic from the University of Peradeniya.

### **Not all green**

Sri Lanka’s choice of following the middle path, (medum piliwetha: Pali- Madyama prathipadawa) be it in economics or foreign policy has so far proven more or less successful. However this does not mean that Sri Lanka has made no mistakes. In resorting to foreign exchange control and import substitution, we have diverted from the

via medium (middle path).

Minister Dr. Sarath Amunugama said that despite continuous investment into the rural sector, still there were large income disparities between Western and other provinces.

“Following the Korean model President Premadasa opened up garment factories in outstations under the then quota system, to bring development to the villages. But there weren’t dense populations in rural areas. At one time there were over 10,000 vacancies in factories located in outstation areas. However with the end of the quota regime, almost all rural factories are closing down now. So there are complications in the Shenzhen model.”

“India too had been following Sri Lanka, and is having a concerted effort for dispersed growth, giving more to the countryside since last year, as their elections are coming up. We cannot give up sustained growth for solutions which seem as ‘quick-fix” Minister said.

### **Learning from past mistakes**

It had been highly debated what the development community has tried to do for the developing world, the lessons learnt, and what is needed going forward.

At a function held in Poznan, Norway on December 4, 2009, the World Bank to launch the new Forest Carbon Partnership Facility, the Bank’s Benoit Bosquet had reportedly said, “I expect that we will make mistakes.” referring to its past track record. Not a very promising sign at all, I would say!

Again the World Bank has acknowledged a series of “omissions” in reforms it supported, to promote the sustainable exploitation of the Congo rainforest, the world’s second largest after the Amazon.

The World Bank did admit that “the situation on the ground is far from satisfactory and that the reform agenda has been unevenly implemented”.

### **Not repeating the Balkan blunder**

The World Bank Board of Executive Directors acknowledged that a project meant to safeguard Albania’s coastal zones was used to selectively demolish parts of a village in southern Albania and leave many families homeless.

A Bank management report and action plan acknowledged serious errors in project preparation and supervision, along with errors in communication, and ruled that demolition of several informal settlements contravened the bank’s policies on forced displacement.

“From basic project management to interactions with the Board and the Inspection Panel, the Bank’s record with this project is appalling,” said World Bank Group President Robert B. Zoellick.

Furthermore, the investigative panel appointed by Zoellick, later on accused World Bank of misrepresenting facts during the probe, and hampering the investigation by withholding access to data.

“While the Bank’s non-compliance with its policies in the present case is extremely troubling, the Panel applauds the leadership of the President and senior management in acknowledging errors and in initiating corrective measures, once the panel issued its report,” said the chair of the Inspection Panel, Werner Kiene.