

Editorial

FT View

One healing spark

ONE person, or in this case one hospital, can make a difference. The Ampara Base Hospital has clinched the National Quality Award, giving a shocking wakeup call to Lankan private and manufacturing sectors.

It has also shown that with passion and dedication Sri Lanka's sickened health sector can be turned around into a productive system that citizens can not only use, but be proud of. Those that are familiar with the Ampara hospital will know that this was not an overnight achievement. It came slow and hard with the hospital staff providing exceptional service year after year.

Among its remarkable achievements was assisting the injured during the 2004 tsunami that claimed the lives of over 30,000 people. It has remained a cornerstone of the Ampara District, proving its capability time after time and it indeed fully deserves the honours that it has achieved.

Visitors are routinely impressed by the organisation, structure and efficiency of the Ampara hospital that followed the 5S policy. It has humbly shown what can be achieved despite the challenges of corruption, politicisation and mismanagement that mar the rest of the public health sector.

Stories of expired saline, essential drug shortages, breakdown of machines as well as doctor and nurse disputes, not to mention the unreliability of medication hit headlines several times a week in Sri Lanka. There has even been talk by none other than the Minister himself that a "mafia" controls the drug trade, making effective policing all but impossible. Moreover, there is little or no transparency or accountability in the selection or black-listing process, with the public having to take whatever is dealt out to them.

Without an effective, independent and accountable process in place, the dangers of substandard medical imports will never be adequately addressed. But no one seems to be interested in fast tracking this process. Pundits have lobbied for the Dr. Senaka Bibile drug policy that was recommended 40 years ago, but to no avail.

To make matters worse, there are greater threats looming. As Sri Lanka becomes more prosperous, so too does the propensity for non-communicable diseases that already make up an estimated 85% of deaths.

The World Bank points out demographic transition stems from a larger proportion of older people in a population as a result of increased longevity and reduced fertility that usually accompany economic growth. As a result, older populations often face different types of diseases that can be more chronic and expensive to cure. A South Asia regional study found that South Asians suffer their first heart attacks six years earlier than other groups worldwide.

This burden of NCDs will rise in the future, in part, due to further ageing of the population with the doubling of the population over the age of 65 from 12.1% to 24.4% over the next 30 years. Clearly Sri Lanka's limping health system is unprepared to deal with such challenges.

Financial irresponsibility, mismanagement, corruption and that universal evil, politicisation, have crippled the system but this one hospital in Ampara has proved that there is hope if there is passion, dedication and leadership. Would that the rest of the public health officials find it too.

Cities and the wealth of nations

IT is commonplace to think, as Adam Smith did, of the wealth of nations. In a letter to his fellow economist Thomas Robert Malthus, David Ricardo speaks of "the wealth and poverty of nations; the grandest of all questions in political economy". Two centuries later, we think of "national competitiveness".

The World Economic Forum's annual Global Competitiveness Report identifies the policies and institutions that boost national productivity, which determines competitiveness and growth.

Now we should also focus on "Cities and the wealth of nations", the title of a book by the leading urbanist Jane Jacobs. More than ever, cities, especially existing and aspiring "global cities", are the lifeblood of the global economy.

Competitiveness of cities

The competitiveness of cities increasingly determines the wealth and poverty of nations, regions and the whole world. Hence what makes cities successful must be one of the grandest questions of twenty-first century political economy.

The map of the global economy most of us have in mind is one of nation-states connected to each other via flows of trade, capital, people and technology. But, before the ascendancy of the Westphalian nation-state, the primary political, economic and cultural unit was the city.

So think of an alternative map of the global economy: one of cities connected across land borders, seas and oceans through the exchange of goods and services, foreign investment, migrants and short-term workers, and border-hopping technology.

Throughout history the most intensive cross-border economic transactions have been between cities; mostly cities located on coastlines.

Phoenician, Venetian, Genoese, Baltic and Arab merchants linked port-cities within and across continents through sea and ocean-going trade. Today, the bulk of international trade by volume is still ocean-going trade between coastal cities, only now conveyed by huge container ships.

Urbanisation

Unprecedented levels of urbanisation make this alternative global economic map especially relevant. Three years ago, for the first time in history, over half the world's population lived in cities; they account for over 80% of global GDP.

Two years ago, over half the population of mainland China became urban. By 2020, about 60% of mainland Chinese will live in cities. According to McKinsey Global Institute, as of 2007, 1.5 billion people (22% of the world's population) lived in the world's 600 most populous cities and accounted for a GDP of \$ 30 trillion; well over half of global GDP.

The top 100 cities accounted for 38% of global GDP (\$ 21 trillion). In 2025, McKinsey reckons that the top 600 cities will have 25% of the world's population and nearly 60% of global GDP. "Megacities" (with a population of ten million or more) will



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account for over half the world's population and GDP. The burgeoning global middle class live overwhelmingly in cities; denizens of old and new cities outside the West swell their ranks.

What does this mean for the "competitiveness of cities" and the "wealth of nations"? Two contemporaneous historical examples give us some clues.

The 'European Miracle'

First, the 'European Miracle'.

Competition among cities in late medieval and early modern Europe enabled it to catch up with and overtake other parts of the world well before the Industrial Revolution. Starting with Venice and Genoa, and moving on to northwest Europe and the Hanseatic League, cities vied with each other for commercial advantage.

They eased restrictions on merchants and opened doors to skilled artisans, many of them dissidents fleeing religious persecution. They were magnets for the freethinking, creative and entrepreneurial seeking to escape repressive hinterlands. Hence the popular catchphrase "Stadtluft macht frei" or "City air makes one free". Such decentralised political competition spawned a commercial revolution and paved the way for subsequent scientific, agricultural and industrial revolutions.

The 'Asian Miracle'

Second, an early 'Asian Miracle'. This was the golden age of Indian Ocean trade in the two centuries before the Portuguese and Dutch muscled in with extreme violence and extremely restrictive commercial practices. Before they did, Arab and other trading diasporas roamed the seas freely, stopping off in city-states dotted along the Malabar and Coromandel coastlines and across Southeast Asia.

"Port-polities" such as Cambay and Calicut, Malacca and Macassar, were religiously tolerant, cosmopolitan and lightly governed. They welcomed traders from all over the world with low taxes and free-trade policies. This enabled commerce to flourish all the way from the Chinese coastline to the Middle East.

Policy innovation

Fast forward to today. Most pro-

ductive policy innovation is happening in cities and sub-national regions, not at the level of national governments, let alone in international forums like the UN, EU and G20.

Policy-making is more flexible and practical the closer it is to the citizen. And this is more conducive to all-round learning and adaptation; cities emulate each other and adopt best international practices better than nations do. Policies are "initiated from below and diffused by example", as the historian David Landes puts it.

This is true of cities and state governments in the USA while Washington DC remains gridlocked. In the EU, national governments and the EU institutions are stuck in sclerotic political cartels with failed policies. Can Europe's cities rediscover the ingredients of the European Miracle of a few centuries ago?

However, this century's story of cities and the wealth of nations will be scripted mainly in the emerging world, outside the West. Asian cities, stretching from India to China and Northeast Asia via Southeast Asia, are likely to be the main players. McKinsey Global Institute's list of top 600 cities contains 220 from developing countries, which accounted for 10% of global GDP in 2007.

But it estimates that, by 2025, 136 new cities will join this list; all from developing countries, thereby displacing cities from developed countries. Of the new entrants, 100 will come from China alone, 13 from India and eight from Latin America. Almost all new megacities will come from outside the West.

Furthermore, cities from developing countries in the top 600 will be home to 235 million upper middle-class households with an annual income of more than \$ 20,000 (at purchasing-power parity).

The top 600 will also add over 300 million people to the global workforce; almost all of them from cities in developing countries, and two-thirds of them from Chinese and Indian cities.

The ingredients

What are the ingredients that make cities more productive? Some vital municipal policies are parochial; urban planning and zoning, housing, water, sanitation, policing and so on. But other policies overlap considerably with those at the national level. Successful cities, like successful nations, have the following; stable and solid public finances, low, simple and competitive taxation; simple and transparent business regulation, open-

ness to international trade and foreign investment, strong and impartial rule of law, a welcoming environment for "foreign talent", good "hard connectivity", roads, transit systems, ports, airports, and good "soft connectivity", education, skills and technology diffusion.

Like nations, cities with limited but effective government and competitive markets do better than cities with big, inefficient government and distorted markets.

My role models are the city-states of Hong Kong and Singapore. They are worthy successors to the port-polities that dominated pre-colonial Indian Ocean trade. Both regularly top the rankings of the Global Competitiveness Report, the World Bank's Doing Business Index and the Simon Fraser Institute's Economic Freedom of the World Index.

Taxation is very low and simple; expenditure is less than 20% of GDP; the rule of law is strong; they provide safety nets for the poor without creating Western-style welfare states; business regulation is the best in the world; they are free ports; they welcome foreign talent; and hard and soft connectivity are very good.

Government is relatively small, clean and efficient, and markets are relatively competitive and highly globalised. Nowadays, Hong Kong and Singapore are the logistics and services hubs for Asian trade. Modern global supply chains plug them into other cities in Asia and beyond.

I am an unabashed classical liberal. To me, free markets and free trade form a trinity. First, they promote growth and prosperity; the economic imperative. Second, they expand individual freedom; the moral imperative. And third, they, more than anything else, sustain peaceful international relations; the geopolitical imperative.

I think of cities in this context. They might indeed be the best available political-economic units to promote prosperity, freedom and peace; better perhaps than nation-states, and certainly better than most mechanisms of "global governance".

(A shorter version of this article appeared recently in The Straits Times.)

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