

Chapter 1

INTRODUCTION

I. Background

Developing commonwealth countries have several similarities. For their economic development, the paths chosen by them have also been very similar though not identical. This is because they shared the experience of being ruled over long period of time by foreigners with distinct exploitative imperialistic tendencies. As colonies, their rich resource base was used for the development and prosperity of the ruler's industries rather than the betterment of the local people. These societies with the psyche of the vanquished were forcibly made to accept even the production related choices of the rulers. Market mechanism and prices were deliberately distorted by the rulers to their own advantage. In the spheres of trade, production, consumption and distribution, the ruler's interference was a rule rather than exception. As a result, when these countries gained independence and formed their own governments, they found it easier to follow the same path. Philosophy of a high degree of government intervention in the economic life to achieve desired goals was readily accepted by the newly formed democratic governments in these countries. Detailed physical and financial economic planning and consequent expansion of public sector activities were found in the post-independence period in most of the developing commonwealth countries.

The small island colonies in the West Indies, which later became independent countries, did not experience the same degree of interference from the foreign rulers as the other bigger countries because of their special features of geographic smallness coupled with specificity of available scarce natural resources. These countries never had many production choices to begin with. Foreign rulers imported both the labour and capital to organize production on these islands. Some of these islands were not even inhabited when the foreign rulers first went there. The production and trade related decisions of the foreign rulers were, therefore, not seen as significant distortions and interference with the economic life in these colonies. When they gained independence, the local democratic government did not feel compelled to adopt the philosophy of economic planning. However, public sector activities were considered important to achieve their developmental goals. Planning of the public sector activities was, therefore, an important element of their macroeconomic management.

Thus, the experience of the developing commonwealth countries in the field of macroeconomic management and planning reveals a distinct similarity of approach. Details of economic philosophy and development strategy differ from country to country but the broad policy framework, institutional set up and general nature of the constraints operating on the macroeconomic management in these countries are very similar. Therefore, an effort to bring out relevant issues and problems faced by policy makers in the developing commonwealth countries is likely to be beneficial to the government officials working in these countries. If these issues and problems are considered while discussing the actual experience of different aspects of macroeconomic management and planning in these countries, the material can serve as very useful teaching aid. In view of the urgent need of training and upgradation of skills of government officials in the developing countries such material is likely to provide the basis for stimulating discussion, interaction, and experience sharing in a class room. At present there are very few such case studies readily available for class room use. The present book of case studies on selected aspects of macroeconomic management and planning in developing commonwealth countries is expected to make a modest attempt towards filling this gap.

In the following pages we have put together 11 case studies on various aspects of macroeconomic management and planning from different commonwealth countries.

II. Cases on Economic Planning

In the first part we present 5 case studies on experiences of economic planning and related themes. The first case study of the experience of Commonwealth of Dominica views economic planning as development management. The case focuses on the planning machinery, planning processes and their interlinkages with budget process in the small Caribbean Island. The case presents special features of the economy, development concerns and national goals, in the light of which, the planning process has to be viewed. The case clearly brings out the importance of political commitment, decentralized planning process, coordination and interaction among various government departments and agencies besides the macro framework for planning in a highly open economy. This case can be used for clarifying various concepts involved in economic planning in a democratic society.

The second case on the framework and possibilities of economic planning in Tanzania discusses the role of newly constituted Planning Commission in the planning process in the country. In the light of the limitations of the past planning systems and lack of clarity about the methodology of planning, possibility of using more sophisticated models of planning is examined. The input output statistics are generated in the country by their statistical office. The case illustrates use of input output statistics in planning with the help of the estimates already available for Tanzania. It also points out the limitations of the methodology. The case moreover, discusses decentralization of planning functions in Tanzania, particularly, for the framework and methodology used. This case brings out some of the issues involved in economic planning within a consistency framework in a largely closed economy.

The third case on Malaysian experience, on the other hand, examines economic planning in a largely open economy within consistency framework. The case provides the background on Malaysian economy and its development concerns to examine briefly planning models used in different Malaysia's Five Year Plans. In order to focus on the issues involved in planning within consistency framework, the planning process in Malaysia including the efforts of decentralization of planning functions are presented in the case. The sectoral allocations, both planned and realised, in different Malaysian plans are also considered. The case clearly brings out the role of planning processes vis-a-vis elegant planning models and sophisticated forecasting and planning techniques for testing internal consistency in deciding the ultimate structure of the plan.

The fourth case on the Kenya's Sixth Five Year Plan focuses on employment oriented planning and decentralised planning processes in the country. After providing the background of the Kenyan economy, the case goes into the methodology adopted in the Kenya's Sixth Plan for setting targets. A very interesting experiment of forward budgeting and rolling decentralised plan attempted successfully in Kenya is also discussed. This methodology ensures dovetailing all decentralised economic plans with overall macro plan and budget process. Since the main focus in Kenya's sixth plan is on employment generation the case provides an illustration of employment oriented planning put into practice.

The fifth case on Toronto Harbourfront Corporation presents Canadian experience in the field of urban development. In the decentralised planning or policy making, the urban dimension usually gets ignored. However, it represents one of the most important fields of developmental economic activity where decentralised decision making based on people's participation can play extremely useful role in achieving regional as well as national economic growth. The case briefly outlines a model emphasizing the role of human capital development and quality of life aspects in the growth of a city and hence the nation. It provides background information on the Toronto Harbourfront Corporation which was essentially the federal governments initiative to revitalise the inner city of Toronto. After

considering the special features of Toronto Harbourfront Corporation, the case briefly outlines the main events in the history of the Corporation upto 1991 when it was reorganized by divesting the real estate side of the Corporation. The case brings out various issues including the ones related to the roles of different levels of government, internal consistency of the institutional goals and objectives, nature and timing of privatization and the role of corporate structure in responding to changing environment.

III. Cases on Economic Policy Reforms

The case on Mauritian experience provides a comprehensive view of economic policy reforms under the structural adjustment programme. It considers in detail various reforms carried out in Mauritius in industrial policy, fiscal policy, trade policy, and monetary policy after discussing briefly the problems faced by the Mauritian economy at the time of undergoing the structural adjustment programme. Mauritius is one of the few success stories of IMF-World Bank's structural adjustment programme. The case discusses the experience of Mauritian Export Processing Zone in order to get insight into the management of the economic policy reforms. The case also considers the SWOT analysis of the export processing zone which is the critical element of the policy reforms programme in Mauritius.

The other case of trade policy reforms in Sri Lanka focuses on the export promotion strategy in the country. The case highlights Sri Lanka's exports of economic transition involving a distinct strategy shift from import substitution based development strategy to the export-led growth strategy. The case provides useful insights into the issues involved in the formulation and implementation of export-led growth strategy. After briefly discussing the background conditions under which Sri Lanka adopted policy of economic liberalization and restructuring of the economy, the trade policy reforms and export promotion strategy followed by the country are outlined. The case also presents the export performance and thinking on future scenarios in the field of trade policy in Sri Lanka.

IV. Cases on Monetary Management

The case on Tanzania discusses issues in monetary management as a part of the overall policy reform package adopted in Tanzania. As it is very well recognized, monetary policy plays a pivotal role in structural adjustment and economic policy reforms. The case reviews the existing financial structure in Tanzania and brings out problems in monetary management by examining efficacy of the instruments of monetary control available with Bank of Tanzania. The case highlights management of disinflationary policies targeting to bring down inflation rate from around 25 per cent to about 15 per cent per annum in the course of three years by following tight money policy. It raises important issues including the autonomy of the central banking in the economy.

The next case discusses issues in monetary management as faced by the Eastern Caribbean Central Bank. The Eastern Caribbean Central Bank is a common Central Bank to the eight Caribbean member countries and represents a unique case because the countries share the same currency as well as monetary policy. The case briefly provides historical perspective and highlights some important provisions in the Bank's Agreement having implications on the Central Bank's ability to control the financial aspects of the economy. Important features of the financial institutions and the financial structure existing in the region are also discussed. The effectiveness of the Bank's control and conduct of monetary policy is also appraised. The role of the special features of the economy in the region in the monetary management of the economy is also highlighted. This case provides a sharp contrast to the previous case on the issue of autonomy of Central Bank from the fiscal authority.

V. Cases on Tourism Development

The case on St.Kitts and Nevis examines problems and prospects of tourism development in a small Island economy with abundance of natural sites for tourist attraction. Since tourism has been perceived as an important concern of growth not only in the foreign exchange earning, but also in the economy as a whole, government policy regarding tourism development assumes significance in most of the countries. St.Kitts and Nevis is no exception. The case reviews the government's efforts to develop tourism in the two Islands of St.Kitts and Nevis. The case can be used to introduce and clarify various concepts involved in the tourism development in an economy. The issues of linkage of tourism activity with the rest of the economy as well as the one of import intensity of the tourism sector, besides the role of investments in infrastructural facilities to promote tourism are highlighted in the case.

The case on the role of tourism sector in Mauritian economy brings to the sharp focus the government's concern about environmental aspects, sustainability and quality of life considerations in tourism development policy. The concepts of tourists carrying capacity and optimal tourists flow in relation to the investments required in the infrastructural development are brought out in the case. It also provides quantitative estimates of the impact of tourism on the economy with help of the latest available information. It provides an illustration of additional application of the input output statistics used along with tourists survey results. The two cases on tourism development together provide valuable insights into the issues involved in formulating and managing policies for development of tourism industry.