

The Role of Knowledge Economy and Demographic Dividend in Boosting the Economic Development in Sri Lanka

De Silva¹ W. Indralal & Perera² B. Nishanthi

¹ *NCAS, Colombo*

² *Department of Demography, University of Colombo Colombo*

Introduction

The word ‘knowledge economy’ was not that much familiar to general public in Sri Lanka until the recent past. However, with the ending of civil war in 2009, the government has been focusing on economic development of the country by implementing several new development strategies. With this new approach, the government stressed the need of improving the hi-tech knowledge and innovation in order to enhance the country’s level of development. According to World Bank (2007), ‘Knowledge economy is one that creates, disseminates, and uses knowledge to enhance its growth and development’. Thorough understanding of country’s prevailing economic, demographic and social structure and trends is vital before creating strategies to enhance the knowledge of a country. Currently Sri Lanka is experiencing demographic dividend, which provides the best population environment to take-off country’s development. (ref is required) A successful knowledge economy is characterized by close links between science and technology, greater importance placed on innovation for economic growth and competitiveness, increased significance of education and lifelong learning and greater investment in intangibles such as R&D, software, and education (World Bank, 2005). It is debated that in order to set-up a knowledge hub of Asia, whether the country is able to utilize this opportunity. At present, Sri Lanka is in the latter part of the demographic dividend. It is argued whether the country is geared to utilize this opportunity, before this favorable demographic environment, which is conducive for rapid economic development, disappears.

Research Problem

Demographic dividend (bonus) is an important major outcome of the changing of age structure of a country which can be utilized as a strong tool for an economic leap. Since almost all the countries are in different stages in demographic transition, each and every country will experience this bonus once in a while. Once a country gets this type of favorable age composition, it

provides the population of the country a better environment for an economic boom. However, demographic dividend alone is not sufficient for a rapid economic growth. There are many other areas to be improved along with demographic dividend to realize the potential for development of the country. One of these major areas is to create a knowledge economy. *Mahinda Chinthana* (2005), the present government's policy frame, has envisaged that Sri Lanka should be developed as the knowledge hub of Asia. However, after about five years of the end of civil war, the results of such economic strategies are not visible as expected. Thus there is a question; are we on the correct track? Have we utilized the demographic bonus effectively?

Research Objectives

The main objective of this study is to explore the nature of demographic dividend of Sri Lanka particularly its onset and fading time. Also it attempts to identify the status of knowledge economy (one of the requirements for effective mobilization of the dividend) and its challenges.

Methodology

The study mainly uses data relating to population projections and various World Bank Reports. In addition, several scholarly articles and other reports of government Ministries' have been used to explore the subject.

Key Findings

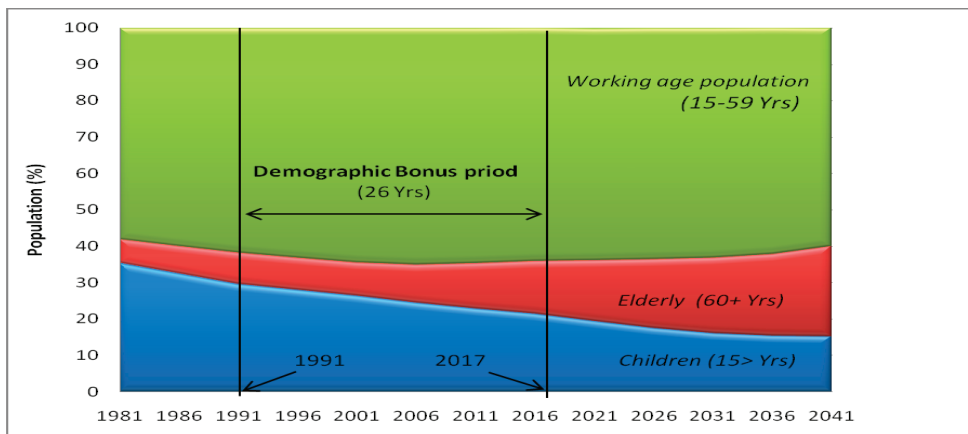
Today in many developing countries, there is a rapid fertility decline. As a result of improvements of other socio-economic factors, life expectancy has increased considerably. This phenomena leads a change of age-sex structure of the country's population; known as 'demographic dividend' or 'demographic bonus' (Birdsall et.al., 2001).

Demographic dividend of Sri Lanka

It is projected that by the year 2031, elderly proportion to be more than one fifth (22%) of the total population in Sri Lanka (De Silva, 2007). This change of the age structure started in 1991 and is currently experiencing the demographic dividend. It is expected that this will continue until 2017 (De Silva, 2013). Since the percentage of young population (age 0-14) and elderly (age 60+) are low, total dependency ratio is at low level (Figure 1). This

demographic environment is conducive for an economic take-off for the country. However, this scenario will be changed if there are no productive employment opportunities for the labour force during this period. Thus, demographic environment itself will not boost the economy of Sri Lanka. Other relevant factors such as adequate savings and investments which create employment opportunities, political stability, human capital and the knowledge economy should be improved simultaneously in order to gain benefits from the demographic bonus. Among these factors, knowledge economy is one of the key factors to be considered for economic take-off.

Figure 1: Demographic Dividend (Bonus) Sri Lanka



Source: De Silva (2007).

Knowledge economy

There are four pillars of knowledge economy namely; the business environment, information infrastructure, an innovation system and human resources (World Bank, 2007). Sri Lanka's economy runs by both government and private sector and the efficiency of government sector are questionable. Though Sri Lanka has taken some steps to attract foreign direct investments by establishing a good road network and other infrastructure, initiating a private business is a tough procedure where the documentation process takes quite unacceptable time period. Nevertheless, demanding bribery and corruptions up to the bottom also have kept away the top business people from country's investment opportunities. Recently the government has taken some policy steps to encourage private sector investments by reducing and exempting taxes. However, the progress is still a little.

The above para seems to be NOT based on the findings of the present study

Since 1990's Sri Lanka has shown considerable performance in information and communication technology (ICT). However, it can be seen that the facility is still centered in urban settings and facilities in rural and estate areas are lacking. This uneven distribution of ICT facilities has resulted in rural population being neglected. Also the cost of the ICT facilities in Sri Lanka is high with government's taxes while the competition of the providers is limited.

Mahinda Chintana, the ten-year plan of the present government proposes to improve innovations through Research and Development (R&D) and Science and Technology (S&T). However, compared with other Asian countries, especially with East Asians, Sri Lanka is lagging behind in R&D and S&T. The study has found that the main obstacles for this are lack of effectiveness and the non-focusing on local research institutions.

It is obvious that the demand of the labour market should be aligned with the country's education system. However, thousands of Sri Lankan university graduates claims that they have not been given the market oriented hand-on experiences by their university education. Being one of the four pillars of the knowledge economy, human resources are an important area in development.

Conclusions

Sri Lanka is experiencing its age structure transition as a result of rapid demographic transition and is at the latter part of the demographic dividend. Though the demographic bonus provides a ladder for a country's economic upgrade, it alone cannot work for the development without stable political environment, high rate of saving and investments, improved human capital and knowledge economy. Among these, knowledge economy plays a major role to capture the benefits of demographic dividend. In order to set up knowledge economy in Sri Lanka, there are lots of steps to be taken by the government as well as by the private sector. Therefore, improving human resources should be one of the main targets of the government if it has the objective of setting a knowledge economy. In order to fulfill the gaps in real job market and education, the school and university curricula need to be monitored closely and revised. Minimizing corruptions is one of the steps

which can be taken when initiating new businesses in Sri Lanka. Eliminating inequity in distribution of ICT facility and increasing the competitiveness among service providers are also possible policy decisions to improve the ICT sector. It is recommended that immediate action has to be taken to get the market demands and national education system inline. Devoting a higher percentage for education would be another wise action to improve the quality of human resources. Finally, it is important to set up short-term and long-term goals, then take actions and monitor and evaluate the progress of all the development strategies. If the government takes necessary action immediately the remaining part of the dividend could be utilized productively.

References

- Birdsall, Nancy., Allen C. Kelley., & Steven W. Sinding, Eds. (2001). *Population does matter: Demography, poverty and economic growth*. Oxford: Oxford University Press.
- De Silva, W.I. (2013). *Utilizing demographic bonus to make Sri Lanka the wonder of Asia*. *Sri Lanka Journal of Advanced Social Studies*, 2 (1),
- De Silva, W.I. (2007). *A population projection of Sri Lanka for the new millennium 2001-2101: Trends and implications*, Colombo: Institute for Health Policy.
- Ministry of Economic Development. (2012). *Sri Lanka country report – 2012*, Colombo.
- World Bank, (2005). *India and the knowledge economy: Leveraging strengths and opportunities.*, Washington D.C: World Bank Institute.
- World Bank. (2007). *Building the Sri Lanka knowledge economy*. Institute, Washington D.C: World Bank.