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*Linkages between Trade, Development and Poverty-Reduction
National Dialogue 2008
'Coherence between National and International Initiatives on Trade and
Development and Poverty Reduction'*

*Thursday, 07 August 2008
Sri Lanka Foundation Institute,
Colombo 07, Sri Lanka*

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* *The views expressed in this Report are not necessarily those of the Law & Society Trust (LST).*

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EXECUTIVE SUMMARY

Trade exists for many reasons. Due to specialization and division of labour, most people concentrate on a small aspect of production, trading for other products. Trade exists between regions because different regions have a comparative advantage in the production of some tradable commodity, or because different regions size allows for the benefits of trade.

In national initiatives on trade, development and poverty reduction, the Government of Sri Lanka has given high priority to promoting economic development. It has prepared a policy package for improving economic management and laying the foundation for economic growth. The Government's program targets a medium term growth of 8% to 10% with enhanced macroeconomic stability. This will enable the economy to withstand external shocks and reduce unemployment and poverty. Having identified local regional disparities in income and opportunity in Sri Lanka as the major cause of conflict, the Government emphasizes raising agricultural productivity, small and medium business development, tourism, and education and labour market reforms as major means of providing increased opportunities throughout the country.

Agriculture in Sri Lanka mainly depends on rice production. The GoSL's main goal is to achieve an equitable and sustainable agricultural development through development and dissemination of improved agriculture technology. Agriculture remains the largest single contributor to the livelihoods of the 75% of the world's poor who live in rural areas. Encouraging agricultural growth is therefore an important aspect of agricultural policy in Sri Lanka. In addition, good infrastructure, education and effective information services in rural areas are necessary to improve the chances of making agriculture work for the poor. Subsidizing farming may encourage people to remain on the land and obtain some income. This might be relevant to Sri Lanka with many peasant farmers. Price controls have also been used to assist the poor.

The Doha round of World Trade Organization (WTO) negotiations aims to lower barriers to trade around the world. Talks have been at stalemate over divides between the rich, developed countries, and the major developing countries (represented by the G20). Agricultural subsidies are the most significant issue upon which agreement has been hardest to negotiate.

International trade represents a significant part of national income as measured by gross domestic product. Its economic, social, and political importance have increased in recent decades, mainly because of industrialization, advanced transportation, globalization, multinational corporations, and outsourcing. In fact, it is probably the increasing prevalence of international trade that is usually meant by the term "globalization". International development, seeks to implement long-term solutions to problems by helping developing countries create the necessary capacity needed to provide sustainable solutions to their problems. During recent decades, development thinking has shifted from modernization and structural adjustment programs to poverty reduction. Under the former system, poor countries were encouraged to undergo social and economical structural transformations as part of their development, creating industrialization and intentional industrial

policy. Poverty reduction rejects this notion, consisting instead of direct budget support for social welfare programmes that create macroeconomic stability leading to an increase in economic growth

Although there are usually few trade restrictions within countries, international trade is usually regulated by governmental quotas and restrictions, and often taxed by tariffs. Tariffs are usually on imports, but sometimes countries may impose export tariffs or subsidies. If a government removes all trade barriers, a condition of free trade exists. A government that implements a protectionist policy establishes trade barriers. Most trade barriers work on the same principle: the imposition of some sort of cost on trade that raises the price of the traded products. Mainstream economists argue that trade barriers are detrimental and decrease overall economic efficiency. In theory, free trade involves the removal of all such barriers, except perhaps those considered necessary for health or national security. In practice, however, even those countries promoting free trade heavily subsidize certain industries, such as agriculture. Examples of free trade agreements are the South Asia Free Trade Agreement (SAFTA).

The years 2007–2008 saw dramatic rises in world food prices, creating a global crisis and causing political and economical instability and social unrest in both poor and developed nations. Systemic causes for the world-wide increases in food prices continue to be the subject of debate. Initial causes of the late 2006 price hikes included unseasonable droughts in grain producing nations and rising oil prices. Oil prices further heightened the costs of fertilizers, food transport, and industrial agriculture. Other causes may be the increasing use of bio-fuels in developed countries, and an increasing demand for a more varied diet (especially meat) across the expanding middle-class populations of Asia. These factors, coupled with falling world food stockpiles have all contributed to the dramatic world-wide rise in food prices. Long-term causes remain a topic of debate. These may include structural changes in trade and agricultural production, agricultural price supports and subsidies in developed nations, diversions of food commodities to high input foods and fuel, commodity market speculation, and climate change.

Several factors contributed to the rising food price. Analysts attributed the price rises to a *perfect storm* of poor harvests in various parts of the world, increasing bio-fuel usage, lower food reserves, the US Federal Reserve decreasing interest rates so that money is no longer a means to preserve wealth over the long term, growing consumer demand in Asia, oil price rises, and changes to the world economy. Agricultural subsidies in developed nations are another long-term factor contributing to high global food prices.

Some theorists point out that many developing nations have gone from being food independent to being net food importing economies since the 1970s and 1980s due to International Monetary Fund (and later the World Trade Organization's Agreement on Agriculture) free market economics directives to debtor nations. In opening developing countries to developed world food imports which continue to be subsidized by Western governments, developing nations have become dependent upon food imports which are cheaper than those which can be produced by local small-holders agriculture, even in the poorest regions of the world.

While developed countries pressured the developing world to abolish subsidies in the interest of trade liberalization, rich countries largely kept subsidies in place for their own farmers. In recent years United States government subsidies have been added which pushed production toward bio-fuels rather than food.

From the beginning of 2007 to early 2008, the prices of some of the most basic international food commodities increased dramatically on international markets. The international market price of wheat doubled from February 2007 to February 2008 hitting a record high of over USD\$10 a bushel. Rice prices also reached ten year highs. In some nations, milk and meat prices more than doubled, while soy (which hit a 34 year high price in December 2007) and maize prices have increased dramatically.

Total food import bills rose by an estimated 25% for developing countries in 2007. Researchers from the Overseas Development Institute have suggested this problem will be worsened by a likely fall in food aid. As food aid is programmed by budget rather than volume, rising food prices mean that the World Food Programme (WFP) needs an extra \$500 million just to sustain the current operations. To ensure that food remains available for their domestic populations and to combat dramatic price inflation, major rice exporters, such as China, Brazil, India, Indonesia, Vietnam, Cambodia and Egypt, have imposed strict export bans on rice. Conversely, several other nations, including Argentina, Ukraine, Russia, and Serbia have, as well, either imposed high tariffs or blocked the export of wheat and other foodstuffs altogether, driving up prices still further for net food importing nations while trying to isolate their internal markets. Finally, North Korea, is also suffering from the food crisis (to such extent that a North Korean official was quoted in June '08 with saying "Life is more than difficult. It seems that everyone is going to die"). This nation however is solely relying on food assistance to cope with the crisis.

In order to encourage greater coherence between national and international initiatives on trade and development and poverty reduction, the Law & Society Trust held a national dialogue at the Sri Lanka Foundation Institute in Colombo on 7th August, 2008, which objective was to provide an opportunity for discussion and debate between stakeholder representatives drawn from policy makers, civil society organisations, private sector, inter-governmental organisations, academics and the media on trade policies and their impact on development at national level. It featured Mr. Gomi Senadhira, Director-General of the Department of Commerce, Mr. Ruwan Jayatilleke from the Institute of Policy Studies, Dr. Subhangi Herath from the Department of Sociology, University of Colombo and Dr. W. G. Somaratne from Oxfam Australia Sri Lanka office. Whilst Mr. Ruwan Jayatilleke's presentation focused on "Trade and Poverty Nexus in Sri Lanka", particularly the trends in trade and poverty, data/statistics obtained and the methodology adopted, empirical results and selected numerical evidences, Dr. Subhangi Herath's presentation focused on the gender aspects of poverty, particularly feminization of poverty, underdevelopment and gender, contributing factors to underdevelopment, current situation and the consequences. On the other hand, Mr. Gomi Senadhira's presentation focused on trade agreements as a tool for development and growth. Finally Dr. W. G. Somaratne spoke on the Global Food Crisis and its impact on Sri Lanka's agriculture.

The presentations were followed by discussions and debates between stakeholder representatives.

Introduction and Welcome Address, by Mr. B. Skanthakumar (Head, Economic, Social and Cultural Rights programme, Law & Society Trust)

It is my privilege to welcome all of you to the 4th annual national dialogue on Trade, Development and Poverty Reduction hosted by the Law & Society Trust. The objective of this national dialogue is to provide an opportunity for discussion and debate on policy coherence between trade policies and their impact on development and poverty reduction at national and international level. No doubt the subject has preoccupied many of us in a compartmentalized fashion. Yet, it would do well to understand the linkages between trade, development and poverty- reduction. The global experience does not suggest an easy understanding. If at all, there is confusion, resulting in conflicting views/theories.

The Law & Society Trust, is a legal research and advocacy organization, and has attempted through advocacy initiatives and its publications to make these issues understandable to stakeholders, most recently through a campaign publication in all three languages and a provincial-level workshop in Kandy in Sinhala and Tamil. This 15 country international project is coordinated by the Consumer Unity and Trust Society-Centre for International Trade, Economics and Environment in Jaipur, India and supported by the Ministry of Foreign Affairs, The Netherlands and the Department for International Development, United Kingdom.

There are four papers being presented today – the first, by Mr. Ruwan Jayatilleke from the Institute of Policy Studies; the second by Dr. Subhangi Herath from the Department of Sociology, University of Colombo, the third by Mr. Gomi Senadhira from the Department of Commerce and the fourth by Dr. W. G. Somaratne from Oxfam Australia Sri Lanka office.

Whilst Mr. Ruwan Jayatilleke's presentation will focus on "Trade and Poverty Nexus in Sri Lanka", Dr. Subhangi Herath's presentation will focus on the gender aspects of poverty, Whereas, Mr. Gomi Senadhira's presentation will focus on trade agreements as a tool for development and growth. Finally Dr. W. G. Somaratne will speak on the Global Food Crisis and its impact on Sri Lanka's agriculture.

Following the presentations, there will be discussions, where issues maybe clarified. Therefore, I hope the participants here today will make good use of this opportunity to discuss and debate critical and contentious issues on the linkages between trade, development and poverty reduction.

Trade and Poverty nexus in Sri Lanka

Presentation by Mr. Ruwan Jayatilleke, Institute of Policy Studies

At the outset, the presenter explained the reasons for trade and showed a graphical illustration of the trends in trade in Sri Lanka, particularly in exports and imports during the period 1990 – 2007. It reveals a remarkable rise. This leap is attributed to the Government of Sri Lanka's abandonment in 1977 of statist economic policies and its import substitution trade policy for market-oriented policies and export-oriented trade. This economic development is taking into consideration globalization, for

which purpose the government sought membership in GATT, WTO and went into Free Trade Agreements such as SAFTA.

To highlight broader trends, a graphical illustration of the poverty nexus in Sri Lanka, particularly the Head Count Index (percentage by sector) during the periods 1990/91, 1995/1996, 2002 and 2006/2007 was presented. From it, one gathers that during the period 1995/96 poverty was rampant, with the urban sector recording 35.5%, rural sector 28.8% and estate sector 10.8%, whereas by the period 2006/2007, it had declined to low levels of 32%, 15.2% and 7%, respectively. The 1995/96 increase in poverty is attributed to the fact that growth strategies pursued during the decade have not been sufficiently broad-based, resulting in the bulk of the poor failing to enter the mainstream of economic development. Poverty levels in Kurunegala, Polonnaruwa and Kegalle during the period 2006/2007 recorded 15.4 percent, 12.7 percent and 21.1 percent respectively, which is a decrease of approximately 10 percent from the 2002 figures. According to the presenter, this decrease is not surprising, considering the three districts' economic diversity. Kegalle although it has had widespread poverty before, the levels have decreased remarkably during 2006/2007, owing to the rubber sector's good performance.

A look at the trends in poverty district-wise, shows that in the Year 2006, in the districts of Nuwara-Eliya and Moneragala, poverty remained high whilst in other districts poverty had reduced.

A look at the Poverty Head Count Index percentage, during the periods 1990/91, 1995/96, 2002/03, 2006/2007 shows that poverty during the period 195/96 whereas 2006/2007 was the lowest. Sector-wise too, urban is the lowest. Where provinces are concerned, Western has been the lowest.

The presenter proceeded to analyze trade growth and poverty. Accordingly, trade facilitates larger markets, achieves economies of scale and gives greater access to factors of production and technology. Trade further encourages investment and capital accumulation. Therefore, trade is particularly important for Sri Lanka, with its limited domestic markets. Growth can reduce poverty by increasing the available resource-base for distribution. Yet, there is no denying trade can cause inequality, though ironically most empirical studies show no clear relationship.

An analysis of trade growth and poverty in Sri Lanka, during the periods 1990, 1995, 2002 and 2006, shows it has moved in the same direction (reduced) except in estate sector poverty, which has remained static. The years 2002 – 2006 has produced the greatest growth and sharpest falls in poverty. Here again according to the presenter, the casualties are difficult to establish empirically. Yet, it is pointed out inequality at the national level has also not changed dramatically during this period.

A look at trade and poverty at the household level, specifically consumption against production, shows that where consumption is concerned, trade can affect the price and variety of the consumption basket of the poor (even non-tradable items). In terms of ensuring stability and decreasing poverty, exposure to global shocks can be lessened, but in general, consumption should be smoother, e.g., rice imports during droughts. In production, the short-term ramifications are such trade provides new markets and options for production – changing the potential price received from factors of production (wages). Whereas, in the longer term, it results in greater productivity and increase in wages and ironically, potential inequality problems. Trade also results in increased factor

returns, more multiplier effects to the most abundant factor of production in the form of low-skilled labour. This is predicted in Heckscher-Ohlin and Stolper-Samuelson theories. In Sri Lanka, underemployment more than unemployment is associated with poverty, e.g. in Uva province it is lower than in the Western province.

Looking at poverty and accessibility during the year 2002, one would note that as poverty reduced, accessibility potential has been high.

The presenter outlined the Data and methodology used in a Household Income and Expenditure (HIES) Survey conducted by the Department of Census and Statistics in the Urban, Rural and Estate Sectors during the period 95/96, years 2002 and 2005. Accordingly the Generalized Method of Moment (GMM) estimators had been used, which was explained in detail for the greater understanding of participants/stakeholders. Accordingly, under GMM income and expenditure of the poorest and richest households were surveyed. Empirical results reveal kerosene, sugar and dhal to be significant foods in determining poverty levels

Yet, according to the presenter, there are limitations to conducting such surveys, firstly, the poverty definition. There is no clear definition to poverty. If at all it is ad hoc. Secondly, important poverty and trade-related variables have been ignored, e.g., infrastructure development, inequality patterns, impact of the domestic market, access to land, credit, etc. Further, adjusting macro-level variables to the micro-level tends to produce errors. Therefore, an attempt has been made to only explore the direct relationship between the selected food items.

In concluding the presentation, in addition to showing selected numerical evidence from recent studies, references were given.

Gender Aspects of Poverty - a Major Impediment for Development

Dr. Subhangi Herath, Dept. of Sociology, University of Colombo

In commencing her presentation, the presenter highlighted the importance of understanding the link between poverty and gender. Accordingly, one needs to define development first in order to understand this link.

Development means reaching a high level of economic, social cultural, environmental and personality development – not just development, but development based on inequality, meaning that every single person should be able to benefit from it. Poverty, on the other hand means inability to reach socio-economic objectives due to lack of economic ability and opportunity. Poverty is two-fold – absolute and relative. Poverty is also related to many other socio-cultural conditions and forms of social stratifications such as class, caste and gender differences, majority-minority relations, rural-urban differences, etc.

For the greater understanding of participants, poverty conditions in Sri Lanka were outlined. Accordingly, 50.7% of the population is below the daily per capita calorie requirement (considering the nutritional anchor at 2030), urban 65%, rural 49.2% and estates 32.7% reach the minimum levels.

As for the link between poverty and gender – gender differences existing in present societies are considered to be one of the major factors in deciding poverty, particularly in the distribution of

wealth and other resources and also access to resources and opportunities. Gender differences create many social impediments for women, preventing them from achieving their social and personal objectives that would contribute to a series of negative effects, such as lack of education, lack of income, poor health, dependency, lack of self-esteem, etc.

Gendered access to resources and opportunities contribute to widen the existing gender gaps. One of the consequences would be feminization of poverty, making women the ultimate victims of increasing poverty conditions. The factors contributing to feminization of poverty are; increasing female populations (51%), gendered ideologies prevailing in many societies, increasing longevity of women, increasing wars and natural disasters, increasing female-headed households, lack of economic and social support from male counterparts in the households and widening social gaps such as sectoral differences

Although feminization of poverty is not unique only to less developed societies, women would be more negative consequences when poverty conditions exist. However, gender disparities in society also play a significant role, e.g., conditions of female subordination would decide their access to opportunities and resources. In societies where both poverty and gender gaps contribute to existing inequalities, the conditions of women deteriorate significantly. Among the factors contributing to underdevelopment of women are less educational opportunities and less access to health. Interestingly in Sri Lanka, at a certain level, there is higher access to health resulting in low mortality rates. Another factor contributing to underdevelopment of women is socio-cultural factors, e.g., cancers go unidentified due to cultural attitudes associated with such diseases. Other factors contributing to women's underdevelopment are their less control over body and birth control, food security issues, less control over access to resources such as land, equipment, power and decision-making as was evidenced following the tsunami. Further, women have limited opportunities in industrialized agricultural sector with no access to cash-crop growing, less use of machinery, thus excluding them from equal participation. Women are paid less wages and prices, particularly in the informal sector. Women also face security and safety issues in their day to day activities and employment. Marginalization and exploitation of women also take place on a large scale.

The current scenario is no better but worse with falling incomes of women, e.g., war widows, returning migrant worker women facing post-migration issues such as breakdown of family life, etc. They also face continuing wage differences in the agricultural sector and the urban construction sector, in the former owing to no access to cash-crop growing, less use of machinery owing to lack of skills, whereas in the latter case (Construction Sector) too due to lack of skills. Another reason for falling incomes of women is their inclusion in the lowest levels of the labour market in order to fill the needs of the global economy and continuation of low wages and exploitation without the decent work component added in such as working in conditions of freedom, equity, security and human dignity, e.g., garment factories akin to sweatshops with no proper ventilation, work hours but working overtime with less pay.

Continuing inferior social status given to women in the household with the male as being given the status of head and the bread winner has led to falling incomes of women. The other reason being, one finds more women in part-time jobs to cope with the household and the economic needs due to lack of full-time positions. Further, lack of training in employment-generating activities, limit their access to employment – lack of technical training, limiting them to home-economic activities, such as dress-making, etc. This excludes them from the decision-making processes and justifies the low

wages paid to them. As a result, women's powerless positions neither allow them to fight for better conditions nor to quit, more due to poverty than any other reason.

To further understand poverty and gender, it would do well to see where women's employment largely concentrates in. First, it concentrates in the service sectors such as Nursing and Teaching. Secondly, they are concentrated in areas where no special training is necessary (informal sector). Women's employment is also concentrated in low-paid rural agricultural work. Fourth, as domestic help (locally and abroad) and as garment factory workers where they are paid low wages and are subject to inhuman work conditions and do not have collective bargaining power. Another area concentrated in is informal sector activities in the informal market. Women also concentrate on illegal activities such as the sex trade – sex tourism, sale of illicit liquor and dangerous drugs.

Feminization of poverty could be aggravated due to conditions such as Violence against Women, war and conflict, natural disasters, absence of supportive strategies and infrastructural facilities such as childcare, housing, transport, water and other basic needs and last but not least continuing patriarchal values.

In closing it was pointed out that all these have far-reaching impacts on women, including continuance of poverty, dependency, unhealthy living, impaired health, vulnerability to further exploitation, exclusion or inclusion in socio-economic development and/or impair the development of more than half the population.

Discussion

Referring to Feminization of Poverty mentioned in Dr. Subhangi Herath's presentation, a participant enquired the reason for marginalization/discrimination of women, despite heading the households. Dr. Herath informed conditions of female subordination would decide their access to opportunities and resources. In societies where both poverty and gender gaps contribute to existing inequalities, the conditions of women deteriorate significantly.

As to what will enable the government reduce unemployment and poverty was asked of Mr. Ruwan Jayatilleke. The fact that the Government's program targets a medium term growth of 8 to 10% with enhanced macroeconomic stability, thus enabling the economy to withstand external shocks and reduce unemployment and poverty was informed.

It was observed by a participant that under empirical results, in the estate sector the main foods said to be consumed is, rice, bread and dhal, whereas it was pointed out that wheat has been inadvertently omitted and suggested to add it to the basket of commodities for analysis.

Commenting on Mr. Jayatilleke's presentation where it is mentioned about limitations to conducting surveys such as the risk of errors being produced when an attempt is made to adjust macro-level variables to micro-level, the participant's suggestion was in line with macro development have micro-level trickling down. It was also observed that though the government is going ahead with trade liberalization, it is not formulating micro-level policy. However, with regard to labour participation rate, it was suggested to show a trend rather than giving a single year's figures.

Drawing Dr. Herath's attention to the part in her presentation where it is said that among the places where women's employment is largely concentrated on is the garment industry and that they are paid

low wages, are subject to low facilities and does not have collective bargaining power, a Board of Investment official wished to know whether BOI officials had been consulted on this matter and if Dr. Herath had any specific samples to show?

Whereas, Dr. Herath informed that this survey had been conducted jointly with the Family Planning Association in consultation with BOI and that the interviewed FTZ women workers had complained of being forced to work overtime.

Commenting on consumption against production under trade and poverty at the household level in Mr. Jayatilleke's presentation, a participant wished to know whether he considered the consumption basket of the poor or nominal rupee income, whereas the presenter informed that the consumption basket of the poor had been considered.

Commenting on the mention made by Dr. Herath that in Sri Lanka female headed households have lower incidence of poverty than male headed, a participant wished to know if the eastern province has also been taken into consideration in the survey. Dr. Herath informed that it had not.

Whereas, a participant observed that good governance is not reflected in the statistics presented and wished to know if an increase in female participation in politics would ensure good governance. The fact that it would was the presenter's answer. She further lamented on the non-empowerment of women in politics in the country.

The method of working out the official poverty line was requested of the presenter, which request was met.

Trade Agreements as a tool of Development and Growth

Mr. Gomi Senadhira, Director-General, Department of Commerce

At the outset the presenter informed that there is no direct link between trade, development and poverty-reduction. Accordingly, it is difficult to use trade as a tool for poverty reduction because it takes a long time for the trickle-down effect to take place. As such, much more focused policy frameworks are necessary in order for initiatives on trade and development and poverty reduction to be successful.

Towards understanding trade, the presenter revisited history, which revealed the use of two trade instruments in Sri Lanka – Commodities Agreement in the 1970s and the generalized system of preferences (GSP). This makes one wonder of Sri Lanka's stance. One would notice very little has been achieved. There has been no single Commodity Agreement other than the International Rubber Agreement followed by the Common Fund for generalization of preferences. By the year 2000, utilization of preferences was 30%. It was similar in the United States of America. Under GSP, garments are not covered. Additionally, there have been other preferential agreements.

Trade barriers are detrimental and decrease overall economic efficiency, this can be explained by the theory of comparative advantage. In theory, free trade involves the removal of all such barriers, except perhaps those considered necessary for health or national security. In practice, however, even those countries promoting free trade heavily subsidize certain industries, such as agriculture. However the effect of trade on one country might not be the same as on the other, e.g. Multi-Fibre

Agreement (MFA) have restricted imports from more competitive developing countries. As a result many countries benefited, e.g. the textile industry developed due to the restrictions the European Union and the United States placed on imports from some developing countries. However, the Arrangement was not negative for all developing countries. For example the European Union (EU) imposed no restrictions or duties on imports from the very poorest countries, such as Bangladesh and Sri Lanka, leading to a massive expansion of the industry in the two countries. As for its impact on development of Sri Lanka – the government can decide to allocate quotas or do nothing about it.

Free Trade Zones and Export Processing Zones were set up offering many concessions to foreign (and local) investors. The granting of licenses to organizations situated outside the BOI Zones, but with all BOI facilities and concessions further enhanced the investor-friendly environment, which led to the initiation of the 200 garment factories program.

In the U.S. market tariffs between 10 – 20% are paid on garments and provide duty-free access. However, the Sri Lanka's duty free access is limited when compared with Mexico. As a result of this limitation, Sri Lankan workers apparel manufacturers have opted to set up factories in Mauritius and to get down workers there. Workers also go to UAE because of duty free FTA prevailing in the emirates. Our Trade Unions lobby with international associations, yet they do not have collective bargaining power. This is the macro-picture of trade agreements. Earlier Mauritius did not have competitiveness in the EU. Therefore, they entered into a FTA with the EU. Trade takes place in the global context. Bangladesh got duty free quota access. GSP Plus provided us with the same access.

That is why it is important to use FTA's cleverly. Sri Lanka needs diversification. Currently, trade with its Asian counterparts is low. The collapse of the WTO meeting was over an issue of safeguarding rural farmers. This is all the more reason why we must ensure tariff protection not only with WTO but also when signing the Comprehensive Economic Partnership Agreement (CEPA) with India. Sri Lanka's obligation to WTO has little impact on policy space. Least Developed Countries (LDC's) have undertaken lower level of binding.

In concluding the presentation, the presenter stated that if FTA's are negotiated correctly it can become a development tool.

Global Food Crisis and Its Impact on Sri Lanka's Agriculture

Dr. W.G. Somaratne, Oxfam Australia Sri Lanka Office

Today's consumption is undermining the environmental resource base. It is exacerbating inequalities. And the dynamics of the consumption-poverty-inequality-environment nexus are accelerating. If the trends continue without change — not redistributing from high-income to low-income consumers, not shifting from polluting to cleaner goods and production technologies, not promoting goods that empower poor producers, not shifting priority from consumption for conspicuous display to meeting basic needs — today's problems of consumption and human development will worsen. However, the real issue is not consumption itself but its patterns and effects. Inequalities in consumption are stark. Globally, the 20% of the world's people in the highest-income countries account for 86% of total private consumption expenditures — the poorest 20% a minuscule 1.3%. More specifically, the richest fifth:

- Consume 45% of all meat and fish, the poorest fifth 5%
- Consume 58% of total energy, the poorest fifth less than 4%
- Own 87% of the world's vehicle fleet, the poorest fifth less than 1%

Global trade, outsourcing, supply-chaining, and political forces have changed the world permanently for better or worse. The pace of globalization is quickening and will continue to have a growing impact on business organization and practice. Looking specifically at economic globalization, it can be measured in different ways. These centre round the four main economic flows that characterize globalization:

- Goods and services, e.g. exports plus imports as a proportion of national income or per capita of population
- Labour/people, e.g. net migration rates; inward or outward migration flows, weighted by population
- Capital, e.g. inward or outward direct investment as a proportion of national income or per head of population
- Technology, e.g. international research & development flows; proportion of populations (and rates of change thereof) using particular inventions (especially 'factor-neutral' technological advances such as the telephone, motorcar, broadband)

Since World War II, barriers to international trade have been considerably lowered through international agreements. The Doha round of World Trade Organization (WTO) negotiations is said to aim at lowering barriers to trade around the world.

One cause of price hikes is increase in oil prices, which heightened the costs of fertilizers, food transport, and industrial agriculture. The other is people's needs and aspirations changing from artificial to natural/organic produce. Further, income-induced changes in food consumption (starchy to animal foods/vegetables/fruits)

The 21st century witnesses escalation of food prices. This is attributed to the rise in food demand in China and India to meet the needs of its populations. One sees the diversion of farm produce to crude oil substituting boil fuels. There is increasing demand for energy. Yet, climate change from global warming creates scarcity of food supply. The trend of increasing food prices accelerated in 2008. The export price of wheat rose. Rice export prices increased.

Bio-fuels are proposed as having such benefits as: reduction of greenhouse gas emissions, reduction of fossil fuel use, increased national energy security, increased rural development and a sustainable fuel supply for the future. However, bio-fuel production is questioned from a number of angles. Brazil has a surplus of bio-fuels and the government hopes to build on the success of the ethanol program by expanding the production of bio-diesel which must contain 2% bio-diesel by 2008, increasing to 5% by 2013. On the other hand, the U.S. imports bio-fuels. However, attempts are made to replace 75% of imported oil by 2025 by alternative sources of energy including bio-fuels. Among the factors influencing trends are supply side issues and demand for bio-fuels. High price of fossil fuel increases the demand for bio-fuels. However, the bio-fuels are competitive when compared with petroleum. It results in diversion of feed stocks, food gains and edible oil seeds

For the greater understanding of participants, production in major exporters of basic food commodities was presented. From it is gathered that the production of meat, dairy and sugar is a declining trend. Also, change in stock levels, mainly of cereals.

The Uruguay Round was a turning point in the evolution of agricultural policy. For the first time, a large majority of countries agreed to a set of principles and disciplines to reduce the trade distortions caused by agricultural policies. The Agreement on Agriculture (AoA) brought national agricultural policies under multilateral rules and disciplines, with the long-term objective of establishing "a fair and market-oriented agricultural trading system ... through substantial progressive reductions in agricultural support and protection." One of the causes of price hikes is increase in oil prices, which heightened the costs of fertilizers, food transport, and industrial agriculture. The other is the increase in energy prices.

Looking at demand-side factors, one observes a changing structure, such as India increasing its production of oil crops, the demand for cereal being increased by China and an increase in Brazil's cereal and meat consumption. Diets have also been diversified, e.g., in China, its per capita meat consumption increased. Among the factors influencing trends are supply side issues and demand for bio-fuels. High price of fossil fuel increases the demand for bio-fuels.

When looking at operations on financial markets, it could be seen that high fuel prices led to food increases attracting investment into agricultural sector. Food markets are linked to highly liquid financial markets. For the greater understanding of participants, the link between increasing demand and shrinking supply was presented in addition to a Table reflecting the percentage of yearly changes in world prices of food and feed crops (baseline survey 2005-2007)

Further the trade policy prescriptions applied worldwide including in Sri Lanka was studied. It reveals that the policies have been changed to accommodate:

- Reduction or elimination of tariffs and consumer taxes
- Increase of export levies
- Regulation of government quotas
- Reduction of export licenses or ban exports
- Fix/control consumer prices, e.g. rice and wheat flour

For the greater understanding of participants, rice self-sufficiency level during the periods 1960 - 2007 was presented. One could see that Sri Lanka's situation is relatively better when compared with other countries.

Looking at the likely impacts of global food crisis on Sri Lankan agriculture, taking into consideration the fact that rice is the staple food of country – one sees that under "*Api Wawamu Rata Nagamu*" programme, fertilizer subsidies have been given to farmers. Further there has been a tariff reduction and exports have been banned in order to insulate the domestic market from external shocks. Yet, this has not been the case for maize. Policy interventions have not been as critical for maize as for rice. Therefore, it would do well to have economic governance to maintain food security.

It is likely that with other impacts bio-fuels may cease to be competitive. The domestic market will depend on factors influenced by public policies controlling foreign currencies, border controls,

tariffs, quotas and taxes. Further, there will be land and water resource constraints and subsidy issues. Availability of technological development to increase agriculture yields (investment on research and development) is less. Impact of climate change is not properly realized. There is population increase and urbanization. These factors have to be taken into consideration.

It was further informed by the presenter that the food demand will rise while supply will fall. Climate change will be a major concern. Further, there will be diversion of farm produce, such as conversion from sugar to bio-fuels. People will have to decide between food and wheat production. There will be investment in rural infrastructure and marketing and on agricultural research and development. Further, there will be social safety nets. Currently, consumers are worse off due to the high price of consumer goods. The oil price hike compels people to grow more food and feed crops, giving scant regard to land degradation. Therefore, it is necessary for the government to intervene in agricultural production and maintain food security, investment on R&D, supply chain development and value addition. Therefore, it would do well for the government to recognize the role of the private sector in this entire process, for without public-private partnership the food crisis cannot be tackled.

International organizations have identified agriculture as a source of livelihood development. Support immediate needs and dampen worst effects of crisis on vulnerable populations. Provide financial and technical support to stimulate an agricultural supply response – productivity enhancement. Launch a new commitment to agriculture. The need of the hour is the commitment by the government and the civil society to re-examine policies towards promoting bio-fuels.

In conclusion, the presenter urged stakeholders to outline a path to promote well functioning trade system that avoids the recurrence of crises such as food in the future.

Discussion

Considering that climate change from global warming creates scarcity of food supply and the rich countries uses 58% of total energy and owns 87% of the world's vehicle fleet, a participant wished to know from Dr. Somaratne where such a situation leaves third world countries such as Sri Lanka.

Dr. Somaratne informed that Bio-fuels are proposed as having such benefits as: reduction of greenhouse gas emissions, reduction of fossil fuel use, increased national energy security, increased rural development and a sustainable fuel supply for the future. As such, the biggest perpetrator of the crime, the United States of America attempts to replace 75% of imported oil by 2025 by alternative sources of energy including bio-fuels.

Another participant questioned from Mr. Gomi Senadhira the benefits of MFA. Whereas, it was informed that through MFA countries can overcome trade barriers.

The effects of globalization, particularly to farmers and grassroots level people were questioned. The answer being, agriculture in Sri Lanka mainly depends on rice production. Its main goal is to achieve an equitable and sustainable agricultural development through development and dissemination of improved agriculture technology. Agriculture remains the largest single contributor to the livelihoods of the 75% of the world's poor who live in rural areas. Encouraging agricultural growth is therefore an important aspect of agricultural policy in Sri Lanka.

It was informed by another participant that automobile manufacturers in Japan are exploring the possibility of using water to produce energy. As such, what the impacts will be? It was informed that this might be a distant possibility and that the impacts would be favourable with sustainability assured.

Mr. Gomi Senadhira observed that the Doha round of World Trade Organization (WTO) negotiations aims to lower barriers to trade around the world. However, talks have been hung over a divide between the rich, developed countries, and the major developing countries (represented by the G20). Agricultural subsidies are the most significant issue upon which agreement has been hardest to negotiate.

A participant pointed out that the US is under attack on its policy on food aid owing to delivery costs being double the amount of aid.

It was another participant's view that MFA does not benefit the developing countries. Mr. Gomi Senadhira wished to set the record straight by replying in the affirmative – some in the short-term, whilst others in the longer-term. In elaborating this point, he informed that in CEPA, the GOSL has a long-term benefit. Yet he did not discount the fact FTA needs approaching in a focused manner for maximum gain.

Whereas, it was observed by another participant international trade represents a significant part of GDP. Its political importance have increased in recent decades, mainly because of industrialization, advanced transportation, globalization, multinational corporations, and outsourcing. There is no denying the United States of America has great influence in the world markets. Although it is claimed that Globalization has ensured that a US recession is not translated into world wide recession, the outcome is clear to see. Initial causes of the late 2006 price hikes included unseasonable droughts in grain producing nations and rising oil prices. Oil prices further heightened the costs of fertilizers, food transport, and industrial agriculture.

Looking at the Sri Lankan situation, particularly the food industry, it is thought to hold promise for organic food production, with 18 000 medium-scale firms in existence. This is attributed to changing lifestyles/food habits and income-levels.

Whereas, it was questioned whether going into Public-Private-Partnerships would ensure sustainability. The answer was that such a partnership is necessary for the investment flow. However, one needs to identify the role of the government, private sector and civil society first in order for the PPP to work successfully.

The reason for the formulation of GATT and WTO was questioned by another participant. Accordingly, in the Preamble, it is stated its purpose is to promote a rise in increasing standards of living and full employment. As such, he wished to know how one relates it to the immediate needs of the world's populations, particularly the poor. The answer given was trade liberalization leads to growth. As such, targeted policies/interventions are necessary. Accordingly, in Sri Lanka, the democratic institutions have helped politicians pay more attention to the rural poor.

Annex 1

Coherence between National and International Initiatives on Trade and Development and Poverty Reduction National Dialogue 2008

Organized by the Law & Society Trust

Thursday, 07 August 2008

9.00 am – 2.00 pm, Sri Lanka Foundation Institute, Colombo 07

Programme

09.00am - 09.30am	Registration and Tea
09.30 am - 09.45 am	Introduction and Welcome Address
09.45 am – 10.15 am	<i>Trade and Poverty nexus in Sri Lanka</i> Presentation by Mr. Ruwan Jayathileke, Institute of Policy Studies
10.15 am – 10.45 am	<i>Gender Aspects of Poverty - a Major Impediment for Development</i> Presentation by Dr. Subhangi Herath, Dept. of Sociology, University of Colombo
10.45 am – 11.15 am	Discussion
11.15 am – 11.30 am	Tea
11.30am – 12.00 noon	<i>Trade Agreements as a tool of Development and Growth</i> Presentation by Mr. Gomi Senadhira, Director-General, Department of Commerce
12.00 noon – 12.30pm	<i>Global Food Crisis and Its Impact on Sri Lanka's Agriculture</i> Presentation by Dr. W.G. Somaratne, Oxfam Australia Sri Lanka Office
12.30pm – 01.00pm	Discussion
01.00pm – 02.00pm	Close and Lunch

Annex 2
National Dialogue 2008 - 07 August 2008, 9am – 2pm, Sri Lanka Foundation Institute

	Name	Organisation and Address	Contact Details: TP Number, email address
1.	U.G. Ratnasiri	Department of National Plus, Ministry of Finance	0112484574, ratnasiriudalamatta@yahoo.co.uk
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19.	Niloufer Lebbe	Diakonia Sri Lanka Project Officer 80/4, 1/1 Layards Road Colombo 05	
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21.	G. Senadhira	Director General, Department of Commerce, No.21, Vauxhall Street Colombo 02	
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