

## **The First National Dialogue on Linkages between Trade, Development and Poverty Reduction**

The proceeding of the national dialogue started with the welcome address delivered by Damaris Wickramasekera, Executive Director, Law and Society Trust (LST) Sri Lanka. Avanthi Weerasinghe, the project coordinator of the TDP project, provided a brief introduction as well as the broad objectives of the project and the activities to be carried out by both Institute of Policy Studies (IPS) and LST, the two research and advocacy partners in Sri Lanka. She mentioned that in the past LST had been looking at poverty issues through the human rights perspective, but while implementing TDP project, LST would be looking at means and ways of challenging policies, including human rights jurisprudence, which affect poor adversely and which will strengthen the endeavour to bring pro poor policies. Calling law a powerful tool in bringing about social change and rectifying social imbalances, she emphasised the need to use it effectively in achieving broader objectives of the TDP project.

### **Agriculture and Poverty – Sri Lankan Perspective, Gothami Indikadahena, Deputy Director, Department of Commerce Ministry of Trade, Commerce and Consumer Affairs, Sri Lanka**

Indikadahena highlighted the importance of agriculture in economic development and growth of the country and the impact of liberalisation of agricultural sector on Sri Lanka's poverty and income distribution. She outlined lowering tariffs and other non-tariff restrictions, lowering of domestic support provided to the sector and less developed infrastructure facilities as the possible reasons for poor performance in agricultural sector. She stressed the need to overcome those barriers by increasing support given to agricultural sector in order to accelerate agricultural productivity. Further, she was of the view that increased support to farmers in Sri Lanka would have only a negligible effects on distortions in the world agricultural markets and stated that benefits of improvement in living standards and reduction in food insecurity and poverty are likely to far outweigh the cost of any distortion in the world agricultural markets.

She also expressed her concerns over the protectionism in the agriculture sector via relatively high applied tariffs and noted, "reductions of applied tariffs could generate adverse effects which would subsume the productive gains of trade liberalisation". According to Indikadahena, Sri Lanka's agriculture tariffs would have to be cut drastically after the 6<sup>th</sup> WTO Ministerial Conference in Hong Kong to held in December.

She informed that Sri Lanka's agricultural tariffs are already much lower than those in most developing countries with over 90 percent of tariffs bound at the average of 50 percent. In contrast, India has bound its tariffs at 100 percent, 150 percent and 300 percent for different item categories. Further, Indikadahena observed, "Sri Lanka's actual applied rates are lower than that of even the bound rate averaging around 28 percent".

However, Indikadahena highlights that the Doha Development Agenda (DDA) provides clear language on Special and Differential Treatment (S&DT) for developing countries,

including the possibility of rules and disciplines in recognition of the particular needs of these countries i.e. food security and rural development.

However, she was of the view that lack of initiative from policy makers to leverage on these flexibilities to provide better support to domestic farmers has resulted in Sri Lanka not even utilising permitted Green Box subsidies for its farmers.

She further added that in order to safeguard majority rural communities, Sri Lanka has also been pushing for a list of special products that would be sheltered from the inevitable tariff cuts, and which would cover most of the agricultural products. She stressed the urgent need to implement the special safeguard mechanism to cover all the agricultural products defined in the agreement on agriculture (AOA) and not just the import sensitive products.

**Linkages between Trade, Development and Poverty Reduction – Dr Dushni Weerakoon, Deputy Director Institute of Policy Studies, Sri Lanka**

Dr Weerakoon stated that the impact of trade Policy on Poverty depends on several things namely:

- Which tariffs are reduced and how much of price change is passed through;
- How poor earn and spend their income;
- Whether it generates demand for skilled / unskilled workers; and
- Impact on government revenue and government policy response

She stated that Sri Lanka initiated an economic liberalisation programme in 1977 that laid the foundation for far reaching reforms in almost all spheres of economic activity that marked a radical departure from an inward-looking, controlled-economy approach to a liberalised, export-oriented strategy. She told that the policy programme included many of the reforms of structural adjustment, including liberalisation of trade and payments, rationalisation of public expenditure, de-control of prices and interest rates, promotion of private sector development, foreign investment promotion and financial sector reforms etc. She informed that although during the following decade, the reforms transformed the Sri Lankan economy – moving it away from a predominantly agriculture base to an increasingly industrialised one – a second phase of reforms were felt to be necessary in the 1990s to rejuvenate a flagging economy battered by an on-going civil conflict in the northern and eastern parts and an insurgency in the southern region of the country.

She further stated that the singular most striking feature of the immediate post-liberalisation economic performance was an impressive acceleration in Sri Lanka's rate of economic growth from an average of 2.9 percent during 1970-77 to 6 percent during 1978 -83. On the external front, export performance improved dramatically with the liberalisation of the economy; exports as a percentage of gross domestic product (GDP) rose to an average of 25 percent in the 1980s from an average of 15 percent prior to liberalisation, she added. She explained that the mainstay of export earnings in the post-reform period has been an impressive acceleration of industrial production while Sri Lanka's traditional export crops – tea, rubber, and coconut products –experienced indifferent growth for much of the post-reform period. However, the most striking feature of export performance was the rapid growth registered by the garments export sector, which overtook tea as the highest gross export earner since 1986, she informed.

Commenting on trade policy, employment and poverty, Dr Weerakoon stated that trade reforms have resulted in decline of unemployment and economic growth in the post reform period was accompanied by a consistent decline in the rate of unemployment in the country. She reported that according to available statistics the rate of total unemployment has fallen from 24 percent in 1973 to 14.8 percent in 1979, and by 1982, the rate fell further down to 11.2 percent. However, she noted that from the mid-1980s, Sri Lanka began to experience rising unemployment and by 1990, the unemployment rate was estimated at 15.9 percent.

Dr Weerakoon asserted that Sri Lanka suffered from a lack of comparative statistics to assess change in poverty status accurately over time. However, she stated, “there is evidence to suggest that the incidence of poverty reduced by about 2 percentage points over the period 1985 to 1995”.

She further pointed out that there have been significant inequities in poverty reduction across sectors and provinces of the country. During the decade 1990-91 to 2002, the poverty gap between the urban sector and the rest of the country widened, while there was also a significant increase in poverty in the estate sector. The decline in rural poverty from the mid-1990s was a result of the recovery of the agriculture sector from a severe drought in 1996 and the gradual positive trend in per capita agricultural production thereafter, she added.

Dr Weerakoon declared that Sri Lanka has also been characterised by significant regional differences in poverty with the Western Province, which accounts for nearly 50 percent of GDP in the economy registering by far the lowest rates of poverty. There is evidence to suggest that over the past decade, Sri Lanka has witnessed an increasing tendency towards wider regional disparity in the incidence of poverty, she added.

*Linkages between Trade, Development and Poverty Reduction: Sri Lanka Winners Vs. Losers – Jayanthi Thenakoon, Institute of Policy Studies, Sri Lanka*

Jayanthi Thenakoon made a presentation, which was based on the impact of trade liberalisation on local handloom industry and export oriented apparel sector. In her presentation, she analysed how local handloom industry got adversely affected by trade

liberalisation while export oriented garment industry benefited from it. She stated how local handloom industry got adversely affected due to zero rate duty on import of cotton fibre and removal of other government subsidies and assistance. According to Central Bank Industrial Survey, in 1978, 200 out of 1300 firms involved in handloom industry had ceased operations, she informed. She reported that the domestic textile industry has failed to meet the increased demand of the export-oriented garment for fabric due to lack of production capacity and it failed to compete with imported goods due to various supply side constraints.

Thenakoon stated that in 1990's the handloom industry improved slightly due to increased use of locally manufactured inputs by export oriented textile sector. Commenting on the impact of decline of local handloom industry and improved performance of export oriented textile industry on employment generation and poverty eradication, Thenakoon explained that decline of local handloom industry has led to increased unemployment in rural areas. However, she said that generation of new jobs in export oriented textile sector has reduced unemployment to a certain extent although there is a structural mismatch between two sectors in terms of skills required which restricts free mobility of labour between the two sectors.

She further stated that trade liberalisation affects poverty through its impact on levels of employment and decline of local handloom industry has led to negative impact on employment generation while expansion in export led textile industry has led to positive impact on employment generation and poverty eradication. She concluded by stating that available data was not sufficient to make a firm conclusion that increase in employment due to expansion of export led textile industry had reduced rural poverty in Sri Lanka and that negative impact of trade liberalisation was offset by its positive impacts.

*Trade Policy and Poverty – Dr Ganeshamoorthy, Senior lecturer, Department of Economics, University of Colombo*

Dr Ganeshamoorthy focused his presentation on the impact of trade liberalisation on poverty. He opined that it was well established that liberalised trade policies lead to economic growth. However, he stated that in order for economic growth to lead to poverty reduction, trade liberalisation has to be accompanied by macro economic policies. Although trade liberalisation would not be favourable towards the poor sections of the community in the short run it could be beneficial for them in the long run through redistribution of income, he informed. He further stated whether or not the poor gets benefits of trade liberalisation depend on their source of income, prices of the commodities consumed them. He asserted that trade liberalisation alone was not enough to bring about economic growth and it had to be accompanied by domestic policies like Foreign Direct Investment (FDI), control of prices and exchange control policies in order to integrate local market with the global market in an effective and efficient manner.

### **Discussion**

At the end of the three presentations, there was a very active participation from the participants most of which were of the view that there have been policy inconsistencies in

domestic policies in the areas of trade, development and poverty reduction. In their opinion, there has been policy inconsistency *vis-à-vis* liberalisation of the economy whereby the government has adopted a stop-and-go policy from time to time. To the participants, most of the trade policies of the government do not take poverty reduction as an area to be focussed in formulating their policies. It was brought to the notice of the panel that it was essential to understand issues relating to absolute and relative poverty. Several participants, including the journalists posed questions to Indikadahena as to what Sri Lanka's stance would be, especially in the area of reducing tariffs on agricultural products and the impact of further reduction of tariffs on domestic agriculture.

The participants opined that although Sri Lanka has liberalised its economy in the recent past, its economic growth has been around 5 percent, and at this rate of economic growth it will take another 15 to 20 years for the country to double its per capita income from what it had now. They asserted Sri Lanka should look into the issue seriously as to what went wrong in not being able to reap the expected results of trade liberalisation.

On trade liberalisation process, the participants voiced that it has not diversified into many areas and has mainly restricted its focus on garment industry whereas most of the other South East Asian countries that have benefited from trade liberalisation have diversified into other areas such as electronics, computer and automobiles.

It was the general perception of the participants that there has been a lack of proper assessment of the impact of the international trading rules as laid down by WTO on Sri Lankan economy. Participants from legal community were of the view that LST should look at right to development as a human rights and should look at poverty issues through a human rights perspective, which would be a very effective tool in advocating the government to draft pro poor trade liberalisation policies.

#### *Advocacy Points*

It is imperative to maintain policy consistency between policies relating to trade, development and poverty reduction and to make the poverty reduction as one of the main goals. In order to achieve this, it was decided that LST should highlight the discrepancies in the present policies and advocate to policy makers to ensure that poverty reduction was taken as an objective in the trade and development policies. Further, there is a dearth of work relating to impact of international trading regime, especially the one propounded by World Trade Organisation (WTO) on Sri Lankan economy, which has to be rectified. LST would be undertaking the following activities in order to achieve the said objectives:

- Arranging meetings with the policy makers and other stakeholders, including those who are affected by trade liberalisation policies and thereby providing a platform where issues relating to trade liberalisation and poverty reduction would be discussed to ensure pro poor trade liberalisation policies;
- Writing articles to news papers about policy inconsistencies and ways and means of rectifying it;

- Continuing to carry out its research on the impact of WTO on Sri Lanka and engaging in advocacy work in order to ensure national policies drafted by Sri Lanka under WTO regime are not detrimental to Sri Lanka; and
- Linking activities undertaken by LST under its socio economic rights programme with activities under TDP and looking at poverty issues from a human rights perspective.

The current debate in relation to poverty reduction does not pay adequate attention as to how law, especially human rights jurisprudence could be used as a tool to ensure pro-poor trade liberalisation policies. LST being a legal research organisation has been engaged in promoting both civil and political rights and economic social and cultural rights. In addition, LST has been carrying out TDP project under its broad subject programme area titled, 'Socio economic and cultural rights which is aimed at ensuring socio economic and cultural rights'.