

REPORT OF THE PROJECT LAUNCH MEETING OF LINKAGES BETWEEN TRADE, DEVELOPMENT AND POVERTY REDUCTION

Kathmandu, November 11, 2005

Forum for Protection of Public Interest (Pro-Public) and South Asia Watch on Trade, Economics & Environment (SAWTEE) organised a one-day meeting/national dialogue on 'Linkages Between Trade, Development and Poverty Reduction' on November 11, 2005 in Kathmandu. The objectives of the meeting were:

- To launch the project titled 'Linkages Between Trade, Development and Poverty Reduction' in Nepal;
- To present the preliminary background research conducted on the linkages between trade, development and poverty reduction;
- To make three sectoral presentations on the role that the agricultural, services and manufacturing sectors play in relation to poverty;
- To promote a multi-stakeholder dialogue process to gather inputs for effective implementation of the project;
- To provide a platform for different categories of stakeholders to contribute in national policy making; and
- To build a critical mass of stakeholders who can undertake advocacy and campaign highlighting the linkages between trade, development and poverty reduction.

The meeting comprised of an inaugural session and three technical sessions. The preliminary background research titled 'Linkages Between Trade, Development and Poverty Reduction' was presented during the inaugural session. Three sectoral presentations focussing on Nepal's agricultural, services and manufacturing sectors were made during the technical sessions. More than 65 participants representing the civil society, government, private sector, academia and the media attended the meeting.

INAUGURAL SESSION

Speaking as the chief guest, Mr Bharat Bahadur Thapa, Secretary, Ministry of Industry, Commerce and Supplies (MOICS), Nepal said that Nepal's current focus should be on taking advantage of the opportunities offered by the World Trade Organisation (WTO) as well as regional agreements such as South Asian Free Trade Area (SAFTA) and Bay of Bengal Initiatives for Multi-Sectoral Trade and Economic Cooperation (BIMSTEC). He viewed that all advantages accruing from the WTO and the regional agreements should, however, be translated in the form of accelerated reduction in poverty. Realising a strong linkage between trade and poverty, he pointed the need for the country to take up an economic agenda that could lead to reduction in the poverty levels. He also opined that domestic economic policies should be framed in the context of the ongoing process of globalisation and liberalisation, and that frequent policy reforms may be warranted to ensure that trade and poverty reduction have a positive correlation. However, he did assert that frequent policy updates that are necessary in changed circumstances do not materialise in Nepal.

Delivering his welcome address, Dr Posh Raj Pandey, President, SAWTEE, said that the issue of linkages between trade, development and poverty reduction is a debatable one. Explaining the nature of debate to the participants, he said that the first school of thought perceives trade to have benefited only the trans-national capitalist class, while the second school of thought recognises the positive correlation between trade and poverty. However, he added that empirical evidence gathered around the world do prove that trade helps in poverty reduction, though certain groups and sectors do become vulnerable due to international exposure. He reminded that the role of trade in poverty reduction has even been recognised in the Millennium Development Goals (MDGs), and Goal 8 recognises the linkage between trade and poverty. In this context, he argued that the debate should be on how trade policies could be made more pro-poor that can lead to a reduction in marginalisation of the poorer sections of society. To ensure that national trade policies are not influenced by only the vested interest groups, he called for periodic debates on this issue.

During his welcome address, Dr Pandey also explained the nature and scope of the project. Some of the important points that he made are as follows:

- 'Linkages Between Trade, Development and Poverty Reduction' is a project being implemented in 15 different countries in five regions – South Asia, South East Asia, Southern Africa, Eastern Africa and Europe.
- Consumer Unity & Trust Society – Centre for International Trade, Economics & Environment (CUTS-CITEE), Jaipur, India, has taken the lead role in implementing the project in each country in collaboration with different centres and partner organisations.
- Department for International Development (DFID), United Kingdom, and Ministry of Foreign Affairs, The Netherlands, have financially supported the project.
- Overall project activities will include analyses of stakeholders' perceptions on linkages between trade, development and poverty reduction; networking with partner organisations and other stakeholders; advocacy with policymakers and consumers; and outreach aimed at trade diplomats, parliamentarians and developmental agencies; etc.

Dr Yubaraj Khatiwada, Executive Director, Nepal Rastra Bank, in the capacity of lead researcher for the project, presented the key findings of background research conducted on 'Linkages Between Trade, Development and Poverty Reduction'. Some of the key issues discussed during the presentation are as follows.

- Though liberal trade regime has contributed to increasing Nepal's economic growth, the benefits have not reached to all sections equitably. Research findings suggest that social inequality has seriously dented Nepal's poverty reduction efforts.
- The growth of the non-agricultural sector in the post-liberalisation regime has not been good. This is indicative of the lack of policy linkages between macro and micro-levels evidenced by the fact that early high growths enjoyed by this sector could not sustain.
- Macroeconomic policies should be formulated in a holistic package. Trade, fiscal and monetary policies, which together form the macroeconomic policies, should not, and cannot, be formulated in isolation. These policies should complement each other.

- There is lack of proper linkage between trade and country development strategies like the Poverty Reduction Strategy Paper (PRSP). In the absence of such linkages, poverty reduction efforts tend to be ineffective and less meaningful.
- Trade benefits can reach the most vulnerable and marginalised sections only if safety nets for them are devised. Besides, their capacities need to be enhanced to ensure that they are able to compete in markets.
- Incidence of poverty is still very high in certain sections of society – 45.5 percent in the case of Dalits; 44 percent in the case of indigenous people living in the hills (*janajatis*); and 41.3 percent in the case of Muslims.
- Proper assessment of structural shifts in production technologies and social exclusions of poorer producers from livelihood have not yet been undertaken, which is important if liberalisation is to work in a poor country like Nepal.
- Backward and forward linkages in economic activities are important, but Nepal. Strategic interventions are necessary to ensure that export opportunities are properly linked with agriculture and rural economic activities.
- Nepal faces considerable supply side bottlenecks, all of which need to be identified and properly addressed. In particular, there is need for mobilising ‘Aid for Trade’ to remove the supply side constraints, including technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures.
- Nepal’s trade is highly concentrated amongst a few countries, most notably India. Among others, the differential subsidy regime between Nepal and India need to be assessed in the light of all policy options available, including the readjustment in exchange rate.

Delivering the vote of thanks to the chief guest, the lead researcher and the participants, Dr Shree Krishna Shrestha, President, Pro-Public, said that Nepal’s poverty reduction strategies have more often than not been formulated without proper understanding of ground realities. He particularly stressed the need for policymakers to look into the four issues: equity, efficiency, liberty and security, while formulating economic policies and poverty reduction strategies. He viewed that with the lack of consideration of all these issues during policy and strategy making, Nepal’s policies and strategies have mostly catered to the interests of only certain influential groups. He asserted that policies need to be more representative and should cater to the general interest of the whole population. He strongly advocated for the need to regularly conduct policy audits; to ensure that policies are serving the purpose for which they were formulated in the first place.

TECHNICAL SESSION I

During the first technical session, Dr Krishna Prasad Pant, Agro-Economist/Under Secretary at the Ministry of Agriculture and Cooperatives, Nepal made a presentation on ‘Linkages Between Nepalese Agriculture and Poverty Reduction’. Dr Dilli Raj Khanal, Chairperson, Institute for Policy Research and Development (IPRAD), chaired the session. Dr Dev Bhakta Shakya, Executive Director, Agro-Enterprises Centre, Federation of Nepalese Chambers of Commerce and Industry (FNCCI), and Mr Jagannath Thapaliya, Acting Chairman, Agri-Business & Trade Promotion Multi-purpose Cooperative Ltd. (ABTRACO), were the discussants. The major issues raised/discussed during the session are as follows:

- Nepal's agricultural sector has been excessively deregulated. Excessive liberalisation has led to unsatisfactory performance of the agricultural sector in recent years as well as lackadaisical implementation of the much-touted 20-year Agriculture Perspective Plan (APP).
- The revocation of subsidies in fertilisers and shallow tube wells has had a devastating impact on farmers. Subsidy removal was a premature decision as India, with which Nepal shares an open border, continues to subsidise most agricultural inputs to its farmers.
- Due to sustained inflow of cheap agro-products from India into domestic markets, Nepalese farmers are forced to sell their produce below their economic cost. Prevalence of such situation for long time can have dangerous consequences on the domestic agricultural sector.
- Nepal's agricultural sector is of subsistence nature. The targets of commercialising the sector cannot be achieved without substantial investments from the private sector, which in turn cannot take place without proper government price measure support.
- The agricultural sector's production levels and productivity cannot be enhanced without undertaking proper land reforms. As of present, land distribution is highly unequal: 80 percent of total Nepalese farmers own an average of only 0.83 hectares of land.

TECHNICAL SESSION II

During the second technical session, Dr Binod Karmacharya, Economic Advisor, Asian Development Bank (ADB), made a presentation on 'Linkages Between Services Liberalisation and Poverty Reduction'. Dr Bishwambher Pyakhuryal, President, Nepal Economic Association, chaired the session. Dr Posh Raj Pandey, President, SAWTEE, and Dr Govinda Bahadur Thapa, Director, Nepal Rastra Bank, were the discussants. The major issues raised/discussed during the session are as follows:

- MDGs are ambitious. In the Nepalese context, services sector can play a vital role in meeting these targets. Earnings through remittance alone have helped reduce poverty in Nepal considerably in the last decade.
- Nepal has a tremendous interest in Mode 4 negotiations – 'movement of natural persons'. Nepal has to build strong alliance with developing countries to push developed countries for further liberalisation of Mode 4 under General Agreement on Trade in Services (GATS).
- Liberalisation of services at the domestic level without proper homework can have negative consequences. Proper regulatory mechanisms and institutions are necessary to check the monopoly powers of huge multinational companies (MNCs) that enter Nepal.
- Service sector liberalisation has not helped some countries to attract proportionate share of foreign direct investment (FDI). The inflow of FDI into least developed countries (LDCs) like Nepal is still very low.

TECHNICAL SESSION III

During the third technical session, Dr Shiva Sharma, General Secretary, National Labour Academy, Nepal, made a presentation on 'Linkages Between Manufacturing Sector and Poverty Reduction'. Mr Kush Kumar Joshi, Second Vice President, FNCCI, chaired the session. Mr Prachanda Man Shrestha, Joint Secretary, MOICS, and Dr Narayan Manandhar, Freelance Researcher, were the discussants. The major issues raised/discussed during the session are as follows:

- Nepal's manufacturing sector is still under-developed. Over 95 percent of all industrial establishments fall under the category of small and medium enterprises (SMEs). There is a need to protect them in the context of Nepal's accession to the WTO.
- Liberalisation of the manufacturing sector should not be done arbitrarily. Areas of comparative and competitive advantages must be identified before liberalisation process is initiated.
- Nepal's manufacturing sector has been facing difficult times for the past few years. Its contribution to the gross domestic product (GDP) is still low. More worrying is the fact that manufacturing sector employment as well as the number of industrial establishments has both declined between 1997 and 2002.
- True liberalisation of the manufacturing sector cannot take place until and unless labour laws are made more flexible. However, there should be a check and balance mechanism to ensure that the 'hire and fire' rights of the employer are not misused.
- The manufacturing sector has not seen much improvement in the import of industrial capital goods. This is indicative of the fact that industrial progress in Nepal is not taking place.

CLOSING SESSION – THE WAY FORWARD

Mr Navin Dahal, Executive Director, SAWTEE, wrapped the proceedings up for the day during the closing session. He assured that the suggestions made by the participants during the meeting would be taken into consideration by Pro-Public and SAWTEE while implementing the project. He also thanked all participants for their presence.