

## REPORT OF 2006 NATIONAL DIALOGUE

13.02.07

### INTRODUCTION

The Law & Society Trust in Colombo, Sri Lanka is the advocacy partner in Sri Lanka for the Linkages between Trade, Development and Poverty Reduction project coordinated by CUTS-Centre for International Trade, Economics & Environment (CUTS-CITEE) in Jaipur, India, with support from the Ministry of Foreign Affairs, The Netherlands and Department for International Development, United Kingdom.

Sri Lanka's Second National Dialogue (ND) scheduled for 2006 took place in early 2007 because of difficulties with the external resource person commissioned to prepare the Campaign Kit (Publication), which will be translated into Sinhala and Tamil for wider dissemination. The venue for the consultation was the Bandaranaike Memorial International Conference Hall (BMICH) in Colombo.

The objective of the ND on 13 February 2007 was to receive views and suggestions from stakeholder representatives drawn from policy makers, civil society organisations, private sector, inter-governmental organisations, academics and the media for improvement of the content and presentation of the draft campaign publication.

As the letter of invitation to 30 selected individuals and institutions explained, "The purpose of the campaign publication is as an advocacy tool to inform and increase public awareness on trade justice issues with the aim of fostering pro-development and pro-poor policies and perspectives within mainstream multilateral trade negotiations and agreements."

The format of the consultation took the form of a round table discussion beginning with a presentation on the draft by its author, Dr

Ganeshamoorthy (Senior Lecturer in Economics, University of Colombo), followed by questions and discussion.

### LEAD PRESENTATION

The keynote presentation was made by Dr Ganeshamoorthy who went through the draft publication. He explained the conception of the kit as intended to push for a non-discriminatory trade system, addressing issues of development and poverty alleviation. The aim is to have a pro-development/anti-poverty dynamic within the World Trade Organization (WTO) and other forums. We need a trading system that works for the poor. The aim of the consultation is to come up with an improved campaign publication, understandable to people interested in the issues and not necessarily experts.

Dr Ganeshamoorthy stressed that what was presented at the National Dialogue was a raw draft. Input from the participants was considered very important to the final draft. The definition of poverty given in the campaign kit is that of the World Bank. However, there was a general consensus that a multi-dimensional (several definitions of poverty not just limited to the World Bank definition of poverty) definition should be the preferred approach. Poverty measurements developed by the World Bank uses the US\$ as a yardstick (US\$1 per day = poverty line).

According to domestic estimates  $\frac{1}{4}$  of the Sri Lankan population lives in poverty. People live in poverty because they do not have sufficient income to spend on their needs and are unemployed due to the low level of investment. The investment level is low because of low savings and the savings are low because of low income. This is a vicious cycle which will keep people in poverty until the cycle is interrupted. This vicious cycle could be countered by international trade and foreign investment. The more a country engages in trade (export trade) the wealthier it will become.

What are the links between trade and poverty? There exist two links between trade/poverty. The first link exists between trade policy and economic growth while the second link exists between economic growth and poverty. However, in practice even if the economy grows, poverty increases, if there is no equity in the distribution of income, namely if the acquired wealth is concentrated in a few people.

In attempts at poverty reduction, Sri Lanka rates very low. Economic growth, that is more than ½ the GDP is concentrated in the Western Province. This has resulted in a decrease in urban poverty. However, rural areas lag behind and therefore poverty in Sri Lanka can be considered more a rural phenomena.

Rural areas lack the necessary expertise/technology in the process of production/marketing etc. They (the rural farmers) have no way of avoiding mercenary-minded intermediaries who benefit at the poor farmers' expense.

When embarking on international trade, the idea that it will benefit rural areas/the masses must be viewed with caution since most developed countries use their political/economic power to give themselves an advantage in trade to the detriment of developing countries, like for instance by safeguarding their domestic market (using protectionist measures), giving huge subsidies to their farmers, imposition of high tariffs. So it is quite a challenge to convince farmers that world trade would be beneficial to them. In Sri Lanka, tariffs average 20%.

Sri Lanka should shift to high value export crops such as gherkins as well as identify niche sectors in the world market such as traditional handicrafts, ayurvedic medicines, fair trade products etc.

### Q/Comments

What is the message of the campaign publication? Is trade good or bad? Trade can be beneficial. We can't rely on traditional farming alone. It is

important to look at non-traditional /high value (other than paddy farming) crops. However, it is difficult to convince the farmer. Giving less prominence to paddy cultivation and thereby promoting high value crops is a politically sensitive/ contentious issue. Promoting high value crops destroys traditional farming. For instance, the cultivation of gherkin will destroy the soil. So finding a solution is not that easy.

Question/Comment

The agrarian policy followed in Sri Lanka in the 1970- 1977 here was a total failure. However, countries like South Korea have followed agrarian policies in the 1950s which were successful. We can learn from economic policies adopted by countries like Taiwan, South Korea, even though their human right record is/was not good.

Q/comment

Considering the protracted war in the country and the high expenditure on defence and other costs that are incurred in a war, Sri Lanka has managed to keep afloat economically by trading in garments.

The service sector in rural areas and the contribution of migrant workers, which can be considered an aspect of trade has contributed enormously to the national economy. In this light it is hard to say that trade has not had an impact on development and poverty reduction.

Response

The point we are trying to convey is not to avoid engaging in trade but to ensure that Sri Lanka gains rather than loses by it.

Q/Comment

Why is the focus exclusively on farming? What about areas like tourism? It is important to clarify the exact focus of the campaign kit. Trade should consist of manufacturing, agriculture and services. However, in the campaign kit the focus seems to be on agriculture alone.

Q/Comment

The definition of (WB definition) poverty seems to cover the economic dimension rather than a multi-dimensional approach.

The focus here is on trade, however, before trade, there must be investment. In agricultural trade, it is important to distinguish between domestic and international trade. In international trade, tariffs, WTO rules etc apply.

When considering international trade, must first determine whether there is a market. The protectionist measures adopted by the developed countries can hamper exports by developing countries. Thus the question arises as to whether we have the capability to export.

We must focus on niche markets like trade in organic products, ayurvedic products/herbal preparation which though low in volume, is high in value.

The tea industry comes under agriculture and is a high income earner. The conditions of plantation workers have to be taken into account. Do they benefit by international trade/economic growth? How can the workers benefit from increased growth? Rural poverty, international trade and domestic trade should be addressed. All these issues must be discussed in the campaign document.

Q/comment

The issue of dumping was brought up. Membership in the WTO resulted in the opening of domestic markets to cheap imports which adversely affect local industries. Anti-dumping measures are expensive.

Q/Comment

On the importance of gender equality and differential impacts of trade on women and children. The trade/justice campaign kit is gender neutral. Poverty impacts on women/children. Most of the garment workers, migrant workers are women (low skill, the informal sector). The LST campaign kit must give poverty levels of men and women. It must give credit to the contribution that women make.

Q/Comment

What has kept the economy fairly resilient are the crucial reforms carried out after 1977 with the introduction of the open economy policy. The telecommunication reforms in the 1990s too led to the enormous growth in the telecommunication sector. The bulk of the economic growth in Sri Lanka is said to come from the telecommunication sector.

Trade is supposed to increase migration. However, there is no clear cut evidence of this. There is hardly any out-migration to West Asia from poor, rural areas in Sri Lanka. Most of the migration is from the western province.

Q/Comment

Free trade and the open economic system have resulted in unfair trade. The transport, health and education sectors are in crisis. Many sectors have been taken over by multi-national companies. With the 1977 economic reforms, small traders have been wiped out. Trade should also deal with social issues like migration. India offers some valuable experiences and

lessons for Sri Lanka in achieving economic growth while protecting domestic industries and agriculture. Non-traditional prawn cultivation is reported to have ruined the environment.

Q/Comment

Described the draft campaign kit as a romantic document. There were doubts as to some of the facts (or those hypotheses presented as facts). The trading world is controlled by multi-national companies. The multinational companies are writing/heavily influencing the contents of some of the agreements in the WTO.

Using the WB definition of poverty gives a wrong picture. What right has the WB to define poverty? When we look at their record, they are very poor in using effective strategies to reduce poverty in developing countries. The definition of poverty is multi-dimensional. The WB looks only at the monetary aspect. For example, the WB has been putting pressure on the Sri Lankan government to privatize water. However, there has been a lot of opposition to this move from pro-rights/human rights groups.

In Sri Lanka, inequality has been going up since 1977. World inequality too has increased.

Does economic growth reduce poverty? Why has the campaign kit emphasized the relationship between economic growth and the reduction of poverty? There does not seem to be a definite connection. No trickle down effect is seen.

To gain a comparative advantage, must export labour intensive goods. How does this increase wages?

The tea industry has an export history of 150 years. However, labour conditions are worst in the tea plantations.

Response

The paddy sector is in a terrible state because of the World Bank coercing the government to move away from paddy. The Government support systems have failed. Support is necessary for a strong local economy.

Q/Comment

It is good to give support to farming/paddy cultivation. But the question arises whether all these paddy farmers are going to benefit. Sri Lanka imports rice too. We must look at the domestic sector. Do we have the capacity to export rice? It is important to look at the demand/supply capacity.

When looking at other countries like Taiwan, South Korea, we can't blindly look at them as examples/models. The situation/growth pattern is different. So we can't follow it as a model. Sri Lanka's economic growth pattern is different.

It is the same with countries like India/Japan. They protected paddy farmers. However, it is the services/industry sector which contributed to Japan's growth.

It is important to keep in mind the Sri Lankan context.

Q/Comment

Next to garments, the biggest net contributor is remittances from migrant workers. Singapore/Hong Kong are city states, so Sri Lanka may not be able to look at these countries as models. However, Taiwan is closer to Sri Lanka. Kerala in India is said to be a more instructive example.

Q/Comment

SL's definition of poverty is based on consumption and measured by the Census and Statistics Department. Therefore it is not the WB that



defines poverty in Sri Lanka. The country in question (Sri Lanka) and not WB/IMF is responsible to adopt policies/practices to reduce poverty. The WB/IMF merely plays a supportive role, therefore unfair to blame the WB.

Q/Comment

The World Bank's definition of poverty is not the only definition. There are lots of other definitions. The documents must give credit to other definitions as well.

Response

Development must not only cover economic growth but must take into consideration human development (this is given in the UNDP Report). It is not correct to limit it to a monetary value.

Q/Comment

Small farmers are said to have lands that are unviable. It was pointed out that these lands are not unviable. To increase the strength of farmers, it is necessary to lower the import cost. Ecological methods should be followed. It was also pointed out that the paddy purchasing scheme is not effective.

Q/Comment

The urban poor constitute about 6%. The majority of the poor are in the rural sector. The problem with paddy is in the marketing and supply. The problems lie in the middleman getting most of the profits. The farmer has to spend a lot of money on the preparation of the land and the use of fertilizer.

Q/Comment

State Banks can give farmers credit. However, the credit recovery rate is very low in relation to farmers. There must be ways of removing these barriers. The public sector was dismantled and the private sector took over (re reforms of 1977 and after.) Before 1977, the Paddy Marketing Board was there to safeguard the farmer. Now there is no such regulation.

Response

The government focused on paddy in the 1960s and 1970s. There was a guaranteed price. Now there is a fertilizer subsidy. We need to revitalize the paddy sector. However, nothing is moving. Whenever, the government introduces a minimum price, it must ensure that it is maintained.

During the paddy harvest season, the government is unable to purchase the entire paddy. They are unable to do so because the whole system has been dismantled (the system in place before the 1977 economic policies). The stores and the mills have been sold. There is no infrastructure.

Q/Comment

Oxfam, ODI, SAWTEE/CUTS all do similar work on trade. It is important for LST to look at what they have done.

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13<sup>th</sup> February 2007

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