

Media Workshop

Role of trade in poverty reduction

1-2 December 2006

Nagarkot, Bhaktapur, Nepal

**Organised by
Forum for Protection of Public Interest (Pro Public)**

in association with

**Society of Economic Journalists of Nepal (SEJON)
and
South Asia Watch on Trade, Economics & Environment (SAWTEE)**

Workshop Report

Introduction

Under the "Linkages between Trade, Development and Poverty Reduction (TDP)" Project, a one and a half day media workshop for economic journalists was organised by Forum for Protection of Public Interest (Pro Public), in association with Society of Economic Journalists of Nepal (SEJON) and South Asia Watch on Trade, Economics & Environment (SAWTEE) in Nagarkot, Bhaktapur, Nepal on 1-2 December 2006.

The objective of the workshop was to aware economic journalists about the linkage between trade and poverty, particularly in the Nepali context and to enhance their reporting skills on issues of trade, development and poverty. The workshop was participated by twenty seven economic journalists of leading print and electronic media of Nepal (*see Annex 1 for the list of participants*).

Proceedings

The workshop was divided into four sessions (*see Annex 2 for the programme details*).

Session I

In the first session of the workshop, Dr Dilli Raj Khanal, Former Member of the National Planning Commission (NPC) of Nepal, made a presentation on the topic "An overview of linkage between trade and poverty".

Dr Khanal started his presentation by defining trade liberalisation and the routes through which it occurs. He said that Nepal's trade liberalisation has been undertaken mostly through the unilateral route. He then explained the gains of trade liberalisation and the channels through which such gains occur. Citing a World Bank study, he said that poverty reduction through growth would be more sustainable than the reduction due to distribution change.

Discussing the theoretical and empirical bases of the link between trade and poverty, he said that Stolper-Samuelson and Heckscher-Ohlin trade theories, which state that income effect is key to reducing poverty through trade liberalisation, are considered to be more relevant from developing countries' perspectives. He discussed the different channels and mechanisms of trade liberalisation affecting poverty, but said that important key factors for positive outcomes would depend on the existing initial conditions and structure of an economy; features, sequencing and the process of reforms; state of market institutions and their implementation capacity; and parallel policy measures including a mechanism to compensate potential losers.

Regarding the empirical evidences of the effects of trade liberalisation on poverty, he said that most of the studies have shown a positive impact, although emerging consensus is that trade liberalisation generally worsens inequality. Despite uncertainty about the size of the effect, he said that trade restrictions are harmful to long-run growth.

Summing up his presentation, he said that along with trade liberalisation, compensatory policies and programmes are essential to have a positive impact. For that matter, the major steps to be taken include consistency in macroeconomic policies through a priory ex-ante impact analysis; and complementary reforms, which include infrastructure development, developments of markets, suitable labour policy, social safety nets, asset redistribution and access to social capital and government action in key areas.

After the presentation, the participants raised their concerns whether the liberal trade policy that Nepal undertook was a right step forward since it has been experienced that trade liberalisation has not provided social justice. They also argued that withdrawal of subsidy in agriculture was not a wise decision since this has eroded Nepali farmers' competitiveness. The participants also expressed their concerns about the missing link in rural areas and market centres. They also expressed their views that the private sector has a major role to play in establishing the rural-urban linkage and promotion of cooperatives can help develop clusters by means of which rural produce can get easy market access.

In response to the queries and comments of the participants, Dr Khanal said that under trade liberalisation, we only concentrated on deregulation ignoring the compensatory measures to be adopted for the vulnerable groups. Therefore, the remedy is not to adopt protectionist policy again but to develop compensatory policies for the losers and to provide certain incentive structure to Nepali producers.

Session II

The topic for discussion in this session was "Agriculture trade and poverty reduction - Nepali experience". Dr Shiva Sharma, General Secretary at the National Labour Academy, was the resource person for the session.

Dr Sharma started his presentation with the status and incidence of poverty in Nepal showing that although poverty has declined markedly since 1995, according to the Nepal Living Standard Survey (NLSS) Report, it is still wide among the agricultural labour households and small land holders.

Presenting the statistics on the Gross Domestic Product (GDP) growth rate of Nepal, he said that Agricultural GDP growth rate has been lower than the overall GDP growth rate. He attributed such low AGDP growth rate to declining public sector investment in the agricultural sector. Contrary to what had been emphasised in the Agriculture Perspective Plan (APP), the investment growth rate after APP was negative in all the components of the agricultural sector, except extension and rural roads. Similarly, without strengthening farmers' capacity and developing adequate infrastructure, subsidies provided in the agricultural sector was completely removed, thereby eroding the competitiveness of the Nepali agricultural sector.

The market surplus of paddy in Nepal is 27 percent and that of lentils is 42 percent. However, it is the top 20 percent farmers who account for 90 percent of sales of cereals. Subsistence farmers lack the ability to respond to price changes. Therefore, trade of agricultural produce in Nepal, so far, has had a minimal impact on poverty.

After the liberal trade policy was initiated in Nepal, prices of different agricultural produce like rice, fruits, etc. have been falling, but input prices have been rising. Because of high productivity and subsidy provided to farmers in India, cheaper imports of rice have taken place. However, such cheap imports of rice to Nepal from India have not had a damaging effect so far because Nepal is a net food importing country.

In order to make agricultural trade reduce poverty, Dr Sharma presented a few policy prescriptions. He said that the production structure should be linked with the rural poor groups. To enable the poor to benefit from growth via trade, ownership of assets and guaranteed employment is required. More importantly, public investment in agriculture is a must to enhance supply side capacities. For example, if subsidies on shallow tube wells cannot be provided, they should be developed as agricultural infrastructures.

After the presentation, the participants actively participated in reinforcing some of the arguments of Dr Sharma and in some cases, providing their views. They said that the APP was indeed wrongly implemented and now there is a need to review it and learn from the lapses. Some were of the view that the subsidies which were provided in the past benefited only the upper class and therefore, in the present context, when we are discussing about reviewing our policy of providing subsidies, we need to ensure that the subsidies would benefit the targeted beneficiaries.

Session III

Dr Pushkar Bajracharya, Professor at the Central Department of Management at Tribhuvan University, was the resource person for the third session of the workshop. The topic of the session was "Non-agriculture trade and poverty reduction - Nepali experience".

Dr Bajracharya started his presentation with the basic theoretical concepts of trade and its importance referring to examples of a few Asian countries. He then gave an overview of the major exports of Nepal and said that Nepal can gain from service trade since it has the comparative advantage in services in relation to India and China. Discussing about the role of trade in poverty reduction, he said that researches have shown that about 83 percent of poverty in the world has been reduced by growth and trade has been the major contributor to growth.

Speaking about the Nepali experience, he said that trade in Nepal has generated direct and indirect employment opportunities to almost 500 thousand people in export oriented industries alone. At the same time, the informal sector is estimated to generate some two million employment, of which trading is the main activity. He further said

that trade promotes auxiliary activities like transportation, communication, tourism, support services, etc and encourages production activities. The overall impact of all of these activities would be on poverty reduction.

Presenting evidences of the role of trade in poverty reduction in Nepal, he said that in between 1992-1996, there was a reduction of poverty by 3 percentage points mainly contributed by trade. That can be attributed to the growing carpet and garment sector in Nepal during that period.

The carpet sector at its peak was able to generate more than 300 thousand jobs through different activities like spinning, carding, weaving, finishing, washing and trading. Because of that more than 150 thousand households had benefited from the carpet sector. Even today, when the sector has declined substantially, about 60 thousand people are employed in it. However, in the absence of backward linkage, it was not able to generate as many jobs as it could have otherwise.

Similarly, in the case of garment, the industry generated up to 80 thousand jobs at its peak with 60 percent employment for the local people, which had arisen substantially in the later years. At present, because of the declining performance of the sector due to the expiry of the quota regime, it has been able to provide employment to only 5,000 people. In the case of Pashmina too, at its peak, this industry was able to generate up to 100 thousand jobs. But because of quality and other problems, export of Pashmina has reduced significantly because of which a large number of people employed in this sector has become unemployed. The major reason for the deteriorating performance of the carpet and pashmina industries is our own negligence and carelessness.

Dr Bajracharya said that micro enterprises can play a very important role in poverty reduction. Studies have shown that an investment of Rs, 10,000 in a micro enterprise can generate one employment whereas in a small and a large enterprise, to generate one employment, investment of Rs. 250 thousand and 1 to 2 million respectively is required. Therefore, promotion of micro and small enterprises that include trade is essential if poverty is to be reduced significantly.

Although trade can play an important role in poverty reduction, there are areas where caution is required. Trade in isolation is not possible and at the same time it needs to be understood that trade cannot substitute production. In the case of Nepal, in order to benefit from trade and reduce poverty through that means, domestic cushion is essential. In the name of trade liberalisation, the government should not leave everything to the market. Adequate safety nets for the vulnerable should be built. Similarly, to enhance the competitiveness of our products, we must have a mechanism of standardisation and monitoring.

As a few strategies which Nepal could adopt to make trade work for the poor, Dr Bajracharya said that promotion of backward linkages is necessary. We could also benefit from services trade if we could be able to tap outsourcing. More importantly, developing institutions like export houses to promote micro and small activities could

be extremely beneficial. Simultaneously, monitoring mechanism should be enhanced. At the international level, we need to join hands with other like minded nations to fight for LDCs' rights and for making the global trading system more equitable.

Finally he said that balanced reporting and presentation is needed when we talk about the linkage between trade and poverty. While studying about a particular impact, it is necessary that an overall impact assessment and consideration is carried out.

Session IV

The final session of the workshop was designed to discuss the tools required to analyse the linkage between trade and poverty and, therefore, was named as "Tools and their application in analysing the linkage between trade and poverty". Dr Bishwa Nath Tiwari, Associate Professor at the Central Department of Economics at Tribhuvan University was the resource person for the session.

Dr Tiwari started his presentation by thanking the organisers for keeping a session on application of tools to examine the trade poverty linkage since he had felt that it was important for economic journalists to have the capacity to identify the tools required to see such linkage, otherwise there would be errors. He cited an example of the previous year's reporting by almost all the Nepali media on the findings of the NLSS. The finding of the survey was that poverty in Nepal had reduced from 42 percent in 1995/96 to 31 percent in 2004/05, i.e by 11 percentage points. But the media had carried out the story stating that poverty in Nepal had reduced by 11 percent (in percent terms, it was 26 percent) over the period.

On the concept of poverty, he said that most often poverty is understood only in terms of income poverty. But it needs to be understood that poverty is multidimensional. Today, the definition of poverty covers income poverty, human/social poverty, exclusion and voiceless ness. Internationally, poverty is measured in terms of GNP per capita and nationally, we also have a national poverty line. Since comparison of poverty across countries by means of GNP per capita might not be useful because of the movement in exchange rates and the possibility that converting all goods and services to US dollar tends to understate the income of LDCs, measuring national income at purchasing power parity (PPP) can give a clear picture of the poverty situation of a particular nation. Dr Tiwari then explained that PPP is the exchange rate at which the goods in one country cost the same as the goods in another country.

He then explained that the most commonly used poverty measures are head count index, poverty gap, proportional poverty gap and squared poverty gap, of which the head count index is the simplest and the most commonly used measure, although it has some limitations. Discussing about inequality, he said that the Gini coefficient is the most commonly used tool to measure inequality.

In the second and final part of his presentation, Dr Tiwari discussed about the different tools of international economics, terms of trade, effective rate of protection, etc. Then, as

in the previous sessions, he discussed about the effects of trade on poverty again emphasising that in order to achieve sustainable poverty reduction, growth is necessary and trade can be a major contributor to growth.

Because of time constraint, much discussion on the presentation did not take place. However, the participants' feedback on the content and presentation of the session was encouraging.

Closing session

The closing session of the programme had to be rescheduled because of the inability of Dr Shree Krishna Shrestha, President of Pro Public and Mr Navin Dahal, Executive Director of SAWTEE to attend the workshop. Therefore, the session started with the remarks by Mr Bishwamani Pokharel on behalf of all the participants. He spoke about the outcomes of the workshop. He said that the workshop was successful in refreshing all the participants about the issue of trade and poverty. The workshop was useful in identifying the issues. As he said, the participants also became aware of new issues to be covered in their reporting in the days to come. In short, the workshop was successful and more such workshops in the future are required.

At the end of the workshop, Mr Puspa Sharma, Senior Programme Officer of Pro Public thanked all the resource persons for accepting to contribute to the workshop. He also thanked the participants for their active participation and said that it was an initiation from the part of Pro Public to organise such workshop for economic journalists. If the outcomes of the workshop would be reflected in the participating journalists' works, more such workshops could be organised in the future. Everyone should have the feeling of taking up one's part of responsibility if we are really committed to making a difference.

Annex 1

List of participants

1. Bal Krishna Gnawali - Kantipur National Daily
2. Bijay Ghimire - President, SEJON and Economic Bureau Chief, Kantipur National Daily
3. Bishnu Sheetal - Nepal Samacharpatra Daily
4. Bishwa Mani Pokharel - Samay Weekly
5. Dinesh Karki - Deshantar Weekly and Independent Business News
6. Dipendra Bantawa - Kantipur Television
7. Gajendra Budhathoki - Nepal Samacharpatra Daily
8. Gehini Joshi - Kantipur Television
9. Gokarna Awasthi - Independent Business News (Artha Ko Artha in Nepal Television & Image Television Biz News)
10. Himal Neupane - Kantipur Television
11. Jayram Subedi - Nepal Samacharpatra Daily
12. Keshav Adhikari - Nepal 1 Television
13. Krishna Bista - Economic Post
14. Lavesh Pyakurel - Avenues Television
15. Madhusudan Poudyal - Samay Weekly
16. Maina Dhital - Kantipur National Daily
17. Narayan Sapkota - Nepal FM
18. Om Thapa - Gorkhapatra Daily
19. Pradeep Chapagain - Nepal Television
20. Pramod Giri - Annapurna Post Daily
21. Ramchandra Bhatta - Nepal Samacharpatra Daily
22. Sanjay Neupane - Kantipur National Daily
23. Saroj Kafle - Annapurna Post Daily
24. Shiva Duwadi - Channel Nepal Television
25. Sudeep Shrestha - Kantipur National Daily
26. Vibek Raj Maurya - Himal Media
27. Yadu Prasad Devkota - Channel Nepal Television

Annex 2

Media workshop
Role of trade in Poverty Reduction
1 - 2, December 2006

Organisers: Pro Public, SAWTEE and SEJON

Programme Schedule

1 December, Friday

02:00 p.m.	Departure to Nagarkot
03:30 - 04:00	Tea
04:00 - 04:30	Introduction, objectives and expectations of the participants
04:30 - 06:00	An overview of linkage between trade and poverty: Dr Dilli Raj Khanal, Former Member, NPC

2 December, Saturday

08:30 - 09:00	Breakfast
09:00 - 10:30	Agriculture trade and poverty reduction - Nepalese experience: Dr Shiva Sharma, General Secretary, National Labour Academy, Nepal.
10:30 - 11:00	Tea
11:00 - 12:30	Non agriculture trade and poverty reduction - Nepalese experience: Dr Pushkar Bajracharya, Professor, Central Dept. of Mgmt., TU
12:30 - 01:30	Lunch
01:30 - 03:00	Tools and their application in analysing the linkage between trade and poverty: Dr Bishwa Nath Tiwari, Associate Professor, Central Dept. of Eco., TU
03:00 - 03:40	Closing session (Chair: Dr Shree Krishna Shrestha, Chairman, Pro Public)
03:00 - 03:10	Remarks: Resource persons
03:10 - 03:20	Remarks: Mr Navin Dahal, Executive Director, SAWTEE
03:20 - 03:30	Remarks: Mr Bijay Ghimire, Chairman, SEJON
03:30 - 03:40	Remarks and vote of thanks: Dr Shree Krishna Shrestha, Chairman, Pro Public
03:40 - 04:15	Tea
04:15 p.m.	Departure from Nagarkot