

Proceedings Report

Learning from the Economic Crisis: Impact and Lessons

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Speakers:

Mr. Purushottam Ojha, Former Secretary, Ministry of Commerce and Supplies
Dr. Shankar Sharma, Former Vice Chairman, National Planning Commission

Voices from the ground:

Dr. Surendra Labh, Social Researcher and Political Economist
Bhola Paswan, Freelance Journalist, Saptari
Ajay Pradhanang, Former President, Nepalese Young Entrepreneurs Forum

Moderator:

Sujeev Shakya, Chairperson, Nepal Economic Forum

With the ongoing agitations and unrest in the Terai-Madhes region having passed the 100-day mark and with border points obstructed since the promulgation of the long-awaited constitution, Nepal has been headed towards an economic and humanitarian crisis. With import supplies of essential goods like food items, medicines, petroleum products disrupted, day to day livelihood has become a struggle and macroeconomic indicators point towards a grave future ahead for Nepal. The current economic crisis has laid bare the manifold vulnerabilities of the Nepali economy and has rekindled the discourse on food and energy security, trade diversification, and greater self-reliance. Meanwhile, the abundance of opinions and lack of proper reporting from the ground has led to dissemination of distorted facts and half-truths which have further exacerbated the psycho-social impacts of the crisis. In order to bring voices from the ground to the fore and to deliberate on lessons that can be taken away from the current crisis, Alliance for Social Dialogue (ASD) and Nepal Economic Forum (NEF) jointly organized an event “**Learning from the Economic Crisis: Impact and Lessons**”.

Voices from the ground

Dr. Surendra Labh reported that in the eight most affected districts of eastern Terai, where Human Development Index (HDI) has remained historically low, agricultural activities have come to a grinding halt due to the acute shortage of fuel and fertilizers whereas just across the border on the Indian side winter plantation has already gained momentum. Similarly, most industries have either closed down or are on the verge of closing. With offers and schemes suspended and dwindling commission from the dealers, not to mention the significant shortage of goods, retail market has been battered. The current economic crisis has led to the **emergence of shadow economy with rampant black-marketing on the rise**. Hospitality and

transportation sector have also been severely affected with huge revenue losses during the period. Slowdown in economic activities has also had adverse effects on real estate and banking sectors. Consequently, the youth and entrepreneurs have been left contemplating about migrating overseas to escape the current crisis.

Focusing on the impact of the crisis on Saptari, journalist Bhola Paswan mentioned that out of the 70,000 hectares of arable land, only 42,000 hectares of land is generally cultivated whereas this year the figure has further slipped to 32,000 hectares with a projected loss of 34% output. Out of the 24,000 hectares of land suitable for wheat cultivation, it is now uncertain if even 10,000 hectares of land can be planted at present due to the shortage of chemical fertilizers and fuel. Similarly, the impact on the income of a large number of banana farmers in the area has been adversely affected by the prolonged crisis in Terai. There has also been an acute shortage of construction material leaving the construction sector in limbo and rendering large numbers of construction workers jobless. Ten rice mills and almost 5000 small shops have remained closed. Brick factories in the region which usually employ workers from Bengal have accounted huge revenue losses as workers have not been able to come across the border due to the ongoing unrest. According to Mr. Paswan, **rent-seeking agriculture and remittance have kept the economy going in the region during this time of crisis.**

Entrepreneur Ajay Pradhanang pointed out that the impacts of the current socioeconomic crisis will run much deeper than what seems superficially apparent at present. Not just imports but exports have also been drastically affected as most industries in Nepal depend upon imports from India for raw materials. Small and medium enterprises (SMEs), construction materials industry, and agro-based industries have all been hit-hard. Illustrating an example of an IT entrepreneur based in Kathmandu planning to relocate operations to Gurgaon, Mr. Pradhanang noted that **most youth entrepreneurs are questioning whether the decision to stay back and do businesses in Nepal was a good one.**

From the Panel

Panelist Purushottam Ojha opined that the current problems relate to political economy and need to be viewed through the lenses of Nepal's internal issues, trade relations with neighbors and landlocked country rights. Presenting statistics on imports and exports, Mr. Ojha highlighted that international trade has been dealt a serious blow and has resulted in **significant revenue losses for the government.** The idea that balance of trade is easing as a result of import obstructions is fallacious as Nepal's exports are also reliant on imports for raw materials. The panelists concurred that smuggling activities and shadow economy proliferation have surged during this time. Dr. Shankar Sharma pointed out that there are three things that are moving the economy at present viz., agriculture, remittance and smuggling. On one hand, at macro-level, there are projections of negative growth of the economy and on the other hand, there is a grave risk that a **large number of people will be pushed below poverty-line.** Earlier, the earthquake had pushed an estimated 700,000 people below poverty-line.

What can be done?

The panel concurred that Nepal needs to **prioritize and work towards achieving food and energy security and diversifying trade.** While a lot is said and written during times of crisis, as the dust settles

down and things normalize, priorities get realigned and the importance of these issues are overlooked. Mr. Ojha pointed out that increasing connectivity with China would not only lead to increased trade between Nepal and the northern neighbor but would also be instrumental **in turning Nepal into a transit channel between India and China** which will accrue long-term benefits to Nepal.

Given Nepal's large food import bill and the need for the country to be food secure, it is **imperative that the agriculture sector be incentive-oriented** and investments in this sector increased. In order to check black-marketing of food stuffs, Dr. Sharma pointed out the need to activate agro-based State Owned Enterprises (SOEs). Meanwhile, food and fuel rationing need to be targeted to vulnerable communities properly in the short-run.

As the current crisis is spawned by problems that are political in nature, the panel concurred that a **political solution to the problem is vital**. Mr. Ojha stressed the need to look at the current crisis from two perspectives; from behind the borders and beyond the border. Both the panelists highlighted the **importance of stepping up diplomatic efforts**. Dr. Sharma pointed out the need to conduct diplomatic activities without swaying away from the norms of diplomatic conduct and without unnecessary brashness. Mr. Ojha stressed further the importance of **track-two diplomacy** and the need for **business communities in Nepal and India to collaboratively put pressure on stakeholders to ease the impasse**. He also mentioned that Nepal can use the various legal instruments at its disposal to draw attention of the world to the ongoing problems. In order to make the government well-equipped to deal with contingencies, there is a need for effective governance reforms which will enable accountability.

The Road Ahead

As current experiences have shown, as crisis looms over the country the market witnesses a significant shortage of food products putting upward pressure on their prices. On the other hand, without fuel every sector of the economy gets hamstrung, be it agriculture, transportation, manufacturing enterprises, construction or tourism. Moreover, energy security is a key requisite to provide impetus to developmental activities. Over-reliance on a single trade partner and a few trade routes has laid bare Nepal's trade related vulnerabilities at present. Therefore, in order to better place Nepal to deal with contingencies in the future, provide a cushion to the economy, as well as to meet Nepal's developmental aspirations, three fundamental areas need to be prioritized and worked towards viz., **food security, energy security and trade diversification**.

Nepal Economic Forum is a not-for-profit organization initiated by beed and aimed at becoming Nepal's premier private sector led economic policy and research institution.

Alliance for Social Dialogue aims to promote dialogue within Nepal on a variety of issues, including but not limited to the promotion of democratic values and institutions in Nepal.

neftalk is a platform for policy discourse and discussion on pertinent economic issues