

Competition in Rice Export Trade of Nepal: A Politico-Economic Analysis

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His Majesty's Government of Nepal has allowed the private sector to compete with the eight rice and paddy export companies, institutionalized in the fiscal year 1974/75. The basic raison detre of these eight companies have been challenged, and their objectives being aberrated, blurred and clouded. To substantiate this thesis it can be stipulated that the main argument given by the then minister of state for finance was the stabilization of prices of these commodities and to receive revenue for the financing of Government's public expenditure programmes. To quote him, "Nepal is predominantly an agricultural country. Agriculture contributes two thirds of the gross domestic product. Under these circumstances we cannot effectively manage our economy without improving the marketing, distribution and export of agricultural products. The present system which is unorganized and restricted has neither contributed significantly to the government revenue nor yielded potential benefits to the nation. In view of this HMG has decided to institutionalize the export of rice and paddy in the next fiscal year.¹ Regarding the role of middlemen who were the main traders before the institutionalization of the rice and paddy export trade, the budget minister has said" the government will take proactive approach in this venture and will assign an important role to the businessmen engaged in this trade. I believed that this measure will lead to substantial increase in government revenue besides helping to stabilize prices.² However, the role of the middlemen were not eliminated at all even after institutionalization. On the contrary, they become economically more powerful to export press-

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1. See Budget speech of the fiscal year 1974/75 (HMG) Ministry of Finance P—6.

2. IBID P—6.

ure upon the government to almost deinstitutionalize these companies. They become able to restore their right to trade in agricultural products which is considered strategic for an agricultural country. As Prof. Simon Kuznets of Harvard University said "Contribution of agriculture to export assumes strategic importance since in most countries economic growth is a matter of following the pattern set by the nations that have already experienced this process; and a follower nation must trade with the more advanced countries which can provide it with the tools of modern technology. 3/ But opposite to this idea, Nepal is granting the privilege to the private people so that the benefits could be reaped by a small sector of the population rather than by the nation.

FACT VS. ARTIFACT :

After nearly four years of operation of these eight companies the government thought that they have belied the expectations which created them. The minister who presented the budget for the fiscal year 1979/80 said "monopoly in rice trading has been put to end by the budget for the next fiscal year. Anyone including the rice export companies will be authorized to export rice from the next fiscal year. However the levy on export of rice would be fixed from time to time on the basis of international situation of rice and the internal consumption." 4/ The decision taken by the government is not based on sound logic economic analysis and political reasoning. On the other hand announcement given by the minister to evaluate the role of the public sector enterprise itself contradicts this statement. It was argued in the budget speech that many of the corporations have not been able to run on profit (emphasis underlined). In many cases His Majesty's Government has to heavily subsidize the corporations directly or indirectly. In the current fiscal year, the Government corporation excluding the Nepal Rastra Bank are to make a profit of meagre ten million ruppees. 5/

This Policy statement shows that HMG is not clear about the concept and working of public sector enterprises in Nepal. Rice export trade is considered one of the lucrative areas

3/ See Prof. Simon Kuznets Economic Growth and Structure (Selected Essays) (Oxford and IBH Publishing Co, 1974, P—249)

4/ See The Rising Nepal (Kathmandu July 10, 1979 Tuesday P—1. Also see the Budget Speech for the fiscal year 1979—80).

5/ IBID P—1.

by the private sector. Even the government had reiterated that primary role of these companies would be to contribute financial benefits to the National Treasury. But the policy of permitting private sector to enter into rice export trade shows that this policy was influenced by a biased and prejudiced political vision. It was also commented upon by some of the then Rastriya Panchayat members. One member had said that the policies and programmes have naturally been influenced by the political and social situation obtaining today. 6/ The governments decision in such a sensitive and strategic area and particularly after the announcement of referendum forms the fact that the motive behind it is purely political. This policy is resorted to influence the business community which would help obtaining support both financial and moral for the retention of the Panchayat government.

The irony of the fact is that one of the main objectives of establishing eight rice export companies was to eliminate the role of the private sector which had the privilege of exporting rice to Indian market both legally and illegally. Huge amount of profit used to be pocketed by a handful of businessmen. Not only that the businessmen had controlled the export but they had also controlled the supply of rice within the country. Creation of artificial shortages by hoarding in Large quantity and thereby increasing the price of these commodities, the businessmen had fully controlled the supply of food in the country. But the government did not completely abolish the role of private sector by nationalizing them under complete government ownership but instead structured under the company form of organization with a view to diluting ownership with the private sector. But due to many constraints the rice export companies did not fully expand their operation by opening sufficient number of procurement depots. It gives an ample opportunity to the private sector to work as a middlemen to supply the agricultural products to the rice export companies. So the operation of these rice export companies were influenced by a handful of businessmen. The major weakness of this situation was that the interest of the real producers was not protected because of (a) lack of adequate number of procurement depots (b) ignorance of price (c) lack of transportation facilities, and (d) urgency of financial requirement. This situation demands that the role of these eight rice export companies had to be expanded and improved so as to fulfill the objectives by supplying the required amount of financial support. Contrary to this expediency it is decided to allow competition with the private sector which has brought their sickness.

6/ See The Rising Nepal July 12, 1979 Thursday P-3 Some of the members changed that the budget was more in favour of businessmen and industrialize than people in general. Also see The Rising Nepal July 13, 1979.

PERFORMANCE EVALUATION:

The performance record of any enterprise should be studied before arriving at such important decision. Decision like the letting out of rice export trade to the private sector also cannot be taken in isolation. If this aspect of the eight rice export companies is assessed the result is not frustrating and dismal nor very encouraging and satisfactory. However, the government should think in a broader socio-economic interest. For instance, if state enterprise is incurring huge amount of losses, even then it will not be in the interest of the country to hand-over it to the private sector. On the other extreme if that enterprise is running at profit (if it has financial importance) the question of transferring it to private sector or allowing the private sector to operate in that area does not arise at all. If we evaluate the performance of the eight rice export companies in terms of the financial benefits^{7/} and investment by HMG, their performance do not reflect a sorry state of affairs which would have grievously disappointed the hopes of the government. The following table substantiates this thesis.

**Share Participation by HMG,
& the amount of Dividend
For the year 1976/77 & 1977/78**

Name of the Company	HMG Investment up to 1977-78	Dividend 1976-77	Dividend ^{7/} 1977-78
1. Mechi Rice Export Co.,	13,05,00	3,26,250	2,34,900
2. Koshi Rice Export Co.,	5,76,100	1,44,025	1,15,220
3. Janakpur Rice Export Co.,	10,56,500	2,39,030	
4. Sagarmatha Rice Export Co.,	11,56,600		
5. Narayani Rice Export Co.,	13,02,000	3,25,500	1,04,160
6. Lumbini Rice Export Co.,	25,45,500	62,290	1,335
7. Far Western Rice Export Co.,	8,78,700	2,19,675	
8. Seti Mahakali Rice Export Co.,	14,00,000		

^{7/} The government had considered these enterprises at revenue yielding for which they have to operate on commercial principle. Please refer to footnote number 5.

Source :- Auditor Generals Annual Report (1979). Part (3) Kathmandu. June 22, 1979 (Ashad 8, 2036) P-87 Auditor Generals Annual Report 2034, (Part 1) Jestha 31, 2034 P-19, (The latest data is available for 1977-78. Some of the rice export companies have not yet finalised their annual reports for 1978-79).

Looking at this table we find that there is a considerable decline of dividend in the year 1977-78 which dropped from nearly 13 p.c. on the total investment to about 4.4 p.c. The total amount of investment has not been changed over the year because all the eight rice export companies were able to use accumulated reserves and also amount of loan obtained from the commercial bank increased to a greater extent. The reason for such a low percent of dividend is also accounted by the unavailability of annual reports of some of the rice export companies. The aggregate financial position of all the eight rice export companies individually or collectively reveal a favourable position. But it should not be the sole criterion of judging the performance of public sector enterprises. A long term socio-economic benefit is much more important than an immediate and high dividend yielding criterion. It should be the criterion of selecting any state owned projects.

Similarly if we look into the rice export made by these companies, the progress is quite remarkable if the figures are observed in absolute term, i.e. if they are analysed without considering the broader national problem.

Rice Export Statement (In M.Ten)

<u>Company</u>	<u>Fiscal Year :-</u>			<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>
Mechi	20332	41078	28613	16000
Koshi	23202	41470	21237	15000
Sagarmatha	12000	31189	16477	7000
Janakpur	6131	12028	7293	2000
Narayani	10000	14745	6812	1000
Lumbini	11425	12404	5124	500
Farwestern	8501	17592	9749	5000
Seti Mahakali	-	15250	3800	3500
Total Export				91591	185756	97205	50000

Source :- Food Policy and coordination committee, HMG, Nepal. Quoted by Shrestha G. R. Foodgrain Distribution System in Nepal. Nepal Food Corporation. Nov. 1978 P-7.

The estimated export in 1977/78 is far below the previous actual records because of the decline in the production. The maximum amount of export was in the year 1975/76 because the production went up 8% in this year and started decreasing in the subsequent year. The volume of rice export made by these companies comes to about 3.73 percent of the total paddy production in 1974/75, 7.3 percent in 1975/76, 4.06 percent in 1976/77 and 2.14 percent of the figure in 1977/78. The actual quantity of rice export in the 1977/78 was 5250 Metric Ton (19768 Metric Ton to India and 27290 to overseas countries). The pattern of production of foodgrain shows that there was 2 p.c. increase in food production in 1974/75 and it went up to 5 p.c. in 1975/76 and it turned into negative growth rate in the year 1976/77 and 1977/78 when they are compared with the previous figures. So is the case with the Production of paddy on the other-hand if we consider the population growth rate which is assumed to increase by 2.2 p.c. per year there will be negative marketable surplus of rice for export. The population projection shows that Nepal will have 23 million population (10) by the year 2000 and if proper and scientific attempts are not made the country will lead towards political chaos and complete economic collapse. If food grain production has to completely depend upon the inclemencies of weather the collapse is quite sure. The percentage decline in production of other main crops like maize, wheat, barley and millet is greater than the decline in rice. It shows that as the item of rice constitutes 43.35 p.c. of the total per capita consumption package of foodgrains, this fall in production will further accentuate the lead and there will be hardly any surplus left for export. This situation puts the operation of these companies into quandary. Therefore, it demands the problem of objectivity in regard to setting of priorities. For instance, which is more essential for Nepal; (a) Earning of foreign exchange resources or (b) Meeting internal food requirements? But so far as the creation of these eight rice export companies is concerned, they will not be absolved from their major objectives for which they are created. When we take this consideration into account their export record should be assessed. But the decision of HMG to allow the private sector cannot be justified by this export performance record alone. It should be governed by the national policy criterion.

8/ See G. R. Shrestha- Foodgrain Distribution System in Nepal Op cit P-3.

9/ See Economic Survey, Fiscal Year 2034/35 (1977/78) HMG. Ministry of Finance 1978 Table No. 12,4 This figure pertains to 9 months only.

10/ World Development Report 1979 (The World Bank Washington DC 1979) Table 17, P-158.

Apart from the dividend and foreign exchange earning by large export the government should have realised that these companies have provided employment opportunities for more than 500 persons. They have also contributed to the national treasury in the form of excise, custom duties and income tax. Thus the policy of competition has brought the precarious situation and the existence of these companies is being jeopardised.

POLICY IMPLICATIONS:— This competition between rice companies and private sector has far reaching implications in the national economy. Nepal has officially declared her economy as mixed where the interest of the private sector is being protected by the government's development plans and budget. But rice and paddy is to be considered as strategic for an agricultural country like Nepal. It is due to the fact that Nepal is facing a serious 11/ food crisis and allow the private sector to trade in this sector aggravates this food problem further. It is quite contradictory that Nepal had urged at the international conference to increase more food supply to Nepal 12/ to help the country tide over the crisis. And also the government has realized that it would be detrimental to the national interest to export rice at the cost of underfed population. So the government has prohibited the export of rice so long as the present food crisis is not solved. The rice export companies are supplying their old stock of rice worth 25000 metric ton (2035/36) to Nepal. Food corporation at the current market price to solve the food problem at the country.

One very serious implication of HMG policy of allowing competition is that after the declaration of policy the procurement of rice is virtually non-existent. It is due to three main reasons, (a) ban on export (b) marginal price increase by the private sector and (c) fall in production. The following table shows as to how the procurement of rice was adversely affected after allowing competition.

11/ Nepal's Serious food crisis is officially estimated at 740000 tonnes or 22 Pc of the normal output because of the widespread drought and other adverse weather conditions, See Times of India, March 17, 1980.

12/ IBID

Details of Rice & Paddy Procurement

Quantity Metric Ton.

Fiscal year 2036-37

Name of the Company	Rice Procurement Contract	Procurement of paddy	Procurement of Rice	Upto
Mechi	155000			036/12/7
Koshi				036/12/2
Sagarmatha	1000	1.5 Qtl	390 Qtl	036/12/8
Janakpur		3718 Qtl	3.6 Qtl	036/12/1
Narayani				036/12/27
Lumbini				036/11/30
Farwestern				036/12/12
Seti Mahakali				036/12/17

Source:- Information supplied by Food Policy & Coordination Committee HMG Nepal.

This table shows that most of the rice export companies are unable to procure rice and paddy which is the main transaction of their operation. This situation has gravely threatened the survival of these companies. On the other hand whatever marketable surplus is available, the private sector has purchased in a large scale with a view to exporting them for earning foreign exchange.^{13/} Under the present circumstance it seems that there are three possible options for the private sector. They are; (a) to export to India illegally or (b) to hoard rice and paddy, and make artificial shortage so that they could fetch a higher price or as a last resort (c) to sell them to the rice export companies or to Nepal Food Corporation provided the government takes strong measure against the first two practices.^{14/} About the behaviour of the private sector the

^{13/} The government has put a ban on export of rice but even then businessmen have procured rice and paddy by giving a marginally higher price to the producers and middlemen. (Information based on discussion with some of the officials of Rice and Paddy Export Company).

^{14/} As the old stock of rice with eight paddy and rice companies is about 25000 metric ton Nepal Food Corporation has estimated the present requirement under the emergency relief Programme as 50,000 metric ton (See Present Status of Nepal Food Corporation an overview report prepared by Nepal Food Corporations.)

Fifth Five Year Plan itself had stated "the hoarding and the resultant artificial scarcity of essential goods and the use of the convertible foreign exchange for unproductive purposes have been made possible largely due to the existence of unaccounted money" 15/ The same businessmen who were working as middlemen before competition was allowed are the main purchasers of rice and paddy during this time which means more concentration of wealth in the hands of few businessmen who have controlled the supply of essential commodities in the country.

The concept of mixed economy does not mean the granting of privilege of owning a certain percentage of national wealth between sectors. But if the percentage allotted to the private sector is not widely diffused or diversified, distortions in the national economy will be created and it will lead to more irrational and improper distribution of wealth. Prof. J. Bhagwati has rightly said "One of the most difficult questions raised by development concerns its effect on the distribution of wealth. Rapid growth in a mixed economy with private ownership of property and the means of production, produces conditions under which concentration of wealth and economic power are likely to thrive". 16/ He further added "the close link which develops between vested interests and governments is worrying not merely in itself but because it threatens eventually to stand in the way of economic progress". 17/ This is exactly applicable in the Nepalese context. If this situation prevails for a long time, the total economy will be under the control of private sector and it will threaten the survival of many public sector enterprises in Nepal. The burning examples are the Nepal livestock (P) Ltd., Ragupati Jute Mills, Birgunj Sugar Factory, Hetauda Textile (which has recently started production) and Bansabari Shoe Factory which have been adversely effected by competition with the private sector. It seems that the government is under pressure to hand over some of these units to the private sector. But those units which have a long-run socio economic objective cannot be handed over to the private sector as the main objective of establishing them is to provide monopoly to the state. Huge deficits will have to be borne to maintain their existence. As we have already stated with facts that the eight rice export companies are virtually defunct. In the present political state of affairs (until a stable government is formed) the government cannot take powerful decision regarding the complete reinstitutionalisation of these companies. So the supply of foodgrain will be a monopoly affairs of the private sector. On the otherhand the producers will not get a reasonable

15/ See Nepal The Fifth plan In Brief (1975-80) National Planning Commission HMG 1975 P-34

16/ See Prof. J. Bhagwati "The Economics of Underdeveloped Countries (Widenfeld & Nicholson 1971 P-202).

17/ Prof. J. Bhagwati The Economics of Underdeveloped Countries. Op cit P, 209.

price for their products. The resultant will be (a) the gap between the rich and the poor will be wider (b) the price of rice will be very high and it will affect the prices of other commodities (c) illegal trade practices will occur and there will be a further shortage of foodgrains in the country and (d) ultimately there will be a peasant's movement in the country (a class conflict between the real growers and rice exporters).

From the resources allocation point of view also this decision to allow competition is not bearing harmonious relations. For instance, the government has allocated resources between the private and the public sector for the agriculture. When the private sector individuals) as receiving benefits both physical and financial from the various resources supplying agencies the ultimate aim will be to atone for the real growers. But the benefits will be reaped only if the direct benefits goes to the real producers. When there is no rationale price control for the products the real growers will receive a very marginal benefit. The major percentage will go to the business men. In this way, the national resources used for the agricultural development will be exploited by a handful well privileged, source and resourcefull persons. It will bring sectoral imbalances and there by distort the mechanism of our mixed economy.

RECOMMENDATIONS;- Prof. Theodore W. Schult has said "the real culprit causing the poor performance of agriculture in the less developed countries is the lack of economic opportunities that are rewarding to farmers. But it does not follow that such opportunities are readily at hand or can be made viable even if governments pursue the best of all possible economic plans. 18/ But my contention is that certain policy decisions will further deteriate the performance of agriculture if they are formulated without anticipating the direct impact upon the agricultural sector. The decision of HMG to grant the trading privilege to the private sector is like the case mentioned above. To avert the possible economic evils arising from the private sector export fact certain options are stipulated before the government. We have already mentioned that the decision taken by HMG is not evidenced by facts and figurers nor called upon by the broader politico-economic situation prevalent in the country. But it is exclusively political in nature in the sense that this policy could be resorted to get financial and political support from the handful of businessmen. Economical unconduciveness is an ipso fact proof of this statement. Tomorrow,

18/ See Theodore W. Schultz "Economic Growth and Agriculture," (Tata Mc Graw, Hill Publishing Company 1968 P 5-6).

this decision will lose its propriety. Therefore following suggestions are put forward without speculating whosoever will take the responsibility but on the assumption that the government will be having certain amount of savoir-fair.

1. There should be a complete recession of ownership in the original line. The government should have a major percentage of share participation. The remaining percentage of ownership should be widely diffused. In place of having a big sum stock the shares should be of small denominations so that even the ordinary producers could buy it. Top priority should go to the real producers. This can be done through establishing co-operatives. The co-operatives should be established in each village or district according to the capacity. If such organizational structures are built, the producers will be directly benefitted. And in the meantime there will be a direct co-ordination between the government's policy and that of the co-operatives.

2. Another alternative before the government is to withdraw the ownership and conduct this trade completing through the co-operative organizations. The present capital contribution should be sold to the co-operatives along with that of the private people. The co-operatives should have every right to deal with in this field. Not only that it should have autonomy in administration but it should also have the right to fix the price (which will be according to the current market price) as there will be no exploitation because the producers are involved directly or indirectly. It should also have the right to export according to the most favourable economic situation. The government should take immediate steps to constitute the co-operative firm at various places. In place of paddy and rice export companies there should be 14 co-operatives at fourteen different zones. And there should be a control body at the apex of 14 fourteen or more members which will be a policy making body. There will be four echelons organization i. e. central, zonal, district and producers. There can be a village level organization, if necessary. There will be a board for each level which will be represented by the successive subordinate organization. They will be elected according to the principle of co-operative organization. It will not only look after the export of rice (which will constitute one of the activities) but it will make other arrangement so that the agricultural problems could be solved. It will help increase the production as there will be direct participation by the producers and it provide incentives to them.

It is being overheard that World Bank has recommended that the rice export companies should be merged with the Nepal Food corporation. It is quite important from the view

point of balancing the food account i. e. (production-consumption=export). But it is equally lethargic and difficult to organize the procurement of foodgrains from the producers. When this activities will be taken by Nepal Food Corporation there will be more illegal export of rice and a very little rice procurement. Middlemen will be more effective in exercising business tactics. It will be a big complex and therefore bring more bureaucracy and corruption. The present status of Nepal Food corporation is quite alright on the assumption that there is fair dealing. Therefore it is suggested to follow one of the two alternatives given above to reorganize the rice and paddy export companies. Their organization under the dilution of ownership with co-operatives or with full ownership of co-operatives is very essential to tide over the agricultural problems of Nepal.