



Introduction

INTRODUCTION

The economic linkage between highlands and lowlands arises from the difference in natural resource endowment and the resulting economic opportunities of production and exchange, and these are facilitated by man-made infrastructure and technology and the bio-physical conditions that characterise highland areas. The characteristic economic linkage between highland-lowland has been a hinterland-metropolis type, with the highlands serving as a source of raw materials to the economies in the lowlands and urban areas. Obviously, such a relationship is characterised by structural and operational inequities, resulting in selective over-extraction of some raw materials (Mahat 1985). Highlanders seldom receive fair prices for their products, and this is because of the constraints imposed by restricted mobility, perishability, and poor bargaining power. The result of

these factors is the under-pricing of highland resources, products, and services. On the other hand, flows of resources from the lowland to the highland have been guided for the most part by infrastructural needs to extract mountain-resources for lowland areas and for security concerns. Even otherwise, flows generally have consisted of limited supplies of consumer goods and food grains to the highlands. This virtually one-way flow of resources from the highlands to the lowlands permits rapid development of the lowlands and urban areas and often condemns the supplying area to increasing stagnation and underdevelopment. "The assault does not primarily come, as often suggested, by the unbridled population increase of 'backward and ignorant' mountain dwellers who are wasting away their soils, forests, and wildlife and thereby inflicting damage on the downstream areas and society in general. Rather it comes from

development pressures arising exogenously and fuelled by planned or unplanned actions by "flatlanders in government agencies, in corporate boardrooms or offices, and in international funding or assistance institutions, all usually located close to sea level" (Hamilton 1993). The poor state of development in highland areas has been both a cause and effect of its marginalisation and is accentuated by inaccessibility, fragility, and even diversity of highland areas (Jodha 1992).

This state of affairs is the result of several factors that relate to poor awareness of the importance of highland areas. Many resources found in the highlands are unique, and their potential value to humanity in general is believed to be enormous (Thorsell and Harrison 1993). Following the Earth Summit in 1992, a great deal of awareness of highland areas as major sources of fresh water, biodiversity, and regulation of downstream stability and mountains have become the centre of global attention. Realistic costing of resources and environmental services has helped understand resource degradation, poverty, and the poor terms of trade faced by the highlands. Economic and political changes, social insecurity, technology, markets and marketing power, as well as market and policy failures and globalisation are likely to alter the complex highland-lowland linkages and further exacerbate the marginalisation of the highlands. Flows of resources, products, and services between the highlands and lowlands determine the nature, strength, and magnitudes of economic linkages, and understanding the nature of the linkages

provides a basis for making the flows more equitable and sustainable by strengthening complementarities based on the comparative advantages of the two regions.

Many highland areas (in Nepal) are still subsistence economies where production is primarily for one's own consumption. The means of production are primitive (low per capita use of capital) and coupled with the poor state of human resource development, productivity of labour is relatively low. Despite the low level of development of most highland areas, these areas serve the needs of urban and lowland areas in a variety of ways. In the first place, many different natural resources are provided by the highlands to urban and lowland areas. Most of these resources are renewable, natural resources in which highland areas are believed to have a comparative advantage. However, there is scattered evidence that this comparative advantage of the highlands may not be sustainable because of the poor management practices currently in place. One difficulty with the natural resources is that they are found mostly on government lands where monitoring and enforcement of extraction and harnessing are not possible and made more difficult by the remoteness of such areas.

Over the last few decades, the natural beauty of highland areas has attracted tourists from all over the world. Mountain tourism has generated employment and income in remote and inaccessible areas, but the benefits of this activity have been confined to small pockets. Additionally, poor management of the natural resources that attract tourists has gen-

erated great concern for the deteriorating natural environment in areas where mountain tourism takes place. The poor state of development in highland areas has also resulted in substantial leakages of tourism income. In other words, large amounts of goods are imported by highland areas from urban centres to meet the needs of their clients. Many of the imports could be substituted locally if goods were produced in the highlands. Therefore, the benefits from tourism in such areas have been minimal.

Migration from the highlands to the lowlands, for whatever reason, can be termed a human resource flow, and it is a manifestation of the third type of economic linkage between the highlands and lowlands. The linkage resulting from migration has two aspects, and these are related to the outflow of manpower and the inflow of remittances. Migration has resulted in labour shortages in some highland areas. Many parents support the education of their children studying in the lowlands and urban areas. Likewise, many employed people send back income earned from the lowlands and urban areas to families in the highlands. Over the years these remittances have become a major component of the highland economy. Little is known about the implications of the outflow of human and financial resources on the highland economy.

Most highland areas produce their own food and little is purchased. However, almost all non-food items have to be purchased, as they are not produced locally and have to be imported from urban centres or the lowlands. This form of consumption expenditure takes away large



The Phewa Lake in Pokhara is an important tourism attraction and lake tourism provides income and employment to many local people

amounts of household budgets, and these are leakages from the highlands.

Yet, another flow is social transfers and public investments (cash and kind supplies, welfare relief funds, development funds etc). Very often, this flow to the highlands serves the needs of lowland dwellers, as in the case of large hydropower projects. The impacts of such transfers on the highland economy in terms of income and employment multiplier effects are minimal, as substantial leakages result from purchases of raw materials and employment of manpower from the lowlands.

The various types of flow described give rise to economic links. Economic links are mostly concerned with the value of the flows. In the absence of well-functioning markets, prices do not reflect the true value of the resources transacted. Additionally, the markets are far from competitive, and this implies that there are many distortions arising from policy weaknesses, poor infrastructure, lack of information, and so on. Many highland resources are valued below their actual economic value. Generally, it is argued that the terms of trade between highland and lowland areas are unfavourable to the highland areas.

The terms of trade, i.e., the prices at which the highland resources are traded, need to be fully understood. In the presence of imperfections and distortions, attempting to derive economic values in order to understand the linkages is an extremely difficult task.

Little is, however, known about the dimension of these links. It is believed that the economic flow is disproportionately in favour of the lowlands. The extraction of products and activities with substantial comparative advantages in the highlands (e.g., irrigation, hydropower, timber, herbs, and tourism) are often guided by the needs of mainstream economies and governed by market signals. In this process, the resources and surpluses of mountain areas are generally siphoned off from local communities on unequal terms of exchange and compensation. The magnitude of such flows is not known. The magnitude can be easily obtained by adding up all the flows, but there is no information about what compounds the problems in varied ways. In the first place, what all the different flows are needs to be known. There is no systematic documentation of all resources, products, factors of production, services, and other flows between the highlands and lowlands. Thus identifying what the major flows are, their dominant features, and their magnitudes becomes a priority.

OBJECTIVES AND SCOPE

The present study attempts to understand economic linkages between the highlands and lowlands. Given the various limitations, the present study has attempted to document some

important flows that originate from the highlands on the basis of secondary information. In the absence of adequate information, it has not been possible to use existing models or approaches to study the economic linkages between highlands and lowlands. As a matter of fact, the situation, in the context of what flows from the highlands to the lowlands? from where do the flows originate? what are the magnitudes of these flows? who are the different actors involved in the flows? how do benefits accrue to different actors? and who are the end users for highland products or resources? is at present very vague. Without first developing an information base on these issues, it is almost impossible to use any of the approaches to address highland-lowland economic linkages comprehensively. At this stage, therefore, an important first step is to try to document the different flows to the greatest extent possible, quantify their magnitudes, and address relevant issues on the subject as an awareness-generating process.

The specific objectives of the study are as follow:

- ✦ given that the linkages between the highlands and lowlands are poorly understood, the study identifies a framework to understand the linkages;
- ✦ flows are be measured and quantified and the implications for the highlands identified and analysed to the greatest extent possible; and
- ✦ based on the understanding generated through the above, recommendations are given.

STUDY OUTLINE

Following the introductory chapter, Chapter 2 deals with several topics—a discussion of the classification of resources is carried out and this is then used to study the flows (in Chapter 3). A brief synopsis of the different methods available in the literature is also presented. Since such methods cannot be applied in the present study, a market approach, which may

be more useful, is briefly discussed in Chapter 2 also, followed by a brief of the literature on highland products. This chapter then ends with a discussion on the sources of information used and their limitations. In Chapter 3, various resources, their flows, and marketing aspects are discussed. Relevant data available from various sources are provided.. Finally, Chapter 4 presents a summary and the main issues and recommendations.

Framework and Literature Review



Quantifying the total volume of the different highland flows and valuing them are both problematic in the absence of reliable information. As a start, however, it is useful to classify the different forest and products in the form of raw materials, animal skins, charcoal, and agricultural products, timber, and others and associated products and services for the economic flow. While some may be considered manufactured products, timbered skins, or directly harvested from forest, a large

Quantifying the total volume of the different highland flows and valuing them are both problematic in the absence of reliable information. As a start, however, it is useful to classify the different forest and products in the form of raw materials, animal skins, charcoal, and agricultural products, timber, and others and associated products and services for the economic flow. While some may be considered manufactured products, timbered skins, or directly harvested from forest, a large

Quantifying the total volume of the different highland flows and valuing them are both problematic in the absence of reliable information. As a start, however, it is useful to classify the different forest and products in the form of raw materials, animal skins, charcoal, and agricultural products, timber, and others and associated products and services for the economic flow. While some may be considered manufactured products, timbered skins, or directly harvested from forest, a large

Quantifying the total volume of the different highland flows and valuing them are both problematic in the absence of reliable information. As a start, however, it is useful to classify the different forest and products in the form of raw materials, animal skins, charcoal, and agricultural products, timber, and others and associated products and services for the economic flow. While some may be considered manufactured products, timbered skins, or directly harvested from forest, a large