

CHAPTER 3

DEVELOPMENT OF AGRICULTURE TRADE REGULATIONS

3.0 Introduction

The WTO provides the framework for the conduct of international trade in goods and services and for the protection of intellectual property rights that administers the implementation of a set of agreements which for convenience, known as the WTO agreements. These agreements include the GATT, some other agreements in the goods sector and, in addition, agreements in two other areas, namely, services and intellectual property rights. It also contains a framework for enforcement of rights and obligations in these areas. Generally, it consists of disciplines on governments, and in some cases, even on enterprises.

3.1 Birth of the WTO

The WTO came into being in 1995. One of the youngest among international organizations, the WTO is the successor to GATT established in the wake of the Second World War. The earlier experience with the Great Depression of the late 1920s and early 1930s, followed by the trade protection imposed by major trading nations, made governments aware of the need for a multilateral discipline in the field of international trade. This awareness assumed a new urgency with the devastation caused by the Second World War and with the need for the expansion of international trade as an important tool for development and growth. All this led to the convening of a United Nations Conference on Trade and Employment in Havana, which resulted in the formulation of

the Havana Charter (HC). However, US, which has been the main proponent along with UK, failed to ratify it. Without US participating in the charter, other countries did not see any advantage in launching it, and thus it remained only a footnote of history. However, the international trade chapter of the Charter was taken out and converted into the GATT in 1947, which was subscribed to by 23 countries, including the US. But GATT was not an organization; it was only an agreement. Its implementation was administered by the Interim Commission for the International Trade Organization (ICITO), which was the formal organization located in Geneva, Switzerland. But its identity was very much in the background; while GATT continued to be the front, though it had no formal identity as an intergovernmental organization (Bhagirath, 1999).

Some important parts of the HC, which were not covered by GATT and had thus been left out were: commodity prices, competition policy, etc. The objective of full employment, which was an important part of the HC, did not find a place in the legal instrument of GATT. GATT has been strengthened and supplemented from time to time. The latest effort has been in the Uruguay Round of Multilateral Trade Negotiations (MTNs), resulting in the creation of the WTO, which has the formal status of an intergovernmental organization that had not been available to GATT. The problems of development came up for consideration in GATT during late 1950s and early 1960s. It was appreciated that the poor countries that did not have much production and trading capacity, hence needed some special consideration within the framework of GATT.

Up to the beginning of 1970s, the main concern of GATT had been to reduce the tariff levels in various countries, so that trade in goods were facilitated. Several rounds of MTNs have taken place in GATT with the objective of facilitating international trade.

These MTN rounds were: (i) Geneva (1947); (ii) Annecy (1948); (iii) Torquay (1950); (iv) Geneva (1956); (v) Dillon (1960-1961); (vi) Kennedy (1964 -1967); (vii) Tokyo (1973- 1979), and (viii) Uruguay (1986-1994). Only in the last two rounds covered a wider discipline, where agriculture sector was given a space in the UR after it had been strongly proposed by some major exporters of agricultural products in the developed and developing countries. This raised one interesting and cynical question of why such sector (which was dominated mostly by the developing countries) was only given a platform in the international level after a long series of MTNs rounds? In a way, this revealed the weaknesses of the bargaining power, particularly of the developing countries, in presenting their effective role and participation in the international level. This implied another neo-version of 'center-periphery' unequal power relationship between the developed and the less developed countries. Such uneven relationship is viewed as a situation where Third World countries were caught up in a *dependence and dominance* relationship with rich countries (Todaro, 1997). From this point, it is plausible to dictate that the mechanisms operating behind the wall of WTO so-called fair negotiations and agreements is actually a camouflage of a one-sided game, which benefited by most, the superpowers in international trade.

3.1.1 The Uruguay Round

The Uruguay Round (UR) of multilateral trade negotiations was launched in Punta del Este, Uruguay, in September 1986. It ultimately led to the Final Act which was signed on 15 April 1994 at Marrakesh, Morocco. The UR was the eight in a series of multilateral trade negotiations held under the auspices of GATT. In late 1993, after seven years of

hard bargaining, the negotiators produced more than 400 pages of detailed trade agreements, supplemented by more than 22,000 pages containing schedules of commitments by member nations regarding access to their markets for specific goods and services sectors. The agreements resulting from the UR represent a milestone in the multilateral trading system. Agriculture was incorporated for the first time under operationally effective rules and disciplines. The commitments of the AoA cover improved market access and disciplines on domestic support and export subsidies. The provisions on market access include the abolition of non-tariff trade barriers (NTBs) and distorting domestic support.

The export competition commitments are designed to contain and reduce expenditures on export subsidies and to allow progressively greater scope for the inter-play of comparative advantages on world markets. Agriculture is also affected by a number of other agreements arising from the UR. The agreements on the Application of Sanitary and Phytosanitary Standards (SPS) and on Technical Barriers to Trade (TBT), while safeguarding consumer and public interests, aimed at minimizing the scope for using SPS and TBT measures as disguised protection. In addition, Agreement on Subsidies and Countervailing Measures (SCM), the Understanding on Rules and Procedures Governing the Settlement of Disputes, as well as the GATT itself has an impact on agriculture. The upper levels of almost all agricultural tariffs of the 129 WTO members are now legally bound under the GATT 1994. The extensive tariff reductions that are being implemented include those which were specifically negotiated on a wide range of products of interest to the developing countries. An important feature of the commitment to market access is that they will substantially reduce tariffs (as well as tariff escalation) in what has become,

over the last ten years, the largest and most dynamic sector of international agricultural trade, namely, high-value, processed agricultural products. The value of concessions and commitments, including the concessions from earlier GATT rounds, is backed up by the new rule-based commitments that prohibit the use of wide range of NTBs. These include measures such as variable levies, minimum import prices, discretionary import licensing and non-tariff restrictions applied to state trading enterprises. The UR agenda was comprehensive and encompassed both familiar areas, some of which have long been resistant to reform (e.g., agriculture), and new issues such as trade in services and trade-related intellectual property and investment measures. Not surprisingly, the negotiations turned out to be more complex than those in the previous rounds.

The course of agriculture negotiations was dominated by the sharply opposed positions initially adopted by US and EU. The scale and complexity of the agenda and the linkages between the issues brought into negotiations undoubtedly made for protracted and lengthy negotiations which took seven years to reach its conclusion in 15 December 1993. The tempo of the UR was largely dictated by the tendentious nature of the negotiations on agriculture; success or failure of the round as a whole hinged largely on obtaining a settlement on agriculture (Ingersent; Rayner and Hine, 1994). Last minute adjustments with other subsequent adjustments were made to reach for the final agreement between US and EU in November 1992 (the Blair House Accord). It was meant to bring the agricultural negotiations to 'a successful conclusion' in favour of both superpowers. How successful is it in terms of bringing the fruits of fair arrangement for its Members, especially those in the developing and the least developing countries were doubtful. For the 'last minute' adjustment, why it was negotiated only by two superpowers

in agriculture and not by a multilateral negotiation of all members that have no less sovereignty than those of the US or EU?

As the Round's process moved towards its final conclusion, there were varieties of reactions from the developing countries. They seemed to be disinterested, reflecting the view that developing countries, despite their early and forceful participation in the negotiations, would at the end of the day, have little influence on the final outcome. Furthermore, it was becoming increasingly clear that the results were likely to be largely dictated by the US and EC (Hamilton and Whalley, 1995).

3.1.2 Essence of the AoA of WTO

The basic provision of the AoA requires a reduction of domestic support which directly affects production and trade. Of concern to developing countries are the implications of the domestic support provisions of the AoA for food and agricultural policy. As stated by Konandreas and Greenfield (1997), in general, the AoA *per se* is not likely to present serious constraints to developing countries in pursuing agricultural and food policies on production, consumption and domestic market stabilization. Instead they concluded that, in most cases, constraints are likely to come from budgetary austerity and commitments that countries have made under structural adjustment programmes. The validity of this argument stands firm without challenge and remained an open question. Yet there are concerns over matters regarding the impact of trade liberalization on the incomes of farmers, particularly those poor ones who reside largely in the developing countries. More dramatically, in some countries, there are influential farmers' groups, such as Via Campesina, that are calling for the withdrawal of agriculture from WTO coverage

altogether on the grounds that agriculture is not just a system of production but it is a way of life, so that at stake in further trade liberalization is the very survival of farming communities (Bello, 1999).

The fundamental philosophy of the AoA on domestic support entails two types of commitments: one qualitative and the other quantitative. The qualitative commitment establishes a definition of domestic support policies that are not subject to reduction commitments, whereas the quantitative commitment establishes a detailed schedule for reducing support under non-exempted policies. The inclusion of agriculture is considered as a major achievement of the UR as it is now unambiguously subject to GATT's discipline. Previously, the protection of agriculture had been either accorded 'special treatment' (e.g. permitting the use of import quotas and export subsidies), or had not been explicitly covered by GATT provisions (e.g. variable import levies and domestic subsidies), whereas now, the UR-AoA appears to close these loopholes. The UR agricultural negotiations were specifically concerned with three kinds of agricultural support and protection; namely, *domestic support, market access and export subsidies* as stipulated in the agreement. See Appendix.

3.1.3 Last Minute Adjustment: For a Self-Fulfilling Goal?

Table 3.1 shows some summaries of the agreed reductions in support and protection before the last minute adjustments were made which US and EU initiated. The groundwork for the AoA was laid by the Zeeuw Framework Agreement of June 1990 and the Dunkel Draft Agreement (DDA) of December 1991. The bilateral BHA between the

US and the EU of November 1992 and a number of other last minute adjustments were then needed to bring the final draft of the AoA.

TABLE 3.1
UR-AoA Reductions in Agricultural Support and Protection
(1995-2000)

Disciplines	Commitments
Domestic Support	20 percent reduction in total Aggregate Measurement of Support (AMS) over six years from 1986-88 base price {price support measured against Fixed External Reference Prices (FERPs)}; Credit for reductions since 1986.
Market Access	All Non-Tariff Barriers (NTBs) converted to tariffs; No new NTBs to be created; All base period tariffs including NTB equivalents to be reduced by unweighted average of 36% over six years from 1986-88 base (tariff measured against FERPs); Minimum 15 percent reduction in each tariff line; All tariffs bound at end of implementations period; Minimum access provision of 3 % rising to 5% of base period domestic consumption. Base period imports counts towards access requirement. Minimum access provision cannot be cut below actual base period import level.
Export Subsidy	Agriculture still receives exceptional treatment in that existing export subsidies permitted but capped a base period (1986-90) levels in expenditure and volume terms; Subsidized export expenditure to be reduced by 36% and subsidized export volume by 21% over six years, in each of 22 product categories; Prohibition of export subsidies on commodities not subsidized in base period.

Source: Based on Ingersent, Rayner and Hine (1994)

Based on the study conducted by Ingersent, Rayner and Hine (1994), such adjustments were made so that it will effectively giving the green light to the continuation of existing levels of producer compensation under the EU's Common Agricultural Policy (CAP) reform, as well as deficiency payments in the US, where this adjustment effectively made compliance with the (already rather weak) domestic support provisions of the AoA which is virtually painless for the superpowers. The viable reason and implication which can be drawn here is that the last minute adjustments were made so that it will provide an outcome where the final agreement after the so-called amendments would eventually 'synchronized' with the EU's CAP reform. This raised the question of what synchronization had been made for the benefits of the inferior players in agriculture, particularly those of the developing countries?

3.1.4 Positive Aspects of the AoA

The most important positive feature of the Agriculture on Agreement of the WTO is that a serious beginning has been made to bring agriculture into the normal discipline of the international trading rules. Some major developed countries had been subsidising their agricultural products for a long time with the result that other agricultural exporters were put to great disadvantage. Now there is a commitment to cut down subsidies both on production and on exports. A unique positive feature of the Agreement is that even such measures as subsidies have been covered by the specific commitment of reduction from year to year. In other areas generally, only tariffs are given such coverage of reduction commitment.

3.1.5 AoA Main Deficiencies and Imbalances

There has been a significant progress in bringing agriculture within the general discipline of the 1994 GATT. Governments reducing their import restraints, domestic support and export subsidy have undertaken specific commitments. The special arrangement in this sector, in derogation to general rules of GATT 1994, had continued for nearly a quarter of a century; hence its final demise is an important event in international relations. However, these two agreements have left in their trail a number of problems.

The countries which have been maintaining import restraints, domestic support and export subsidy have been obliged to reduce these measures to some extent during the implementation period. Substantial portions of the measures will, however, continue in these countries. Countries which did not have such measures in the past are prohibited from introducing such measures beyond the minimum levels. This appears patently unfair in the sense that those maintaining import restraint, domestic support and export subsidy in the past, are allowed to continue with them although at reduced levels, but others are prohibited from undertaking such measures in the future.

The agreement is naturally based on the assumption that totally free movement of agricultural products across borders is the most ideal condition. The underlying influence is that it is desirable for a country to import food from other countries if it is cheap compared to its own cost of production. This principle may perhaps be valid for most of the developed countries that have enough foreign exchange all the time to import whatever they want. But most of the developing countries are most of the time short of foreign exchange. If they depend on food imports, their population may have to starve, as they may not have enough foreign exchange to buy food abroad. Such countries may

consider it is wiser to grow their own food as much as possible, even if it is more costly than the food available in some other countries. The food production has too much social and human compulsions associated with it than can be tackled by pure economic considerations. And yet the agreement in this sector aims at abolishing all support for food production and all restraints on the import of food items from outside. This will particularly affect the developing countries with chronic problems of availability of adequate foreign exchange for their imports.

Another special feature in many developing countries is that agriculture is not considered as a commercial activity. Farmers take up agriculture sometimes because they have land and there is nothing else for them to do. Some of them take up agriculture as purely a subsistence exercise. It will be extremely difficult to harmonize these special characteristics with purely commercial and price considerations which are the underlying principles in this agreement. The problems of net food importing countries have been recognized, and yet there is no concrete mechanism for tackling this problem in the agreement.

In the process of tariffication, several countries, particularly some major trading countries, have overvalued the tariff equivalents of their non-tariff measures, with the result that their base levels of total tariffs have been recorded at very high levels. These problems have to be given serious consideration. Of course, these may be raised during the review process; but it may be preferable to start with some of them even before then.

3.1.6 Unfair Arrangement Under AoA

The BHA which became the basis for GATT's agreement on agriculture was a deal between the US and the EU aimed at regulating their agricultural competitions in Third World country markets. The countries of the South had little, if any, substantive influence in determining the outcomes of GATT-UR. The agreement as pointed earlier, was presented to them on a "take it or leave it" basis (Bello, 1999). While GATT mandated the reduction of US and EU subsidies, critics say that the agreement has merely swapped one form of subsidization for another. The agreement exempts the US and EU from 'direct income subsidies' which lead to an equivalent of 49 per cent and 30 per cent continuing effective subsidy in the respective countries. This amounts to maintaining agricultural systems permanently geared to overproduction in both the US and EU.

All GATT members have committed themselves to opening up their markets to certain minimum levels of agricultural imports at low tariffs. In the case of Malaysia, it offered tariff rate reductions on 7,218 list of goods including agricultural products (Mohamed Aslam, 1993). GATT-UR has liberalized the importation of a wide range of agricultural commodities including foodstuffs, thereby opening the economy of the South to an influx of food imports. A report by OECD (1994) estimated that food-importing countries will be paying 4 to 7 per cent more for their food as a consequence of the UR Agreement while they lose concessional advantages in key export markets. In 1995, China's grain imports rose substantially to a historic high of 20 million tonnes (Liming and Davis, 2000). This trend is particularly significant for the Southeast Asian region. According to the US Department of Agriculture, "high income Asia" like Japan, South Korea, Taiwan, Hong Kong, Singapore, Malaysia and Brunei, import more food than any other region in

the world — about 50 million tonnes of grain a year. To this list can be added Thailand, Indonesia, Philippines and Vietnam all of which have increasing needs and in some cases negligible amounts of food stocks. Meanwhile subsidies to local farmers are being cut back and domestic producers have no protection from cheap agricultural imports. The export-oriented model of agricultural production and the resulting decline in food crop production, has led to food-importing countries becoming more dependent on the industrialized countries and on TNCs for their most important and basic food requirements. This import reliance on basic foodstuffs undermines the role of national governments. Hence, the World Bank, WTO, Asia-Pacific Economic Cooperation (APEC) and TNCs become more influential in determining domestic development directions. The trend has also been for international prices of food to rise. Net food-importing countries, which used to buy export-subsidized food from developed nations, would now have to import food at international prices as export subsidies will no longer exist.

The GATT was signed in 1947 but did not consider agricultural issues until 1987, when the UR of trade negotiations was launched. The AoA is a key part of the 1994 UR agreement which brought the WTO into being. Under SAPs and the AoA, developing countries have to make significant changes in their food and agriculture policies. They are obliged to open up their economies to cheap food imports and to reduce and severely limit support for their farmers. Most SAPs require more sweeping liberalization measures than are required under the AoA, and also demand related measures such as privatization of state-run enterprises, the elimination of subsidies and price controls, and the abolition of marketing boards. By contrast, the AoA centres on trade liberalization measures – it

calls, for example, on member countries of the WTO to reduce tariffs on food imports by 24 per cent over a ten year period, (the 48 least developed countries are excluded from this and from other reduction commitments). The AoA – a deal largely stitched up by the US and the EU under pressure from business corporations – tightens the screw of structural adjustment. The 1996 Oxfam paper on the Philippines refers to the AoA as "an act of fraud" that will give rise to increased competition from imports and intensify rural poverty and destroy smallholder livelihoods. And unlike SAPs, the AoA is binding on member countries of the WTO (137 countries were members in July 2000). Why, according to the evidence mentioned above, does trade liberalization seem to be failing the poor?

3.2 Dangerous Wave of Agricultural Trade Liberalization

In the last decades, negative trends already have been apparent in agriculture, particularly since the 1970s. Throughout the world more and more farmers have lost their land and their livelihoods and moved to the urban slums in the cities. Land concentration has increased and large agribusiness transnational firms have taken greater and greater control over agriculture. As argued by George (1996), if food systems are seen as a chain, with seeds, fertilizer, machinery, and other inputs at one end, farmers at the middle, and post-harvest activities (storage, processing, delivery to consumers) at the other end, then it is clear that the industry now controls both ends of the chain. The farmer, the man or woman in the middle, has less to say about agricultural policy than ever before and the smaller the farmer, the less he or she has a say. The last two decades have seen a major restructuring of agriculture towards export-oriented production. Land and crop

conversion schemes were pushed to shift from subsistence to commercial crop production, specifically of export-oriented crops. Government support was shifted to large-scale commercial agriculture, which marginalizes small-scale farmers.

In the Philippines, for instance, Republic Act 7900 (High Value Crops Development Act of 1995) provides incentives to agricultural business corporations to shift to export-crop production. Tax holidays, infrastructure support and bank loans are some of the incentives offered. Land and production capacity becomes more concentrated in the hands of a few landowners or corporations and this has led to the bankruptcy of many local farmers. The situation leads to increasing displacement of the structurally deficient agricultural sector that is unable to compete in the global market (Mies, 1996).

In Thailand, domestic producers of agricultural products, such as oil palm, soya oil, soya residuals, coconut, onion, garlic, potatoes and raw silk thread, are not protected. Their products are being outmoded by imported goods. This has been accompanied by the lack of development of the necessary level of industrialization in agriculture. This has meant inadequate investment into rural infrastructure such as farm-to-market roads and post-harvest facilities and into agricultural research and development that would help increase rural productivity. There has also been a further deregulation of the agricultural sector and a lowering of tariffs on agricultural products leading to food import dependency of the Third World to the benefit of the imperialist centers and the big monopoly transnational corporations (Prasertcharoensuk, 1996).

3.2.1 The Unfavourable Effects

The unfavourable effects of agricultural trade liberalization could expose economies, particularly in the least developed countries, to problems like deteriorating standard of living and food insecurity. Most farmers in less developing countries depend on agricultural sector as their source of living. In a broader dimension, unfair agricultural trade regulations could give pressure on agricultural product price competitiveness. Furthermore, dumping of agricultural product is a serious problem to local farmers as imported agricultural products are cheaper due to such unfair trading arrangements. Below are some possible undesirable effects:

3.2.1.1 Unfair obligation

The general scheme of the commitment in the Agreement is that those countries which have been using measures for import restraint and domestic subsidy, were required to reduce the levels respectively by 36 per cent and 20 per cent. The budgetary outlay and the quantity of export covered by the export subsidy were expected to be reduced respectively by 36 per cent and 21 per cent. The levels for the developing countries were two-thirds of these percentages. It means that those countries which were using these measures would be able to retain quite a big portion of them even up to the end of the implementation period. However, those countries which had not been using these measures earlier, are prohibited from using these in future. This is patently unfair in the sense that countries distorting the market in the past are allowed to continue distorting it up to a substantial extent, whereas those that had refrained from doing so in the past are totally prohibited from using these measures in the future.

3.2.1.2 Food Insecurity

The Agreement is based on the rationale of open international trade in the agriculture sector. It thus presupposes the supremacy of the price system and the comparative advantage operating in this sector. The implication is that a country must import its agricultural products from those countries that produce them more cheaply than its own production. In theory it may be alright; but in practice it can be disastrous for the food products of developing countries. Countries that have enough foreign exchange can depend on the import of cheap food products, but those that are short of foreign exchange will be in serious difficulty if they always have to depend on imports for their essential and staple food items. Most of the developing countries have a persistent shortage of foreign exchange. In such a situation, if they depend mainly on food imports, their population may sometimes face starvation, as they may not have enough foreign exchange to buy food abroad. A country can delay the import of industrial products for a while, but it cannot delay providing essential food items to its people. In this context, it may be wiser for these countries to have as much domestic production of necessary food items as their land resources permit. It is desirable, even if the domestic production is more costly compared to the import of the food articles. The problems of the net food-importing developing countries have been recognised in a WTO Ministerial Decision, but no concrete action is mentioned in the Decision. The result is that no concrete action on this problem has been taken so far, even though sympathies have been repeatedly expressed.

3.2.1.3 Uncertainty on Specific Domestic Support

As mentioned earlier, the commitment on domestic support is to limit it within the ceiling mentioned in the schedule. A country can modulate the choice of the product and the rate of subsidy, depending on its own needs. This keeps the exporters in other countries in uncertainty; thus they would have some handicaps in planning for their own exports. The subsidy provided by developing countries in purchase of food for stocking and public distribution is exempted from the reduction commitment; but the difference between the purchase price and the external reference price has to be included in the calculation of AMS. The Annual Bound Commitment Level of the AMS is mentioned in the schedule of the country and it signifies that the support cannot exceed that level in that one particular year. As mentioned before, it means that a country choosing to subsidize the food purchase for stocking will have to reduce subsidies on some other items so as to limit the subsidy to the bound level of the AMS in that particular year. This would be possible anyway even without this special dispensation; hence this provision which appears to be a special favour for developing countries is not actually true.

3.3 Losers and Gainers Under the UR Accomplishment

The UR reforms contribute to economic growth in several ways. Most importantly, trade reforms promote more efficient and productive use of resources. Schott (1994) argued that efficient exporters would benefit as trade reforms increase their access to foreign markets and allow them to exploit economies of scale in production. Consumer of both final and intermediate goods will benefit as increased imports dampen inflationary pressures and expand the range of goods from which to choose. Government will lose

some revenue because of reduced tariff rates, but gain some as the volume of import increases and as domestic economic activity expands. All these are theoretically undoubtedly true and relevant, for example, in the case of the Round's implication for the US. The UR agreements present important new trading opportunities for a broad range of US industrial and agricultural producers, and resulted in modest but positive gains for the US economy as it enters the 21st century. Compared with other trade policy initiatives, the UR provides the biggest bang for the dollar. What are the benefits and positive spillover effects, if there are any, for the small and less influential countries in the world trade arena, which are dominated by the very few superpowers in international trade? Studies by Goldin, Knudsen and van der Mensbrugghe (1993) shows relatively small effects on trade flows and more importantly, the global welfare gains are accruing predominantly to the developed world.

For one particular group of countries which are clearly concerned over the post-UR trade arrangements are the high-performing Asian economies (HPAEs), namely, Japan, Korea, Taiwan, Hong Kong and subsequently the ASEAN countries, especially Malaysia, Thailand and Indonesia. All these countries have experienced periods of extremely rapid GDP growth except during the 1997 Asian financial crisis, and are concerned whether the post-UR may impose new trade restraints on them that they have not faced in the past and which may now bind.

In the case of Malaysia, a small-opened economy, some of its major agricultural markets are reducing tariffs by 35 per cent. Products that stand to benefit include palm oil, palm oil products, cocoa products, pepper, tropical fruits, fish and fish products. However, for other products such as meat, dairy, cereal (mainly wheat, rice and maize), vegetables and

fruits, sugar and feed for animals, the country may experience heavy losses (Mohamed Aslam and Jomo, 1996). They concluded that the outcome of the UR will probably increase the prices of these products, thus adversely affecting the welfare of Malaysian consumers. This is not to mention the adverse effect which occurred during the Asian financial crisis where food import bills rose significantly. This implied that the country are now exposed to two obstacles, thanks to the widespread concept of globalization and liberalization of the world economy - the unfavourable condition of world trade arrangements and uncertainties of external shocks that may repeat itself like in the 1997 Asian financial crisis.