

CHAPTER 4

ANALYSIS OF THE STUDY

4.0 Introduction

Studies by Goldin, Knudsen and van der Mensbrugge (1993) and Ingersent, Rayner and Hine (1994) proved that economic globalization can bring both desirable and undesirable effect, especially on the less developed countries and vulnerable economies. The scope and magnitude of the effect depends on how these countries respond to such economic globalization. As mentioned earlier, the 'center-periphery' relationship between the developed and less developed countries is a fact of life. From this point, it is an inevitable fact that such pattern of relationship, in a way, is a disadvantage for the latter party, where 'players are playing on an uneven playing field'. For Malaysia, particularly its traditional sector, such effect of externally induced factor of global trade regulations of the WTO is neither a myth nor negligible.

4.1 Implications of Trade Liberalization on Agriculture

World trade regime could influence a country's trade, macroeconomic and sector-specific pricing policies as indicated in empirical findings. Since the early 1950s it had given strong incentive biases, for example, against agricultural products compared with manufacturing products. Such policies have had an adverse effect not only on agricultural performance, but also on the economy as a whole and thus have inhibited overall economic growth (Bautista and Valdés, 1993). From this point, it can be implied that the interactions of both factors mentioned earlier in this study could set the scope and

direction of the country's trade and macroeconomic policy. Thus, it could directly or indirectly influence the past and the on-going agricultural-related policy undertakings. The scenario of the declining trend in the agricultural sector in Malaysia can be considered as the limiting factor after taking into consideration of the capacity of the traditional sector to play its role as the crucial and vital sector for the economy. The fact that further decelerating of the sector's importance and significance as the GDP or employment contributor is inevitable. As the scope and direction for such sector had entered its phase of diminishing returns phase, further effort for the sector's rejuvenation can only be attained at high cost. Hence, it would not be wise to let the strategic matter, for example, food security to be taken lightly. Ironically, rice self-sufficiency target was lowered to only 60-65 per cent during the second NAP framework. Will the 'New Dimensions' framework in the NAP III save the day for agricultural sector?

Another source of distorting element for the agricultural sector development in the country is the 'unfavourable' trade arrangements of the WTO, particularly matters concerning agricultural disciplines. Most trade arrangements were in favour of the superpowers in agricultural trade, namely, US and EU. This could directly or indirectly set the path of future development in the country's agricultural sector through economic globalization and liberalization. Whether such path will bring about desirable consequences for the welfare of the economy, will depend very much on how and what policy response towards the internal and external factors mentioned in the previous chapters. Some of the possible implications of trade liberalization on agriculture are as follows.

4.1.1 Cheap Imports

The majority of inhabitants in developing countries belong to farm families. Most farmers are small-scale, with at best a few hectares of land and sometimes much less. The problems for these farmers are caused by cheap imports, made possible by trade liberalization. Cheap imports are drawn from both developed countries (especially from US and EU) and also from developing countries (imports of sugar into the Philippines from Thailand, for example). Competition from cheap imports is putting farmers in developing countries out of business. Such imports are coming both through commercial channels and through dumping – foods sold below the cost of production to dispose the surpluses and are usually cheaper than commercial imports and are more damaging. Domestic food production is at risk as the agricultural sector is placed in jeopardy. This shows us that liberalization has led to an increase in the prices of farm inputs, causing huge problems for small farmers. While they are forced to pay more for their inputs, they are often receiving less for the sale of their produce. In economic terms, trade liberalization appears to have worsened the terms of trade between outputs and inputs. Consumers may appear to gain from cheap food imports. But they only do so if they have the money to buy, which many people in developing countries do not have. Cheap food imports will damage the livelihoods of small-scale farmers and also the countries' most basic economic sector – its food-producing sector. Also, if trade liberalization gives more power to monopolies, then consumers would eventually have to pay higher prices.

4.1.2 Priority for Export Crops

Trade liberalization means more food imports; often it reduces the priority that governments give to their food crop sector, while increasing the priority they accord to export crops. Trade liberalization has led to more land and resources being devoted to export crops and less to domestic food production. Although governments are generally providing more priority to the export crop sector, this does not necessarily mean that farmers are receiving better prices for these crops due to the fact that of world prices for many commodities are declining.

4.1.3 Transnational Corporations (TNCs)

Trade liberalization proves very beneficial for large entities such as TNCs. It is not just beneficial for them, but it also appears to be helping them at the expense of the poor. The study of cotton in India shows how trade liberalization is aiding TNCs at the expense of India's farmers (FAO, 1995). The FAO study noted that the process was leading to the concentration of farms, "in a wide cross-section of countries" and to the marginalization of small producers, hence adding to unemployment and poverty.

4.1.4 Government Services

Under SAPs, liberalization goes hand in hand with a reduction in government support for farmers, such as investment in agricultural research and extension, controlled pricing and marketing, and subsidies on inputs. Governments withdraw and leave their people to the free play of economic forces. People with money may survive but the poor will be left stranded.

4.1.5 Deteriorated Income Level

A study by Muhammad Ikmal (1989) showed that without government subsidy, the level of income of rice producers differed much compared with subsidization from the government as indicated in Table 4.1. Without subsidization, the farmers' income level is much lower than in the present of subsidy. With a much lower income, this in turn worsened the poverty rate among farmers. Even studies conducted by Firdausy (1997); Sinaga (1992) and Subramaniam (1992) gave evidence that fertilizer subsidy removal has resulted in greater incidence of rural poverty which were already poor before the removal of such subsidy. Farmers, especially those who belong to the hard-core poverty group and undertook peasantry as the main source of income for survival, would suffer because they were 'demoralized' by the removal of crucial support which they enjoyed previously.

Table 4.1

Contribution of Subsidy and Level of Income and Poverty Line Among Rice Producers in MUDA Area

<i>Type of Land Utilisation</i>	<i>Income/Relong in \$</i>		<i>Poverty Line (Minimum Size)</i>	
	<i>With Subsidy</i>	<i>Without Subsidy</i>	<i>With Subsidy</i>	<i>Without Subsidy</i>
Self-Own	795	510	2.3	3.5
Tenant	527	242	3.4	7.4
Owner-Tenant	662	377	2.7	4.8

Source: Based on Muhammad Ikmal (1989).

4.1.6 Other Effects

Trade liberalization has brought significant changes, in terms of shifts of power. The already resourceful, including TNCs, seem to reap most of the benefits from the trade liberalization partly at the expense of the already food insecure countries. Trade liberalization is only one factor exacerbating problems for the poor in many countries. This revealed the interaction of factors that affect food security, such as privatization, domestic economic and financial policies.

4.2 Issues in Food Security: A Global Concern

Food is more than a commodity that is sold and bought, it is the very means of life, the overriding human need and it is a social good. While people do not live by bread, rice or sorghum alone, food makes it possible for us to start and continue life. Lack of food kills, and it causes most of the world's killer diseases. But much of today's international trade does not appear to be helping to achieve food security. Instead much of the liberalization process is taking the world away from, rather than towards, the goal of food for all. Trade liberalization equals more imports, and more priority for crops for export. Often it reduces the priority that countries give to their food crop sector. SAPs have been insisted on by the IMF and World Bank since the early 1980s, as the price that developing countries had to pay if they wanted assistance from the international community. SAPs typically requires government to slash public spending, cut subsidies and sweep away controls on trade.

In the last round of the UR international trade talks in 1993, it ended with an agreement to reduce domestic support to farmers, reduce the value and volume of export subsidies,

and convert all barriers protecting agriculture into tariffs. The least developed countries were exempted from these provisions. Since 1993, the US and EU have made few changes in their agricultural policies, claiming that they had already made most of the changes called for in the UR agreement. But as the richer countries acknowledged that net-food importing developing countries would lose from the changes – especially if food prices increased as was expected – they agreed to pay compensation. But compensation has not been paid, even in 1996, when food prices peaked. The liberalization of trade, the removal of barriers to exports and imports, are central in the SAPs. These programmes assumed that liberalized agricultural trade would increase food output and lead to a better deal for farmers. For food-crop farmers, at least, this has proved to be an illusion. Structural adjustment and trade liberalization have been seen to have a ‘built-in’ bias towards larger food producers, such as absentee landlords and TNCs, at the expense of smaller producers. SAPs lessen the role of the state, reducing its support for small farmers, while creating the economic environment that the corporations like. The TNCs are more interested in export crops rather than food crops and in lucrative foreign markets rather than in meeting local food needs. Food security is likely to be a victim of the growth of TNCs in the economy of a developing country.

There are 1.3 billion people who obtained an income of less than one dollar per day. Before the financial crisis, the World Bank estimated that 80 per cent of the world’s poor lived in rural areas, where the bulk of the people earn their living from farming. Half of these poor people lived in less favoured areas. While much of the increase in poverty since the financial crisis is in or near cities, the majority of the poor are still rural poor (Thompson, 1999). To understand the roots of the problems of poverty and hunger in

rural areas, it is important to recognize that no country in the world has solved the problem of rural poverty by focusing exclusively on agriculture. By raising productivity in agriculture, it can improve the lot of rural people, increase the availability of food, and reduce the real price of food, yet availability is not the center of the matter. It takes purchasing power to gain access to food needs above a family's own subsistence. The fact is that there is not enough land per person in most rural areas for all who are trying to make a living from agriculture to grow enough to feed their families adequately and have enough surplus output to sell in order to lift their family incomes above the poverty line. Unlike most least developing countries, Malaysia is lucky to avoid a balance of payment problem which enables the country to import food items like rice, meat and dairy products. But, this does not imply that the country will have immunity against such food crisis due to the capability of meeting food import bills because unexpected factors could lead to undesirable effects. For instance, the financial crisis that struck in the mid-1997 caused the country's food import bills to rise drastically and significantly.

Malaysia was lucky enough to survive during those hard times of the crisis compared to other countries like Indonesia, South Korea and Philippines, but such incidence should have set up the alarm bell so that we would be more alert and secure more awareness regarding food security in the country. In the latest development, as reported by local daily newspaper, Malaysia's rice industries were threatened as its price dropped due to particularly by 'over-supplied and abundant' stock of smuggled rice into the country (Utusan Malaysia, 11 December 2000). As a result, local rice millers were having difficulties in selling their output because wholesalers also faced with the same problem – accumulated stock since July 2000. The government, through Beras Nasional

(BERNAS), responded to the matter by buying out the abundant stock to ensure price stability. Such response was accompanied by the effort to curb rice import, particularly those that are illegally smuggled.

Broad-based economic development is required to provide low-income people with the purchasing power necessary to access the needed calories, protein and nutrients. Much poverty is concentrated in rural areas, and to achieve general economic development, the process must be started in agriculture where the bulk of the people are. In Malaysia, there was no doubt that certain progress was achieved in the eradication of poverty in terms of increased standard of living and the reduced rate of poverty. Unfortunately, incidences of poverty among various agricultural sub-sectors, except palm oil smallholders, were still at high level. For example, from the period of 1970-85 as shown in Table 4.2. The rate of poverty among rice planters, fishermen, rubber smallholders and estate workers were still much higher compared to the incidence of poverty at the national level.

Table 4.2**West Malaysia: Poverty Incidence in Agricultural Sector, 1970-85, (%)**

<i>SUBSECTOR</i>	<i>1970</i>	<i>1975</i>	<i>1980</i>	<i>1985</i>
Rubber Smallholders	64.7	59.0	41.3	39.2
Palm oil Smallholders	30.3	9.1	7.7	5.7
Coconut Smallholders	52.8	50.9	38.9	31.1
Rice Planters	88.1	77.0	52.7	58.3
Others	91.8	78.8	64.2	47.5
Fishermen	73.2	63.0	45.3	43.5
Estate Workers	40.0	47.0	35.1	39.0
Agriculture	63.8	63.0	45.7	42.6
National	49.3	43.9	29.2	24.1

Source: Malaysia Plan (various years)

Although the country has so far not experienced any serious problems concerning food shortages, it is worth to be extra cautious should any unexpected shock occur that could jeopardize the country's economic and social stability. Hopefully, as the matter was highlighted in the NAP III, serious efforts will be carried out and implemented to ensure that the country is equipped for what it takes to be in a safe position in food security. East and Southeast Asia were singularly successful at reducing poverty and hunger because they have successfully developed both their agricultural and non-agricultural sectors and they have experienced significant migration from rural to urban areas. Despite much success at agricultural development, with East and Southeast Asia's rapid per capita income growth, its demand for food expanded faster than its agricultural production capacity. Since the financial crisis struck Southeast Asian region in mid-1997, a marked increase in unemployment and poverty has occurred. As the financially stressed countries' currencies depreciated, domestic food prices rose as mentioned earlier in the case of Malaysia. The combined impact of falling incomes and rising domestic food prices caused significant increases in the incidence of economic and social distress. To make the scenario even worse, the demand for food is not distributed around the globe in the same proportion as the unforested, well-watered, fertile, non-erodible soils. This suggests that wholesale liberalisation of food trade does not address the problems of food security and poverty eradication. They rather indicate that trade-based food security for the poor is – at least for the time being – more of a mirage than a fact.

Yet liberalisation is a policy choice, it is not inevitable and this suggests that a fundamental review of the dominating policy paradigm is needed. At the very least, WTO rules need to be changed so that developing countries can provide domestic support (e.g.

subsidies) and other regulations to protect the livelihoods of smallholders and at the same time promote food security. While this may appear to be a concession, it is in actual effect not so. The amount of this subsidy has to be included in the calculation of the annual AMS and is thus subject to the overall committed ceiling. Hence, if a developing country wants to provide this subsidy, it has to reduce some other subsidies even without this "concession". There should be a clear provision that this subsidy will not be included in the calculation of the annual AMS.

Though concern has been expressed about the problems of the net food importing developing countries, nothing specific as a commitment has been mentioned in the agreement. There is a need for major developed countries to undertake adequate financial commitments in this regard. The modalities which led to the specific commitments by various countries have not been made enforceable. It is important to check the conformity of the commitments with the agreed modalities which had been prepared before the conclusion of the UR.

As mentioned earlier, the production of staple food products in developing countries is of vital importance. Any impediment to it, whether in the form of liberalization of import or elimination of government support, should be removed. It is desirable to exclude the staple food production of developing countries from the disciplines of the agreement altogether. It is rational to treat it on the same lines as products related to national security. In a large number of developing countries, agriculture is not always a commercial operation. Farmers take to it as a means of livelihood in the absence of an alternative. If there is an integration of the domestic agriculture with the international production and trade, it is likely that a large number of these farmers and their families

may lose their source of livelihood (Bhagirath, 1998). From this point, it is therefore necessary to find out ways to insulate these farmers from the adverse consequences of liberalization of agricultural trade and production.

It would be economically expensive for every country to try to achieve national food security via self-sufficiency in everything due to factors such as unfavourable climate, limited source of fertile land and not to mention distortive policies concerning the country's agricultural sector crucial role in the national economic system. The strive for such unattainable goal is even more painstaking and complicated as the trend of the world economy is packed with the ideas of liberalization and globalization of the world trade, championed by the so-called superpowers in world trade arena. Given all the scenario above, does it mean that the WTO is only interested in furthering trade liberalization and not interested in its implications for development? Will the WTO provide an even playing field for all players as promised?

4.3 The Relevance of NAP III With Current Challenges and Needs

The NAP III policy outlines provided the relevant challenges and new dimensions that need to be tackled and applied with appropriate timing and sequencing for the sake of the agricultural sector future development in the country. Signals originated from the establishment of the WTO and rapid liberalization of agricultural trade that have generated increasing competition and new market potencies are seen as opportunities to be seized by the agricultural sector in the country. Apart from that, the 1997 crisis had blown the whistle of warning for the awareness of food security. This posed a big question mark for the effectiveness of the country's national agricultural policy planning

regarding the matter as the previous NAP did not anticipated that rapid and sudden changes could hurt food prices, especially imported rice bills.

The wave of trade liberalization and globalization of the world economy goes on and the experience from the crisis adds up to the international economics literature. The national agricultural policy starts up the new millennium with its brand new dimensions in agricultural transformation to respond to changes in external factors and enhances its global competitiveness. The sensitivity of the government and policymakers to continue to defend the deteriorating yet important and vital sector in the country through the launching of the NAP III should be noted.

Two new approaches were introduced as mentioned earlier, i.e., agroforestry and product-based approach. The rationale for the former approach is an answer for the increasingly scarcity resource problem, especially of land scarcity. In the perspective of land resource economics, it is a way of optimizing the utilization of scarce resource where 'a piece of land is utilized for the highest and best use' (Barlowe, 1978). Will this approach provide the solution for idle agricultural land problem as this phenomenon has been closely associated with the shortage of manpower due to the migration of labour to urban areas in search for jobs in the manufacturing sector? More importantly, Malay farmers owned most of these idle agricultural lands. For a specific example, a study conducted at the MUDA and KEMUBU irrigation schemes revealed that a total of 240 paddy farmers who are involved in the idle paddy lands were Malays (Pazim, 1990).

The second approach that is adopted in the NAP III is the product-based approach where key products and markets are identified based on market demand, preferences and potential. Literally speaking, it implies for a more market-oriented mechanism as

proposed in the AoA set out in the Punta del Este Declaration. The objective behind this approach is to improve the agricultural sector value-added through creating linkages with other sectors in the economy for a wider range of business ventures. In the general equilibrium theory, equilibrium is reached, if and only if, all markets are cleared and all relevant information are revealed within market that is free from the problem of asymmetrical information. In real world, it is impossible to obtain perfect information about what the markets are trying to reveal because in most cases, imperfection occurred in markets where the source of information is channeled. Although market imperfection is a fact of life, such approach ought to be taken positively and implemented if the core objective is to make the agricultural sector in the country remain competitive with other sector in the economy.

The NAP III policy thrusts also highlighted the importance of human resource development in the agricultural sector due to the transformation from commodity-based to product-based approach. Such transformation requires increasing reliance on knowledge and information, thus requires more skilled and professional manpower to strengthen and facilitate further development of products and product diversification. As early as in the First Malaysia Plan (1966-1970), the objective 'to expand and improve the skills of individual members of agricultural' is not something uncommon where the basic concept of human resource development remain relevant before or after – to improve human skills in doing things. These days, as a result of vast and rapid development in the era of information technology, human resource development is incorporated with massive flows of information and knowledge needed as inputs for producing precise outcome in decision-making. Unfortunately, will this do much help for smallholders and poor

farmers (for example rice planters) who are still struggling for their very survival below the poverty line?

4.4 Malaysia's Agricultural Sector: Setting Own Path or be Set up?

For a small-opened economy like Malaysia and other developing countries, especially those with weak and vulnerable economic fundamentals, the tendency to be affected by external shocks emanated from the world economy fluctuation condition is no myth. Even the big players in world economy are not immuned should any incidence occur. It is a matter of how and what appropriate policy prescription is applied and implemented in short and long term basis. Suitable timing and sequencing of policies also counts, particularly when to respond to current and recurring external economic shocks. This is not, however, an easy task because problems like time-lag effects, unsynchronized policy implementation, dynamic changes in economic, political and social environment both local and internationally and historical background that shaped the status quo of static cultural inherited in specific sector like agriculture. As described by Abdul Aziz (1994), the prosperity of Malaysian agriculture will continue to be affected by the upturn and downswing vagaries of agricultural trade. Therefore, the policy of agricultural diversification should be pursued unabated. Based on these discussions and as far as this study is concerned, it is likely that some of the scope and direction of the new dimensions in the national agricultural policy is a result of the effect of externally-induced factor brought by the process of liberalization and globalization of the world economy, particularly concerning agricultural sector.