

CHAPTER 5

CONCLUSION AND RECCOMENDATION

5.0 Policy Considerations

As part of the preparations, the country should also undertake a detailed examination of the implementation of the agreement by the developed countries that have large export and import share in the agricultural products. In particular, the following points should be examined. Under the agreement, a country is required to reduce the overall domestic support from year to year, and the financial ceiling for each year of the implementation has been committed in its schedule. But within this ceiling, the country is free to choose the products, the types of subsidy and the quantum of subsidy. As a result, there is a continuing uncertainty as to the choice of the options. Hence, those developing countries that have possibilities of exports may find it difficult to plan out their exports well in advance. It should be examined whether the country has, in actual practice, experienced such a handicap.

A similar examination also needs to be done with respect to the implementation of the commitments on export subsidy by the major developed countries. An exporting developing country like Malaysia has to assess whether the choice of the products in the developed countries for the purpose of reduction of domestic support and export subsidy has given it some benefit. Developed countries have imposed very high tariffs on several products in the process of tariffication of their non-tariff import control measures. It should be examined whether there have been any imports of these products beyond the tariff quotas in these developed countries. Some major developed countries had been

having a high production of agricultural products, and they had schemes for the reduction of production through retirement of land and other resources. To encourage them in this move, the agreement permits subsidies for this purpose. It should be seen whether these countries have actually taken advantage of these provisions and adopted appropriate steps to reduce the agricultural production effectively and whether the actual reduction has been achieved.

Studies should be conducted by and with the collaboration of developing countries which are capable of doing so. Various organizations which are engaged in providing technical assistance to developing countries should also conduct these studies to support the developing countries in their preparations for the review of the Round's, should there will be any review. These studies will provide the basis for the country and other developing countries to prepare their proposals for the improvements in the agreement.

A number of improvements in the AoA are needed to remove some basic problems. Major developed countries have put prohibitive tariffs on some product lines by taking advantage of the tariffication process. They have undertaken very light obligations for opening up their markets. All that they are required to do is to reduce the tariff levels by 36 per cent by the beginning of 2000. Hence, the tariffs on these lines of products will continue to remain very high even thereafter. In spite of the professions of liberalization of trade in agriculture, their markets will continue to remain almost closed for these products. It is necessary that developed countries live up to their own professed ideals of liberalization and reduce their tariffs on these product lines significantly, so that penetration of imports into these countries are possible. Alternatively, they should

significantly enhance the tariff quotas and make them available on a non-discriminatory basis.

The domestic support and the export subsidy of these developed countries are also very high. Here again the obligation on the developed countries is rather light. All that they are required to do is to reduce the domestic support by 21 per cent, the budgetary support for the export subsidy by 36 per cent and the quantity coverage of export subsidy by 21 per cent by the beginning of 2000. It appears highly unfair that the farmers in these developed countries, who are far more better-off than those in the developing countries, will continue to get such high support from their governments. It hampers the prospects of the farmers of developing countries, including those in Malaysia.

The impact of the UR agreements, particularly those of the AoA on Malaysia will mainly depend on the domestic economic environment and response from the government and policymakers. On the other hand, the extent to which the government could facilitate a flexible and transparent trading environment depends on the capability of the UR agreements to facilitate trade expansion and economic growth. The transmission of the benefits of the Round's agreement to domestic producers and consumers is essential because this will determine the extent to which agreement will be able to facilitate trade expansion and economic growth. Such transmission of benefits of the Round's agreement to domestic producers and consumers is essential. This will determine the extent to which higher and more stable world prices, improved transparency, and greater market access are translated into improved incentives to domestic producers, consumers and investors. To implement all these are not as easy as spelling out all the necessary effort in encountering the possible consequences of the agreement. It demands not just a plain

cooperation among the related government officials, academicians, and the private sector to address the matter. A strong, reliable and comprehensive framework is needed to monitor the dynamic development of world trade since world agricultural trade scenario is led by the US-EU disputes, which in most cases benefited both superpowers at the expense of other unfortunate and less developed countries. As to conclude, the battle for the continuance of the agricultural sector survival is vital for a more balanced and equitable distribution of the fruits of economic development in the country.

5.1 Concluding Remarks

For all developing countries, not excluding Malaysia, a basic requirement is that they must try to produce their own staple food as much as possible, so that the dependence on imports for these items minimized. The conventional wisdom preached by theoretical economists is for a country to import food if it is cheap, rather than invest resources in the costly process of producing food within the country. But for various reasons, this classical advice is not quite appropriate in respect of such an essential and vital item as the staple food.

First, the developing countries, except for a very few, suffer from chronic shortage of foreign exchange. Dependence on imports for their staple food in such a situation may cause difficulties and uncertainties in the availability of food in these countries. Coupled with the privatization of agricultural trade, dependence on food imports may also cause serious uncertainties and frequent escalations in the prices of the staple food products. A delay in the import of food at the time of a shortage of foreign exchange will cause tremendous misery to the people, resulting at times, in possible social unrest. Secondly,

even if adequate foreign exchange is available, like in the case of Malaysia, imports may not be readily available at times of need for various reasons. A country can ill afford any uncertainty in the availability of food. Thirdly, a dependence on imports for the staple food may reduce the foreign policy options of a country, at least on critical occasions, thus constraining its sovereignty in external relations.

Assured provision of staple food is almost as important for a nation as its security. Hence, there is a good rationale for treating staple food as somewhat different from the normal commercial transactions in international trade. Developing countries will therefore need to try to adapt the WTO agreement to this basic requirement of theirs. During the 1999 review, this important distinction between trade in staple food and that in other items of agricultural or industrial products must be a guiding factor. The first step in the preparation by a country for the review of the AoA should be to assess the impact of the implementation of the agreement on the country.

For such an assessment, a number of factors need to be examined. For example, how far has export prospect actually improved by the reduction in import controls, domestic support and export subsidy of the major developed countries during the three years, of the implementation period. If possible, an attempt should be made to segregate the role of each of these factors on the actual enhanced exports and also assess their experience on whether there has been any actual increase in the prospect of their exports. Assessment should be carried out whether there has been an increase in imports of agricultural products as a result of reduction in import controls and domestic support. An assessment is also needed to see whether there has been any impact on the production of agricultural

products in the country. In particular, has it been any adverse impact on small and marginal farmers and has such a reduction created any problems for them ?

There is an urgent need for Malaysia to conduct in-depth studies in areas like economic liberalization and economic management. The country is an exceptionally small-opened economy, in terms of flows of goods and services, capital and people. The agricultural sector, being highly export-oriented, is extremely vulnerable and exposed to various kinds of external shocks. As indicated in this study, there is a need for more competent and appropriate management of these externally and internally induced factors (shocks) on the agricultural economy. Hence, relevant short and long term policy will be required to ensure that they do not adversely affect the agricultural sector's vital and crucial role as one strategic source of engine of growth in the country.