

Globalization, Trade Liberalization And  
The Likely Impacts Of WTO And AFTA  
On The Agriculture Sector In Malaysia

by

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## Globalization

The word globalization conjures the image of a globe with a singular mass of humanity. It has been suggested that globalization will inevitably bring about a world of singular economic, cultural and political system. Others have suggested that globalization will usher an age of economic development and prosperity. Still there are others who believe that globalization is an extension of the domination of industrialized countries over the rest of the world. The more radical thinkers have argued that liberalism and globalization are synonymous. And yet there are also those who defend that globalization will result in increasing protectionism. There are also doomsayers hawking the vision of a bleak future where globalization results in economic, cultural and political fragmentation and fraction. Beck (2000) on the other hand describes a future where transnational corporations rise to prominence nationhood ceases to be relevant. All these scenarios are but conjectures of the future. The plot is still being written and will be determined by the collective and individual will and actions of those in the present.

However, contrary to what many believe, globalization is not a recent phenomena. It has been set in motion since ancient times. Trade was the catalyst for globalization because it facilitated the development of transportation, technology and economy. To feed the European economic expansion of the middle ages, new trade routes and colonies were established in Africa, Asia and America. In the current decade, advances in technology and political integration have quickened the pace of globalization.

The present feature of globalization is internationalization arising from a proliferation of international economic, political and cultural linkages. This and advances in technology have resulted in countries increasingly being affected by events in other countries. It can be said that today no country is an island. Events such as the Asian Financial Crises in 1998 demonstrated the economic interdependence and linkage of countries where the property asset bubble in Thailand triggered an adverse contagion which initially affected its ASEAN neighbors and later developed into a full-blown meltdown of the mighty American NYSE and NASDAQ. Another example would be the current crude oil price increase which has affected every country. Even political events such as terrorism has taken an increasing international dimension where Malaysian terrorists became the masterminds for the devastating spate of bombings in Bali, Indonesia.

Despite the above, globalization also brings about important benefits and opportunities such as increasing external trade, access to foreign capital and technology transfer which has resulted in the growth and prosperity of countries which engaged in the global economy. In the recent 3 decades, participation has brought about the emergence of the Asian Dragons - Taiwan, South Korea and Singapore as newly industrialized countries and the Asian Tigers – China, Malaysia, Thailand and Indonesia as newly developing countries.

## Trade Liberalization

An important aspect of globalization is trade liberalization where markets become more open by reducing trade barriers. Essentially, trade barriers are put up by countries to protect domestic industries and economic sectors from foreign competition. It was thought that foreign competition being more advanced would dominate the domestic market to the detriment of domestic players. Therefore, protectionist policies are enacted to protect and encourage the development of domestic industries. An example of such policies would be the Import Substitution policies. Trade barriers are commonly enacted in the form of import quotas and tariffs. However, it can also take the form of production subsidies as in the subsidies to the agricultural sector in the USA and the Common Agricultural Policy of the EU.

In due course with the benefit of protectionism, these domestic industries would become efficient producers and seek external markets for their products. This leads to the development of external trade. However, this development is sluggish because other countries often have erected their own trade barriers to protect their own domestic industries. As such opportunities for trade are not developed to the full potential because of these trade barriers. Krugman (1995) summarizes it neatly by saying that protectionism reduces the efficiency of the world economy.

In the recent decades, countries have sought to liberalize trade by negotiating to bring down such trade barriers by the use of Free Trade Agreements (FTA) which can take the form of bilateral and multilateral agreements. It has been widely accepted that the reduction of these trade barriers has been instrumental in the quantum increase of international trade (World Bank, 2003).

This recognition of the benefits of trade liberalization prompted the establishment of formal institutions such as the General Agreement on Tariffs and Trade (GATT) in 1947 and its successor the World Trade Organization (WTO) in 1995. 150 countries are current members of the WTO which facilitates multilateral trade agreements. WTO also provides a mechanism whereby trade conflicts are resolved by arbitration.

Despite the benefits of increased international trade, there is significant criticism against WTO for extending the interests of Industrialized countries at the expense of Less Developing Countries (LDC). Some of the contentious issues are related to trade imbalances, unequal market access, environmental protection, labour wages amongst others.

Malaysia is without doubt a great beneficiary of trade liberalization where the opening of foreign markets has enabled Malaysian exports experience double digit growth over the past 3 decades. However, trade liberalization is a double edged sword because Malaysia is expected to reciprocate by opening up its market to foreign competition. There is pessimism that Malaysian industries and services sector are lagging in terms of efficiency and productivity and therefore unable to compete on equal basis with foreign competition. A case in point is the Malaysian car manufacturer PROTON which would like to see a continuation of the current protective tariff against foreign makes.

## What Are The Likely Impacts Of WTO And AFTA On The Agriculture Sector In Malaysia?

The Malaysian agriculture sector contributed 9.5% of GDP in 2004 out of which 62% was contributed by Crude Palm Oil (CPO). The agriculture sector's importance continues to diminish in significance relative to the services and industrial sectors of the economy. Despite this, the agriculture sector through its main export commodity Crude Palm Oil (CPO) has continued to be a steady contributor to Malaysia's export income. In the past year (2004), Malaysia earned RM20billion through CPO which was 4% of total exports. Malaysia has also continued to maintain its position as the leading exporter of CPO at 50% market share in 2004 (refer to Table 1).

**Table 1: Value of Agriculture Exports**

	Palm Oil		Rubber		Logs	
	Tonnes (thousand)	RM (million)	Tonnes (thousand)	RM (million)	Tonnes (thousand m <sup>3</sup> )	RM (million)
2000	8,863	9,948	978	2,571	9,360	5,509
2001	10,466	9,876	822	1,886	7,244	3,796
2002	10,857	14,838	928	2,492	7,857	4,867
2003	12,487	20,192	946	3,583	8,321	5,182
2004	11,788	20,107	1,105	5,198	8,373	5,284

*Source: Bank Negara Malaysia*

**Table 2: Agriculture Production**

	Palm Oil		Rubber		Logs	
	Total Production Tonnes (thousand)	% Exports	Total Production Tonnes (thousand)	% Exports	Total Production Tonnes (thousand m <sup>3</sup> )	% Exports
2000	12,227	72%	928	105%	23,074	41%
2001	13,336	78%	882	93%	18,923	38%
2002	13,382	81%	890	104%	20,649	38%
2003	14,999	83%	986	96%	21,532	39%
2004	15,619	75%	1,178	94%	21,509	39%

*Source: Bank Negara Malaysia*

The other main export contributors from the Malaysian agriculture sector are rubber and logs which have a total export value of RM30billion contributing 6.3% of total exports in 2004 (refer to Table 2). The Malaysian agriculture sector, especially for rice and rubber crops are heavily subsidized by the government because the fragmented smallholdings of rice and rubber are mainly owned by the indigenous Bumiputera who are poor. These subsidies are meant to alleviate their poverty. According to a study by Uzir (1989) there are approximately 150,000 households which were dependant on Rice cultivation for livelihood.

The WTO and AFTA multilateral trade agreements seek to reduce trade barriers. The existing Malaysian import tariffs for CPO, Latex and Rice are as per Table 3. The import duty for rice is the highest at 40%.

**Table 3: Import Duty On Selected Products**

Product	Import Duty	Product	Import Duty
Crude Palm Oil	10%	Cocoa Beans	10%
Latex	5%	Logs & Wood	10%-20%
Pepper	10%	Rice	40%

*Source: WTO*

Malaysia is a net exporter of both CPO, Latex and Logs. 75%, 94% and 39% of these products were exported out of their total domestic production. This would imply that Malaysia has a lot more to benefit with the opening of foreign markets over the continued import duty for these products. The import duty should be used as a bargaining chip in order to gain concessions to penetrate foreign markets. The trade off between the import duty foregone and the opening of new markets is significantly favorable and this strategy should be pursued with vigor.

However, the situation is different with Rice. Malaysia imports about 25% of its total rice requirement. The high import duty of 40% on rice serves to protect the domestic rice farmers because it enables the high price of rice in the domestic market. This benefits the rice farmers because it allows them to gain additional profit. Thus the price of rice in the Malaysian market is the highest in ASEAN. In addition to the high import duty, the government also provides generous subsidies in the form of fertilizers, irrigation and machinery to the rice farmers who have over the years grown dependant on these subsidies and are grossly inefficient.

Therefore as a conclusion, the implementation of the WTO and AFTA trade agreements will result in positive benefits for Malaysia's export crops such as described earlier. However, these trade agreements will effect the rice farmers adversely. A reduction in the import duty will make foreign rice cheaper and this will crowd out domestic rice production. This crowding effect may potentially result in the unemployment of some 150,000 rice farming households putting additional burden on the government. Alternatively, the reduction in import duties for rice may force the rice farmers to increase yield and efficiency and thus be more competitive in facing the foreign competition. It would be prudent for the government to begin weaning the rice farmers from the subsidies and the import tariffs now, to allow for gradual adjustment instead of giving them a big bang shock which may have dire consequences upon the government.

