Malaysian Paddy & Rice Industry: "new policy implementation and directions"

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Outline

1. Rice Economy: The Case for Change
2. Performance & Issues
3. Way Forward
New market dynamics for food prices

Relatively stable, cheap food prices and declining in real term

New era of food: Demand chasing supply due to population and income increase in the face of supply constraints...


Source: www.imf.org
Growing importance of food security in all dimensions: Availability, nutrition security, accessibility and sustainability

Cyclical, volatile, countries are highly responsive to shocks and market remains thin

New era of rice:
Green Revolution has ended, a new dynamics occur thru’ demand & supply shifters

Price of Thai Rice 5% Broken Milled White Rice, Jan.1960-May 2015(USD/tonne)

Source: www.imf.org
Malaysia’s vs other countries: A missed opportunity?

Observations (1965-2013):
- All share the same starting point but the journey differs
- Green Revolution kick off for all
- Thailand – net exporter all along
- Vietnam – from net importer => to net exporter
- Malaysia – all time net importer

Source: www.irri.org
Malaysia lags other countries in all dimensions

Annual rate of growth (%) in Green Rev Era and 1980-2013

Both area and production are declining, but the progress of productivity slow and low vs achievable yield

Source: www.imf.org
Conclusion:
Despite the economic growth, Malaysia is unable to leapfrog its paddy yield and industry.

Ripe for a change

Paddy yield by country (t/ha), 2011-13

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Note:
- “there is limit to growth”
- “commodity life cycle” is at work
- the need to reinvent the wheel (downstream and beyond)
- food sector lags
Outcome of our export crop centric policy: Malaysia is a perpetual net importer

Self Sufficiency Level of Food in Malaysia, 1995-2013 (%)

Source: MoA, various years
The three pillars of rice policy:

- To ensure high price to producers to incentivise production
- To achieve self-sufficiency level (72% by 2020, DAN)
- To ensure stable and high quality of rice to consumers

SSL Achieved vs Target under Various Agricultural Policies

Source: MoA (2010).
Paddy and rice sector is deeply protected necessitated by the 3-pillar objectives

Market interventions along supply chain

FARM

- Paddy Production
  - Input subsidy
  - Production incentive
  - Cash subsidy
  - Irrigation rate
  - GMP (RM1200/t)
  - Subsidy = RM850 mn/yr

MILLING

- Milling of Rice
  - Licensing
  - Cash subsidy RM800/t on ST15%

WHOLESALING RETAILING

- Sale of Rice
  - Zoning
  - Subsidies on low grade rice ST15% at RM1/kg

TRADE

- Import & Export
  - BERNAS – import monopoly
  - G2G deals

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Financial burden increasing over time, but the SSL achieved has not changed very much

Subsidy & SSL, 1990-2009

Source: MoA (2010)
Supply is dictated by SSL target, but not consumption & import

Production is based on SSL target rather than “growth”
Rice area and productivity

Source: MoA (various years)
Some “market distortion” effects observed

- Heavy dependence of subsidies
- Low investment at the farm
- Low invest in the milling sector, recovery rate is less than 65% compared to potential of 70%
- Adulteration of low and high quality rice
- Limited incentives for high value product innovations
- Arbitrage activities at the border
- Overall sluggish growth of the sector
- Consumers bear the burden of inefficiency
- High fiscal/financial burden
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Ripe for a change
What are the causal factors of high productivity and growth?

Paddy yield by country (t/ha), 2011-13

A strong correlation between low yield and market intervention: Liberalise or not to liberalise?

Interventions in the rice market by country

<table>
<thead>
<tr>
<th>Country</th>
<th>Production</th>
<th>Consumption</th>
<th>Trade</th>
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<tbody>
<tr>
<td></td>
<td>Insurance</td>
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<td>USA</td>
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Country to keep domestic prices low, resulting in a thinly traded, and thus more volatile, global market. Research shows this volatility only increases the incentives for further intervention, and so policies tend to “spiral”.

(Martin and Anderson, 2012)

Comparative advantage argument can be reversed. The market potential is vast.

The future: Guided and well planned liberalisation move.

<table>
<thead>
<tr>
<th>Policy</th>
<th>Short run</th>
<th>Long run</th>
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<tbody>
<tr>
<td>MACRO</td>
<td>Managing price crises and provision of safety nets</td>
<td>Inclusive economic growth and management of price stability</td>
</tr>
<tr>
<td>MICRO</td>
<td>Vulnerability to shocks, coping mechanism and resilience</td>
<td>Poverty reduction and access to nutritious food ➔ sustainable food security</td>
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Source: Timmer (2010)
The future: Liberalisation will not hurt if it is inclusive. Its about bringing back the basics.

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<thead>
<tr>
<th>Strategy</th>
<th>China</th>
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<th>Thailand</th>
<th>Vietnam</th>
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Strategy rating in terms of return to agricultural production and poverty  
Source: Fan (2009)
Fundamental philosophy: FOOD FIRST policy

Current landscape

- Paddy and rice industry calls for some changes to create growth and efficiency
- The major structural setback is in the production sector: Poor participation of new farmers, low productivity and high cost of input (imported)
- Paddy and rice is socially and politically strategic
- Institutional rigidity and constraints prevail
- Malaysia is good at addressing transitional food insecurity
The core issue: Paddy farming is not attractive because of low return and income.

To increase return is to:
- reduce cost
- increase productivity
- increase revenue
Goal: Towards growth, inclusive and sustainable rice sector

Strategies: Short and long term

*Short term:*

(i) Productive subsidies or supports: Some modifications required
(ii) Farmers organisation eg NKEA farmers
(iii) Enhance extension services
(iv) Improves infrastructures efficiency
(v) Safety nets
Long term: Proposed game changers and “Food First Policy”

- Development of agribusiness/input sector:
  Fertiliser, pesticides, weedicides, machines & equipment, ICT apps and big data

- Integrated and inclusive paddy and rice supply chain via cooperative vehicle: Farmers to involve in paddy and rice processing

- Reduction of cost
- Increase productivity
- Increase income from paddy and rice and value addition
- Entrepreneurship
Paradigm shift

- A country will never go wrong in food investment
- 2014: Year of small and family farm
- Multi dimensional benefits:
  - Food security
  - Nutrition security
  - Enhancing local bio-diversity
  - Preservation or rural landscape
  - Environmental and ecological benefits
  - Livelihood/economic/income diversification/multi-cropping/risk management
Long term strategies towards progressive growth, inclusive and sustainable paddy/rice sector

- Development of local input esp. fertiliser, pesticides & weedicides
- Development of high yielding & resilient varieties
- Development of organic inputs
- Development of small machines
- Water management

R&D: Participatory Research

Cost reduction, productivity enhancement, value addition, Increase return, sustainability

- Extension for ToT
- Farm management tools
- Data-driven decision
- Access to credit
- Integrated farmers cooperative

Game changer – High impact programme
Medium term strategies:
- Guided liberalisation moves depending on the performance of the industry (esp. producers)

Long term strategies:
- Once farmers have earned adequate income, liberalisation may be intensified. This include withdrawal of:
  - unproductive subsidies
  - price control
  - import monopoly
- Support packages to increase efficiency, innovation and product development

Thank you