



Malaysian Paddy & Rice Industry:

“new policy implementation and directions”

Fatimah Mohamed Arshad

Institute of Agricultural & Food Policy Studies
Universiti Putra Malaysia

Talking points to the National Plantation Industry Conference and Exhibition (NAPiCEX2015)

Organised by IIPM and MARDI

Kota Kinabalu Sabah, 28-29 September 2015



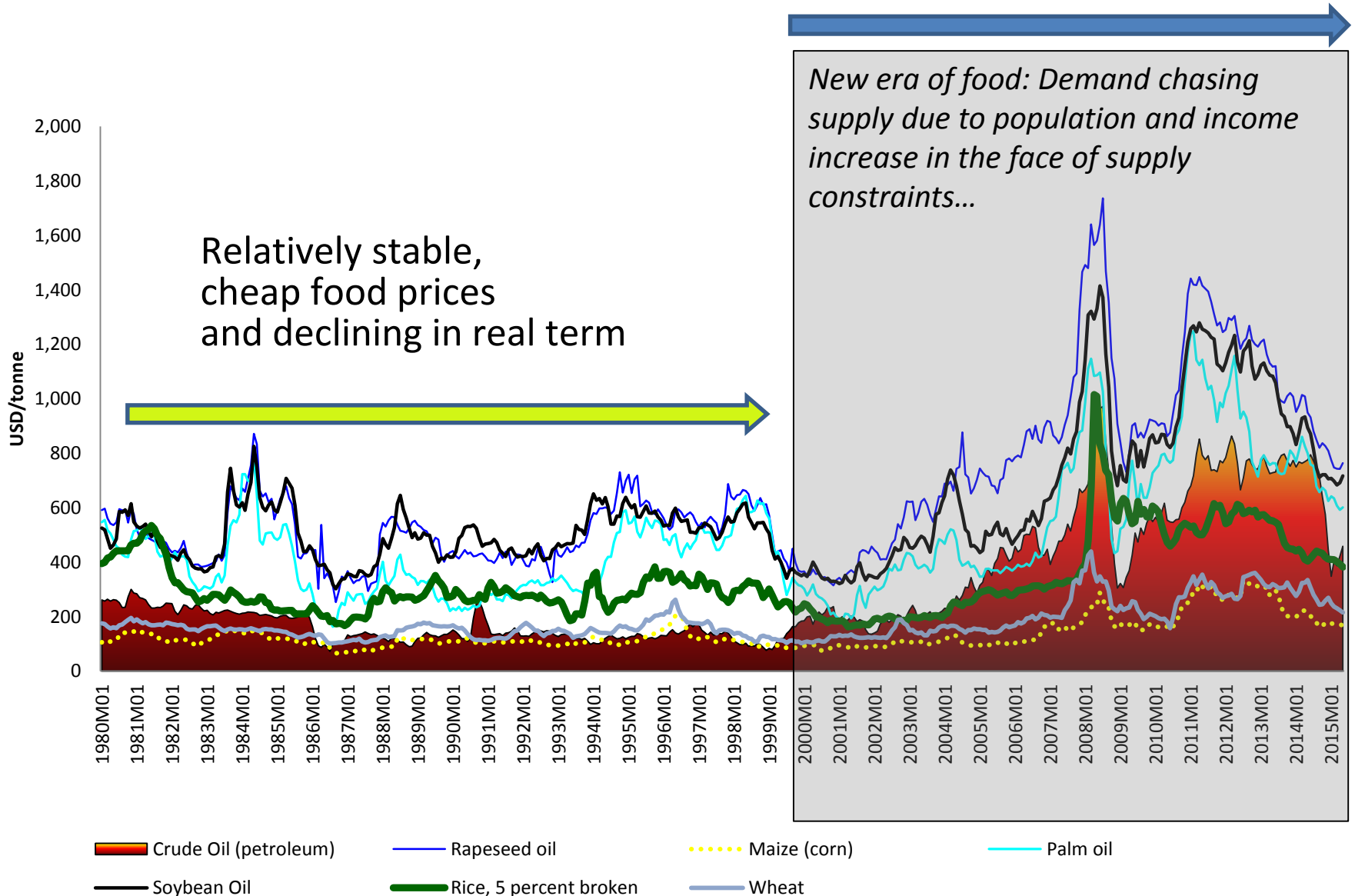
. Outline

**1 Rice Economy:
The Case for Change**

2 Performance & Issues

3 Way Forward

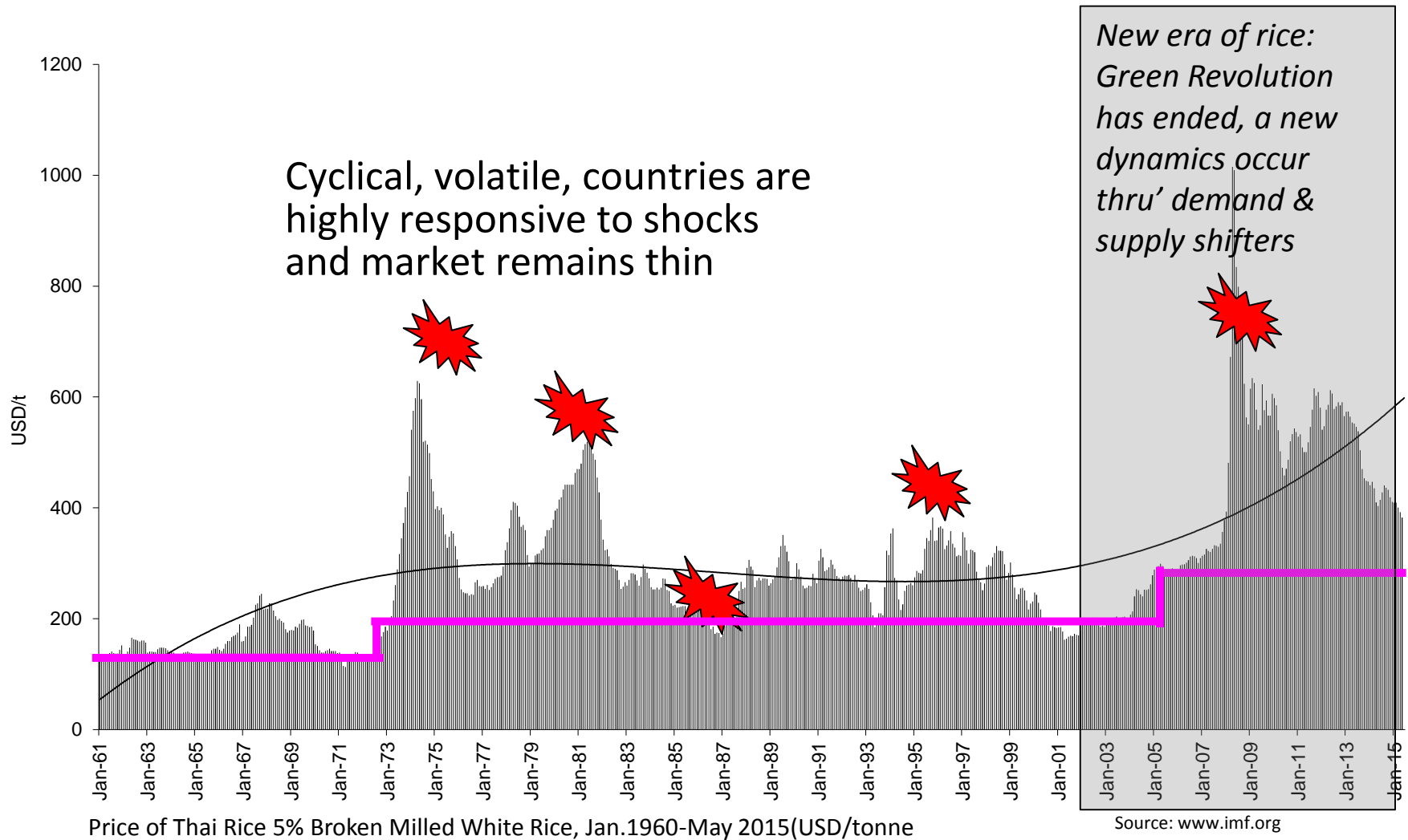
New market dynamics for food prices



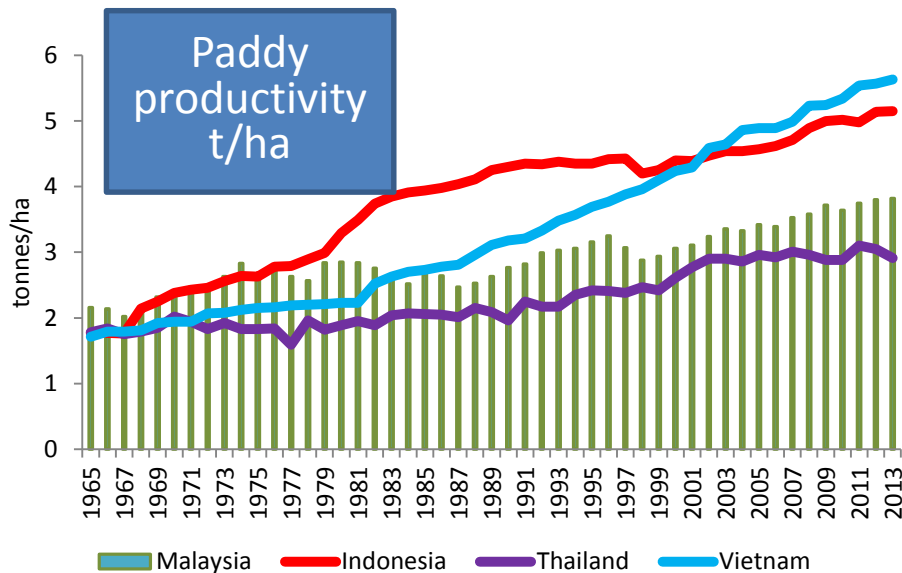
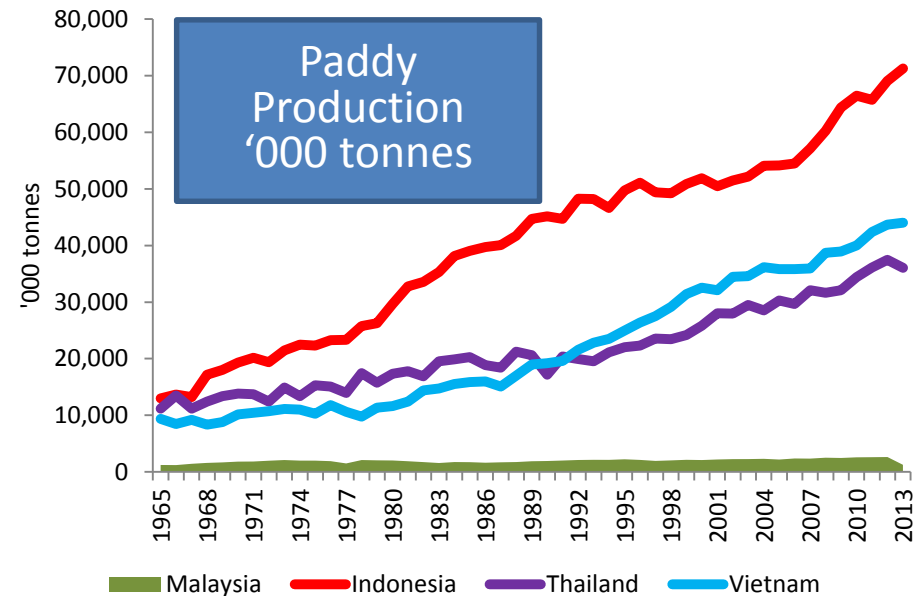
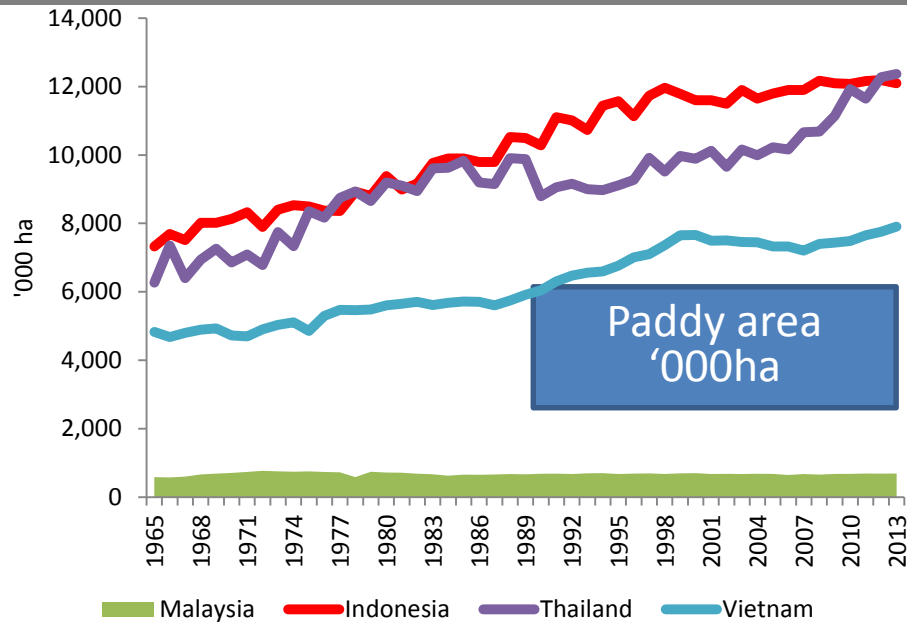
Prices of selected commodities (USD/t) Jan.1980-May2015

Source:www.imf.org

Growing importance of food security in all dimensions: Availability, nutrition security, accessibility and sustainability



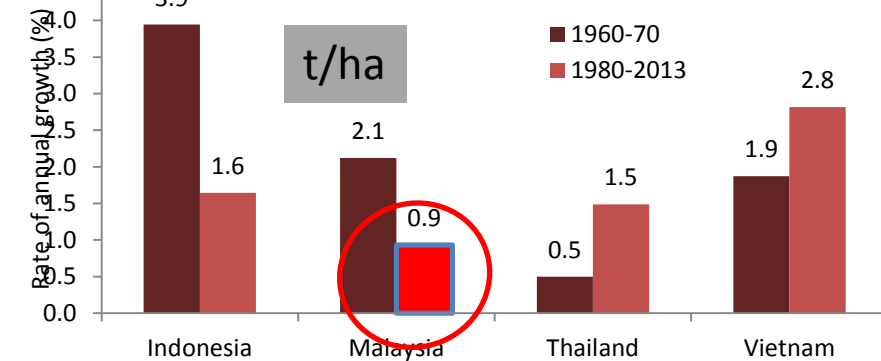
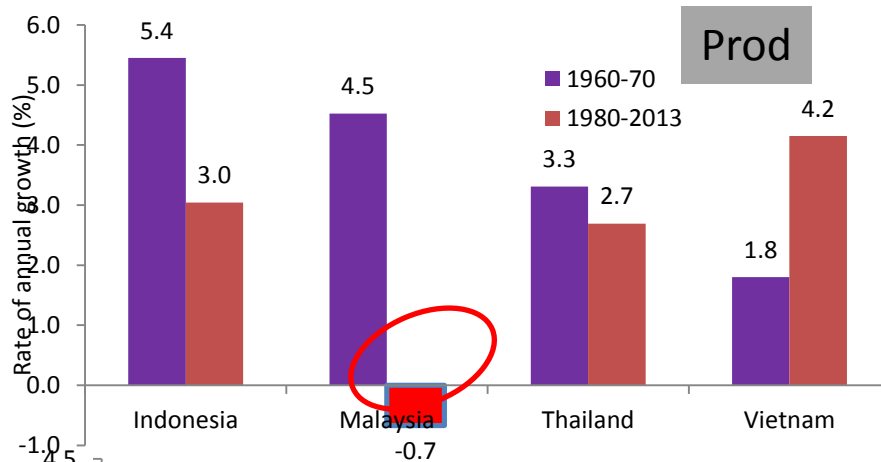
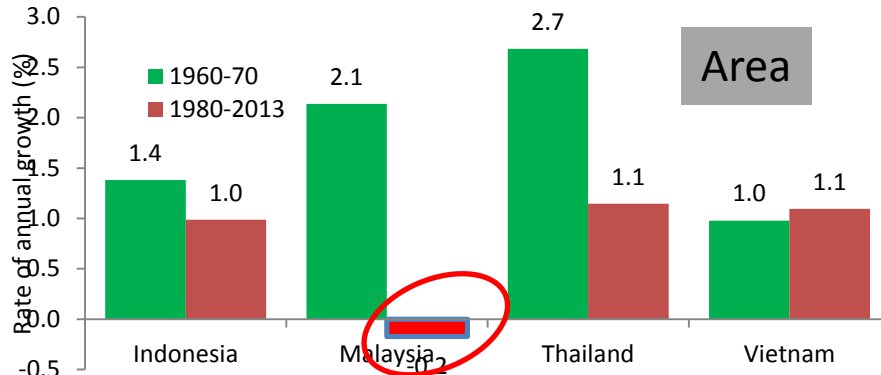
Malaysia's vs other countries: A missed opportunity?



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

Malaysia lags other countries in all dimensions

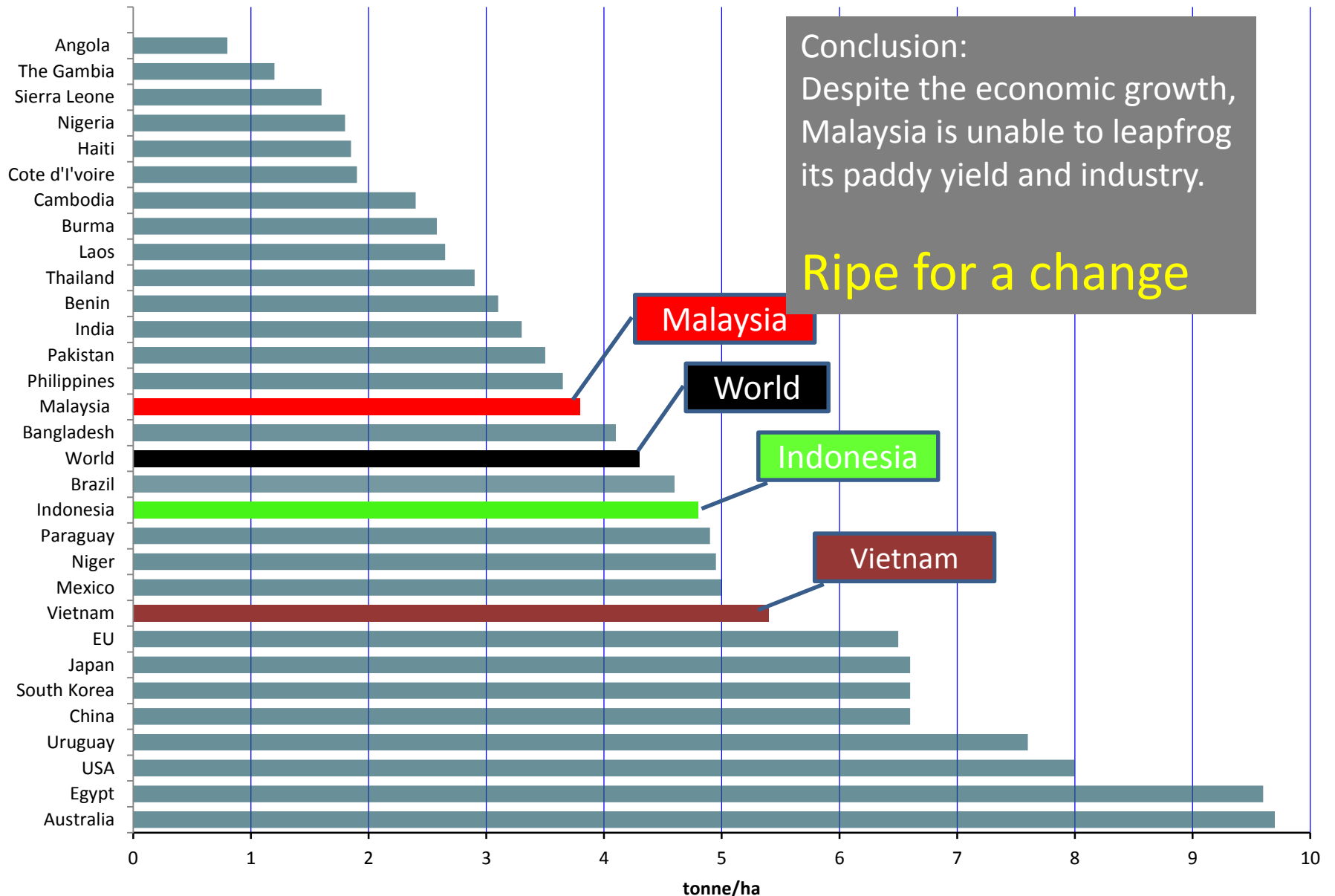


Annual rate of growth (%) in Green Rev Era and 1980-2013

Area (ARoG %)	Indonesia	Malaysia	Thailand	Vietnam
1960-70	1.4	2.1	2.7	1.0
1980-2013	1.0	-0.2	1.1	1.1
Production (ARoG %)	Indonesia	Malaysia	Thailand	Vietnam
1960-70	5.4	4.5	3.3	1.8
1980-2013	3.0	-0.7	2.7	4.2
Productivity (ARoG %)	Indonesia	Malaysia	Thailand	Vietnam
1960-70	3.9	2.1	0.5	1.9
1980-2013	1.6	0.9	1.5	2.8

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

Source: www.imf.org



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

Source: US International Trade Commission (2015)

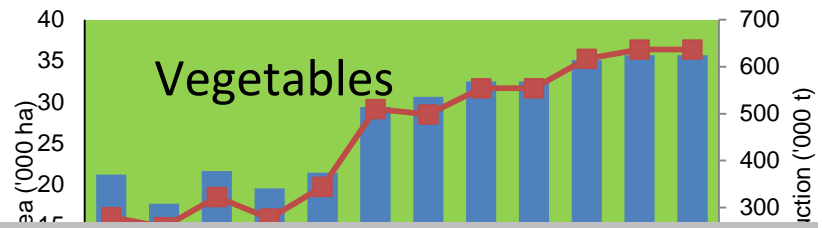
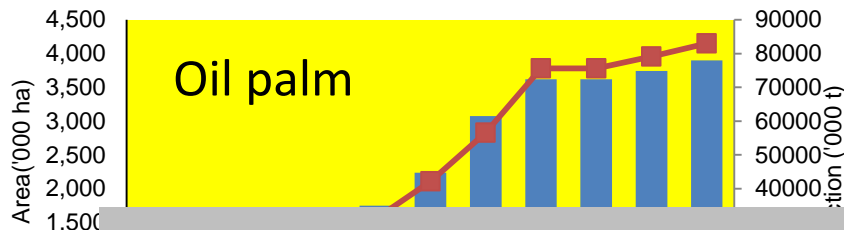


. *Outline*

1 Rice Economy:
The Case for Change

2 Performance & Issues

3 Way Forward



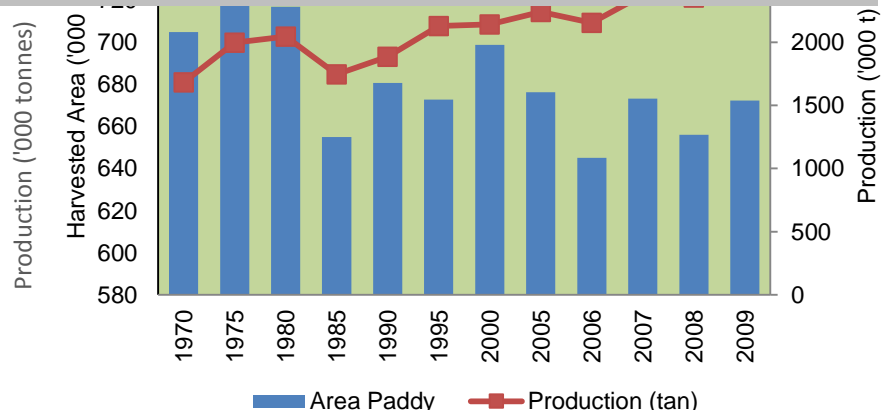
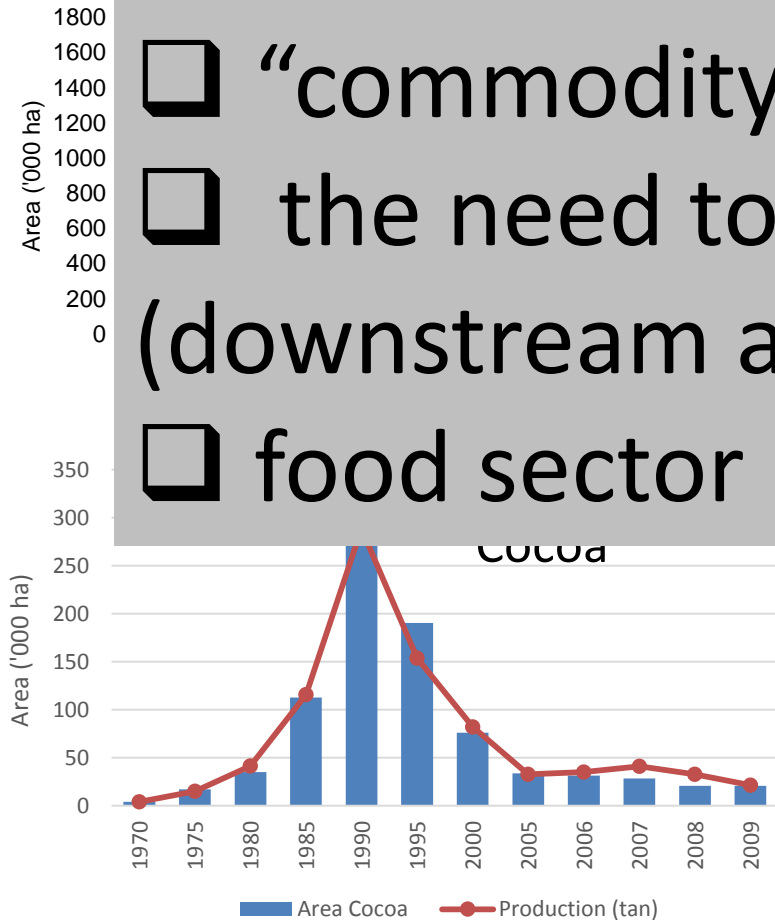
Note:

☐ “there is limit to growth”

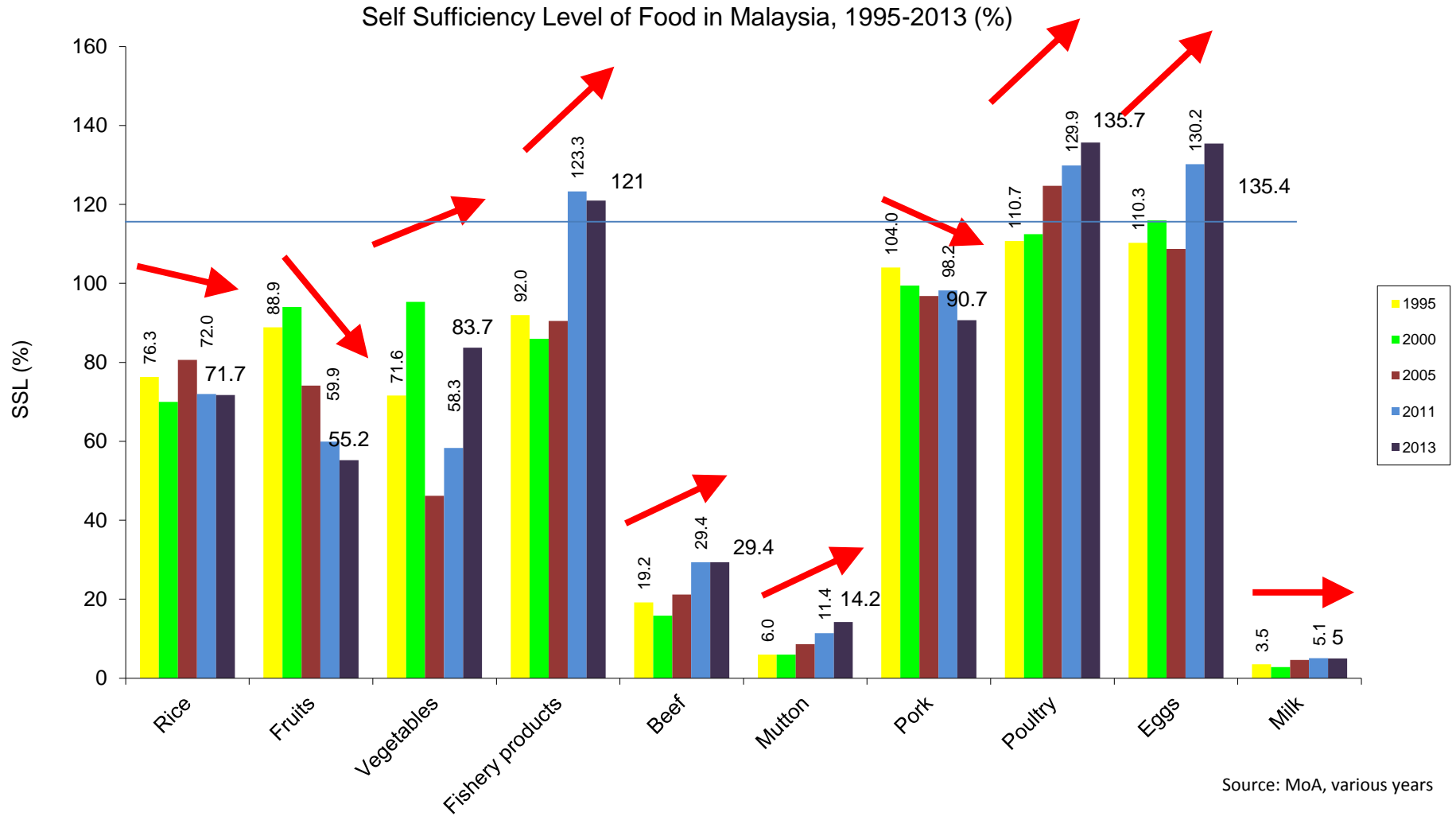
☐ “commodity life cycle” is at work

☐ the need to reinvent the wheel
(downstream and beyond)

☐ food sector lags



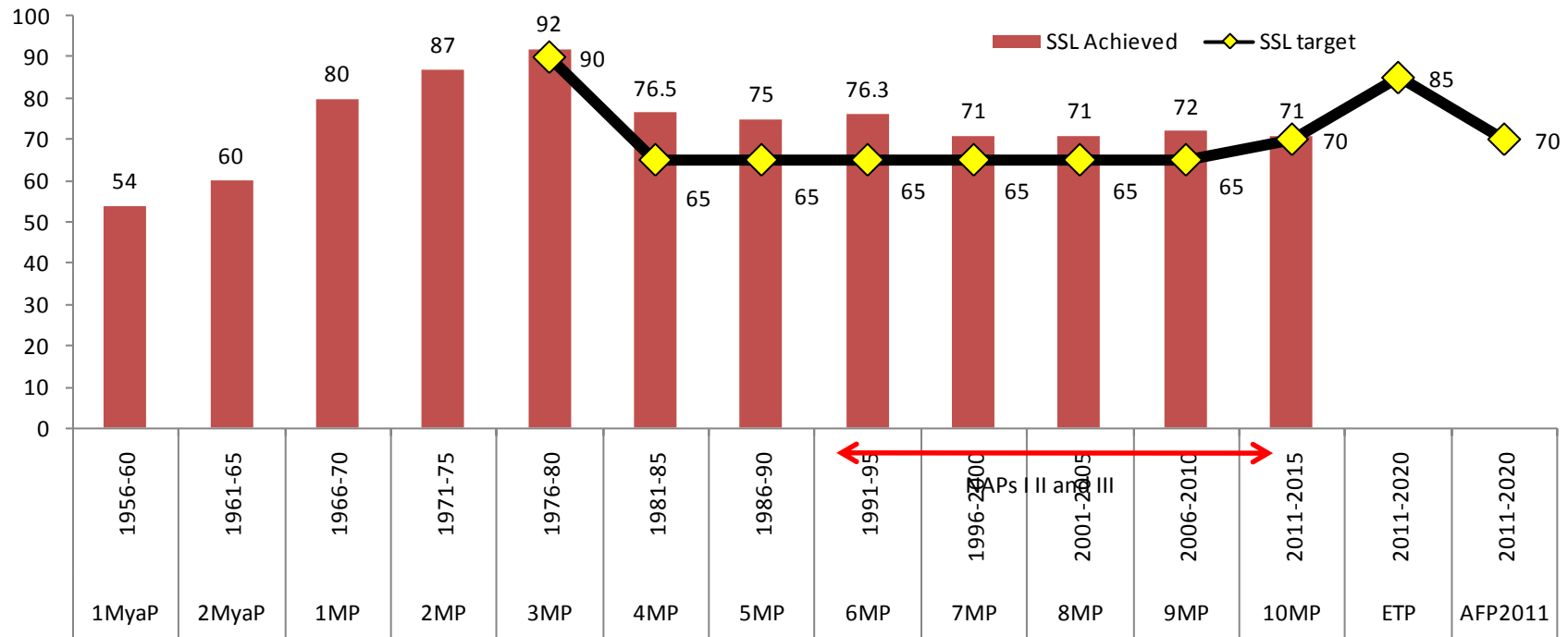
Outcome of our export crop centric policy: Malaysia is a perpetual net importer



Evolution of paddy and rice policy

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

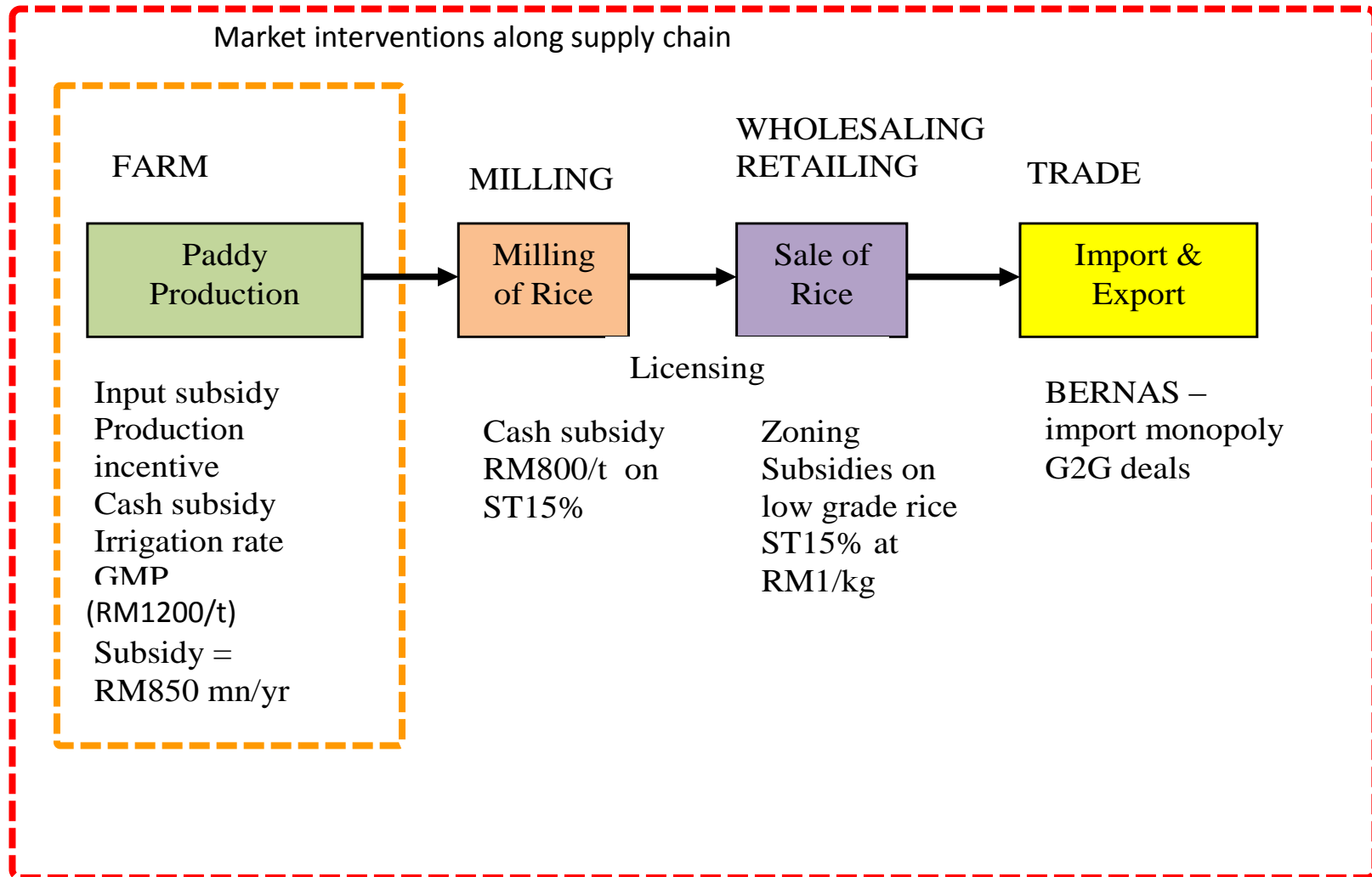


1MyaP, 2MyaP – First and Second Malaya Plan respectively, MP – Malaysia Plan, ETP – Economic Transformation Programme, AFP – Agro-food Policy 2011, NAP – National Agricultural Policy

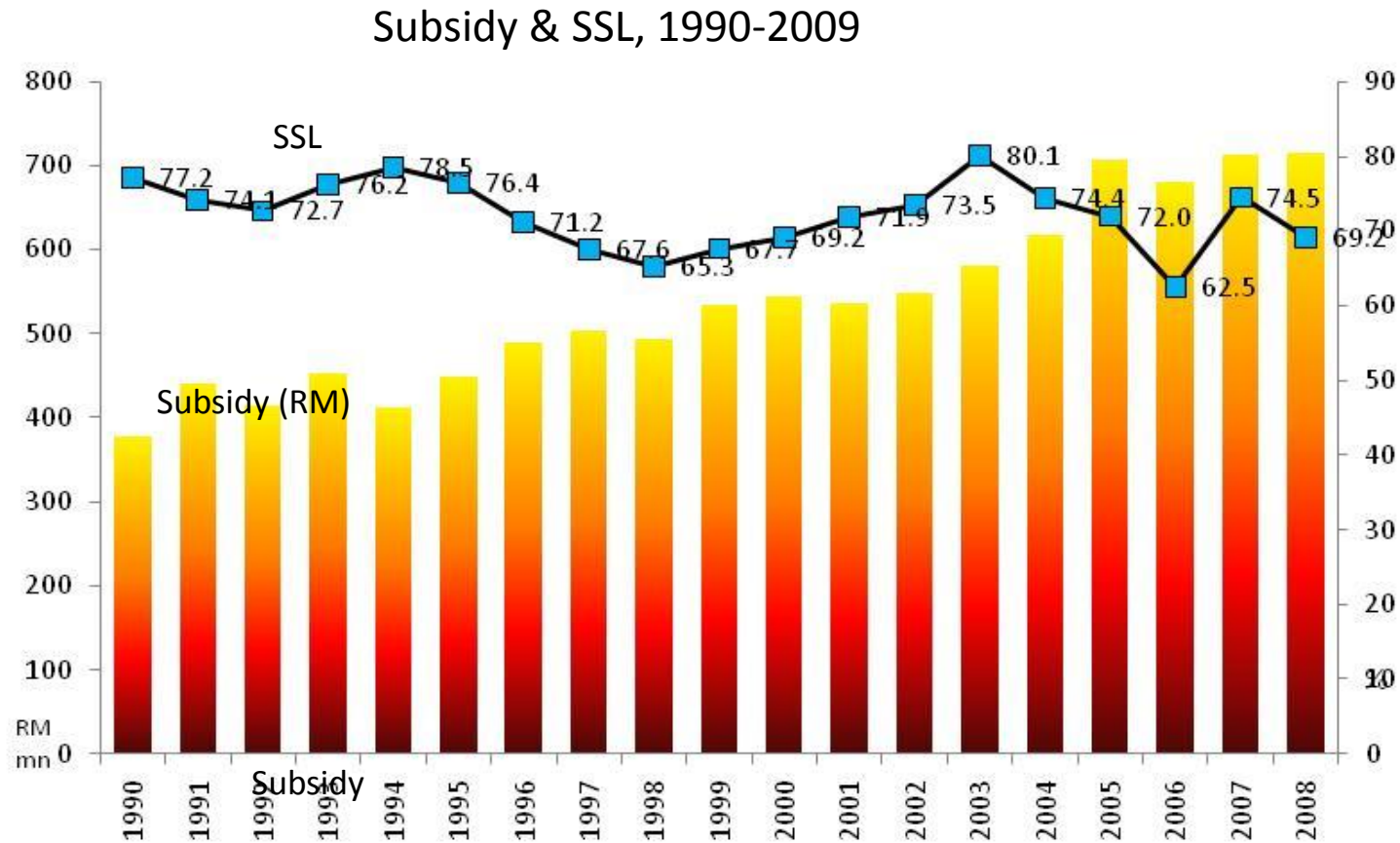
SSL Achieved vs Target under Various Agricultural Policies

Source: MoA (2010).

Paddy and rice sector is deeply protected necessitated by the 3-pillar objectives



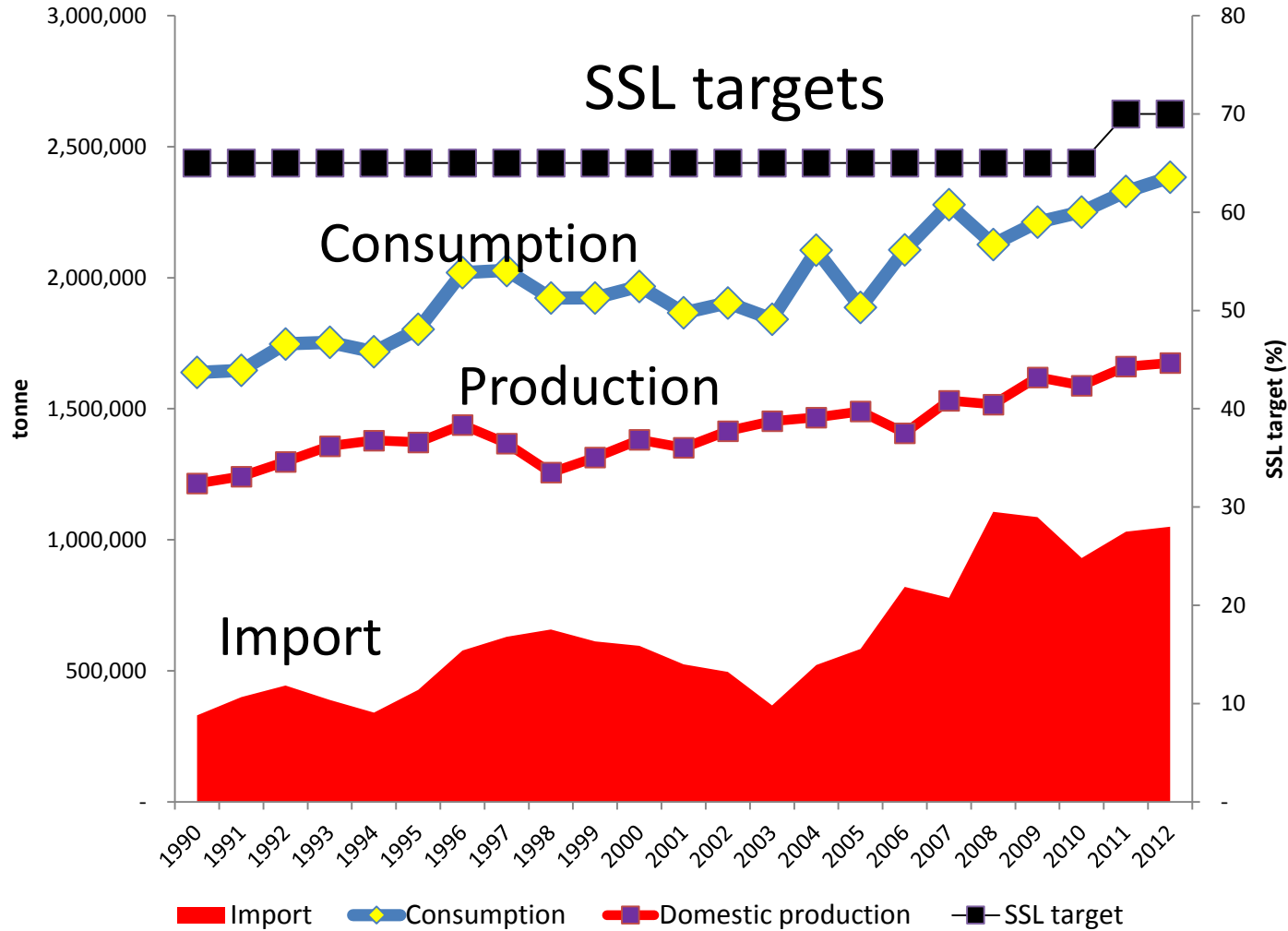
Financial burden increasing over time, but the SSL achieved has not changed very much



Source: MoA (2010)

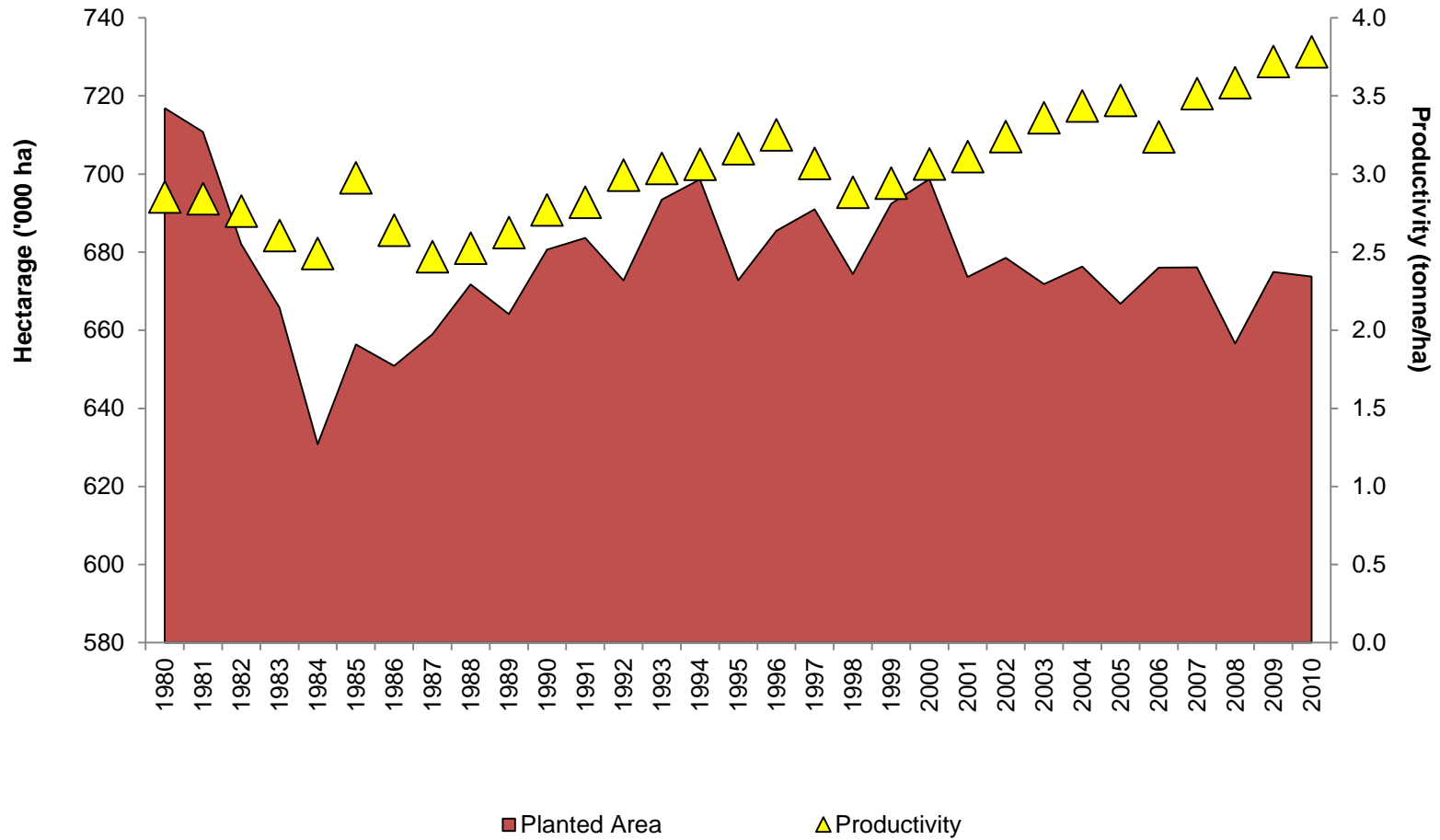
%

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



. *Outline*

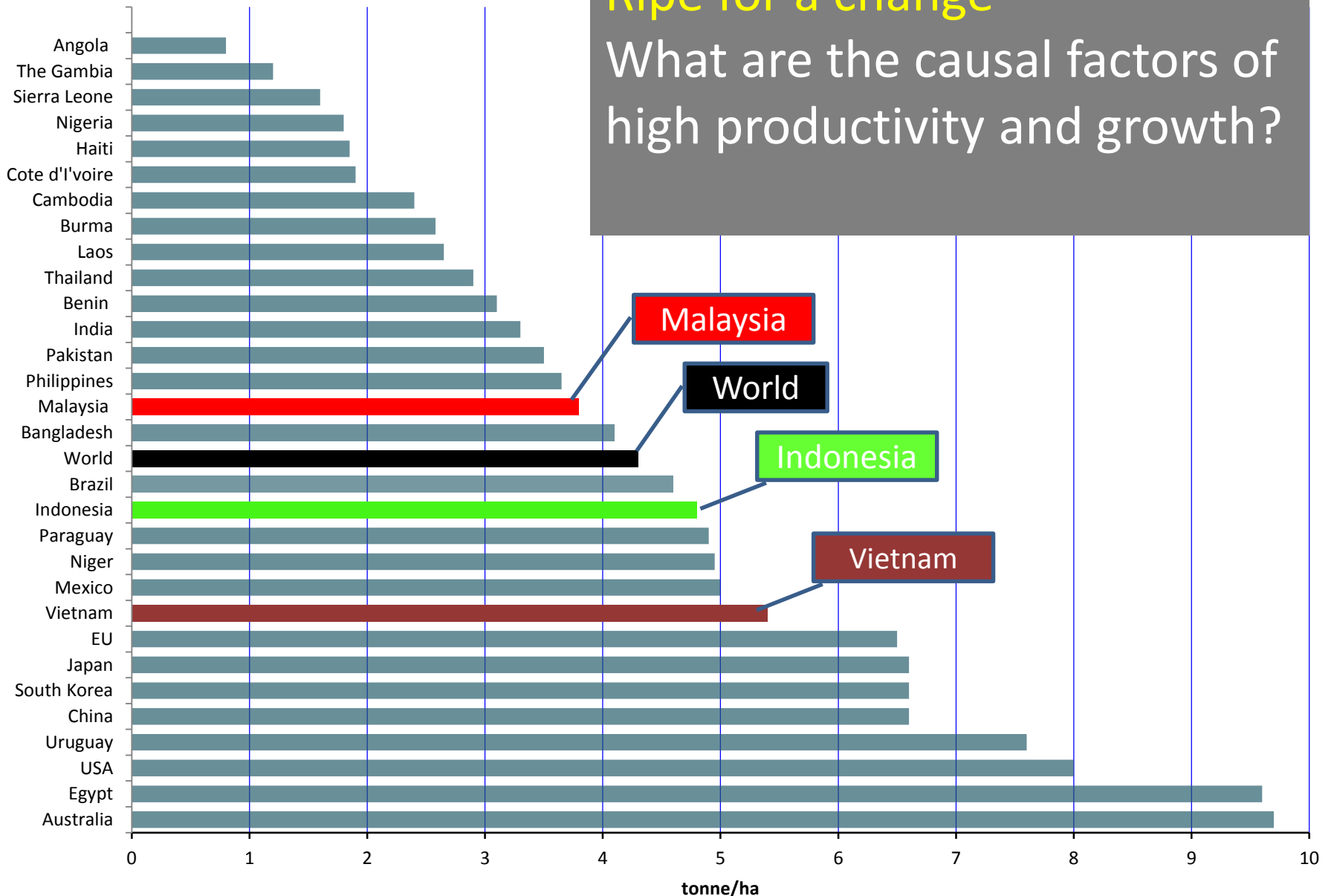
1 Rice Economy

2 Performance & Issues

3 Way Forward

Ripe for a change

What are the causal factors of high productivity and growth?



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

Source: US International Trade Commission (2015)

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

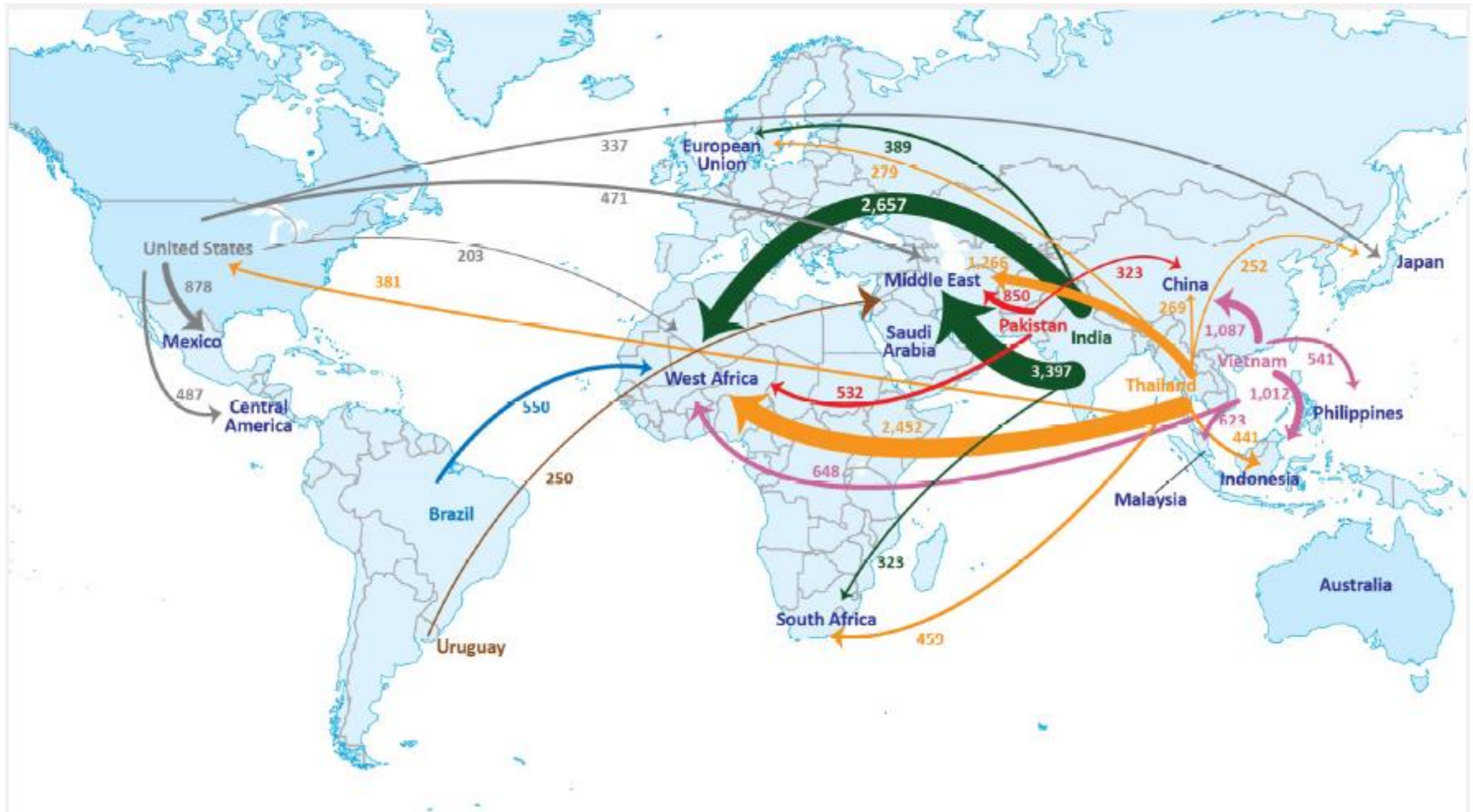
Interventions in the rice market by country

Country	Production				Consumption				Trade						
	insurance	Input	Fertilizer								TRQ	Direct payment to farmers	Public stock holding	Total	
High yield country															
USA														2	
Uruguay														0	
China														11	
Vietnam														6	
Thailand														5	
Indonesia														6	
Low yield country															
Malaysia														17	
Philippines														6	
India														11	
Burma														8	

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.



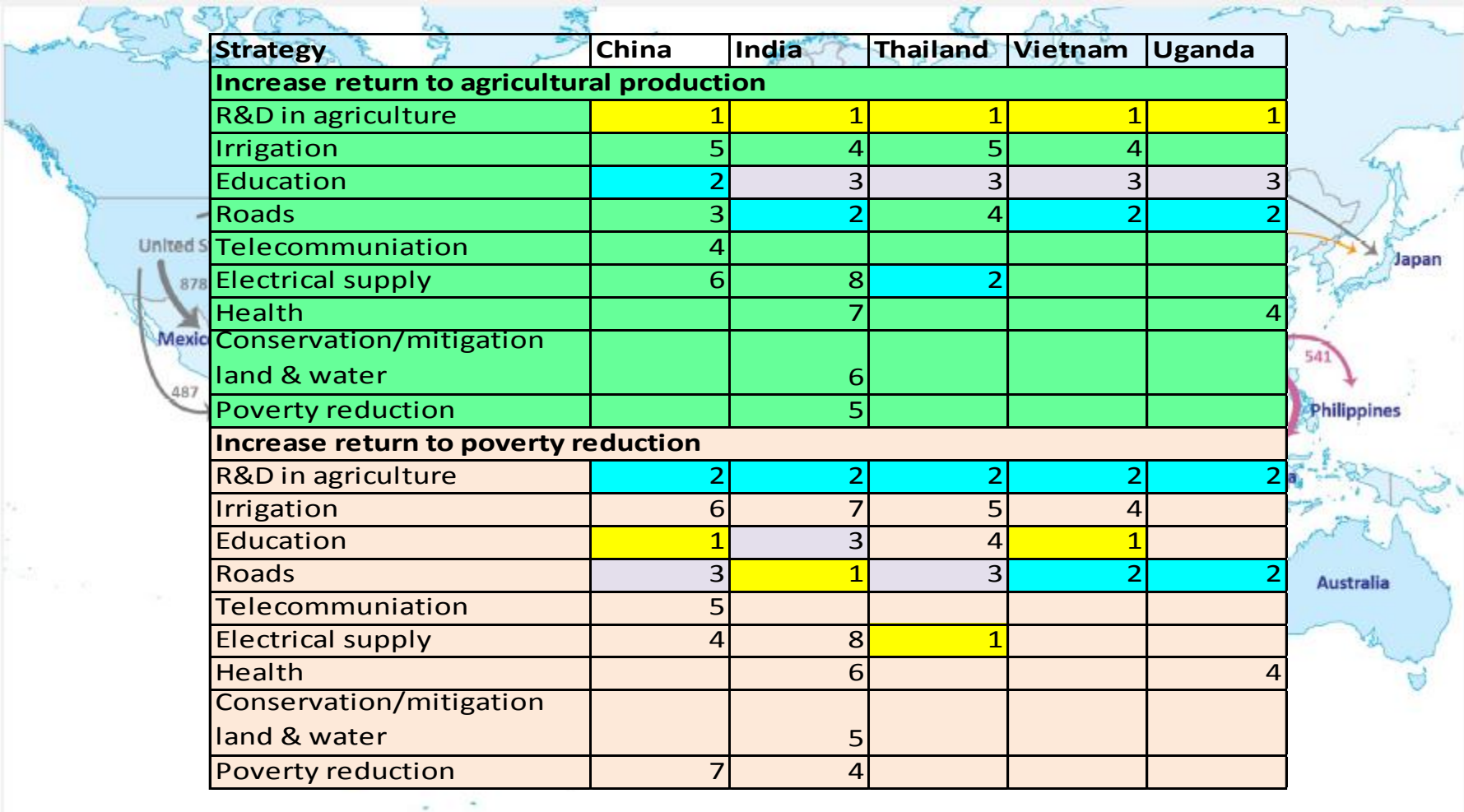
World rice trade, 2011-13 Source: US International Trade Commission, 2015

The future: Guided and well planned liberalisation move.

Policy	Short run	Long run
MACRO	Managing price crises and provision of safety nets	Inclusive economic growth and management of price stability
MICRO	Vulnerability to shocks, coping mechanism and resilience	Poverty reduction and access to nutritious food → sustainable food security

The diagram illustrates a policy framework with two rows (MACRO and MICRO) and two columns (Short run and Long run). A red circle highlights the 'Long run' column. Yellow arrows indicate the following relationships: a downward arrow from 'Managing price crises...' to 'Vulnerability to shocks...'; a downward arrow from 'Inclusive economic growth...' to 'Poverty reduction...'; a rightward arrow from 'Managing price crises...' to 'Inclusive economic growth...'; a rightward arrow from 'Vulnerability to shocks...' to 'Poverty reduction...'; and a diagonal arrow from 'Managing price crises...' to 'Poverty reduction...'. The 'Long run' column is circled in red.

The future: Liberalisation will not hurt if it is inclusive. Its about bringing back the basics.



Strategy	China	India	Thailand	Vietnam	Uganda
Increase return to agricultural production					
R&D in agriculture	1	1	1	1	1
Irrigation	5	4	5	4	
Education	2	3	3	3	3
Roads	3	2	4	2	2
Telecommuniation	4				
Electrical supply	6	8	2		
Health		7			4
Conservation/mitigation land & water			6		
Poverty reduction		5			
Increase return to poverty reduction					
R&D in agriculture	2	2	2	2	2
Irrigation	6	7	5	4	
Education	1	3	4	1	
Roads	3	1	3	2	2
Telecommuniation	5				
Electrical supply	4	8	1		
Health		6			4
Conservation/mitigation land & water			5		
Poverty reduction	7	4			

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

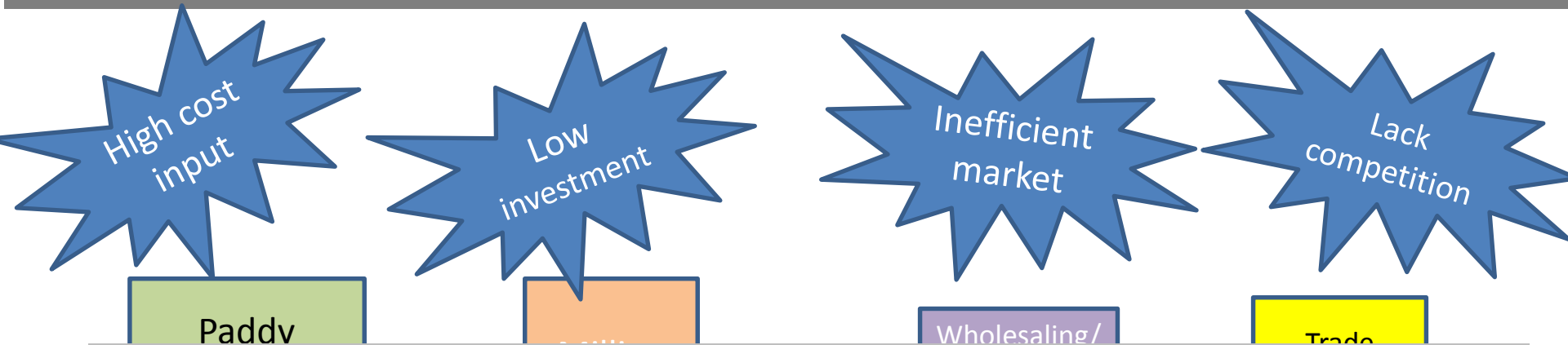
❑ The major structural setback is in the production sector: Poor participation of new farmers, low productivity and high cost of input (imported)

❑ Paddy and rice is socially and politically strategic

❑ Institutional rigidity and constraints prevail

❑ Malaysia is good at addressing transitional food insecurity

Structural problems along the supply chain



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



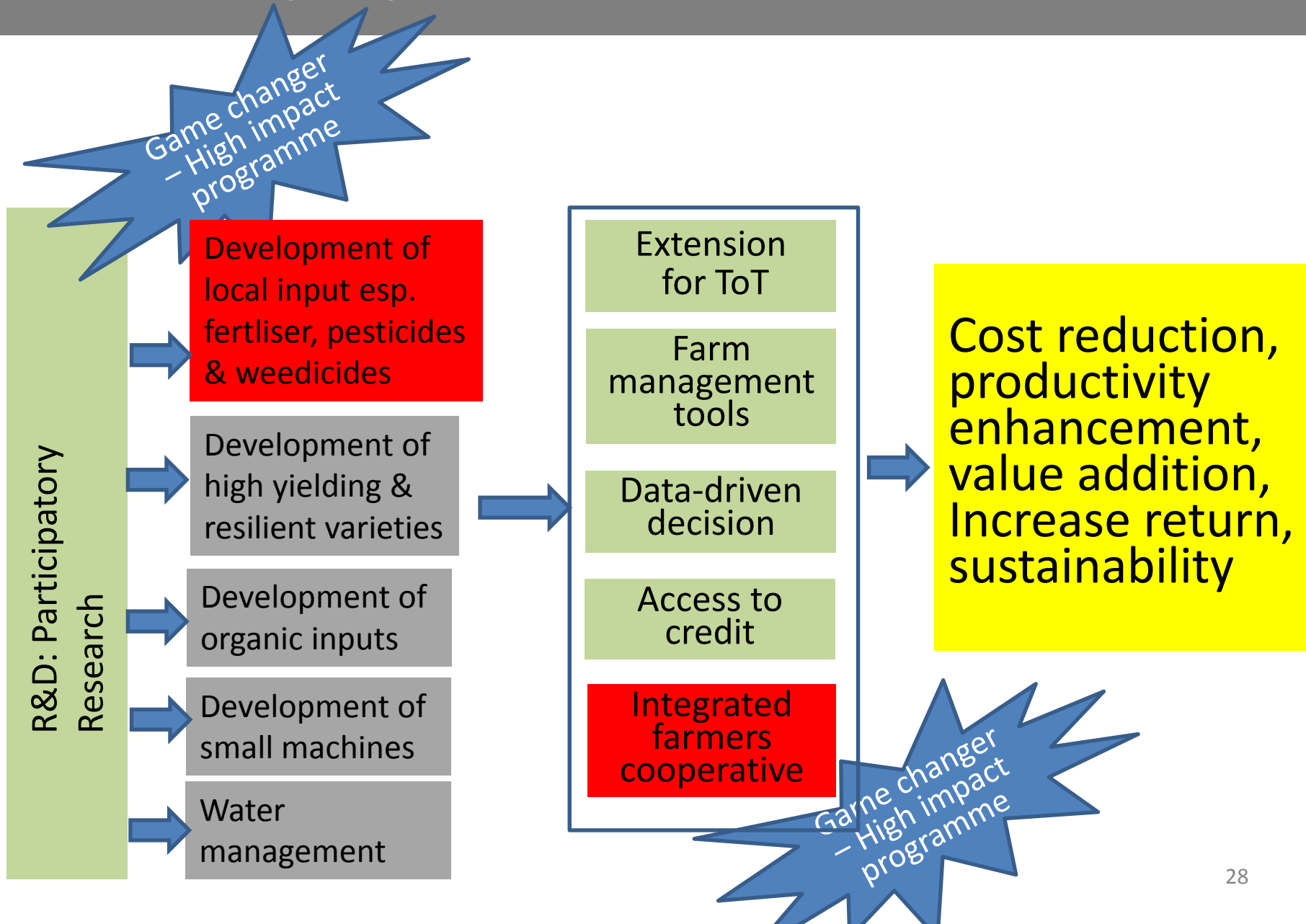
- ❑ Reduction of cost
- ❑ Increase productivity
- ❑ Increase income from paddy and rice and value addition
- ❑ Entrepreneurship

Long term: Proposed game changers and “Food First Policy”

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



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