

Institutional Arrangements for Agricultural Development in Malaysia for Continued Growth, Equity and Income and Food Security

Introduction

Trade Liberalization

- globally intensified in the 1990s with formation of the (WTO) in 1995 with 123 founding members
- Implementation problems with DCs subsidies still high → → Doha Round
→ → stalled →→ FTAs which are DC lead
- Malaysia-US (not concluded), Malaysia-Australia, M-NZ, APEC, TPP (Australia, Brunei, Chile, Malaysia, New Zealand, Peru, United States, Vietnam)

Introduction

The Issue

- **Are emerging economies really ready for this new modality of FTAs and plurilateral liberalization**
- **Is liberalization and growth a sufficient condition for income and food security for emerging economies**
- **Are the institutions that are put in place for ag. development still ready and relevant in facing trade liberalization**

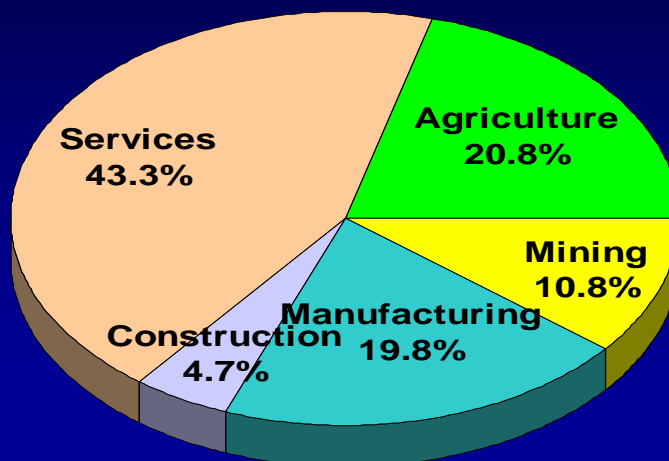
Introduction

Objectives

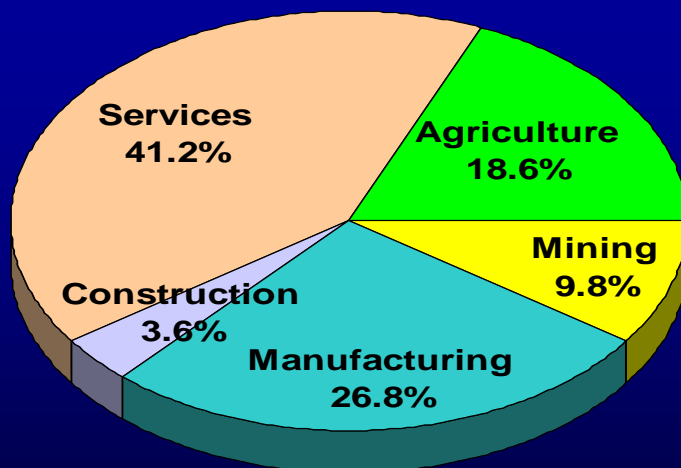
- **Look at institutions for Ag. Development in Malaysia**
 - **specific dedicated commodity based institutions**
 - **general services/support institutions**
- **Roles and functions**
- **Early evaluation of their readiness to face liberalization and globalization**

Malaysian Agriculture

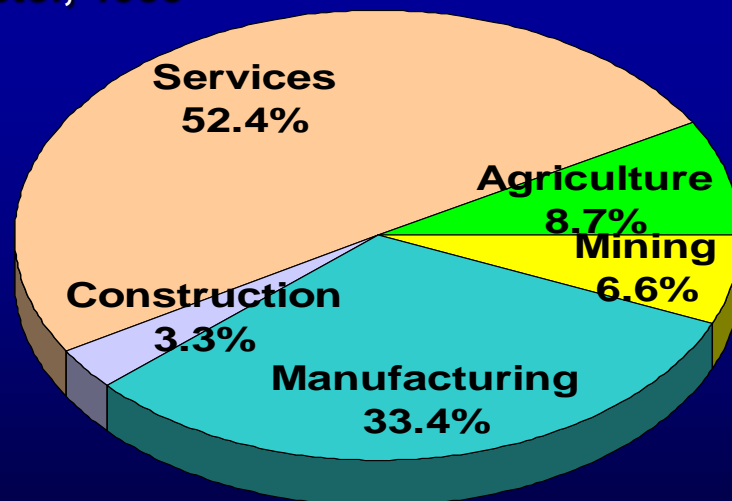
Agriculture in the Economy



GDP by Sector, 1985



GDP by Sector, 1990



GDP by Sector, 2000

Gross Domestic Product by Industry of Origin

Sector	RM million (in 1987 prices)			% of Total		
	2000	2005	2010	2000	2005	2010
Agriculture, Forestry, Livestock and Fishing	18,662	21,585	27,518	8.9	8.2	7.8
Mining and Quarrying	15,385	17,504	20,675	7.3	6.7	5.9
Manufacturing	67,250	82,394	113,717	31.9	31.4	32.4
Construction	6,964	7,133	8,451	3.3	2.7	2.4
Services	113,408	152,205	208,086	53.9	58.1	59.2
Government Services	14,331	19,831	24,759	6.8	7.6	7.0
Business and Non-Government Services	99,077	132,374	183,327	47.1	50.5	52.2
Electricity, Gas and Water	8,278	10,860	14,450	3.9	4.1	4.1
Transport, Storage and Communications	16,858	23,163	31,984	8.0	8.8	9.1
Wholesale and Retail Trade, Hotels and Restaurants	31,116	38,437	53,456	14.8	14.7	15.2
Finance, Insurance, Real Estate and Business Services	26,755	39,568	55,385	12.7	15.1	15.8
Other Services	16,070	20,346	28,052	7.6	7.8	8.0
(-) Imputed Bank Service Charges	15,832	23,876	32,707	7.5	9.1	9.3
(+) Import Duties	4,721	5,083	5,556	2.2	1.9	1.6
GDP at Purchasers' Value	210,557	262,029	351,297	100.0	100.0	100.0

Agriculture by Industry of Origin

Commodity	RM million (in 1987 prices)			% of Total		
	2000	2005	2010	2000	2005	2010
Agriculture	18,662	21,585	27,517	100.0	100.0	100.0
Industrial Commodities	11,033	13,278	15,521	59.1	60.6	56.4
Oil Palm	5,860	7,915	10,068	31.4	36.7	36.6
Forestry and Logging	3,055	3,016	2,761	16.4	13.0	10.0
Rubber	1,868	2,264	2,554	10.0	10.5	9.3
Cocoa	250	83	138	1.3	0.4	0.5
Food Commodities	7,629	8,308	11,996	40.9	39.4	43.6
Fisheries	2,493	2,389	3,875	13.4	12.6	14.1
Livestock	1,520	2,089	2,483	8.1	8.1	9.0
Padi	590	632	988	3.2	3.4	3.6
Other Agriculture ¹	3,026	3,198	4,650	16.2	15.2	16.9

Growth in the Agricultural Sector Malaysia, 1960 – 2000

Period	Growth Rate %
1961 – 1970	7.0
1971 – 1980	5.0
1981 – 1990	4.1
1991 – 1995	1.8
1996 - 2000	1.2
2001- 2005	3.0

Source: Malaysian Five-year Plans: various issues



The Institutions

The Institutions

The Institution of Planning

- Malaysia puts in considerable efforts into policy planning
 - Long term national plans
 - Medium term national plans
 - Long term sectoral plans
 - by Economic Planning Unit + Ministries and their Agencies

The Institutions

Planning and Phases of Development

- **Pre 1970:** primarily aimed at promoting
- growth with a strong emphasis on the export market
- economy performed well with 6.0% annual growth
- distributional aspects were not given emphasis \Rightarrow socio-economic imbalances of a racial riot in 1969.

The Institutions

◆ Planning and Phases of Development

Pre 1970:

- distributional aspects were not given emphasis \Rightarrow socio-economic imbalances



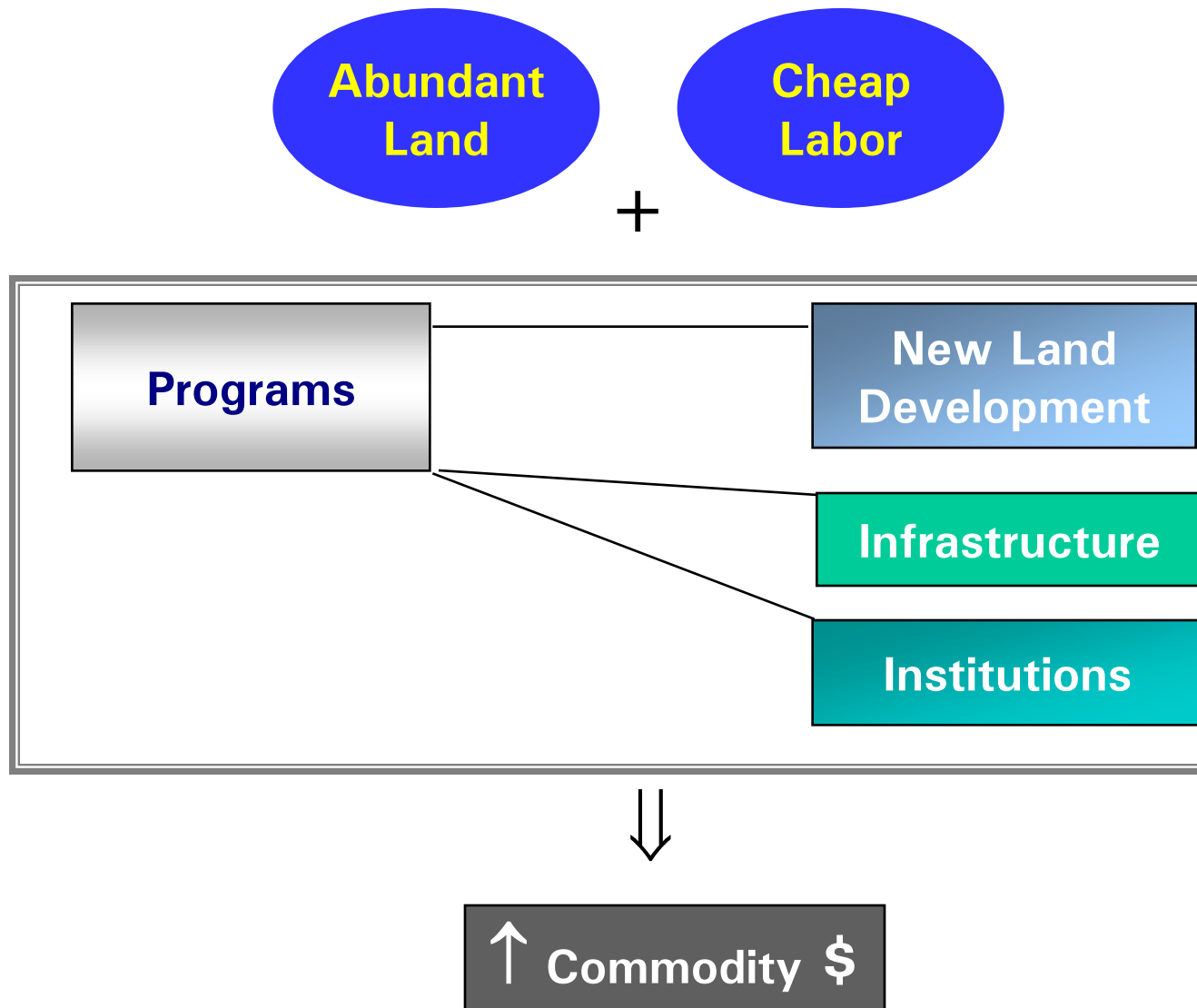
racial riots of 1969.

The 2nd Phase of Development (1970 - 1990): The NEP Era - growth and equity

- **shifting of import substitution → export promotion**
 - **starting to focus on manufacturing and broadening of manufacturing base**
 - **laying the foundation for the liberalization of the economy**
 - **Establishment of Institutions**
- ⇒ **shrinking relative primary agriculture contribution to economy**
- ⇒ **↑ output from manufacturing including agro-based and food processing sector**

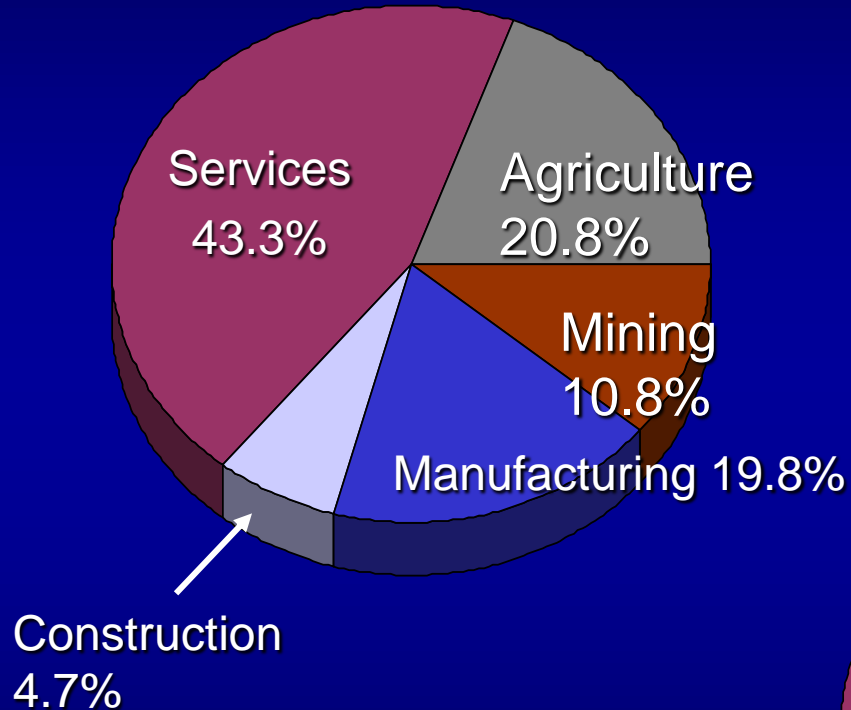
Ag Policy early part of this period

- employment
- foreign exchange
- addressing poverty
 - ⇒ protection
 - ⇒ taxed for revenue
 - ⇒ 100% SSL for rice

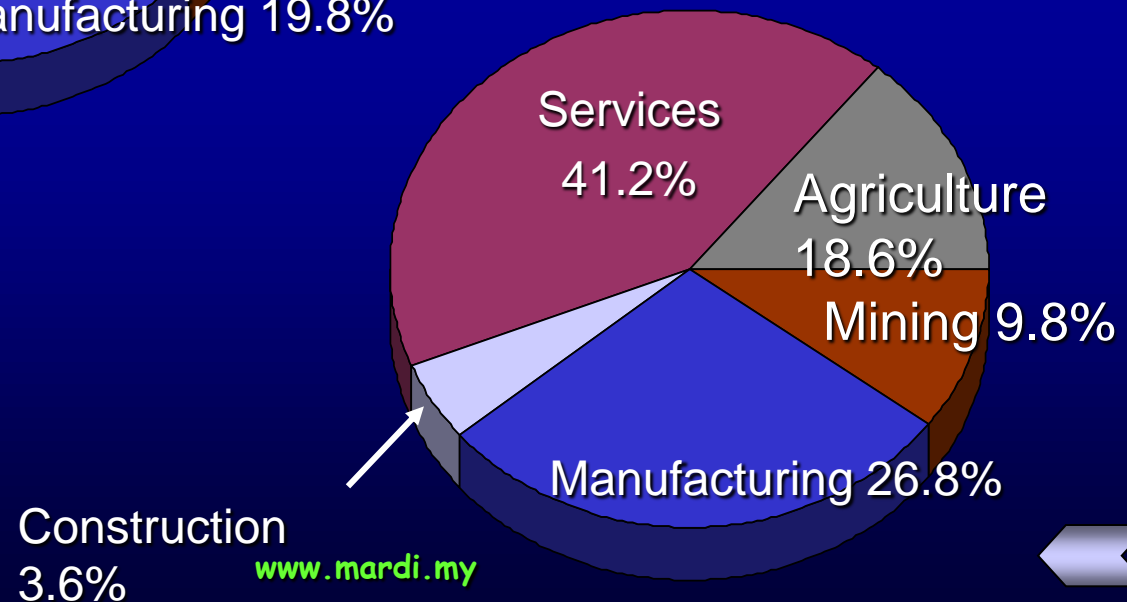


The 2nd phase: economy in transition

GDP BY SECTOR 1985



GDP BY SECTOR 1990



Impressive Progress in Poverty

Table 5
Incidence of poverty in the Agricultural Sector Malaysia, 1970-1990

Year/sector	1970	1975	1980	1984	1990
Rubber	64.7	59.0	40.0	43.4	24.1
smallholders	30.3	9.1	8.2	n.a ^{1/}	n.a ^{1/}
Oil palm	52.8	50.9	47.1	46.9	27.1
smallholders	88.1	77.0	73.0	57.7	39.0
Coconut	91.8	78.0	64.3	34.2	n.a
smallholders	73.2	63.0	52.0	27.7	27.7
Paddy farmers	40.1	47.0	38.0	19.7	19.7
Other agriculture					
Fishermen					
Estate Workers					
Total in Agriculture	68.3	63.0	49.3	23.8	21.1

^{1/} Combined with 'other agriculture'

Source: Malaysia, Malaysia Plans: various issues

The Third Phase: The New Development Policy Era, 1990-2000:

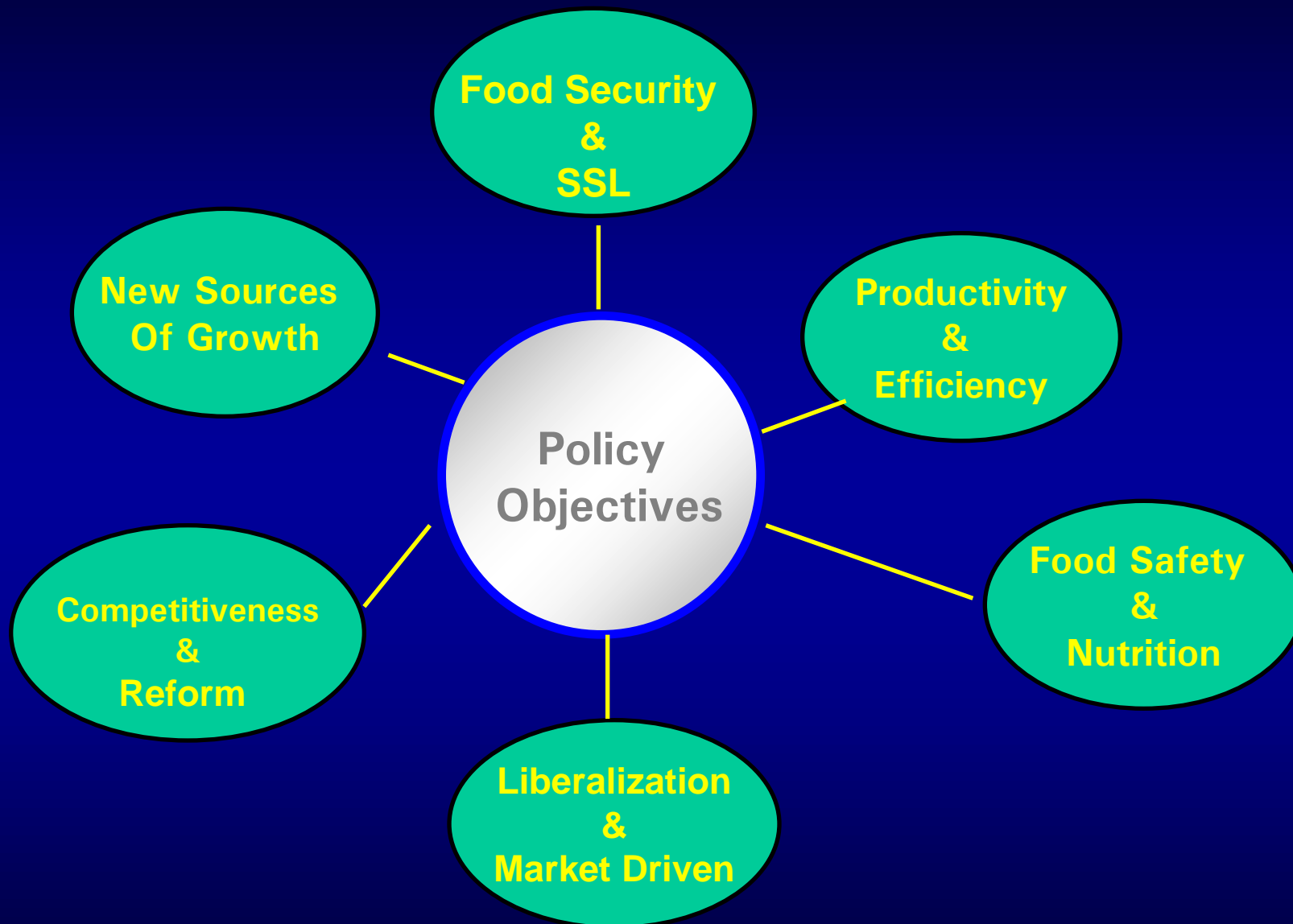
- **balanced development thro' S&T and with sustainability**
- **↑ liberalization of economy and agric.**
- **↑ reliance on competitiveness**

4th Phase of Development :

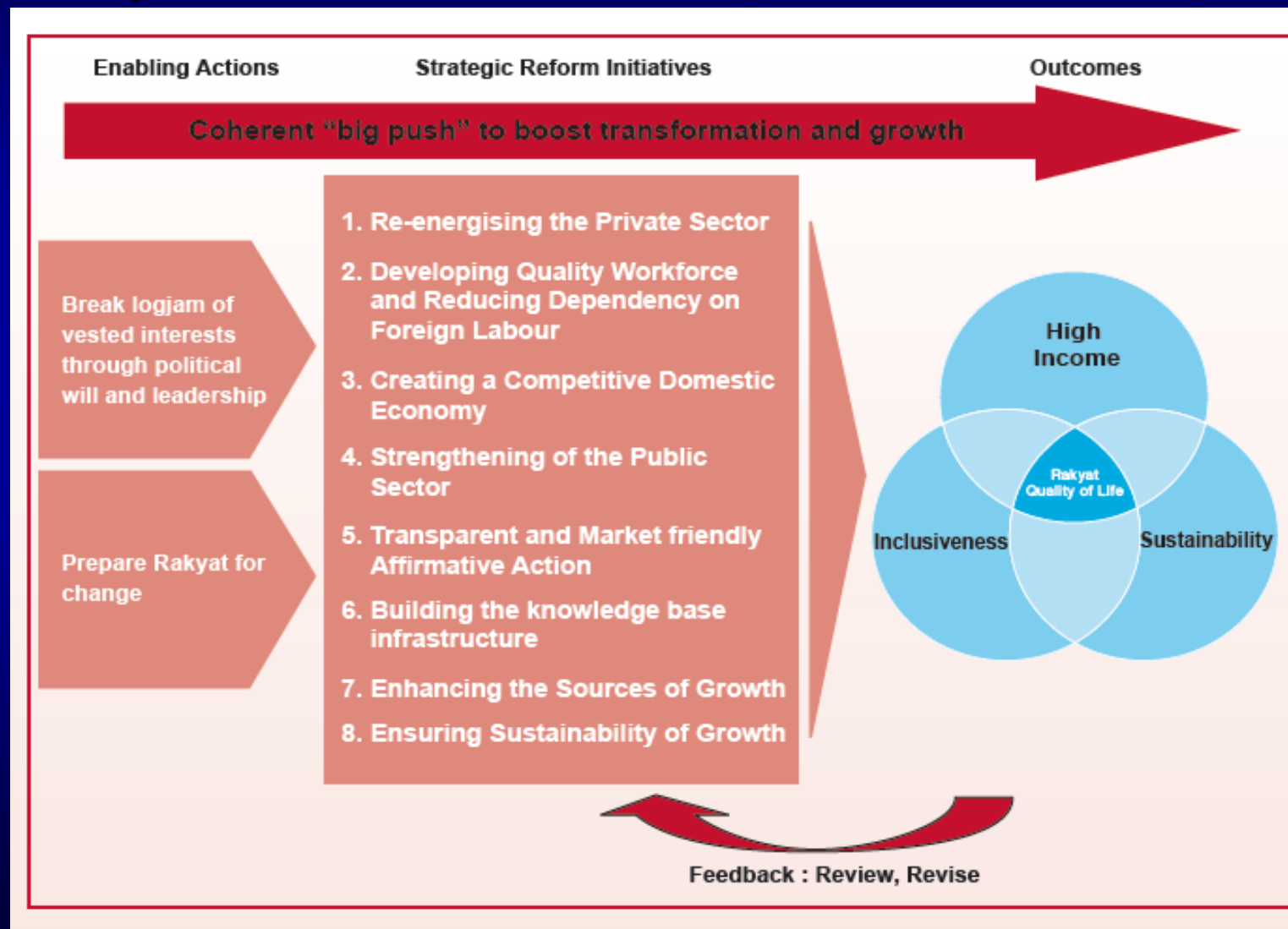
- National Vision Policy (2001 – 2010)**

Elements:

- a. resilient and competitive economy**
- b. poverty eradication**
- c. social and spiritual values**
- d. protection of environment**



5th Phase of Development : The NEM (2011 – 2020) Transformation to a high income society



Palm Oil Institutions

Palm Oil Institutions

» PORLA

» PORIM

» MPOB

» MPOPC

Palm Oil Institutions

FELDA

Category	2008		2009	
	Hectares	%	Hectares	%
Private Estates	2,706,876	60.31	2,807,210	59.84
Govt. Schemes:				
FELDA	675,167	15.04	705,607	15.04
FELCRA	163,511	3.65	160,832	3.43
RISDA	80,262	1.79	78,932	1.68
State Schemes	321,947	7.17	329,543	7.03
Smallholders	540,194	12.04	609,036	12.98
TOTAL	4,487,957	100.00	4,691,160	100.00

Source : MPOB

Palm Oil

- Highly successful
- But liberalization alone did not bring the growth, equity and income security – institutions played critical roles
- Liberalization brings other non trade issues: e.g. environment

Paddy and Rice

- **Paddy and Rice Marketing Board (PRMB) was established in 1966**
- **National Paddy and Rice Board – 1971**
- **Padi Beras Nasional Berhad – 1994 (National Paddy and Rice Berhad)**
- **IADAs – 6 areas**

Major Policy Interventions

Policy Instruments	Objectives of the intervention
Input intervention <ul style="list-style-type: none"> Fertilizer subsidies Credit facilities Irrigation investment 	<p>To encourage farmers to use fertilizer in the earlier years, reduced cost of production, increased income.</p> <p>To finance double cropping of paddy and purchased of inputs. The interest rate was raised from 0% to 4% in 1986.</p> <p>To realize the double cropping goal, hence increase in production and income. It involves huge capital investment totaling RM4.2 billion during the period 1956-1996 (14 percent of total allocation for agricultural development); water charges are either negligible or free.</p>
Paddy Marketing and processing <ul style="list-style-type: none"> Floor price in the form of Guaranteed Minimum Price (GMP) Price subsidy (bonus payment) 	<p>Income support program by supporting paddy prices. Current price is RM55.00 and RM51.69 per 100 kg of long and medium grade paddy respectively.</p> <p>Income support program, to the amount of RM248 per tone</p>
Rice Marketing and Pricing <ul style="list-style-type: none"> Rice Marketing Rice Pricing 	<p>Monopoly by BERNAS in rice trading to ensure fair price to both producers and consumers</p> <p>Consumer protection, based on cost-plus pricing, the price is set by the government.</p>

Source: Tengku Ariff and Ariffin Tawang (1999)

Rice Institutions

- Successful for what it is intended for
 - poverty eradication
 - self-sufficiency
- Poverty is insignificant now – low incidence now from the high of > 88% in 1970
- SSL – constantly above 65%

Rice Institutions

- Support estimates – RM1 – RM2 billion
(USD500 mil)
- But government think it is worth paying for, for equity and SSL comfort
- After all gas subsidies alone is RM19 billion (USD6.3 bil)

Rice Institutions

- Despite the interventions – still not internationally competitive
- Question is not whether is liberalization enough, but what institutional reform is required to preserve income and food security

Other Institutions

- **FAMA**
- **MARDI**
- **Pineapple Board**
- **Agricultural Bank (AgroBank)**

Other Developments

- Competition and consolidation of markets at retailing
- Changing market conditions
 - “buyer-driven chains” that linked to the hyper and supermarkets
 - power and leverage at the retail end

Other Developments

Transformation of the market structure

many small producers → → small number
of middle-men



many small producers → → reduced number
of buyers



more and more monopsonic

Other Developments

The Retail Revolution

- Developed countries: 1980s
- Malaysia: Mid to late 1990s
 - Makro - 1993
 - Carrefour - 1994
 - Giant - 1999
 - TESCO - 2004

Other Developments

- Top 30 companies → → $\frac{1}{3}$ of global grocery sales
- UK 5 top Supermarkets → → 70% of GS
- Latin America → → 50-60% from 10-20% (10yrs)
- South Africa → → 50-60%
- Malaysia – 45%

Other Developments

- Modality

- ↓ unit cost & ↑ net margins
- everyday low prices

(how)



squeezed from savings in the supply chain

Other Developments

- Private sector governance dictating participation of players
- Rigidity of specifications
 - exclusion of many small producers
 - “relationship marketing”
 - creation of ‘captive suppliers’

New Developments

- Producers now facing:
 - concentration in input market
(seeds, agrochemicals)
⇒ ↑ prices of inputs
 - concentration in output market
⇒ ↓ prices of output

Conclusion

- **Changing games and rules and structure in economy and international trade but institutions slow to change**
- **Production-syntric in nature**
 - **support at production**
 - **some at marketing**
 - **market reform institutions**

THANK YOU



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