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Paddy Sub-Sector: Economic Reforms Necessary

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The government should consider wholesale reforms of the paddy sub-sector to address problems of chronic inefficiency and persistent poverty. Sequenced liberalisation of the paddy sub-sector together with complimentary strategies should be a foremost consideration to address these issues and to improve national competitiveness.

Malaysia is an inefficient producer of rice. This was systematically recorded as early as 1988 in a World Bank study. Producer price was twice higher than imported rice. The study estimated that 74 percent of paddy producer's monthly income came from income support measures. The study concluded that the Malaysian paddy sub-sector is non-viable and non-sustainable.

Government support for R&D, production and marketing in the form of credit facilities, fertiliser subsidies, irrigation investment, guaranteed minimum price, income support programme, subsidised retail price and research and extension support (training, advisory), to the tune of billions of dollars for the past fifty years, have been a fiscal drain to the nation. Despite the massive fiscal outlays for this constituency, rice production is still chronically inefficient.

In 1985, the contribution of the paddy sector was 0.9 percent of GDP and 4.7 percent of agriculture value-added. The paddy sector's contribution declined to 0.1 percent of GDP and 4.1 percent of agriculture value-added in 1995. The National Agriculture Plan 3, formulated in 1998, forecasts that its contribution will further decline to less than 4 percent of agriculture value-added in the future. Furthermore, rice is not identified in the Balance of Trade Plan of the Ministry of Agriculture to achieve surplus trade in the agriculture and food sector by 2010. Continued decline in cultivated area, negligible gains in productivity, continued increase in the cost of

production and decreasing profitability ensures that rice production in Malaysia is a sunset industry.

Malaysia does not have the natural factor endowments nor have Malaysia been able to create them for efficient paddy production. Paddy is produced almost entirely by smallholders - approximately 350,000 households with an average farm size of 1.5 ha per family. Labour in this sub-sector is characterised by aging farmers and low levels of education. Poverty and dependency is significant in this sub-sector and most would be living below absolute poverty line without government support. All these lead to sub-optimal allocation of resources at the national level.

Liberalisation of the rice sector will enable Malaysia to achieve its strategic objectives more efficiently. Food security can be met by focusing rice production in the eight high productivity granaries. This can be complemented with private and public sector reverse investments in more productive regions such as Vietnam and Thailand as well as holding optimal stockpile reserves. Regional cooperation is a better solution to the question of food security rather than domestic production.

Liberalisation would enable farms to be managed commercially and with economies of scale. Resources such as land and capital tied sub-optimally in the rice sector will be freed. Movement of labour out would reduce persistent poverty in the paddy sub-sector as well as reduce fiscal outlay for this constituency. Financial resources saved by the government can be channelled to this constituency to make the transition to higher value-added activities in other sectors of the economy.

Liberalisation in the paddy sub-sector will enable Malaysia to extract better concessions from trade partners at the bilateral, regional and/or multilateral levels. On all counts, it would be in the nation's best interest to liberalise the rice sector.

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