



PUBLIC SECTOR INTERVENTION IN THE RICE INDUSTRY IN MALAYSIA

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PART I
SITUATING IN RICE IN THE ECONOMY

Rice is a highly protected crop in a strategically important industry in Malaysia. The country produces about 2 million tons of paddy rice annually. Rice production rose from 2,044,604 tons in 1980 to 2,126,000 tons in 1995. In 1997, however, production slipped to 1,970,000 tons but bounced back to 2,235,000 tons in 2000 and is expected to increase to 2,813,000 tons in 2005.¹

Average annual yield has consistently increased from 2.852 tons/hectare in 1980 to 3.128 tons/hectare in 1995 despite the decreasing trend in harvested area from 716,800 hectares to 660,000 hectares during the 1980-1995 period. A significant decrease of 17.38 per cent in rice self-sufficiency levels is recorded from 1980 (88.75 percent) to 1996 (71.37 percent). However, the government's mechanization and infrastructure programs have increased irrigated land area to 340,000 hectares in 1995 from 320,000 in 1980 while the number of agricultural tractors leaped to 43,295 in 1995 from barely 7,430 in 1980, which greatly contributed to the increase in the country's rice productivity.² Technological interventions, largely through mechanization and introduction of modern rice varieties, are considered the key factors that contributed to Malaysia's increasing rice yields despite decreasing land areas planted to rice.

As a consequence of the government's policy on decreasing rice self-sufficiency, rice imports considerably increased from 167,593 tons in 1980 to 427,556 tons in 1995. Rice imports in 2000 were valued at RM 500.7 million, but declined by 19 per cent in 2001 as a result of the increase in domestic rice output. The main suppliers of imported rice were Thailand and Vietnam followed by Pakistan, Australia and China. Despite the need for rice imports to meet domestic consumption, Malaysia managed to export rice in 1995 amounting to 2,430 tons, largely to Myanmar, as part of a bilateral barter arrangement. Rice retail prices remain unchanged since 1993, ranging from a ceiling price of RM 0.98–1.04/kg for standard grade, RM 1.01–1.11/kg for premium grade, and RM 1.65–1.80/kg for super grade.³

Table 1. Basic rice statistics in Malaysia (1980-2001)

RICE	1980	1985	1990	1995	1997	1998	1999	2000	2001
Production (Mt)	2,044,604	1,849,003	1,960,000	2,126,000	1,970,000	1,944,240	2,036,641	2,195,000	2,277,000
Harvested area	716,800	665,000	678,000	681,000	660,000	674,404	692,389	670,000	672,000
Yield (kg/ha)	2852.4	2780.5	2890.9	3121.9	3128.8	2882.9	2941.5	3276.1	3388.4
Import (tons)	167,593	428,017	330,336	427,556	630,000	657,870	612,467	595,581	-
Export (tons)	200	2,002	111	2,430	-	2,088	117	10	-
Consumption (kg/per/yr)	163.6	-	131.9	132.6					
OTHERS									
Population (1000)	13,763	15,677	17,891	20,140	20,907	21,352	21,791	22,218	22,633
Arable land (1000 ha)	1,000	1,280	1,700	1,820	1,820	1,820	1,820	1,820	-
Irrigated land (1000 ha)	320	334	335	340	365	365	365	365	-
Agricultural Tractors (No.)	7,430	12,000	26,000	43,295	43,300	43,300	43,000	43,000	-

Source: <http://www.fao.org/WAICENT/FAOINFO/AGRICULT/AGP/AGPC/doc/riceinfo/ASIA/MALBODY.HTM> and FAOSTAT

Apart from providing the country's staple food, the rice industry also provides the main livelihood to about 296,000 farmers, nearly 40 per cent of whom are exclusively rice farmers. While the population of rice farmers is only a little more than one percent of the country's total population in 2001, they constitute a politically significant number in view of the national policy giving preference to Bumiputra or native Malays who constitute the majority of rice farmers in Malaysia, particularly in the Peninsula or Mainland. As in the rest of Southeast Asia, rice in Malaysia is mainly grown by small holders with an average farm size of about 1.06 hectares and with the highest incidence of poverty among the sectors in rural areas.⁴ While its share in the country's total gross domestic product (GDP) is small, rice accounts for about 86 percent of the country's food grain production.⁵

PART 2

STRATEGIC DIRECTIONS OF AGRICULTURAL POLICY

A. Development Goals: Agriculture and the Rice Sector

Agriculture is considered as one of the most important sectors in Malaysia, and remains so despite the shifts in government economic strategies toward industrialization over the years. The economy was once predominantly based on the production of primary commodities such as rubber, timber and tin which together contributed more than 50 percent of the country's GDP especially after the country's liberation from the British in 1957. In the First Malaysian Plan (1MP: 1966–1970), the agricultural sector contributed one-third of the GDP, provided employment to half of the workforce and accounted for 50 percent of the foreign exchange income. It should be noted too that in this period, the majority of the country's population lived in the rural areas. As late as 1996, the agriculture sector was the third largest contributor to the Malaysian economy, accounting for 13 percent of the GDP and 17 percent of export earnings.⁶

Agriculture's role remains as the provider of food for the nation, and as an important source of employment, especially for those living in the countryside. The sector also provides high-quality raw materials to the industrial sector under the agro- and resource-based industrial development strategies of the government. The agricultural sector likewise plays a very important role in the country's political life as the government considers it as vital for the attainment of national unity. Policies and programs in the agriculture sector focus on the enhancement of income of agricultural producers to reduce the poverty incidence and to minimize inter-sectoral disparity and inequity between the agriculture and non-agriculture sectors of society. Such policies are considered crucial in maintaining and enhancing Malaysia's social and economic stability, given its culturally diverse population.

The Malaysian agricultural sector can be primarily grouped into three sub-sectors. The agro-industrial sub-sector, comprising the oil palm, rubber, cocoa and timber industries, which mainly serves the export market. The food sub-sector includes rice, fruits and vegetables, livestock and

fisheries, which largely serves domestic consumption. The third sub-sector, the miscellaneous group, consists of tobacco, pepper, coconuts, sugar-cane, cassava, sweet potato, maize, tea and coffee, which cater to both the domestic and export markets.⁷

**Table 2. Import-Export Data of
Major Agricultural Products of Malaysia in 1999**

Product	Production	Import	Export
Rice (paddy equiv.)	2.0 million Mt	985,488 Mt	
Wheat	n.a.	1.4 million Mt	209,932 Mt
Corn	57,000	2.2 million Mt	26,089 Mt
Vegetables	0.5 million Mt	0.6 million Mt	3000,000 Mt
Fruits	1.1 million Mt	0.45 million Mt	312,000 Mt
Fish & seafood	1.2 million Mt	445,244 Mt	150,330 Mt
Meat	1.1 million Mt	142,831 Mt	14,485 Mt
Vegetable oil	12.1 million Mt	0.58 million Mt	10.9 million Mt

Source: <http://www.ciroap.org/food/countries/malay.ht>

Rice is regarded as the most important crop in the food sub-sector in Malaysia. The government regards food security as an integral national policy objective for overall development and has stressed that food security is synonymous with rice security. Thus, Malaysia's self-sufficiency program has consistently focused on rice, being the staple food of the vast majority of the population. In the 1960s, when rice imports from rice-exporting countries were unstable and Malaysia's paddy rice sector was still undeveloped, the government was driven to ensure food security through the Rice Self-Sufficiency policy. The policy objective since then was not solely confined to ensuring food sufficiency, but was also directed towards increasing farmers' income and maintaining stable rice supplies for consumers. The aim to generate income for producers was mainly based on social, economic and political considerations, and premised on increasing the economic status of rice farmers, the majority of whom are Malays and living in the rural areas.

While agriculture's contribution to the national economy has significantly declined over the past 10 years, the Malaysian government continues to regard the sector as strategically important. This can be clearly gleaned from a number of strategies introduced by the government in the Third to the Seventh Malaysian Plans (3MP-7MP) which all aimed at strengthening the agricultural sector.

The Third Malaysian Plan (3MP: 1976–1980) launched the New Economic Policy (NEP) which gives priority to the agricultural sector.⁸ The government invested RM 2,744.65 million under the Third Malaysian Plan (compared to RM 375.9 million and RM 88.18 under the 1MP and 2MP, respectively) to open up lands for agricultural use, rehabilitate idle lands, and develop drainage for agriculture and food crops, including rice production. It was during this time that 92 percent rice self-sufficiency was attained in contrast to the 78 percent in 1970.⁹

The Fourth Malaysian Plan (4MP: 1981–1985) declared agriculture an important sector in the Malaysian economy and came out with the First National Agricultural Policy (NAP1) which was implemented in 1984. The NAP1 provided strategies and long-term policy towards the development of the sector until 2000. It emphasized local production in view of the high food import bill (RM 4-5 billion per year) at the time. Rice self-sufficiency was then targeted at 80-85 percent, but only 76.5 percent was actually achieved.

Government undertook efforts to revitalize and modernize the agricultural sector and to urbanize the rural areas during the Fifth Malaysian Plan (5MP: 1986–1990), with the major thrusts of modernizing and commercializing the small holder sub-sector, rationalizing the extent of government involvement and increasing participation of the private sector, which had thus far been playing a small role in agriculture. This was further emphasized in the Sixth Malaysian Plan (6MP: 1991–1995) which called for the development of agro-based industry. The major policy concern under the plan was to ensure that agriculture remained competitive in the international market, and therefore economically viable. State governments and private companies started to undertake land development projects which were previously done solely by the Federal Land Development Authority (FELDA). As a result, the private sector opened up for agricultural use some 85 percent of the total land developed during the 6MP. It was also during this period that the Second NAP (NAP2: 1992-1998) was implemented, which signaled Malaysia's shift towards industrialization and the active promotion of production of export-earning crops like palm oil and cocoa.

The Seventh Malaysian Plan (7MP: 1996–2000) reflected an agriculture moving towards a more competitive agricultural economy and towards free market trade as a result of Malaysia's accession to the World Trade Organization (WTO). It encouraged participation in large-scale agricultural production particularly of food commodities and high-value

products. As a result of the policy shift towards the production of high-value crops and industrialization, rice paddy production continually decreased annually from 1996 to 1998 while the rice import bill tremendously increased from RM 527.52 million in 1996, RM 701.31 in 1997 and RM 910.52 in 1998. It is significant to note that Malaysia's rice imports leaped by nearly 50 percent from 1995 to 1997 as a result of the shift in agricultural strategy during that period.

Table 3. Domestic Self-Sufficiency Level for Paddy in Malaysia

Plan Period	Self-sufficiency level (%)
First Malaysia Plan (1966-70)	80.0
Second Malaysia Plan (1971-75)	87.0
Third Malaysia Plan (1976-80)	92.0
Fourth Malaysia Plan (1981-85)	76.5
Fifth Malaysia Plan (1986-90)	75.0
Sixth Malaysia Plan (1991-1995)	76.3
Seventh Malaysia Plan (1996-2000)	71.0
Eight Malaysia Plan - forecasted (Year 2005)	72.0
- forecasted (Year 2010)	65.0

Source: Compiled from ERA Consumer Malaysia, 2002 and from <http://www.ids.org.my/planpolicy/8thplan.htm>

It was also during the course of the 7MP when NAP3 (1998-2010) was introduced, which further emphasized the enhancement of production of high-market-value crops, the involvement of the private sector in large-scale rice paddy farming, and investments in research and development on crops of commercial value. Despite the move towards agro-based agriculture and the focus on high-value crops, the NAP3 explicitly stipulated that paddy production would still be maintained and targeted at a minimum 65 percent self-sufficiency in recognition of rice being a staple and the "basis of culture and tradition of the Malays."¹⁰ This policy focus managed to reverse the previous trend in decreasing production and increasing rice imports. So far it has yielded favorable signs based on government statistics, with notable increases in rice production and the corresponding decreases in rice importation from 1999.

It is crucial to note as part of the discussion of Malaysia's overall national development goals in which agriculture is a critical sector, the country's unique Bumiputra policy that guided all of its development objective and programs for the past three decades. This affirmative action

policy was adopted by the then Mahathir government following the violent racial riots that wracked Malaysia in 1969. The New Economic Policy (NEP) adopted in 1976 provides that 30 percent of the country's wealth should be in the hands of ethnic Malays, or the Bumiputra. The policy was supposed to be implemented within a 20-year period, but had to be extended beyond 1996 because of failure to meet its target. The Mahathir regime formulated a succeeding long-term socio-economic plan dubbed as the New Vision Policy (NVP) in April 2001 to replace the NEP, but still pursued the old Bumiputra policy with the same targets and objectives. Following the violent riots between Indians and Malays in early 2001, the NVP also provided some limited affirmative measures for the increasing number of Indians in its population by setting a target of 3 percent equity ownership for the next 20 years.¹¹

As in the rest of Malaysian society, agricultural development for the past 35 years has been guided by the Bumiputra policy. The massive agricultural programs and public interventions in the rice sector in particular should be seen beyond the economic and cultural value of rice as the main staple crop of the Malaysian population, and within the context of implementing the Bumiputra policy. This can be clearly gleaned from the fact that an overwhelming number of rice farmers in Malaysia are predominantly ethnic Malays who are the main beneficiaries of this affirmative action measure.

B. Multilateral Agreements Entered Into

Malaysia became a member of the WTO in 1995 and is therefore obliged to implement the various agreements under it. The most relevant of these agreements and with the most direct impact on the rice sector are the Agreement on Agriculture (AoA) which calls for the liberalization of agriculture, and the Trade Related Intellectual Property Rights Agreement (TRIPS), which requires the protection of intellectual property rights on innovations including agricultural products and plant varieties.

Malaysia also has to conform with the Common Effective Preferential Tariff (CEPT) by 2003/2004, as imposed by the ASEAN Free Trade Area (AFTA), in which the country is also a member. The CEPT scheme includes unprocessed agricultural products (UAPs), which are categorized into four major lists, namely immediate inclusion list, temporary inclusion list, sensitive list and highly sensitive list. UAPs in the immediate

inclusion list will have 0-5 percent tariff range by year 2003. Quantitative restrictions (QRs) and non-tariff barriers (NTBs) will be eliminated and are included in the scheme since 1996, while those UAPs under the temporary inclusion were phased in by 1997 at equal installments. On the other hand, UAPs within the sensitive list are given flexibility in terms of duration of phasing into the CEPT scheme but will still have 0-5 per cent ending tariff. The modality of liberalization for the highly sensitive list is currently under negotiation among ASEAN member-countries.¹²

As required by the CEPT scheme, Malaysia has phased 1,135 product tariff lines of UAPs into the CEPT scheme as of May 2001, which represents almost 91 per cent of all UAPs for Malaysia.¹³ The products under the sensitive list include beverages, poultry, poultry eggs, swine, tapioca, maize, and sugar. Similar to most of its neighbors in the region, Malaysia placed rice under the highly sensitive list. This is an expected course for a country that is increasingly dependent on rice imports while protecting the interest of a vulnerable segment of its population that remains reliant on rice production. It should be noted too that Malaysia has substantial political interest at the national level in protecting the sector, in view of its strategic importance in ensuring national unity and economic progress and the fact that rice remains as the main staple of its populace, not to mention the deeply ingrained cultural value of the crop. For the meantime, the liberalization of the rice market under CEPT, which is also considered highly sensitive by most countries, is still uncertain and as such, the patterns of rice trade within the ASEAN region are expected to remain unchanged.¹⁴

C. Land Use Policy

The total land area of Malaysia is 328,550 km². Of this, 68 percent are forests and woodlands, 12 percent are planted to permanent crops, three percent are considered arable lands, and the remaining 17 percent for other purposes.¹⁵ Rubber, oil palm and rice occupy the bulk of agricultural lands. Oil palm and rubber, considered as “golden crops” because of their high export earnings, comprise 44 per cent and 29 per cent of the total agricultural land, respectively. However, the area devoted to rubber has been declining since the early 1980s due to the weak rubber prices during the period 1985–1995 which caused a decline in production and shortage of raw materials that ultimately led to the closure of many processing factories. Oil palm area, on the other hand, has shown an increas-

ing trend from 1,482,400 hectares in 1985 to 2,540,000 hectares in 1995, with an annual growth rate of 5.5 percent.¹⁵

Other agricultural lands are planted to fruits such as durian, pine-apples, banana, papaya, star fruits, cocoa and coconut, and other crops like tobacco, pepper, sugarcane, coffee, sago, tea and floriculture, which are largely produced for the export market.

Table 4. Agricultural Land Use- Malaysia, 1985-1995

ITEM	1985	1990	1995	Average Annual Growth Rate (%)		
				1985-1990	1990-1995	1985-1995
Rubber	1,948.7	1,836.7	1,690.0	-1.2	-1.7	-1.4
Oil Palm	1,482.4	2,029.5	2,540.0	6.5	4.6	5.5
Cocoa	303.9	419.1	190.0	6.6	-14.6	-4.6
Paddy ¹	655.0	680.6	670.0	0.8	-0.3	0.2
Coconut	334.1	315.6	250.0	-1.1	-4.6	-2.9
Pepper	5.4	11.5	10.0	16.3	-2.8	6.4
Vegetables ¹	31.8	35.2	42.0	2.1	3.6	2.8
Fruits	150.1	204.6	260.0	6.4	4.9	5.6
Tobacco ¹	16.2	10.2	11.0	-8.8	1.5	-3.8
Others ²	94.3	94.8	106.0	0.1	2.3	1.2
Total	5,021.9	5,637.8	5,769.0	2.3	0.5	1.4

¹ Paddy, vegetables and tobacco are based on planted area.

² Others include sugar cane, coffee, sago, tea and floriculture.

Source: Economic Planning Unit, Ministry of Agriculture (as cited by Tunku Mahmud & Bin Tunku Yahya, <http://www/fao.org/DOCREP/003/X6906E/X690e08.htm>)

Rice area accounts for about 11 percent of the total agricultural lands. Despite contributing barely two percent to the GDP, rice remains as the country's most important crop in terms of cultivation, being the principal staple food for most of the populace. To maintain rice production and sufficiency, the government has designated eight granary areas as the permanent rice-producing areas in the country. These designated areas, of various sizes and productivity, include the Muda Agriculture Development Authority (MADA), Kemubu Agriculture Development Authority (KADA), Barat Laut Selangor, Besut, Krian/Sg.Manik, Endau/Rompin, Seberang Prai, Seberang Perak and Kemasin/Semerak.¹⁷ While these areas currently cover only 36 percent of the total physical paddy land located mainly in Peninsular Malaysia, their combined area constitutes 57 percent of the total land area planted to rice and their combined production amounts to 72 percent of the total national rice production. These granary areas were officially designated based on their being the tradi-

tionally most important rice-producing regions in the country. Notably, all areas are located in Mainland/Peninsular Malaysia.

The designation of specific rice granary areas is an astute policy to protect the interest of the dwindling, but politically important, rice-producing Malay-dominated segment of the rural population within the overall context of national economic policies that thrust towards industrial crop production. As the priority areas for rice production supplying the needs of the rest of Malaysia, government programs, support and interventions in the rice sector are focused in these eight designated regions. On the other hand, the strategy does not sacrifice the priority given by the government to the production of industrial crops with high export value such as rubber, oil palm and cocoa.

Table 5. Paddy Production in Malaysia, 1985-1995 ('000 tons)

Area	1985	1990	1995
Granary			
Muda (MADA)	701.0	724.9	862.2
Kemubu (KADA)	108.2	163.7	181.2
Kerian Sg. Manik	144.1	128.7	163.3
Barat Laut Selangor	97.4	142.0	146.7
Seberang Prai	31.7	35.9	62.7
Seberang Perak	20.5	70.5	56.9
Ketara (Besut)	19.5	25.5	35.3
Kemasin Semerak	-	6.5	19.7
Total Granary	1,122.4	1,297.7	1,527.7
% of National Production	35.7	31.2	28.2
Non-Granary	623.0	587.7	600.0
% of National Production	35.7	31.2	28.2
Grand Total	1,745.4	1,885.0	2,127.0
Total Planted Area (ha)	654,974.0	680,647.0	672,787.0
Average Yield (kg/ha)	2,665.0	2,769.0	3,162.0

Source: Ministry of Primary Industries as cited by MANCID, http://www.icid.org/v_malaysia.pdf

Expansion policy on rice and export crops like rubber, oil palm and cocoa was implemented in the 1960s and 1970s with the presence of abundant land and cheap labor. This was further continued with the promulgation of the National Agricultural Policy (NAP) in 1980 with emphasis on the consolidation of un-economic farms through on-site development. As discussed above, the NAP2 put emphasis on productivity, efficiency and competitiveness in the context of sustainable develop-

ment as defined by the Malaysian government. The current NAP3 was developed to continue the pursuit of agricultural growth through moderate expansion of land and further intensification of land use. It is expected that by 2010, under the NAP3, many areas planted to rubber, rice, coconut and cocoa will be reduced and replaced by agro-forestry, oil palms, fruits and vegetable cultivation.

For rice production, the eight major granary areas have been reserved solely for rice cultivation where new rice varieties and new technologies from research and development efforts can be adopted. The other rice areas excluded from the eight are free to choose what alternative crops to plant every season.¹⁸ The Ministry of Agriculture has encouraged the cultivation of vegetables and fruits by establishing the Permanent Food Production Parks through the development of lands allocated by state governments.¹⁹ The government is also looking into developing new lands in the states of Sabah and Sarawak, both in the eastern part of Malaysia, where there are still substantial land areas. The identification of suitable areas in Sabah and Sarawak for large-scale commercial paddy production by the private sector is another strategy adopted by the government to ensure food sufficiency. Without exploring such options, Malaysia will have to depend heavily on imported rice to supply the staple needs of its population in the future.

Table 6. Forecast of Agricultural Land Use in Malaysia, 1995-2010 ('000 hectares)

ITEM	1985	2000	2005	2010	Average Annual Growth Rate (%)			
					1995-2000	2000-2005	2005-2010	1995-2010
Rubber	1,679.0	1,560.0	1,395.0	1,185.0	-1.5	-2.2	-3.2	-2.3
Oil Palm	2,539.9	3,131.0	3,461.0	3,637.0	4.3	2.0	1.0	2.4
Cocoa	190.7	163.8	160.0	160.0	-3.0	-0.5	0.0	-1.2
Paddy ¹	672.8	521.2	475.0	450.0	-5.0	-1.8	-1.1	-2.6
Coconut	248.9	213.8	193.2	175.5	-3.0	-2.0	-1.9	-2.3
Pepper	10.2	9.2	8.5	8.1	-2.0	-1.6	-1.0	-1.5
Vegetables ¹	42.2	48.3	63.7	86.2	2.7	5.7	6.2	4.9
Fruits	257.7	291.5	329.8	373.2	2.5	2.5	2.5	2.5
Tobacco ¹	10.5	9.3	7.8	6.2	-2.4	-3.5	-4.5	-3.5
Others ²	99.1	106.4	111.4	130.0	1.4	0.9	3.1	1.8
Total	5,751.0	6,054.5	6,205.4	6,211.2	1.0	0.5	0.0	0.5

¹ Paddy, vegetables and tobacco are based on planted area.

² Others include sugar cane, coffee, sago, tea and floriculture.

Source: Economic Planning Unit, Ministry of Agriculture as cited by MANCID, http://www.icid.org/v_malaysia.pdf

PART 3

PUBLIC SECTOR INTERVENTION IN RICE

Malaysia has a long history of state intervention in rice markets. The three primary objectives of the different policies on rice adopted by the government through the decades were defined as follows: (a) ensuring food security; (b) raising farm income and productivity; and (c) ensuring food supply to consumers at reasonable costs. Direct state intervention through levels of direct and indirect support for the industry has been consistently maintained, as especially mandated under the various National Agricultural Plans (NAPs). State intervention rapidly intensified in 1980 and became very high in the mid-1980s through such policies as monopoly on imports, Guaranteed Minimum Price (GMP) for paddy, controlled prices at milling, wholesaling and retailing, fertilizer subsidy, and price support. The government also provides investments in building drainage and irrigation facilities and undertakes active research and development in rice.

a. Fiscal Space and Government Priorities

Recognizing the value of rice to food security as well as to national and political stability, the government of Malaysia considers rice as a “security item.” As part of its food production policy, the government targets at least 65 percent self-sufficiency in rice despite an overall thrust towards agro-industrial development priorities. The policy is premised on the government's view that it is cheaper for Malaysia to import rice than produce the crop in the country's arable lands which would yield more earnings if planted to industrial crops, while at the same time recognizing the political and cultural importance of rice.

Public investments are directed mainly at improving physical infrastructure such as roads, irrigation and drainage systems, extension of production cost subsidies for such inputs as fertilizers, pesticides and seeds to increase rice yields, and the adoption of multiple cropping annually. Mechanization, mainly through the promotion of the use of tractors and other mechanized farm implements, was also introduced as part of the agricultural modernization program. Research and development efforts

on high-yielding seeds and varieties, and the provision of extension services and marketing channels were likewise established to ensure that the rice self-sufficiency targets set by the government are met despite the reduction of lands planted to rice. Public investments for agricultural development from the annual national budget have also sharply increased over time. From barely RM 227.50 million in the first Year Plan (1956-1960) and RM 411.10 million in the second Year Plan (1961-65), allocation for agriculture surged to RM 1,570.86 million during the first Malaysian plan. It reached a plateau at RM 1,451.26 million during the 4MP (1981-85) but suffered considerable decline to RM 337.44 million in the 5MP (1986-1990) due to the adoption of a strategy that rationalized government involvement and encouraged active private sector participation in agricultural development.

Notably, a significant amount of these allocations was spent for drainage and irrigation projects which were considered as the most crucial infrastructure in any program aimed at developing the rice industry. The construction of the two biggest irrigation projects in Muda and Kemubu was initiated during the second Year Plan and 1MP, as manifestations of the importance given by the government to developing the infrastructure needed for rice production. The amount allocated for drainage and irrigation during these periods comprised 26.40 percent during the 2YP and 20.90 percent in the 1MP, in proportion to the total allocation for agricultural development. In response to the food crisis faced by Malaysia at the time, expenditures on irrigation substantially increased to RM 1,451.26 million during the 4MP which included the rehabilitation of small-scale irrigation projects apart from building big ones.²⁰

Overall, the Malaysian government allocates about 12.5 percent of its annual national budget to economic services such as infrastructure, industrial agriculture and rural development, where a significant portion goes to the rice support system. For instance, under the 4MP, the largest component of government subsidies went to the rice sector where RM 850 million was allocated over the five-year period covered by the Plan. The Paddy Price Subsidy (PPS) scheme implemented in 1980 was allocated RM 180 million, out of which RM 25 million were direct costs of administration and implementation of the scheme. Similarly, the Paddy Fertilizer Subsidy scheme required a RM 430 million allocation under the 4MP and was even increased to RM 505.95 million under the 5MP. In 1987, however, the sum earmarked for this fertilizer subsidy scheme was drastically reduced to RM 80 million.

b. Institutional Organizations

Malaysia's institutional organizations involved in the rice sector are known for their high degree of centralization and coordination. The Ministry of Agriculture comprises four departments, namely the Agriculture, the Fisheries, the Irrigation and Drainage, and the Veterinary Services, and five agencies which include the Bank Pertanian Malaysia (BPM, or Agricultural Bank of Malaysia), National Hydraulic Research Institute of Malaysia (NAHRIM), Malaysia Agricultural Research and Development Institute (MARDI), Federal Agricultural Marketing Authority (FAMA), Fisheries Development Authority of Malaysia, and Muda Agricultural Development Authority (MADA).²¹ BPM started operations in 1970 as an initiative of the government to provide credit for agricultural purposes. MARDI was established in 1969 with full responsibility for paddy production research that included, among others, rice breeding, varietal evaluation, agronomic practices and soil management. FAMA, on the other hand, was established to perform marketing functions. For instance, the Padi and Rice Marketing Board which was under the FAMA, was created in 1967 to integrate most of the marketing functions for rice.

Lembaga Padi dan Beras Negara (LPN, later known as BERNAS), or the National Paddy and Rice Institute, was established in 1970 with four core objectives, namely, (a) to ensure fair and stable paddy prices for farmers; (b) to ensure fair and stable prices for consumers; (c) to provide sufficient supply of rice to meet all emergencies; and (d) to recommend policies to promote the development of the paddy and rice industry and coordinate and assist in the implementation of state policies related to this sector. It was granted extensive powers, including control prices, both farm-gate and border prices. It also exercises control over processing and marketing channels like issuance of licenses to millers, wholesalers, retailers, importers and exporters. In 1974, it assumed the role of sole importer of rice, to the exclusion of the private sector. It also has the power to prohibit, regulate, or control the movement of paddy or rice across state boundaries to ensure that no artificial shortages are created. LPN is also allowed to directly participate in any sector of the paddy and rice industry and as such, it may purchase or rent properties and sell, lease, appoint agents, or establish other bodies it may deem fit for the purpose of carrying out its functions.

LPN was later privatized and brought under municipal management in the 1990s. It is now known as BERNAS, or the Federal Paddy and Rice Authority, which continues to take LPN's original socio-economic

functions. Despite the privatization move, as of March 1998, the leading shareholder in BERNAS remains the Budaya Generasi, a company controlled by the government. The management personnel of BERNAS, including its president and directors, are all closely associated with government agencies such as the Ministry of Agriculture and the MADA, as well as political parties associated with the government, particularly the United Malay National Organization (UMNO). This points to the conclusion that the Malaysian government retains virtual control over BERNAS and therefore paddy pricing and marketing in the country. Hence, despite the various reforms introduced since the early 1990s to liberalize and loosen state controls over rice imports, the government still continues to exert centralized control over rice imports in the 1990s as much as it did in the 1980s.²²

c. Price Policy

i. Production Policy

Rice production policies in Malaysia have consistently been guided by three objectives: food security, equitable distribution of income and overall price stability. The production policy on rice evolved from low-security levels during the 1900s-1930s, to medium-security levels in 1930s-1940s, and later to high-security levels after the World War II.

During the period 1900s-1930, the British Administration was reluctant to increase rice production in the then Federated Malay States (FMS). This was because rice-exporting countries like Thailand, India and Burma had large surpluses which made it cheaper to import than to produce rice domestically. Aside from this, earnings from rubber and tin were much higher than rice, and the areas most suitable for rice cultivation were outside the sphere of British control. The policy remained despite the massive crop failures in India and Burma, which led to a serious rice crisis in 1918. However, after the Great Depression of the 1930s when drastic cuts in the earnings of rubber and tin were experienced, full rice sufficiency was pronounced in 1932 along with the formation of the Drainage and Irrigation Department. The increase in paddy production continued after the World War II, when rice became a strategic crop.

A key strategy to ensure domestic rice supply was the rice stockpile scheme which was introduced in 1949 to provide a reserve stock of rice to meet emergency requirements. After Malaysia became independent

in 1957 when full rice-self sufficiency targets were set and met, the stockpile was intended as a buffer stock to buy rice when the price was low and to increase supply when demand was strong. At the time, goals for attaining self-sufficiency were broadened to achieve equitable income distribution, foreign-exchange saving, “reasonable prices,” and an appropriate level of food security. The government incurred considerable losses from the buffer stock operation due to shrinkage and overhead costs, and later decided to link the sale of stocks with import quotas on rice importers to sustain the operation.

Rice production targets were later institutionalized in the five-year planning process. However, in 1971-1972, the self-sufficiency target was scaled down to 90 percent due to fears that heavy public investments in the agricultural sector would lead to production surplus, which would impose a sizeable financial burden on the government. During this time, production target of 80-85 percent self-sufficiency was attained.

Through the years, targets for rice self-sufficiency were deliberately lowered because of the government's decision to diversify and intensify agriculture, particularly the production of industrial crops. The government, however, acknowledged that an acceptable level of rice self-sufficiency had to be maintained, thus the decision to secure a minimum of 65 percent level.

ii. Subsidization Policy

The Malaysian government has adopted a series of active state measures and policies to support the rice sector. The more important interventions are presented in this section.

Guaranteed Minimum Price (GMP). This policy was first introduced in 1949 to serve as incentive to production and to raise farm incomes by guaranteeing a floor price for paddy. The GMP was maintained as a government policy and consistently raised through the years. At one point, the government promoted the GMP as a means to undermine the role of middlemen in paddy production and marketing. Until 1965, GMP was set at RM 248 per MT of clean dry paddy delivered to the mill door which was higher than the world prices for rice for the period. It further increased to RM 264 per MT in 1967 and RM 397-463 per MT in 1980, which still prevails today.

The GMP was originally administered by the Ministry of Commerce and Industry, which purchased all locally produced paddy. The *Lembaga*

Padi dan Beras Negara (LPN) or the National Paddy and Rice Authority took over this function in 1974. Under this policy, all locally produced paddy was guaranteed purchased at the GMP for good dry paddy with moisture content of not more than 14 per cent. Corresponding deductions were imposed on paddies with moisture content exceeding this level. Rice was then purchased by the government agency, provided millers would certify having purchased the paddy from farmers at the set GMP.²⁴ In the 1960s, the government encouraged farmers to form cooperative milling societies to coordinate the administration of the GMP at farmers' level and at the same time eliminate the role of middlemen. But the strategy failed, and middlemen continued to play a dominant role in the purchase, milling and marketing of paddy.

Paddy Rice Subsidy Scheme (PPS). This scheme was implemented in 1980 to raise farmers' income to at least within the RM 300 per month national poverty line. The policy stems from the realization that rice farmers have the highest poverty incidence among the rural sector, and it would require direct government intervention to address the situation.

The subsidy was given at the rate of RM 2 per picul or RM 33 per MT of paddy sold, payable to farmers' individual savings account. Protests by farmers against the manner of payment of the subsidy pressured the government to pay the subsidy in cash at a substantially higher rate of RM 10 per picul or RM 165 per MT the following season.²⁵

Fertilizer Subsidy Program. The policy was implemented in 1952-1974 with subsidy rates ranging from 10 to 50 per cent of the per-acre value of input in Peninsular Malaysia. By 1974, all farmers were able to avail themselves of this program. The continuous increase in fertilizer prices in the world market led the government to expand support to paddy producers and shield their income from high input costs by providing direct subsidies in the form of fertilizer and cash. Since 1987, all farmers have been receiving free fertilizers equivalent to 80 kg of nitrogen, 35 kg of phosphate and 20 kg of potash per hectare up to a value of RM 200 per hectare.²⁶ Under the fertilizer subsidy scheme, rice farmers owning less than 2.4 hectares of rice lands, who comprise the majority of rice farmers in the country, were to be given free fertilizers.

Credit Program. Bank Pertanian Malaysian (BPM), the Agricultural Bank of Malaysia, was set up in 1969 to supervise disbursement of production credit to rice farmers at commercial rates, with the government respon-

sible for the cost of administering the program. Beginning from the second cropping season in 1976, credit was given at subsidized interest rates of 4.5 per cent per season. In 1981, a zero interest rate was implemented for small farmers as a poverty reduction measure. However, the erosion of the credit market took place, which made the government decide to levy an administrative charge of 4 per cent per season to loans granted to small farmers starting 1986. Between 1971 and 1980, BPM approved loans amounting to RM 462 million, of which 27 percent went to paddy producers and 21 percent to plantations.²⁸

iii. Price Stabilization Policy

The establishment of *Lembaga Padi dan Beras Negara* (LPN), or the National Paddy and Rice Institute in 1970 (now known as BERNAS) paved the way for a more centralized and systematic price control and stabilization in rice. Price control measures introduced by LPN cover both farm-gate and border prices. It has mandate over milling operations and issuance of import licenses, and even assumed the role of sole rice importer in 1974, at the height of the rice crisis. LPN expanded the number of public integrated milling operations, raising the number of state-owned mills from merely four in 1969 to 31 in 1982. With the expansion of its direct milling operations, the LPN bought up an increasing share of domestic production. Between 1973 and 1985, the private sector's share of the paddy market fell sharply from 88 percent to 54 percent.²⁹ By establishing an import monopoly and fixing domestic prices, price stabilization was achieved.

To assure rice supply during emergency rice shortages, the government under the British rule introduced a rice stockpile scheme in 1949 which was maintained over the years following independence. With the introduction of the GMP and the improvement of rice self-sufficiency levels, the rice stockpile scheme was intended as a buffer stock which played the role of price stabilizer especially during the food crises in the 1970s. As a policy, the LPN keeps 260,000-300,000 tons of rice in a stockpile, sufficient to sustain the population of Peninsular Malaysia for three months and of East Malaysia for six months. The amount of the stockpile is based on the estimate by the Institute of Medical Research (IMR) of per capita consumption of rice at 300 grams per person per day. Based on this computation and at the current selling price of rice set by LPN, the government needs to store RM280 million worth of rice stocks at any point in time. Holding such a large stock certainly entails huge

administrative costs, since LPN has to incur storage costs and spoilage losses. The government suffered considerable losses in implementing the policy due to high overhead costs, thus the sale of buffer stocks was later linked to import quotas imposed on rice importers in order to finance the operation of the scheme.

By having the sole prerogative to set the farm-gate and retail prices of rice, the government supports farm prices at rates above the world market levels in order to provide incentives to farmers involved in paddy production. While the scheme may have its merits, this pricing policy, bears serious implications for both producers and consumers. Some analysts point out that the entire burden of domestic price support has actually been passed on to rice consumers who are paying taxes of as much as 25–32 percent of the retail price of rice in order to subsidize producers.³⁰ The distribution of this burden is further skewed towards the poor consumers who spend a proportionally higher part of their income on rice compared to the richer segment of the population, whose diet base is more diverse.

iv. Trade Policy

The Malaysian economy is relatively open to both trade in goods and foreign investment. However, rice and key agricultural products are notable exceptions due to political and economic security reasons. Tariffs remain as the main instrument used to regulate importation of goods. However, tariffs are considered low, with 10.4 percent for agriculture and 14.4 percent for industry. Malaysia also imposes various non-tariff border measures barriers like import licensing, which provides the authorities with sufficient leverage for administrative discretion to protect import-sensitive or strategic industries. Rice imports are monopolized by BERNAS (earlier by LPN) and are negotiated on a government-to-government basis.³¹

Government measures to control rice imports through licensing started in the late 1950s based on the rice stockpile scheme introduced in 1949, but incurred considerable losses due to high overhead costs. To finance the scheme's operation, the government decided to link the sale of stocks with import quotas on rice importers. The new policy linking the release of buffer stocks with import quotas required importers to purchase rice from the stockpile proportionate to the amount that they intended to import, in order for them to obtain a license to operate. The importer absorbed the losses from the sale of stockpile rice at a price above the

prevailing wholesale price, but this was then compensated for by profits made on imported rice sold at premium prices. The rationale for such a strategy was that the stockpile could thus be managed at minimum cost to the government, while the price of domestic rice could be supported by restricting the inflow of imported rice.³² In some ways, the stockpile scheme was treated as a sort of tariff on imported rice, the costs of which were actually borne by rice consumers. On closer analysis, the value of the tariff depended on two factors, both controlled by the government, namely, (a) the difference between the government release price and the wholesale price of domestic rice, and (b) the ratio of imports to stockpile purchases, which the government enforced as a condition for granting import licenses.³³

When Malaysia joined the World Trade Organization (WTO), among the first steps that the government adopted was to reduce and bind tariffs on 7,200 agricultural and industrial items, reduce industrial trade-weighted tariffs from 10.2 percent to 8.9 percent, and increase the scope of bindings from 1 percent to 65 percent.³⁴ The government has also anchored its agricultural policies on the principle that it is cheaper to import food to meet domestic demands than to produce food domestically, thus boosting the import bill to around RM11 billion every year. Rice imports surged by almost 50 percent from 1995, the year when Malaysia joined the WTO, to 1997. The government, however, instituted measures to stem the serious implications of the rising import bill and rice imports through renewed measures in reviving the rice sector instituted in 1998. As a result, rice imports began to taper off in the following years with corresponding modest increases in annual rice production.

Malaysia has also initiated trade agreements with other countries. In 1999, the government signed two Memoranda of Understanding (MOU) for barter trade with China and Burma. Under the MOU with China, Malaysia was allowed to trade palm oil up to the equivalent value of 150,000 tons of rice from China. The deal with Burma, on the other hand, enabled both parties to trade export commodities up to a value of US\$10 million per annum.³⁵

Policy Analysis and Implications for the Philippine Rice Sector

Malaysia presents a very interesting case study on public sector intervention in the rice sector. The different strategies that the government has adopted through the decades to strike a delicate balance between its

thrust to make agriculture internationally competitive and the recognition of rice as a culturally valuable and politically volatile crop- are best understood within the political and economic contexts of the country.

Malaysia is one of the early “tigers” of East Asia and has remained quite strong and economically stable despite the beating on its financial sector that battered most of its neighbors. It has one of the most diverse cultures in the region, with Malays living side by side with Chinese, Indians and Muslims, in the midst of the Malays’ subtle assertion of dominance through extension of certain privileges accorded by the reigning political party. That the overwhelming majority of the remaining rice farmers in the country are Malays is a fact that underscores the political value of rice as a crop, apart from it being the staple food of the population, although that, too, is changing fast through recent years. These major factors, along with pressures coming from regional and international trade agreements, have together shaped Malaysia’s distinct interventions in the rice sector that are outlined in its series of agricultural strategies through the years.

The analysis of the most significant policies that shaped Malaysia’s rice sector is interwoven with the discussion of the implications and lessons for the rice sector of the Philippines. While the two countries have marked differences in terms of political, social and economic contexts, the experiences of Malaysia in adopting policies for its own rice sector are very useful in imparting lessons to other developing countries in Asia that count on rice as a critical sector such as the Philippines which is currently beleaguered with problems concerning infrastructure, production, marketing, institutional mechanisms, among others.

Enhancing the Viability of Rice Sector and Ensuring the Sustainability of Small Rice Farmers’ Livelihoods

The price of rice in Malaysia has amazingly remained at a constant level over the past 10 years, regardless of the supply and demand curves and despite the fact that the country has increasingly imported rice from various sources. Various forms of subsidies, ranging from price support to fertilizer subsidy and outright cash assistance to rice farmers, and direct intervention of the government in price stabilization all made this situation possible. While this policy may defy rational economic arguments on the inflationary effects of direct subsidies and likewise on the political setbacks of having consumers bear the costs of subsidizing a marginal seg-

ment of the agricultural sector, the reason behind this is evidently political, rice remaining as a politically important crop. This is especially true in a country like Malaysia where the majority of the small paddy producers come from the Bumiputra/Malay class that enjoys economic and political privileges. Even the identification of eight permanent granary areas that enjoy government support with regard to rice production and marketing is politically significant. While these areas indeed constitute the bulk of the country's total rice area and production, these are all located in Peninsular Malaysia and in areas that are predominantly populated by Malays or Bumiputras. The rice-growing areas in Sabah and Sarawak, produced by indigenous population, particularly along terraced hills and mountain slopes, are not considered by the government as priority granary areas that need to be supported or developed.

Agricultural subsidy to the rice sector is consistently an important feature of the country's agricultural plans. The bulk of the government's agricultural subsidy support goes to the rice sector, in the form of guaranteed minimum price, irrigation, inputs (fertilizers, seeds) support, extension and credit schemes. Such public support has contributed to the steadily increasing income of rice farmers, based on official statistics. Studies showed that price support scheme was able to increase output by 65.8 percent and contribute to a 38.6 percent change in income while subsidy components (fertilizer, price support, etc.) as a whole, constituted about 58 percent of total farm income.³⁶ Other studies also supported this and revealed that paddy rice subsidy alone constituted almost 50 percent of farm income at RM1,154 per hectare and under a situation where all subsidies are withdrawn, the farm profitability declined to RM2,034 per farm or a decline of 57 percent.³⁷ Without such policy measures, the condition of small rice farmers could have been worse—especially with the small sizes of farms cultivated by the average rice producer. Despite this, however, the continuing decline of the rice farming population and rice hectareage over the decades is notable, in contrast to the increasing share of export-earning plantation crops such as oil palm and rubber.

From the 1980s, the consistent thrust of Malaysia's policies on the rice industry is towards modernization and the drive to make its agriculture sector competitive. Programs on farm mechanization, improvement of irrigation and opening up of virgin and idle lands to agricultural production were bannered. This thrust may have contributed in easing up labor in rice farms, but the main impact is felt in the plantation crop sector which requires mechanization and improved irrigation. The im-

pace of agricultural modernization is not very substantial based on the gradual increase in yield and productivity of rice farms over the years. Malaysia's average rice yield in fact still trails behind the Philippines, despite the former's efforts in mechanization, input subsidy, and research and development on modern seeds.

The idea of adopting direct subsidization policy may seem a remote option for a developing country like the Philippines, which perennially suffers from severe budget deficit. But it is worth noting that Malaysia implemented its various subsidy programs for rice farmers long before it achieved its current industrialized state. Malaysia invested heavily in agricultural infrastructure as early as the 1950s and the 1960s, curiously when the Philippines was well ahead of it in terms of development pace. The agricultural infrastructure built in the early years following the country's independence from the British, such as irrigation, drainage systems and roads, actually served as the backbone in building Malaysia's dominance as world producer of such industrial crops as oil palm, rubber and cocoa, even after many rice producers have left their lands idle due to the un-profitable price of rice. The government's programs in the rice sector are best appreciated when considered in the context of the country's overall agricultural development, with agricultural industrialization promoted side by side with the efforts to increase the income of the remaining rice farmers and ensuring a stable of supply of rice to the consumers. Neighboring countries in East Asia such as the Philippines, which aspire to be future "economic tigers", will learn a number of lessons from Malaysia on the importance of being clear on its vision on the role of agriculture in overall development while at the same time accommodating the needs of a numerically marginal, but politically important, sector. The burden passed on by the government policy of subsidizing rice farmers to rice consumers is a "sacrifice" that the majority has had to make in order to help a minority sector meet its basic needs, ensure political stability and acts as a mechanism to distribute income.

Achieving Food Security Goals (Steady, Stable and Affordable Rice Supply)

Malaysia has adopted a unique system of setting a particular target of rice self-sufficiency every year, which is maintained at a minimum of 65 percent. Such system clearly involves active government intervention in setting a floor base for local rice production and a ceiling for rice importation. The self-sufficiency targets are set every year based on demand and

some other factors, such as compliance with the country's commitments to multilateral trade agreements at the regional and international levels. The government justifies the system as part of its effort to “diversify and intensify agriculture.” In reality, however, there is no diversification in terms of expanding the food base for its population. Rather, there is continued reliance on Malaysia’s traditional export crops where much of the intensification happens. The policy is explicitly based on the premise that it is cheaper for Malaysia to import its food than produce it within its arable lands that are best planted with industrial export crops that would yield higher foreign exchange income for the country and fuel its growing industrial sector.

The system of setting annual rice self-sufficiency targets is another scheme where the Malaysian government strikes a “balance” between its thrust to make its agriculture internationally competitive while meeting domestic food security requirements. Under this scheme, the government continues to give importance to internationally competitive export crops by opening up more lands for oil palm and rubber plantation, while maintaining at least the current level of production and support to rice farmers. Thus ensures that that particular segment of the population is held in check and the ideal of increasing the control by Malays on 30 percent of the nation's wealth is attained. It is interesting to note that with the capacity of the government to provide subsidies and support and intervene in the rice sector, a 100 percent rice self-sufficiency rate could in fact be realistically achieved, if the government would so decide. But the government chooses not to do this since it would entail more lands devoted to rice, which is not economically profitable from a global trade perspective. The new lands being opened up are instead devoted to the production of export crops, side by side with the intensification of production in lands where the industrial crops are produced.

It is also notable that the government seems to support the changing dietary patterns and preferences of Malaysians over the past decade. This could be gleaned in the shift from general reliance on rice as the primary staple to the increasing imports of wheat, as an alternative staple to produce bread and other food products. Based on existing data on the per capita consumption of rice in Malaysia over the recent decades, there is a gradual but continuing decrease in rice consumption, especially in the urban areas. This is actually a characteristic trend among industrializing countries, largely due to the broadening of the dietary base beyond the staple rice. The trend, however, cannot be and should not be taken for

granted by countries undergoing the same, especially since alternate staples like wheat are not generally grown in this region. In the case of Malaysia, the income gained by the country from its agro-industrial sector makes it feasible for the country to set its rice self-sufficiency at 65 percent minimum and import rice and other non-traditional food products, which may not be case in other countries in East Asia. This fact should be seriously taken into account by countries like the Philippines, which, in recent years, have taken the position that it is cheaper to import rice than to produce it locally.

The analysis on implications of rice policies on the food security and self-sufficiency of the country should also be taken to the level of the households that produce rice itself as a main livelihood. Some recent studies by Malaysian researchers have established that rice farmers have the highest incidence of poverty and malnourishment due to a very narrow, protein-poor diet. This is ironic for a sector that produces the staple food of the rest of the population, but is tragically the classic case in many rice-producing countries in Asia. The Malaysian government has not adopted any specific policy to directly address this food insecurity among rice producing-households, apart from the subsidy programs that aim to increase their income, which hopefully would boost their capacity to buy more nutritious food. From the statistics, while the subsidies may have increased the income of rice farmers and somehow contributed to attaining a more equitable distribution of income, these have so far failed in ensuring their food security and nutrition status. This is one clear area that countries like the Philippines could learn lessons from and ensure that food security be considered both at the national level as well as the household level, including those who produce rice.

Government's Efforts to Balance the Potential Trade-Offs Between Goals of Protecting Smallholder Producers and Pursuing Food Security

More than ensuring food security, the Malaysian government's interventions in the rice sector in particular, and agriculture in general, are geared toward decreasing the economic disparity between the rural and urban population by increasing the income of farmers, particularly Malays. It is clear from the agricultural policies adopted over the years that rice is not seen as the sole anchor to attain food security, especially with the gradual shift to other staples, especially non-traditional ones such as wheat-based food. It is clear, too, from government policies, that food security does not mean food self-sufficiency, with economists pointing to the fact

that it is cheaper for Malaysia to import food than to produce food domestically. Still, rice comes out prominently in the agricultural plans largely because of political reasons, as has been repeatedly stressed in this paper and in other related studies.

The Malaysian government has adopted price stabilization schemes as its major platform in balancing the potential trade-offs between protecting small rice producers and attaining food security for the populace. Price stabilization policies since 1970 were implemented through the establishment of government arms that ensure fair prices to paddy producers and stable rice prices to consumers. LPN and later BERNAS took charge in controlling the rice market and substantially cut off the share of the private sector in rice marketing by increasing the number of public mills and directly buying rice from producers at set prices. While cooperative milling schemes were encouraged among rice farmers earlier, the government exclusively took this responsibility after the system failed to undermine middlemen operations. The milled rice is then sold to consumers at stable prices that generally remained unchanged over a decade, through the help of various forms of subsidies at the producer end and direct price intervention by the government at the consumer end.

Even the privatization of BERNAS in the 1990s would not hide the political reasons behind the sound economic rationale. Lurking behind the shadow of privatization is the fact that BERNAS remained largely under government control through political appointees and the involvement of personalities closely associated with the ruling political party, UMNO, which is dominated by Malay interests. BERNAS continues to monopolize rice imports as part of the government's policy to control rice prices and the government retains the sole right to issue rice import permits. The Malaysian model, with its pseudo-privatization scheme, is not actually an ideal model for the Philippines to look into in terms of exploring options for the future of its beleaguered National Food Administration (NFA). The rate of corruption and cronyism that characterizes Philippine politics is an alarming context in which to replicate the BERNAS model of privatization, with a privileged few ending up controlling rice marketing and importation as an expected result. The Philippines should instead look into other more viable options that would go around corrupt practices and systems, and would instead maximize the active participation of rice farmers themselves to ensure better transparency and accountability. After all, in the case of the Philippines, rice farmers are not at all numerically marginal as is the case in Malaysia.

The system of linking buffer stocks with rice import quotas has effectively centralized rice procurement in government's hands, while passing on the administrative costs to consumers who pay approximately 25 percent in taxes on the retail price. Upon closer examination, it becomes clear that the subsidization policy and support to rice farmers are actually shouldered by consumers, and the government regards the scheme as a means to distribute income. It is also an operationalization of the affirmative action that favors Malays. The phenomenal economic growth of Malaysia over the past two decades which resulted in the increase in the per capita income of its population has made it possible for consumers to bear this burden without causing political turmoil that could destabilize any relatively weak government. Just how long will this policy hold in Malaysia in the face of changing demographics and power relations among political forces, remains to be seen. For the meantime, the New Vision Policy put into place by Mahathir before he left his seat of power clearly reflects a belief that the Bumiputra policy will hold on for at least 20 years more.

Impacts of Multilateral Trade Arrangements in the Formulation of National Food Policies in the Region

While the government does not openly admit it, Malaysia has made clear adjustments in its agricultural trade policies to conform with its obligations to the World Trade Organization (WTO) agreements immediately upon accession. This is clear from the Seventh MP adopted in 1996, which further intensified Malaysia's thrust towards large-scale agricultural production, focusing on top export earners. As a result, rice imports soared with the annual rice self-sufficiency target set at the minimum, given the government's belief that it is more efficient to import food than to produce it domestically, with productive lands devoted to export crops where Malaysia has clear comparative advantage. To the government's credit, it adopted measures in 1998 to lower the food import bill and increase local rice production. This has had encouraging results in the short term, as gleaned from statistics.

This trend will most likely continue at the very least, in view of the government's consistent effort to maintain the delicate balance between its political agenda of maintaining support to the largest segment of rice producers in the mainland and providing stable rice prices to consumers on one hand, and securing the country's competitiveness in the international agricultural trade scene on the other. Malaysia is expected to insist

on the retention of rice in the sensitive list of crops under the Agreement on Agriculture (AoA) in the WTO and in the CEPT of the AFTA. Again, this is largely for political reasons other than ensuring national food security, which, at any rate, is not anchored on domestic production of food. The country's import food bill is also projected to continue increasing in view of domestic food policies and the gradual shift in consumer food preferences to non-rice food base.

This policy is also reflected in the way Malaysia deals with its trade partners and neighbors in the region. The country's so-called comparative advantage in key sectors and industrial crops provides the anchor in its trading relations through such schemes as direct bilateral trade and barter exchanges which only a few other countries in the region have so far maximized.

Membership in the WTO and the AFTA notwithstanding, the Malaysian government has maintained its policy of striking a delicate balance between agro-industrial priorities, ensuring stable supply of rice to consumers and increasing the income of rice farmers. Subsidies might have been decreased as a result of international trade commitments but not totally eliminated, in the effort to be consistent with the national socio-economic vision and ensuring political stability. Initial faltering steps committed in the opening up of the economy as a consequence of joining the WTO were subsequently remedied, at least in a short-term period. Such demonstrations of political will would not have been possible in a country with a weaker economy and a less coherent political vision. That big lesson in governance, though it may not please the populace who believe that it comes at the expense of political freedom, may well require radical efforts to learn and generations to put into action in countries like the Philippines.

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