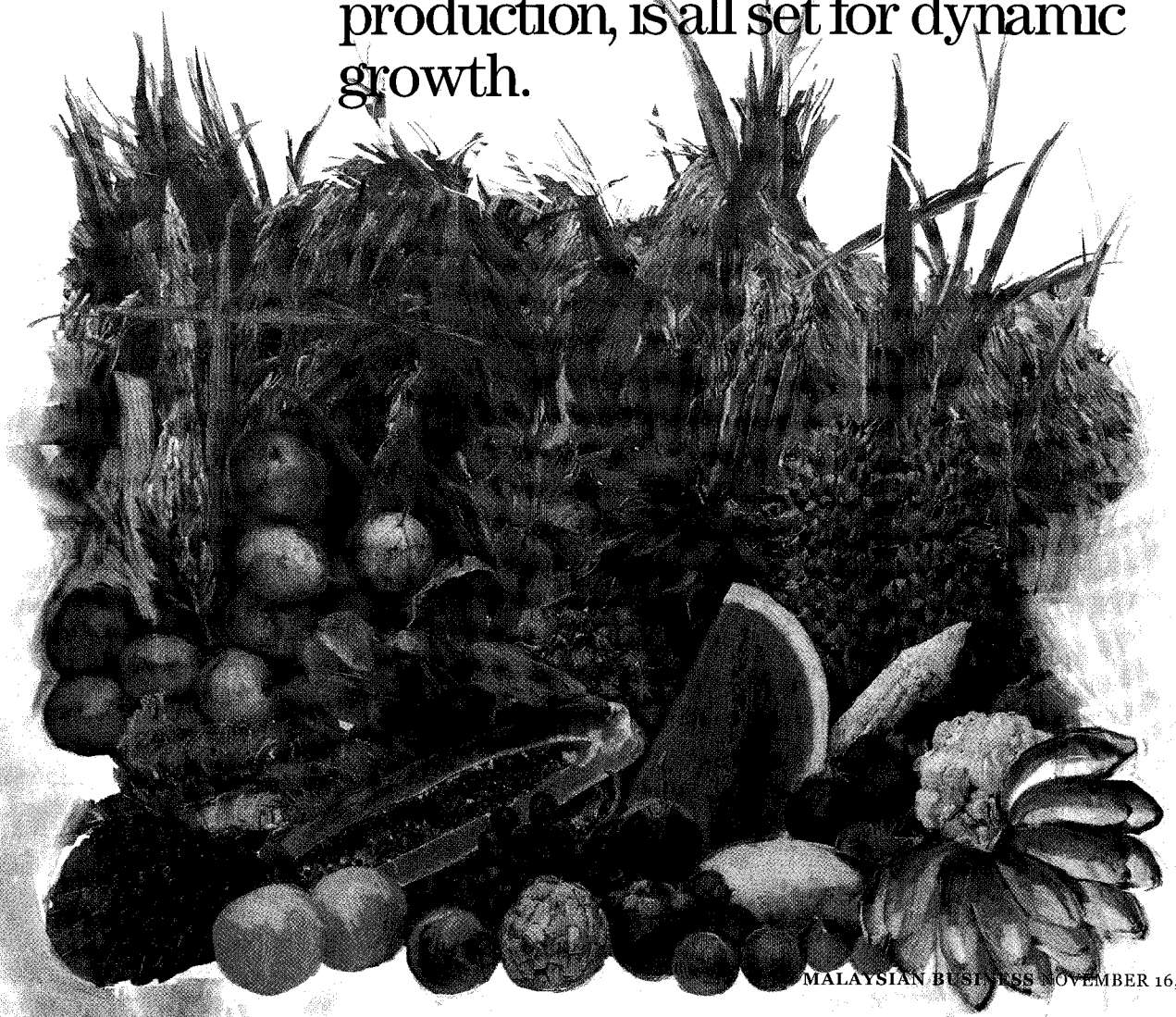
# Seeing the Green

The groundwork has been laid. Agriculture, especially food production, is all set for dynamic growth.



# Light

>> Stories by Clarence Y K Ngui

THE nation's great leap forward in agriculture has begun. Indeed, it is even being deemed an agricultural revolution.

It is a move that is set to impact the Malaysian economy, given that the government has set aside RM1.8 billion to boost the sector.

In the last decade, rural poverty and under-development have somewhat marred the agricultural sector. So when Prime Minister Datuk Seri Abdullah Ahmad Badawi took office in October last year, he declared that agriculture would be given high priority.

To emphasise his stand, he even appointed a senior minister, Tan Sri Muhyiddin Mohd Yassin, to head the new Agriculture and Agro-Based Industries Ministry.

Muhyiddin wasted no time getting down to work and called for an all-out transformation of the sector. 'We are creating a modern, dynamic and competitive agricultural sector,' Muhyiddin tells ***Malaysian Business***.

Today, the agricultural sector (including plantations) contributes more than 8% to the Gross Domestic Product (GDP).

Agricultural land in Malaysia stands at six million hectares. In 2003, its productivity growth stood at 1.9% and its export earnings RM21.6 billion. 'The sector has demonstrated extraordinary resilience, especially in cushioning the impact of the Asian Financial Crisis (of 1997),' says Muhyiddin.

But this transformation or revolution is not an easy task. In 2003, some 10% of 80,000 fishermen and 400,000 farmers had to contend with a household income of less than RM260 per month. Many more are living below the poverty line. Can the sector break away from the mould of rural poverty?

'I agree this is not an easy task but when we put our heads together, we can overcome the challenges,' says Muhyiddin. In the 2005 National Budget, more than RM1.5 billion was allocated for agricultural development projects, the biggest in recent years. Another RM300 million was set aside as seed capital to encourage commercialisation of agriculture.

## The Big Push

Is Malaysia ready for a renewed emphasis on agriculture? The first National Agriculture Policy was introduced in 1984, but most academicians believe its implementation slowed down from the late 1980s onwards due to a lack of focus. Instead, emphasis shifted to manufacturing and the hi-tech sector.

This was due partly to the collapse of commodity prices in 1985. It prompted a shift in the government's thinking and the decision to take Malaysia from an agricultural economy to an industrial one.

Since then, the Promotion of Investments Act 1986 promoted preferential growth of the manufacturing sector. By the 1990s, the agricultural sector had slid to third place in terms of importance in the GDP, after manufacturing and services.

However, as Muhyiddin explains, 'The agricultural sector has not been deliberately sidelined. The rise of manufacturing and other sectors is part and parcel of the process of economic development. As the economy progresses, we would like to go further downstream into the development of other sectors, which naturally include manufacturing and services.'

The Asian Financial Crisis slowed down the trend, however. 'We may have all the manufactured products but if we can't find buyers, how are we going to pay for our food imports?' says the dean of Universiti Putra Malaysia's (UPM) Faculty of Agriculture, Professor Dr Mohd Khanif Yusop.

***Khanif:*** *Praises the government's move to achieve food security in Malaysia*

***Khamsiah:*** *Says changing lifestyles will ensure continuous demand for food production*

He notes that since the crisis, efforts have been made to revitalise the agricultural sector, with an eye on achieving food security in Malaysia. 'It is a good move that we must continue,' he adds.

## Plantations vs Food Production

As the third largest component of the GDP, is has to be admitted that agriculture is still a vibrant sector.

'We have to give the right perspective to agriculture,' says Khanif. 'We are among the most efficient and competitive crude palm oil producers in the world. We are also the largest exporter of the commodity.'

Indeed, oil palm is Malaysia's success story in agriculture. Unfortunately, this success is not replicated in food production. 'When you remove the oil palm and rubber, we may not be really competitive after all,' says Khanif.

Even Muhyiddin admits that strong competition exists between plantations and food production. More than 83% of agriculture land in Malaysia is planted with oil palm and rubber. Food production such as the planting of rice, vegetables and fruit,

## Table 1: Agricultural Value Added (RM million in 1987 prices), 1995 - 2005

| Commodity | 1995 | % | 2000 | % | 2005 | % | Average Annual Growth Rate (%) 7MP Target | 7MP Achieved | 8MP Target |
|---|---|---|---|---|---|---|---|---|---|
| Rubber | 2,129 | 12.4 | 1,178 | 6.5 | 1,025 | 4.9 | -4.1 | -11.2 | -2.7 |
| Palm Oil | 4,235 | 24.7 | 6,199 | 34.1 | 7,364 | 35.0 | 4.2 | 7.9 | 3.5 |
| Forestry & Logging | 4,139 | 24.2 | 3,395 | 18.7 | 3,038 | 14.5 | -8.5 | -3.9 | -2.2 |
| Cocoa | 1,225 | 7.3 | 1,159 | 6.4 | 1,192 | 5.7 | -1.9 | -1.6 | 0.6 |
| Padi | 516 | 3.0 | 532 | 2.9 | 673 | 3.2 | 0.9 | 0.6 | 4.8 |
| Livestock | 953 | 5.6 | 1,109 | 6.1 | 1,454 | 6.9 | 5.1 | 3.1 | 5.6 |
| Fisheries | 1,964 | 11.5 | 2,375 | 13.1 | 2,998 | 14.3 | 4.0 | 3.9 | 4.8 |
| Miscellaneous[1] | 1,924 | 11.2 | 2,207 | 12.2 | 3,274 | 15.6 | 7.9 | 2.8 | 8.2 |
| **Total** | **17,115** | **100.0** | **18,154** | **100.0** | **21,018** | **100.0** | **1.9** | **1.2** | **3.0** |

**Note:** [1]Includes coffee, tea, coconut, tobacco, pepper, vegetables, fruits, flowers, herbs and others.

*Source: Seventh and Eighth Malaysia Plans*

and livestock-farming account for less than 17%.

Interestingly too, the division between plantations and food production extends to the ministries overseeing them. Cash crops and plantation-based oil palm, rubber, tobacco and cocoa come under the Ministry of Primary Industries while food-farming and its related agro-based industries such as aquaculture, fishing, livestock-rearing including poultry come under Muhyiddin's ministry. Incidentally, there is also a Ministry of Rural Development and Ministry of Land and Cooperative Development.

Department of Agriculture (DOA) deputy director-general, Datuk Khamsiah Muhammad, highlights the importance of food production in Malaysia.

'With changing lifestyles towards convenience and health foods, there will be continuous demand for food production. Currently, we have a food import bill of RM4.3 billion. This has been reduced from more than RM10 billion in 1997/1998, but only marginally lower than RM4.6 billion in 1990.'

UPM's Khanif says, 'We must learn the lessons of the 1997 Financial Crisis. We cannot depend on manufacturing exports to pay for our food imports.'

He points to Europe and Japan, where food security is an important issue. Despite the relative shortage of land and a strong manufacturing and services base, agriculture is not neglected.

Under the Ninth Malaysia Plan and the Third National Agriculture Policy, the agriculture ministry wants to transform Malaysia into a net food exporter by 2010.

'It is a difficult task but we are not changing targets mid-way,' says Muhyiddin. 'Even if we fail to emerge as a net food exporter, I strongly believe we can narrow the deficit.'

## Constraints and Challenges

While the development of large-scale agriculture in Malaysia seems feasible, Muhyiddin is realistic.

'In our effort to transform the sector, there are a lot of challenges and constraints we must overcome,' he says. 'The productivity level of the agricultural sector (aside from plantations) is still generally low as compared to manufacturing.'


***Muhyiddin:*** *Heading efforts to make Malaysia a net food exporter by 2010*

Pix by Mohd Jasmin Ramli

## Table 2: Employment and Productivity in Agriculture, 1995 - 2005

| | 1995 | 2000 | 2005 | Average Annual Growth Rate (%) 7MP Target | 7MP Achieved | 8MP Target |
|---|---|---|---|---|---|---|
| Employment in Agriculture ('000) | 1,493 | 1,408 | 1,307 | -3.6 | -1.2 | -1.5 |
| Percentage to Total Employment | 18.7 | 15.2 | 12.0 | | | |
| Value Added Per Worker (RM in 1987 prices) | 11,466 | 12,898 | 16,088 | 3.3 | 2.4 | 4.5 |

*Source: Seventh and Eighth Malaysia Plans*

A contributing factor is an ageing farming population. In 2002, more than 40% of the farmers were above 55 years old.

Labour-wise, the agriculture sector is facing stiff competition from other sectors. Between 2001 and 2003, 19,343 new foreign workers were approved for the agricultural sector including plantations. In 2000, there were some 190,200 legal foreign workers in the sector, contributing some 13.4% of the total agriculture workforce.

Even if Malaysia overcomes these constraints, there are still concerns over the issue of agriculture trade liberalisation. On July 31 this year, the World Trade Organisation (WTO) endorsed a framework which sets directions for greater liberalisation of agriculture trade.

Regionally, the Asean Free Trade Area (Afta) has slashed import duties of more than 90% of agricultural products in Malaysia to less than 5%.

'International competition for Malaysian agriculture is unavoidable. We have to gear up to face the challenges which are getting tougher and tougher,' says Muhyiddin.

Another factor afflicting the Malaysian agricultural sector is the high opportunity cost of food production. 'Unlike Thailand, our climate is more favourable for cash crops such as oil palm and rubber,' says DOA's Khamsiah.

### Economies of Scale

What makes the Malaysian agricultural sector a laggard is the lack of economies of scale. 'Simply put, our farms are too small. They are only an average of a hectare each,' says Khanif.

According to the agriculture ministry's statistics, more than 65% of padi fields in Malaysia are less than one hectare each. Even farms in high-yield areas such as Cameron Highlands are between one and two hectares only.

This is in comparison with a typical wheat farm in the United States that extends to some 1,000 to 1,500 hectares.

Taking the cue from the Netherlands, as one of Europe's smallest states, it is also one of the highest producers of flowers, especially tulips.

Malaysian Agricultural Research and Development Institute (Mardi) director-general Datuk Dr Saharan Anang notes: 'We have to look at the Dutch success story of high yields from small plots.'

Unfortunately, unlike the Netherlands, Malaysian land ownership is highly fragmented, due partly to the Muslim law of land inheritance. 'We must merge these

## Table 3: Agriculture Land Use (hectares), 1995 - 2005

| Commodity | 1995 | 2000 | 2005 | Average Annual Growth Rate (%) 7MP Target | 7MP Achieved | 8MP Target |
|---|---|---|---|---|---|---|
| **Agriculture Industrial Commodities** | | | | | | |
| Rubber | 1,727,000 | 1,430,700 | 1,301,500 | -3.8 | -3.7 | -1.9 |
| Oil Palm | 2,507,611 | 3,460,000 | 3,100,000 | 1.1 | 6.7 | -2.2 |
| Cocoa | 234,538 | 105,000 | 105,000 | -1.9 | -14.8 | 0 |
| Pepper | 8,600 | 11,480 | 12,500 | -1.1 | 5.9 | 1.7 |
| Pineapple | 9,081 | 10,233 | 16,000 | 4.5 | 2.4 | 9.4 |
| Tobacco | 10,539 | 15,000 | 12,500 | -1 | 7.3 | -3.6 |
| **Food Commodities** | | | | | | |
| Padi[1] | 592,410 | 572,196 | 611,000 | -9.7 | -0.7 | 0.6 |
| Coconut[1] | 298,740 | 220,000 | 201,000 | -5 | -5.9 | -1.8 |
| Vegetables[1] | 42,000 | 51,420 | 77,290 | 3 | 4.1 | 8.5 |
| Fruits[1] | 244,471 | 297,436 | 379,613 | 7.1 | 4 | 5 |
| Others[2] | 68,146 | 67,534 | 67,737 | -0.3 | -0.2 | 0.1 |
| **Total[3]** | **5,743,137** | **5,949,934** | **6,314,977** | **-1.4** | **0.7** | **1.2** |

**Notes:** [1]Based on harvested area.
[2]Includes tea, coffee and other crops.
[3]Refers to physical area and excludes multi-cropping.

*Source: Seventh and Eighth Malaysia Plans*