

**A critical assessment the contribution
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of the Malaysian economy**

By

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The first part of the current assignment, the contribution of the agriculture sector to the Malaysian economy will be assessed in the following 3 periods a) Pre-Independence b) Post Independence c) Post National Agriculture Policy (NAP). The second part will consist of the identification and short discussion of the sector's prospects and challenges.

An Assessment of The Contribution of The Agriculture Sector in The Malaysian Economy

Pre-Independence Period (1800-1957)

The economic interests of the British colonists in the early years of their rule was mainly focused on the trading of spices and other primary products. By the early 20th century, tin and rubber became the 2 main commercial commodities as a result of demand from the British Empire, the United States and Europe.

As a consequence of the growing economic importance of rubber, the British administration encouraged British, European and other capitalists to establish rubber plantations such as Dunlop Plantations, Guthrie Plantation and Harrisons and Crossfield. During this period of agricultural expansion, vast tracts of land were alienated to these British companies. Immigrants from India was imported to provide labour for these rubber plantations.

During this period, Malaya emerged as the world's top producer of rubber. Rubber was the significant contributor to the country's export income resulting in the agriculture sector becoming the backbone of the country's economy. The economy expanded on the back of the continuing strong demand for rubber which attracted even more capitalists to invest in rubber plantations.

As such, the contributions of the agriculture sector during this period was significant. Not only was it important because it provided employment but it was also important because it was the catalyst for foreign direct investments in the form of foreign plantation ownership. The colonials in their quest to efficiently bring rubber and other agricultural produce to the market, made infrastructure investments by building good roads and rail tracks connecting all the major towns. The colonials also introduced sophisticated banking systems to facilitate financial and capital transactions. The expanding economy made education possible and the colonials took advantage to form a class of obedient civil servants.

However, British agricultural policy of this period neglected to provide opportunities and to allow the Malays to participate in the rubber plantations. Despite the interest among smallholders in rubber plantation, the expansion was discouraged by the British. This development left the indigenous population in subsistence agriculture

producing largely for domestic production and consumption, while the British and other communities expanded their interest in commercial agricultural production and dominated the export crop economy (Zulkifly Hj. Mustapha 1988).

In other words, the colonial's agriculture policy drove a wedge that split the country's agricultural sector into the rich profitable rubber plantations owned by foreign capitalists and the hand to mouth subsistence paddy farming dominated by Malay peasants. Over time, this dichotomy became structural and institutionalized. It is also the legacy which effected racial identification by type of employment which adversely affected future racial integration and nation building efforts.

The Post Independence Period (1957-1970)

The elation of a negotiated Independence fostered goodwill and cooperation between the newly formed government of the Federation of Malaya and the private sector, the foreign owned plantations being the most important. As a result, the government continued the colonial's pre independence agriculture policy. The government recognizing the significant role and contribution of agriculture in the nation's economy allocated under the First Malaya Plan (1956-1960) RM478.2m or 47.5% of its total public development expenditure for agriculture and rural development. The Second Malaya Plan (1961-1965) and The First Malaysia Plan (1966-1970) saw continued strong government expenditure for the agriculture sector.

Efforts were made by the government to settle and cultivate huge tracts of undeveloped land through the FELDA schemes and rubber tree replanting schemes were initiated by FELCRA. Smallholders were also encouraged to switch from subsistence crops to cash crops such as rubber and palm oil.

Despite this fact, the First Malaya Plan (1956-1960) was criticized by Rudner (1975) for lacking in direction and an "absence of a definite agricultural development programme". During this period, efforts by the government to alleviate poverty amongst the Malay peasantry failed to make any significant inroads.

The bright side to this period was the emergence of oil palm as a cash crop. The major foreign plantations seized upon the opportunity of strong export demand for vegetable oils and shorter immaturity period of oil palm compared to rubber tree, and started cultivating oil palm. At the end of this period, there were 123,000 ha of oil palm compared to 1,315,000 ha of rubber, setting the stage for the growth of oil palm cultivation.

Throughout this period, agriculture led by rubber and palm oil continued to be the dominant contributor to the Malaysian economy, providing the benefits of foreign exchange income, capital creation and employment.

The NEP Period (1970-1984)

The failure of the government to alleviate poverty and racial disparity came to bear in the racial riots of 1969. The New Economic Policy (NEP) was formulated to address these issues with agriculture growth and development being emphasized as the key to eradicate poverty and balance equity. The government now recognizes the strategic importance of smallholder agriculture development in the attainment of NEP objectives.

This period encompassing The Second Malaysia Plan (1971-1975), The Third Malaysia Plan (1976-1980) and The Fourth Malaysia Plan (1981-1985) witnessed strong government support for the agriculture sector. This is evident by the increasing total public development expenditure for agriculture and rural development. This expenditure valued at RM1.8b for The Second Malaysia Plan was increased to RM8.3b for The Fourth Malaysia Plan.

FELDA and FELCRA intensified and expanded their programs with emphasis on oil palm. Improved irrigation, double cropping and mechanization further improved the productivity of paddy peasants. Lembaga Padi Negara effected price control to stabilize the price of paddy in favour of the peasants and sought to remove middlemen by setting up and operating rice mills. RISDA in the meanwhile, sought to overcome the deficiencies of rubber smallholdings by organizing clusters to reap the benefits of economies of scale in rubber production. These programs invariably, improved the productivity of these commodities which contributed to rising levels of per capita incomes in agriculture (Shand 1984).

The result of these and other agricultural programs was that at the end of this period, estimates show a reduction in rural poverty from 58.7% in 1970 to 24.7% in 1984, or from 706,000 to 402,000 households. During this corresponding period up to 1980, agricultural output expanded by an average of 5.8% per annum with the gross value of agricultural exports rising to RM9b which in large part contributed to per capita income increasing by an average of 2.8% per annum (R.T. Shand & Mohd. Ariff Hussein 1988). The agriculture sector by employing 42% of the Malaysian population in 1980 was the most important employment provider in the economy.

At the close of this period, rubber and palm oil continued their significant contribution to Malaysia's GDP and export earnings. Malaysia was dominant as the world's top producer for Natural Rubber (39.8%) and Palm Oil (58.8%).

The National Agricultural Policy

The First National Agricultural Policy (1984-1991) was drafted in response to the inability of previous policies to eradicate poverty and sluggish performance of the agriculture sector as the country's engine of economic growth. The NAP provided for a comprehensive and coordinated long-term policy for an effective development of the agricultural sector (Malaysia 1985). Additionally, the NAP called for agricultural-industrial linkages through the expanded development of agro-based industries, mainly in processing, storage and handling of agricultural commodities to increase their value-added before export (Zulkifly Hj. Mustapha 1988). To eradicate poverty, emphasis was also given to in-situ development programs to overcome the problems of land fragmentation and low productivity especially among smallholders.

Subsequently, The Second National Agricultural Policy (1992-2010) and The Third National Agricultural Policy (1998-2010) updates the policy to reflect current economic challenges and realities. For example, The Second National Agricultural Policy puts greater emphasis was given to address productivity, efficiency and competitiveness issues in the context of sustainable development and linkages with other sectors of the economy. The Third National Agricultural Policy, introduces the product-based approach which emphasizes in satisfying the specific needs of niche markets and consumers world-wide (Malaysia 1998).

This policy served as the catalyst for the rapid development of the agricultural manufacturing sub-sector. 1987, however proved to be the watershed year when the manufacturing sector's contribution the country's GDP exceeded the agricultural sector's contribution for the first time. The fast expanding manufacturing sector put a big strain on the agricultural sector where demand for labour, land, capital and other inputs was in direct competition with the manufacturing sector.

In total, the agriculture sector contributed RM42b amounting to 9.5% of Malaysia's GDP in 2004. During the period 2000-2004 the growth of the manufacturing sector continued to outpace growth in the agriculture sector. At the end of 2004, the manufacturing sector contributed 31.4% to the GDP. Despite the fact that the manufacturing sector is now without doubt the country's engine of growth, the agricultural sector remains to be a significant and important component of the Malaysian economy. The 2 mainstays of the agriculture sector, oil palm and rubber continued to enjoy the benefits of improved productivity and strong export demand which contributed to higher export earnings in 2004. This in part lifted the incomes of smallholders involved in the cultivation of these 2 crops.

At the end of 2004, a total of 6.4m ha were used for agriculture of which 60.6% was for oil palm and 20% was for rubber. For the period 1990 to 2004, total acreage for rubber has shown annual contraction of -2.54% while oil palm expanded at an average rate of 4.75% per annum.

However, a survey of the period 2000-2004 shows that rubber productivity has improved to 919 tonnes/ha thereby expanding rubber production to 1.1m tonnes in 2004 despite the stated decline in acreage. Prices for rubber in 2004 held steady at an average of 470 sen/kg contributing to an export value of RM5.1b.

For the corresponding period, oil palm yield improved to 3,600 tonnes/ha increasing crude palm oil production to 13.9m tones in 2004. That year, crude palm oil price was at an average of RM1,706 per tonne contributing to the export value of RM20.1b (Malaysia 2005).

Future Prospects and Challenges

Internally, the agriculture sector continues to face inefficiencies arising from structural defects such as land fragmentation, labour shortage and increasing cost of inputs. As a consequence, productivity, yield and profitability from smallholdings continue to lag behind plantations.

Paddy farming continues to face chronic inefficiencies arising from the Government's policy to continue guaranteed minimum price for paddy and structural defects. As a result of government intervention in price setting and distribution, structural defects have become institutionalized and resistant to change. It becomes even more difficult to effect a change now because subsidies to paddy farmers have become politicized as used as vote gathering tools.

Inputs to agriculture production such as capital and labour will continue to be constrained in response to demand for these very same inputs by Malaysia's fast expanding manufacturing sector. This is already resulting in the slowdown of capital investment in the agricultural sector which would eventually trickle to naught and may trigger capital outflow from this sector.

Externally, the price of agriculture commodities will continue to be exposed to swings and shifts in demand due to the interplay of substitutionary and complementary products. Supply and output of commodities as from time immemorial continue to be subject to the vagaries of climate, pestilence and seasonality.

Trade barriers and protectionist agricultural policies will continue to shield agriculture from reforms in many countries, distorting the free market and institutionalize market defects and inefficiencies.

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