

# There is method in this rice madness

“Though this be madness, yet there is method in’t,” goes a famous line from Shakespeare’s *Hamlet*. It simply means that even highly chaotic and erratic behaviour can have an underlying, hidden logic. Fast forward to 2025, Shakespeare’s lucid wisdom is highly applicable to the current messy state of the country’s rice industry. Its tumultuous crisis is baffling everyone, leading to widespread finger-pointing and blame directed at farmers, industry players and policymakers alike.

As usual, social media is abuzz with slanderous statements, fuelled by anger and frustration with the system. But as the proverb says, “No matter how hot one’s anger, it will never cook the yams.” A clear methodology is desperately needed to ensure everyone is on the same page.

The current rice crisis, much like those of 1973-1975, 2008, 2020-2021 and 2023, shares a similar underlying anatomy. All these price crises are primarily driven by an imbalance between fundamental and technical factors. Fundamental factors include the basic principles of supply and demand, which are influenced by their respective drivers (for example, weather patterns affecting yields and population growth impacting consumption). Technical factors, on the other hand, encompass elements like the herd behaviour of traders, structural issues within the industry, logistical challenges and futures market speculation.

The 2023 rice crisis followed a familiar pattern. It began in July 2023 when India, a major global supplier, banned the export of white rice to prioritise domestic supply, especially for its population living in poverty. This policy was deemed necessary to secure the incumbent political leader’s position in the 2024 election. While the politicians achieved their objective, the restrictive policy significantly reduced the availability of white rice in the world market.

Consequently, importing countries like Malaysia had to increase their rice imports as domestic supply had been dwindling since the pandemic era (from



BY FATIMAH MOHAMED ARSHAD

2019 onwards). After years of importing only 20% to 30% of its domestic requirement, Malaysia now imports over 40%. This not only led to a substantial outflow of foreign exchange but also disrupted the stability of the country’s highly regulated market equilibrium, where both farm and retail prices are controlled. Although the peak price in 2023 (US\$529/tonne) was about one-third of the April 2008 peak (US\$1,015), it still had a damaging impact on the local rice industry. Surprisingly, other major importing countries like the Philippines and Indonesia did not experience similar upheavals.

The core of the problem stemmed from the significant price disparity between imported rice, which cost RM3,600/tonne, and locally produced rice, which had a fixed, lower price of RM2,600. Concurrently, in the post-pandemic period, producers faced a double burden of increased production costs, largely due to higher fertiliser prices and, consequently, elevated service costs. To alleviate some of this pressure, the price of paddy for processing was adjusted upwards from RM1,200/tonne to RM1,500, though this ultimately reduced the profit margins for millers.

As before, the market responded to this margin squeeze by hoarding local rice for months (a similar pattern was observed in 2008) and by mixing local and imported rice to exploit the higher prices of the latter. Consequently, after much antici-

pation, Malaysian consumers were left with primarily one type of rice, often referred to as “mixed rice”, despite the inherent diversity of varieties available and the varied requirements of different consumer segments.

This situation reflects a systemic failure to deliver the right product with the appropriate utility to consumers at the right time. Similarly, the system has failed to adequately remunerate producers, as poverty is rampant among them, making it difficult for them to sustain themselves in the industry.

Everybody has their own mental model to describe the crisis. However, the most comprehensive framework for explaining the observed events is the Structure-Conduct-Performance (SCP) paradigm, which highlights the intricate inter-dynamics and feedback loops between these three elements.

Structure refers to the organisational characteristics of the industry, encompassing factors such as the degree of competition (or concentration), barriers to entry for new players, the level of product differentiation and the prevailing pricing structure. This structure, in turn, directly influences the conduct of firms within the industry.

Conduct pertains to the behaviours adopted by industry participants, including marketing policies, pricing strategies, product range offerings, inter-firm coordination and decisions regarding mergers and acquisitions. These actions then collectively impact the industry’s performance.

Performance is measured by outcomes such as efficiency, pricing levels and the rate of innovation. Crucially, this performance does not exist in isolation; it feeds back into and shapes public policy. Public policy then acts to reshape the market structure and firm conduct, creating continuous, reinforcing feedback loops within the system.

In the context of the rice industry, its structure has been predetermined by a government protectionist policy established in 1971. This comprehensive measure remains in effect today, with threefold objectives: to increase farmers’ income; achieve a desired level of self-sufficiency; and ensure high-quality rice at a stable price for consumers.

To accomplish these goals, the government fixed the industry’s structure in 1971. Prices were controlled through a minimum support price for producers and a fixed retail price for consumers. The survival of the millers was safeguarded through a licensing system, while the monopoly on rice import and fertiliser distribution was granted to the National Paddy and Rice Board (LPN, later Bernas) and the National Farmers Association (Nafas), respectively. This structure has remained untouched to this day.

As documented in the literature, the impact on the country’s rice sector fully mirrors theoretical expectations. The overall effect on the industry is a process of “deindustrialisation”, evident in several key areas:

- Stagnant growth and innovation: There has been slow growth in yield and minimal innovation within the sector.
- Declining self-sufficiency: The country’s self-sufficiency level in rice has been steadily declining.
- Lack of supporting industries: There is an almost complete absence of related small and medium enterprise (SME) sectors that would typically flourish around a thriving agricultural industry.

## Cost of policies set years ago far outweighs any benefits

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- Limited new entrants: Very few new players are entering the industry at any level.
- Inequitable distribution: There is an uneven and often unfair distribution of benefits along the supply chain.
- Non-competitive markets: The market at all levels lacks competition. Specifically, monopolies exist in the distribution of agricultural inputs (controlled by one agency) and rice imports (monopolised by Bernas). Furthermore, oligopolistic markets characterise sectors such as seeds, harvesting equipment, milling and wholesaling.

### The impact on market behaviour is startling

First, due to the existing policy, farmers largely remain confined to farming with limited opportunities to engage in milling or to sell fertiliser and seeds. Consequently, their income is restricted almost entirely to paddy cultivation.

Second, the milling sector has become highly concentrated. In the 1970s, the industry was competitive and thriving,

boasting 1,900 mills, 70% of which were cooperative mills owned by farmers, with 60% of these being Malay-owned. By 2025, however, only 153 large-scale mills remain and small mills have largely ceased to exist.

Third, because prices are fixed — including farmer incomes and profits for millers and traders (with the notable exception of Bernas) — farmers have been unable to accumulate sufficient farm capital to invest in productivity improvements. Since almost all inputs are imported and paddy prices are controlled, their income is barely enough to sustain a comfortable living. To date, 90% of farmers fall into the B40 income category.

Fourth, licensing secures the mills’ position within the industry, while the import monopoly strengthens Bernas’ stranglehold on the market.

The policy has significantly shaped the behaviour of the milling sector.

First, it encourages joint ventures between Bernas and local mills, which have tightened their grip on the local rice market with their combined share now ex-

ceeding 70%. Concurrently, the bargaining power of farmers continues to diminish, leaving them as mere price-takers in a highly concentrated supply chain.

Second, during crises, millers gain the power to engage in hoarding, effectively denying consumers access to local rice.

Third, price controls limit millers’ margins, leading them to resort to rice mixing — blending cheaper rice with higher-quality varieties or local rice with imported rice, to capitalise on the latter’s higher price.

Fourth, the stronghold of both private millers and Bernas allowed them to withhold the sale of ST15% (a lower quality rice) to consumers during the 2008 crisis. Despite RM1.6 billion in subsidies provided to private and Bernas’ millers to produce this rice, it was unavailable in the local market.

Fifth, to maintain their margins, a number of market malpractices have been reported. These include delayed and overpriced seeds and excessively high paddy deduction rates.

Sixth, the input distribution monopoly has resulted in a single fertiliser formula

for all soil types since 1980, extreme delays in fertiliser delivery and persistent corruption within Nafas.

Ultimately, the deindustrialisation of the sector is a summation of all these structural and behavioural inefficiencies.

The country’s long-standing protectionist policy is directly responsible for the current structure, behaviour and performance of its rice industry. The continued cost of this policy now far outweighs any benefits. The overall net impact perfectly aligns with the hypothesis that centralisation and total control over an industry lead to slow growth and costly resource distortion — a phenomenon evident in China, Bangladesh and Vietnam during the 1980s.

The time is now ripe for Malaysia to usher in a new era for its rice industry, moving towards a competitive, sustainable and equitable future through a carefully guided liberalisation.

**Professor Datin Paduka Fatimah Mohamed Arshad is the holder of the food security chair at Universiti Putra Malaysia**