More needs to be done to grow a sustainable rice industry

THREE-PRONGED STRATEGY:
Rationalise unproductive subsidies, increase productivity and boost local production of fertilisers, writes Professor Fatimah Mohamed Arshad

THE 2017 Budget saw the reduction of padi and rice subsidy to RM1.3 billion, which is about 60 per cent lower than what it was in 2015 and 2014. The padi industry has been highly subsidised all these years as the returns on factors (land, labour and capital) are generally lower than that of the oil palm industry or industrial enterprises.

A rice industry that can stand on its own has always been the dream of policymakers. File pic

To encourage farmers to remain in padi farming, the government subsidises input and provides output incentive to the tune of 60 per cent of the total production cost. This was deemed necessary to ensure adequate domestic rice supply at the targeted 71 self-sufficiency level, while the balance is imported. Malaysia's padi and rice sector receives the highest amount of subsidies compared with its neighbouring countries in Asean.

For an industry that fed on heavy subsidies for more than four decades, this cut is the deepest and most radical in amount. Will the farmers be able to swallow this big cut?

It may be a tough situation for farmers to move on without the normal subsidies that they are used to receive. Like any other radical measures, it will be met with resentment and frustration. It is psychologically painful. Nevertheless, the farmers have to continue farming to earn income for their survival. How much input will be pumped into the soil is the major question now as output is a function of input. Reduced input may reduce productivity, hence production and the self-sufficiency level will be affected.

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With the exception of padi farmers in Mada and a few granary areas, most of the farmers achieve low productivity that is below the national average of 3.8 tonnes per hectare. The average farm size is low at 2.5ha, resulting in low income for farmers. On average, padi farmers earn RM1,400 per month compared with RM1,860 per month by fruit farmers.

Due to the nature of padi farming, the fruits of their labour are realised at the end of the season, that is when the harvest is sold to the market. The income earned is normally used to repay their loans taken earlier and to finance their next farming activities as well as additional input on top of subsidies provided. It is a well-known fact that between the planting and harvesting period, farmers are always short on cash and rely on loans to survive. Hence, there is a high probability that reduction of the input subsidies will reduce input use on the farms, particularly among poor farmers in the non-granary areas, due to their serious financial constraints.

Farmers who cannot afford to buy input may choose to leave the industry for other jobs. Those who are located in urban areas like in Penang, their padi fields may be converted to other uses.

There are other spillover effects that may affect the industry. These include the reduction of padi availability for millers, hence creating a significant excess capacity and challenging their existence, and an increase of imports. Malaysia may see a significant reduction in padi production and self-sufficiency level in the short term. Domestic rice price may increase, increasing arbitrage activities at the border.

After a long history of receiving subsidies, a reduction is an encouraging move though bitter in the short term. The government could have taken a softer stance by reducing it in phases, but this was not so probably due to the current economic situation or simply the decision is long overdue. A rice industry that can stand on its own has always been the dream of policymakers.

The continuous subsidies from year to year did increase productivity, but it is safe to say that the yield obtained locally is much lower than that under a more liberal market environment, as proven in Vietnam.

The comprehensive market interventions were able to ensure food security for the country, but at a great cost, which is not sustainable in the long term. Besides the financial burden to the public, the persistent inefficiencies and overall slow growth of the industry suggest non-optimum use of resources or big missed opportunities.

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Rice industry needs high productivity, low cost

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Unproductive subsidies should be rationalised and, similarly, interventions that are against market competition should be curtailed to allow dynamism and equitable participation of industry players.

There is room for interventions, but let them be driven by efficiency, competitiveness and sustainability. Otherwise, the industry will continue to exhibit "more of the same" behaviour that we see now.

With or without intervention, what the industry needs is high productivity and low cost of production. High productivity is a function of technology transfer through massive extension programmes.

However, reduction of input cost is an area which is overlooked by many all these years.

Malaysia is a net importer of all inputs for its agriculture, particularly the padi industry. It's no wonder that its cost of production is high. It depends on imports for seeds, breeds, fertilisers, pesticides, weedicides, feeds for livestock, machinery and labour.

Inputs that are produced locally using local materials have the potential to reduce cost of production, besides generating a dynamic agribusiness sector. Again, this is proven right in countries like Vietnam and Thailand, which produce 80 per cent of their fertiliser requirements locally.

Indonesia has embarked on a three-pronged strategy for its rice industry through extensification (area expansion), intensification (increasing productivity of input) and revitalisation.

The third strategy is about domestic fertiliser development. It's high time that Malaysia emulated its dynamic neighbours.

In short, to ensure the sustainability of the rice industry, the reduction of subsidies should be compensated with a very large increase in growth-driven supports, such as development of all inputs, enhancement of research and development for better yield, machinery, value-added, logistics and infrastructure, bigger institutional support for farmers and a more competitive padi and rice market (input and output).

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