

# EFFECTS OF POLICY CHANGES ON AGRICULTURAL PRACTICES RELATED TO SELECTED CROPS IN MALAYSIA

ABDULLA IBRAGIMOV GAFURJANOVICH

**IKDPM 2017 1** 



### EFFECTS OF POLICY CHANGES ON AGRICULTURAL PRACTICES RELATED TO SELECTED CROPS IN MALAYSIA



Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in Fulfillment of the Requirements for the Degree of Doctor of Philosophy

August 2017

# COPYRIGHT

All material contained within the thesis, including without limitation text, logos, icons, photographs and all other artwork, is copyright material of Universiti Putra Malaysia unless otherwise stated. Use may be made of any material contained within the thesis for non-commercial purposes from the copyright holder. Commercial use of material may only be made with the express, prior, written permission of Universiti Putra Malaysia.



Copyright © Universiti Putra Malaysia

#### DEDICATION

I dedicate my dissertation work to my family and many friends. A special feeling of gratitude to my loving parents whose, words of encouragement and push for tenacity ring in my ears. My brothers have never left my side and are very special. I will always appreciate all they have done. I dedicate this work and give special thanks to my wife and my son for being there for me throughout the entire doctorate program. Both of you have been my best cheerleaders.



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the Degree of Doctor of Philosophy

#### EFFECTS OF POLICY CHANGES ON AGRICULTURAL PRACTICES RELATED TO SELECTED CROPS IN MALAYSIA

By

#### ABDULLA IBRAGIMOV GAFURJANOVICH

August 2017

#### Chairman : Professor Datin Paduka Fatimah Bt Mohamed Arshad, PhD Institute : Agricultural and Food Policy Studies

The agricultural sector growth in Malaysia may not be sustainable in the future as agriculture and food sectors are continuously challenged by shifting fundamentals, resource constraints and climate change. The "business as usual" stance for agriculture may be detrimental to Malaysia in terms of opportunity cost, inefficient use of resources, food insecurity and outflow of foreign exchange for imports. The Malaysian agriculture is biased towards industrial crops, such as palm oil, rubber and cocoa. As in 2015, palm oil accounted for about 4% of the gross domestic product (GDP) and 0.53% for rubber. The share of industrial crops in the land use has increased from 68.5% in 1960 to over 80% in 2015. On the other hand, the land use for the food crops shows an opposite trend. If this trend persists, the food security of the country may be affected.

The agriculture is beset with a number of development issues which remain unaddressed despite the rapid industrialization. These include sectoral division between the industrial crops (palm oil and rubber) and the food commodities (fruits and vegetables, livestock and fisheries). While industrial crops are continuously supported by the government, the food sector is largely marginalized with the exception of paddy and rice sector. Within these sectors, there is another dichotomy between the estates and the smallholders with a significant gap in terms of productivity and returns. Due to higher returns in the palm oil industry, the returns in the rubber and cocoa industries have shrunk significantly (production and area) with most of the farms run by the smallholders i.e. 95% in the rubber and 95% in cocoa sectors). The big gap between the estates and smallholders clearly indicates poor technology transfer and coordination, which calls for improvement in technology transfer, structural and institutional readjustments. Towards these ends, the study has adopted the system dynamics methodology to capture the circular causality between variables in the crop production system as well as delays and non-linearities.

The general objective of the study is to identify the key policy interventions towards revitalization of the agriculture sector with respect to primary production growth, equity and sustainability. The specific objectives are: (i) To determine structural and institutional factors that lead to the crop mix shift and slow growth in production; (ii) To determine structural and institutional factors that lead to the low income to the farmers and their uncertain livelihoods; (iii) To develop a system dynamics model to capture causal relationship between major structural elements in the sector that lead to the overall poor performance; (iv) To identify the key policy interventions to revitalize and sustain the agriculture sector with respect to primary production growth, equity and sustainability based on the developed system dynamics model. The findings indicate that funding for R&D for development of high yielding varieties, gradual transition to automation and mechanization, local input production along with accelerated replanting hold big promise towards productivity enhancement, cost reduction, thus, higher return particularly to the smallholders. These in turn result in an equitable income distribution among participants both in the industrial and food crop sectors which contributes to an optimal mix of crops and sustainability of the agriculture sector at large.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk Ijazah Doktor Falsafah

#### KESAN PERUBAHAN POLISI KE ATAS AMALAN PERTANIAN TANAMAN TERPILIH DI MALAYSIA

Oleh

#### ABDULLA IBRAGIMOV GAFURJANOVICH

Ogos 2017

#### Pengerusi : Profesor Datin Paduka Fatimah Bt Mohamed Arshad, PhD Institut : Kajian Dasar Pertanian dan Makanan

Pertumbuhan sektor pertanian di Malaysia berhadapan dengan isu kelestarian pada masa hadapan. Hal ini didorong oleh sektor pertanian dan makanan yang sentiasa dicabar oleh perubahan fundamental, kekangan sumber dan perubahan iklim. Keadaan "situasi seperti biasa" (business as usual) dalam sektor pertanian mungkin menimbulkan masalah kepada Malaysia dari segi kos masa lepas, penggunaan sumber yang tidak cekap, ketidakjaminan bekalan makanan dan aliran keluar tukaran matawang asing bagi sektor import. Pertanian di Malaysia lebih menjurus kepada tanaman industri seperti kelapa sawit, getah dan koko. Pada tahun 2015, kelapa sawit dan getah masing-masing mencatatkan pendapatan lebih kurang 4% dan 0.53% daripada Keluaran Dalam Negara Kasar (KDNK). Pecahan penggunaan tanah bagi tanaman industri telah meningkat kepada 80% pada tahun 2015 berbanding 68.5% pada tahun 1960. Walau bagaimanapun, penggunaan tanah bagi tanaman makanan menunjukkan trend yang bertentangan. Jika situasi ini berterusan, maka bekalan makanan di Malaysia mungkin akan terjejas.

Sektor pertanian dilanda beberapa isu pembangunan yang masih belum diatasi walaupun industri bertumbuh dengan pesat. Hal ini termasuklah jurang antara sektor tanaman industri (kelapa sawit dan getah) dan sektor komoditi makanan (buah-buahan dan sayur-sayuran, ternakan serta perikanan). Tatkala tanaman industri menerima sokongan yang berterusan oleh kerajaan, sektor makanan pula terpinggir secara signifikan kecuali sektor padi dan beras. Dalam kedua-dua sektor tersebut, terdapat pembahagian antara ladang dan pekebun kecil dengan jurang yang ketara dari segi daya pengeluaran dan pulangan. Disebabkan oleh pulangan yang lebih tinggi dalam industri kelapa sawit, pulangan dalam industri getah dan koko pula merosot dengan ketara

(pengeluaran dan keluasan tanaman) dan sebahagian besar tanah dikendalikan oleh pekebun kecil (95% pekebun kecil dalam sektor getah dan 95% pekebun kecil dalam sektor koko). Jurang yang besar antara ladang dan pekebun kecil jelas menunjukkan kelemahan pemindahan dan penyelarasan teknologi yang memerlukan penambahbaikan dari segi penggunaan teknologi serta pelarasan semula struktur dan institusi. Bagi mencapai matlamat tersebut, kajian ini telah menggunakan kaedah sistem dinamik untuk memahami hubungan sebab-akibat dalam pusingan (*circular causality*) antara pembolehubah dalam sistem pengeluaran tanaman serta kelengahan (*delay*) dan ketidaklinearan(*non-linearities*).

Objektif umum kajian ini adalah untuk mengenal pasti dasar intervensi utama arah pengukuhan semula sektor pertanian berhubung dengan ke pertumbuhan pengeluaran primer, kesetaraan dan kelestarian. Objektif khusus adalah: (i) Untuk menentukan faktor struktur dan institusi yang menjurus kepada perubahan dalam campuran tanaman dan pertumbuhan perlahan dalam pengeluaran; (ii) Untuk menentukan faktor struktur dan institusi yang menyebabkan pendapatan petani yang rendah serta punca pendapatan yang tidak menentu; (iii) Untuk membangunkan model sistem dinamik bagi mengenal pasti hubungan sebab-akibat antara struktur elemen utama dalam sektor yang menjurus kepada prestasi keseluruhan sektor pertanian yang perlahan; dan (iv) Untuk mengenal pasti dasar intervensi utama demi meningkatkan dan melestarikan pertumbuhan sektor pertanian berhubung dengan pengeluaran komoditi utama, kesetaraan dan kelestarian berdasarkan model sistem dinamik yang telah dibangunkan. Dapatan kajian ini menunjukkan bahawa pelaburan dalam penyelidikan dan pembangunan (R&D) bagi pembangunan jenis berhasil tinggi (high vielding varieties), peningkatan automasi dan mekanisasi secara beransur, pengeluaran input tempatan dan penggiatan penanaman semula menjanjikan daya pengeluaran yang lebih tinggi dan kos yang lebih rendah lantas meningkatkan pulangan yang lebih tinggi terutamanya kepada pekebun kecil. Perubahan ini membawa kepada agihan pendapatan yang saksama dalam kalangan peserta dalam sektor tanaman industri dan tanaman makanan yang akan menyumbang kepada campuran tanaman yang seimbang dan kelestarian sektor pertanian pada umumnya.

#### ACKNOWLEDGEMENTS

This research was made possible because of contributions of many persons. Discovering the enthusiasm and encouragement they have offered has been more than sufficient reward. Due to limitation of space it is not possible to mention every one of them but I am grateful to all.

My foremost debt of gratitude is to my parents who happily allowed me to pursue a personal ambition and whose support has been constant from the beginning. Without their constant encouragement and unfaltering support, it would have been impossible for me to undertake this task and complete it.

My wife shared most of the past two and half very eventful years with me. I highly value her patience and understanding over these years. With minimal attention from my side, she kept a home going that has been the single most important source of refreshment and regeneration for me over the course of this work.

The members of my committee spent many hours reviewing the work. I could not have completed this study without the firm support, constant encouragement, and guidance of Professor Fatimah Mohamed Arshad. In spite of her extremely busy schedule, she has always found time to read my voluminous drafts and make valuable suggestions. Her pragmatic outlook and constant emphasis on relating the research to the real world gently pushed me towards enriching the empirical content in this study that has made it far livelier than it would have been otherwise.

Dr Nguyen Bach's enthusiasm about my work and his deep understanding of the development process were extremely helpful in conceptualizing and refining the content of the dissertation. He has been an invaluable resource during this study.

Professor Kusairi Noh and Professor Shaufique Siddique reached out to give friendship, support, and almost unlimited access to their time over the early parts of this work. They have always been willing to respond to raw ideas with rigor and enthusiasm.

I would like to express my sincere gratitude to Universiti Putra Malaysia for making the *International Graduate Research Fellowship* possible. I was thrilled to learn of my selection for this honour and I am deeply appreciative of the support. Thank you again for your generosity and support.

This thesis was submitted to the Senate of the Universiti Putra Malaysia and has been accepted as fulfillment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

#### Fatimah Bt Mohamed Arshad, PhD

Professor Faculty of Economics and Management Universiti Putra Malaysia (Chairman)

#### Kusairi B Mohd Noh, PhD

Associate Professor Institute of Agricultural and Food Policy Studies Universiti Putra Malaysia (Member)

#### Nguyen Luong Bach, PhD

Research Fellow Institute of Agricultural and Food Policy Studies Universiti Putra Malaysia (Member)

# Shaufique Fahmi Sidique, PhD

Associate Professor Institute of Agricultural and Food Policy Studies Universiti Putra Malaysia (Member)

#### **ROBIAH BINTI YUNUS, PhD**

Professor and Dean School of Graduate Studies Universiti Putra Malaysia

Date:

#### Declaration by graduate student

I hereby confirm that:

- this thesis is my original work;
- quotations, illustrations and citations have been duly referenced;
- this thesis has not been submitted previously or concurrently for any other degree at any institutions;
- intellectual property from the thesis and copyright of thesis are fully-owned by Universiti Putra Malaysia, as according to the Universiti Putra Malaysia (Research) Rules 2012;
- written permission must be obtained from supervisor and the office of Deputy Vice-Chancellor (Research and innovation) before thesis is published (in the form of written, printed or in electronic form) including books, journals, modules, proceedings, popular writings, seminar papers, manuscripts, posters, reports, lecture notes, learning modules or any other materials as stated in the Universiti Putra Malaysia (Research) Rules 2012;
- there is no plagiarism or data falsification/fabrication in the thesis, and scholarly integrity is upheld as according to the Universiti Putra Malaysia (Graduate Studies) Rules 2003 (Revision 2012-2013) and the Universiti Putra Malaysia (Research) Rules 2012. The thesis has undergone plagiarism detection software

Signature:	Date:	

Name and Matric No .: Abdulla Ibragimov Gafurjanovich, GS41374

#### **Declaration by Members of Supervisory Committee**

This is to confirm that:

- the research conducted and the writing of this thesis was under our supervision;
- supervision responsibilities as stated in the Universiti Putra Malaysia (Graduate Studies) Rules 2003 (Revision 2012-2013) were adhered to.

Signature: Name of Chairman of Supervisory Committee:	Professor Dr. Fatimah Bt Mohamed Arshad
Signature:	
Name of Member of Supervisory	
Committee:	Associate Professor Dr. Kusairi B Mohd Noh
	18-
Signature:	
Name of Member of Supervisory	
Committee:	Dr. Nguyen Luong Bach
$\bigcirc$	
Signature:	
Name of Member of Supervisory	
Committee:	Associate Professor Dr. Shaufique Fahmi Sidique

# TABLE OF CONTENTS

Page

ABS1 ACKN APPF DECL LIST LIST LIST	NOWLE ROVAL ARATIO OF TAE OF FIGI OF APF	BLES	i iii vi vii viii xii xiv xxii xxii
CHAF	PTER		
1	INTR 1.1 1.2 1.3 1.4 1.5	ODUCTION Background Problem Statement Objectives of the Study Novelty of the Study Scope, Relevance and Limitations	1 1 2 5 5 6
2	2.1 2.2 2.3	RATURE REVIEWIntroductionAgriculture in Malaysia: Development Trends2.2.1GDP Contribution2.2.2Agricultural Employment2.2.3Land UseAgricultural Development Issues2.3.1Productivity2.3.2Research and Development2.3.3Food Trade2.3.4Inequity2.3.5Automation and Mechanization2.3.6FertilizersAgricultural Policy	8 8 9 11 14 18 18 19 21 23 27 28 30
	2.4 2.5 2.6 2.7 2.8 2.9 2.10 2.11	Agricultural Policy Industrial and Food (Paddy) Crops 2.5.1 Industrial Crops 2.5.1.1 Palm Oil 2.5.1.2 Rubber 2.5.1.3 Cocoa 2.5.2 Food Crop Agricultural Studies Literature on Crop Mix Modelling of Crop Mix Agriculture in Malaysia Why System Dynamics? Review of Different Methodologies	30 37 37 41 46 49 52 54 57 61 64 65

	2.12	Summary	70
3	<b>METH</b> 3.1 3.2 3.3	Introduction Steps in System Dynamics SD Modelling of the Malaysian Agriculture Crops 3.3.1 Causal Loop Diagrams 3.3.1.1 Causal Loop Diagram for Cross- crop Linkage 3.3.1.2 Causal Loop Diagram for Individual Main Crops 3.3.2 Stock and Flow Diagram for Individual Main Crops	71 71 74 75 75 75 77
	3.4	3.3.3 Model Validation 3.3.3.1 Structure Verification Test 3.3.3.2 Parameter Verification Test 3.3.3.3 Extreme Conditions Test 3.3.3.4 Behaviour Reproduction Test 3.3.3.5 Behaviour Sensitivity Test Remarks	110 111 111 111 120 128 137
4	<b>RESU</b> 4.1 4.2 4.3	LTS AND DISCUSSIONSIntroductionSimulation of Policy Changes4.2.1S1: Baseline Scenario4.2.2S2: Research and Development4.2.3S3: Automation and Mechanization4.2.4S4: Local Input Production4.2.5S5: Accelerated Replanting4.2.6S6: A&M and AR4.2.7S7: R&D, A&M and LIP4.2.8S8: R&D, A&M, LIP and ARConclusion	139 139 141 145 162 174 180 187 195 208 212
5	<b>SUMN</b> 5.1 5.2 5.3	IARY, CONCLUSION AND RECOMMENDATIONS Main Findings of the Study Implications Recommendations for Future Research	213 214 215 215
APPEN BIODA	REFERENCES2APPENDICES2BIODATA OF STUDENT2LIST OF PUBLICATIONS2		

# LIST OF TABLES

Table		Page
2.1	Composition (%) and Growth Rate of GDP by Sector of Origin, 1955-2009	10
2.2	Percentage of GDP by Kind of Economic Activity at Constant Prices (RM Million), 2000-2010	11
2.3	Employment by Industry in Malaysia, 1982-2014 ('000)	12
2.4	Number of Foreign Workers in Malaysia by Sector, 2000 – 2015	13
2.5	Land Use in Malaysia, 1962-2014 ('million ha)	15
2.6	Share of Estates and Smallholders in Malaysia, 1960-2014 ('000 ha)	17
2.7	Yield Profile for Paddy, Rubber, Oil Palm and Cocoa (t/ha) in Malaysia, 1980-2014	18
2.8	Overview of Public Agricultural R&D Spending and Research Staff Levels, 2010	20
2.9	Food Trade Balance, 1990-2015 RM (million)	22
2.10	Fertilizer import ('000 t) in Malaysia, 2002-2013	29
2.11	Malaysia Land Development Schemes (ha)	32
2.12	Malaysia Land Usage, 1970-2010 (%)	33
2.13	Agricultural Policies in Malaysia, 1956-2020	36
2.14	The Distribution of Oil Palm Planted Area in Malaysia by Category 1980-2010('000 Hectares) and Percentage Shares (%)	40
2.15	Review of methodologies for agriculture modelling	69
3.1	Sequence of balancing and reinforcing loops in Malaysian oil palm production model	82
3.2	Sequence of balancing and reinforcing loops in Malaysian oil palm production model	84

3.3	Sequence of balancing and reinforcing loops in Malaysian cocoa production model	86
3.4	Sequence of balancing and reinforcing loops in Malaysian rice production model	88
3.5	List of Extreme Conditions Test	113
3.6	Summary Statistics of Behaviour Reproduction	121
3.7	List of Parameters for the Sensitivity Analysis of the FFB Production	129
3.8	List of Parameters for the Sensitivity Analysis of the Latex Production	131
3.9	List of Parameters for the Sensitivity Analysis of the Cocoa Beans Production	134
3.10	List of Parameters for the Sensitivity Analysis of the Paddy Production	135
4.1	Projections of Commodities	140
4.2	List of Policy Runs and Their Corresponding Important Variables	140
4.3	Comparison of Changes in the Key Variables after the Policy Changes	206
	$\bigcirc$	

# LIST OF FIGURES

Figure		Page
2.1	Employment by Industry in Malaysia, 1982-2014 ('000)	12
2.2	Number of Foreign Workers in Malaysia by Sector, 2000 – 2015	14
2.3	Land Use in Malaysia, 1962-2014 ('million ha)	16
2.4	Share of Estates and Smallholders in Malaysia, 1960-2014 (%)	17
2.5	Yield Profile for Paddy, Rubber, Oil Palm and Cocoa (t/ha) in Malaysia, 1980-2014	19
2.6	Public Agricultural R&D Spending Adjusted for Inflation, 1981-2010	21
2.7	Food Trade Balance, 1990-2015 RM (million)	22
2.8	Agricultural machinery, tractors import quantity and value (usd), 1961-2006	28
2.9	Fertilizer Import ('million mt) in Malaysia, 2002-2013	30
2.10	Oil Palm Planted Area in Malaysia, 1975-2012 ('Hectares)	38
2.11	Palm Oil Production ('million mt) and Change (%) in Malaysia (1975-2015)	39
2.12	Average Annual Yields of Fresh Fruit Bunches, and Crude Palm Oil (t/ ha) and Average Oil Extraction Rates, 1975- 2015 (%)	41
2.13	Planted Area of Natural Rubber under Estates and Smallholdings in Malaysia (1980-2014) ('million hectares)	43
2.14	Natural Rubber Production under Estates and Smallholdings in Malaysia (1980-2014) ('million tonnes)	44
2.15	Natural Rubber Yield in Malaysia (1980-2010) ('000 tonnes)	45
2.16	Malaysia: Cocoa area (ha), 1980-2014	47
2.17	Malaysia: Production of cocoa beans (tonnes), 1980-2014	48

2.18	Malaysia: Production and grindings of cocoa beans (tonnes), 1980-2014	49
2.19	Paddy Area in Malaysia, 1980-2014	50
2.20	Paddy Production ('000 mt) and Annual Growth Rate (%),1961-2014	51
3.1	Process of Modelling in System Dynamics	72
3.2	The Global Structure of Crop Production Model	75
3.3	Causal Loop Diagram (a) and Long-term Behaviour of Success to the Successful Archetype (b) for the Cross- crop Linkage.	76
3.4	Causal Loop Diagram of Major Feedback Loops Governing Low Crop Productivity in Malaysian Agriculture	78
3.5	Causal Loop Dia <mark>gram of Crop Area Change in A</mark> griculture Sector of Ma <mark>la</mark> ysia	80
3.6	Causal Loop Diagram of Oil Palm Production in Malaysia	81
3.7	Causal loop diagram for rubber production in Malaysia	83
3.8	Causal Loop Diagram of Cocoa Production in Malaysia	85
3.9	Causal Loop Diagram of Rice Production in Malaysia	87
3.10	Relative Land Effect on New Planting	90
3.11	Price Effect on New Planting	91
3.12	Price Effect on Land Conversion	92
3.13	Effect of Price on Replanting	93
3.14	Flow Diagram for Oil Palm Area in Malaysia	94
3.15	Flow Diagram for FFB Production in Malaysia	95
3.16	Flow Diagram for Oil Palm Yield Adjustment in Malaysia	96
3.17	Effect of Rubber Price on New Planting	99
3.18	Flow Diagram for Rubber Plantation Area in Malaysia	100
3.19	Natural Rubber Production in Malaysia	101

3.20	Natural Rubber Yield Adjustment in Malaysia	102
3.21	Effect of Cocoa Price on New Planting	104
3.22	Flow Diagram for Cocoa Area in Malaysia	105
3.23	Cocoa Beans Production in Malaysia	106
3.24	Flow Diagram for Cocoa Yield Adjustment in Malaysia	107
3.25	Flow Diagram for Rice Area in Malaysia	109
3.26	Rice Production in Malaysia	109
3.27	Flow Diagram for Rice Yield Change in Malaysia	110
3.28	Reality Check on Palm Oil Price and Area	114
3.29	Reality Check on Labour and FFB Production	115
3.30	Reality Check on Rubber Price and Replanting	116
3.31	Reality Check on Labour and Rubber Yield	117
3.32	Reality Check on Cocoa Beans Price and New Planting	118
3.33	Reality Check on Fertilizer and Cocoa Yield	119
3.34	Reality Check on Rice Price and Area	120
3.35	Comparison between Simulated and Actual Outputs of FFB Production	122
3.36	Comparison between Simulated and Actual Outputs of Oil Palm Area	123
3.37	Comparison between Simulated and Actual Outputs of Rubber Yield	124
3.38	Comparison between Simulated and Actual Outputs of Rubber Area	125
3.39	Comparison between Simulated and Actual Outputs of Cocoa Beans	126
3.40	Comparison between Simulated and Actual Outputs of Cocoa Area	126

3.41	Comparison between Simulated and Actual Outputs of Paddy Area	127
3.42	Comparison between Simulated and Actual Outputs of Paddy Area	128
3.43	Sensitivity Graph and Confidence Bounds for the FFB Production	130
3.44	Correlation Coefficients of FFB Production and its Parameters	130
3.45	Sensitivity Graph and Confidence Bounds for the Latex Production	132
3.46	Correlation Coefficients of Latex Production and its Parameters	133
3.47	Sensitivity Graph and Confidence Bounds for the Cocoa Beans Production	134
3.48	Correlation Coefficients of Cocoa Beans Production and its Parameters	135
3.49	Sens <mark>itivity Graph and Confidence Bounds for the Paddy Production</mark>	136
3.50	Correlation Coefficients of Paddy Production and its Parameters	137
4.1	S1 (BAU): Simulation Results for Oil Palm Area, Yield, Production and Profit, 1980-2050	141
4.2	S1 (BAU): Simulation Results for Rubber Area, Yield, Production and Profit, 1980-2050	142
4.3	S1 (BAU): Simulation Results for Cocoa Area, Yield, Production and Profit, 1980-2050	144
4.4	S1 (BAU): Simulation Results for Paddy Area, Yield, Production and Profit, 1980-2050	145
4.5	S2 (R&D): Simulation Results for Oil Palm Area and FFB Production, 1980-2050	146
4.6	S2 (R&D): Simulation Results for FFB Yield, 1980-2050	147
4.7	S2 (R&D): Simulation Results for Oil Palm Production Cost, 1980-2050	148

4.8	S2 (R&D): Simulation Results for Oil Palm Profit, 1980-2050	148
4.9	Dynamic Behaviours of Key Variables for Oil Palm under S2	149
4.10	S2 (R&D): Simulation Results for Rubber Area and Production, 1980- 2050	150
4.11	S2 (R&D): Simulation Results for Rubber Yield, 1980-2050	151
4.12	S2 (R&D): Simulation Results for Rubber Production Cost, 1980-2050	152
4.13	S2 (R&D): Simulation Results for Rubber Profit, 1980-2050	153
4.14	Dynamic Behaviours of Key Variables for Rubber under S2	153
4.15	S2 (R&D): Simulation Results for Cocoa Area and Production, 1980-2050	155
4.16	S2 (R&D): Simulation Results for Cocoa Yield, 1980-2050	155
4.17	S2 (R&D): Simulation Results for Cocoa Production Cost, 1980-2050	156
4.18	S2 (R&D): Simulation Results for Cocoa Profit, 1980-2050	157
4.19	Dynamic Behaviours of Key Variables for Cocoa under S2	158
4.20	S2 (R&D): Simulation Results for Paddy Area and Production, 1980-2050	159
4.21	S2 (R&D): Simulation Results for Paddy Yield, 1980-2050	160
4.22	S2 (R&D): Simulation Results for Paddy Production Cost, 1980-2050	161
4.23	S2 (R&D) Simulation Results for Paddy Profit, 1980-2050	161
4.24	Dynamic Behaviours of Key Variables for Oil Palm under S2	162
4.25	S3 (A&M): Simulation Results for Workforce in Oil Palm, 1980-2050	164
4.26	S3 (A&M): Simulation Results for Oil Palm Production Cost, 1980-2050	164

4.27	Dynamic Behaviours of Key Variables for Oil Palm under S3	165
4.28	S3 (A&M): Simulation Results for Workforce in Rubber, 1980-2050	167
4.29	S3 (A&M): Simulation Results for Rubber Production Cost, 1980-2050	167
4.30	Dynamic Behaviours of Key Variables for Rubber under S3	168
4.31	S3 (A&M): Simulation Results for Workforce in Cocoa, 1980-2050	169
4.32	S3 (A&M): Simulation Results for Cocoa Production Cost, 1980-2050	170
4.33	Dynamic Behaviours of Key Variables for Cocoa under S3	171
4.34	S3 (A&M): Simulation Results for Workforce in Paddy, 1980-2050	172
4.35	S3 (A&M): Simulation Results for Paddy Production Cost, 1980-2050	173
4.36	Dynamic Behaviours of Key Variables for Paddy under S3	174
4.37	S4 (LIP): Simulation Results for Oil Palm Production Cost, 1980-2050	175
4.38	S4 (LIP): Simulation Results for Rubber Production Cost, 1980-2050	177
4.39	S4 (LIP): Simulation Results for Cocoa Production Cost, 1980-2050	178
4.40	S4 (LIP): Simulation Results for Paddy Production Cost, 1980-2050	179
4.41	S5 (AR): Simulation Results for Mature Oil Palm Area, 1980-2050	181
4.42	S5 (AR): Simulation Results for FFB per Mature Area, 1980-2050	182
4.43	S5 (AR): Simulation Results for Oil Palm Profit, 1980-2050	183
4.44	Dynamic Behaviours of Key Variables for Oil Palm under S5	184

4.45	S5 (AR): Simulation Results for Mature Rubber Tree Area, 1980-2050	185
4.46	S5 (AR): Simulation Results for Latex per Mature Area, 1980-2050	186
4.47	S5 (AR): Simulation Results for Rubber Profit, 1980-2050	186
4.48	Dynamic Behaviours of Key Variables for Rubber under S5	187
4.49	S6 (A&M and AR): Simulation Results for Oil Palm Area, 1980-2050	188
4.50	S6 (A&M and AR): Simulation Results for Total FFB, 1980-2050	189
4.51	S6 (A&M and AR): Simulation Results for Production Cost, 1980-2050	189
4.52	S6 (A&M and AR): Simulation Results for Oil Palm Profit, 1980-2050	190
4.53	Dynamic Behaviours of Key Variables for Oil Palm under S6	191
4.54	S6 (A&M and AR): Simulation Results for Rubber Area, 1980-2050	192
4.55	S6 (A&M and AR: Simulation) Results for Rubber Yield, 1980-2050	192
4.56	S6 (A&M and AR): Simulation Results for Production Cost, 1980-2050	193
4.57	S6 (A&M and AR): Simulation Results for Rubber Profit, 1980-2050	194
4.58	Dynamic Behaviours of Key Variables for Rubber under S6	194
4.59	S7 (R&D, A&M and LIP): Simulation Results for Production Cost, 1980-2050	195
4.60	S7 (R&D, A&M and LIP): Simulation Results for Oil Palm Profit, 1980-2050	196
4.61	Dynamic Behaviours of Key Variables for Oil Palm under S7	197

4.62	S7 (R&D, A&M and LIP): Simulation Results for Rubber Cost, 1980-2050	198
4.63	S7 (R&D, A&M and LIP): Simulation Results for Rubber Profit, 1980-2050	199
4.64	Dynamic Behaviours of Key Variables for Rubber under S7	200
4.65	S7 (R&D, A&M and LIP): Simulation Results for Cocoa Cost, 1980-2050	201
4.66	S7 (R&D, A&M and LIP): Simulation Results for Cocoa Profit, 1980-2050	202
4.67	Dynamic Behaviours of Key Variables for Cocoa under S7	203
4.68	S7 (R&D, A&M and LIP): Simulation Results for Paddy Production Cost, 1980-2050	204
4.69	S7 (R&D, A&M and LIP): Simulation Results for Paddy Profit, 1980-2050	204
4.70	Dynamic Behaviours of Key Variables for Paddy under S7	208
4.71	S8 (R&D, A&M, LIP and AR): Simulation Results for Oil Palm Production Cost, 1980-2050	209
4.72	S8 (R&D, A&M, LIP and AR): Simulation Results for Oil Palm Profit, 1980-2050	210
4.73	S8 (R&D, A&M, LIP and AR): Simulation Results for Rubber Production Cost, 1980-2050	211
4.74	S8 (R&D, A&M, LIP and AR): Simulation Results for Rubber Profit, 1980-2050	211

# LIST OF APPENDICES

Appendix		Page
1	List of Equations for Oil Palm	226
2	List of Equations for Rubber	230
3	List of Equations for Cocoa	234
4	List of Equations for Paddy	239



# LIST OF ABBREVIATIONS AND ACRONYMS

ANRPC	Association of Natural Rubber Producing Countries
В	Balancing Loop
BERNAS	Padiberas Nasional
Bn	billion
CAPRI	Common Agricultural Policy Regionalised Impact
CGE	Computational General Equilibrium
CLD	Causal Loop Diagram
СРО	Crude Palm Oil
DAP	Diammonium Phosphate
DoSM	Department of Statistics Malaysia
E.g.	Exempli Gratia
EPP	Entry Point Projects
EPU	Economic Planning Unit
ETP	Economic Transformation Plan
EU	European Union
FAO	Food and Agriculture Organization
FAPRI	Food and Agricultural Policy Research Institute
FELCRA	Federal Land Consolidation and Rehabilitation Authority
FELDA	Federal Land Development Authority
FFB	Fresh Fruit Bunches
FOB	Free on Board
GDP	Gross Domestic Product
GIS	Geographic Information System

GMP	Guaranteed Minimum Price
GNI	Gross National Income
HIC	High Income Countries
HYV	High Yielding Varieties
IADP	Integrated Agricultural Development Projects
ICT	Information and Communications Technology
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
IHL	Institutes of Higher Learning
IIASA	International Institute for Applied Systems Analysis
IMF	International Monetary Fund
I-O	Input-Output
JPS	Jabatan Pertanian Sarawak
IRPA	Intensified Research Priority Area
LIC	Low Income Countries
LITS	Low Intensity Tapping System
LMIC	Lower Middle-Income Countries
MARA	Majlis Amanah Rakyat
MNC	Multi National Corporation
MoA	Ministry of Agriculture
MOP	Muriate of Potash
MP	Malaysia Plan
МРОВ	Malaysian Palm Oil Board
MPOC	Malaysian Palm Oil Council
MRB	Malaysian Rubber Board

NAP	National Agricultural Policy
NKEA	National Key Economic Area
NPK	Nitrogen, Phosphorous, and Potassium
NPRB	North Pacific Research Board
NR	Natural Rubber
OER	Oil Extraction Rate
OLS	Ordinary Least Squares
PEMANDU	Performance Management and Delivery Unit
PORIM	Palm Oil Research Institute of Malaysia
PPP	Purchasing Power Parity
R	Reinforcing Loop
R&D	Research and Development
RIDA	Rural Industrial Development Authority
RISDA	Rubber Industry Smallholders Development Authority
RM	Ringgit of Malaysia
RRIM	Rubber Research Institute of Malaya
SAM	Social Accounting Matrices
SD O	System Dynamics
SF	Stock and Flow
SMR	Standard Malaysian Rubber
SNA	System of National Account
SRIB	Sabah Rubber Industry Board
UMIC	Upper Middle-Income Countries
UN DESA	United Nations Department of Economic and Social Affairs
UNEP	United Nations Environment Programme

## CHAPTER 1

#### INTRODUCTION

#### 1.1 Background

Agriculture is an important component, and plays a key role in Malaysian economy. Although the share of the agriculture sector on the country's GDP has declined from about 30% in the 1970s to about 8.07% in 2016, in terms of absolute value it has grown in value from RM10.6 bn in 1980 to RM27.5 bn in 2010 (DoSM, 2011). Similarly, the number of people employed in the sector has declined from more than half to only 11.5% during the said period (MITI, 2012). This is a natural evolution as the country moves towards industrialization where sectors like manufacturing and services earn bigger share. The industrialization was made possible partly through the release of production factors such as labour, capital and land from the agriculture sector. This imbalanced growth may not be sustainable in the future as agriculture and food sectors are being challenged by shifting fundamentals, resource constraints and climate change. The "business as usual" stance for agriculture may be detrimental to Malaysia in terms opportunity lost, inefficient use of resources, food insecurity and outflow of foreign exchange for imports.

The Malaysian agriculture is biased towards industrial crop such as palm oil, rubber and cocoa (DOS, 2016). As in 2015, palm oil accounted for about 4% of the gross domestic product (GDP) and rubber is accounted for 0.53% of the GDP. The share of industrial crop to the total land has increased from 68.5 in 1960 to 83.7% in 2005. On the other hand, the food crops show an opposite trend. If this trend continues, the food security of the country may be affected.

For instance, the intensive land openings for palm oil areas in the 1980s have resulted in exponential growth in areas and production. However, due to land constraint, urbanization and industrialization, the rate of growth has somewhat slowed down in the 1990s and beyond. The production of rubber suggests an "overshoot" behaviour where it peaked in the 1970s and 1980s and began to decline in the 1990s. A similar behaviour is observed for cocoa. An S-shaped rice production curve is observed where during the Green Revolution era, the rate of growth was much higher than those achieved in the last decade.

The production of agriculture sector showed a relatively higher rate of growth during the 1960s and 1970s and began to decline in the 1990s and beyond, indicating a logistic growth in 1960 - 2010. Most of agricultural productivity growth (palm oil, cocoa, and paddy) has declined during the said period. This non-linear agricultural production behaviour over time implies a

structural change that has occurred in the sector.

#### 1.2 Problem Statement

Agriculture is back into most of the countries agenda in the world. The reasons for this include: firstly; the growing importance of the sector lately and in the future as reflected in its multi-functionality as opposed to its conventional roles as food and fiber producer, provider of employment and export income. The functions of agriculture go beyond that, i.e., encompassing food security, environmental, resource sustainability and preservation of rural landscape (Anderson, 2001, Burrel, 2001, Renting et al. 2009). The growing concern of climate change manifested in extreme weather in the last decade is already challenging agricultural and food production worldwide. Secondly, recent decades saw an unprecedented volatility of commodity and food prices as a result of the convergence of multi-dimensional factors: fundamental and technical factors (FAO, 2008). The increase in demand for agricultural commodities and food cannot be matched by the supply sector due to overstressed resources in particular land and water and serious under investment in the developing countries. The food crisis in 2008 clearly revealed vulnerability of Malaysia to the world market volatility despite being the classified as "middle income nation" with adequate foreign exchange to source food from the world market. The world food crisis, though short-lived, was unprecedented in scale and a manifestation of what the world market may endure in the future as volatility continues. Thirdly, the continuous dependence on crude oil energy as well as petroleum-based fertilizer may prove unsustainable in the long-term due to the increase in price as well as volatility and evidences of damages to soil and environment. In view of these factors, it would be useful for Malaysia to relook at this sector again to seek better policy options.

The sector is beset with a number of development issues which remained unaddressed despite the rapid industrialization. These include: sectoral division between the industrial crops (palm oil and rubber) and the food crops and commodities (paddy, fruits and vegetables, livestock and fisheries). The definition of "food crop" is that the crop is grown primarily for food, even though some farmers may sell part or their entire crop for cash (FAO, 2003). While industrial crops are defined as those which are not grown for food and whose production potentially competes with food crops for land, water, labour and capital. A wider definition might also include crops that undergo considerable processing, even if the end product is a food (FAO, 2010). Within these sectors there is another dichotomy between the estates and the smallholders with a significant gap in terms productivity and returns. A similar division exists between the highly commercialized farms (horticultural produce) and the small-scale farms and big fishing boat operators versus the small-scale fisheries. Due to higher returns in the palm oil industry, the rubber and cocoa industries have shrunk significantly (production and area) with most of the farms left run by the smallholders (95% in the rubber and 95% in cocoa sectors).

Secondly, the country is a net importer of food with deficits growing larger with time with no signs of slowing down. Food trade deficits enlarged from RM1bn in 1990 to almost RM15 bn in 2015 (EPU, 2016). The food balance of trade plan devised in 2001 aimed at achieving a surplus of RM1.2 bn in 2010 was unachievable and hence abandoned. Examination of the country's import composition indicates that it depends for imports for most of its food items such as rice and cereals, feedstuff, fruits and vegetables, beef, mutton, dairy products, processed food as well as agricultural inputs such as feedstuffs, fertilizers, chemicals, seeds, machines and even labour (EPU, 2016). Malaysia's export items are live chickens, poultry meat, eggs, fisheries, cocoa-based products and processed food. However, the surplus in export is offset by a big deficit in trade. Over dependence on the food imports has recently proved risky to the country's food security as proven in the 2008's crisis.

Thirdly, due to the limited innovations in mechanization and automation, the agricultural sector remains highly labour intensive from farm to the later stage of the supply chain (DOS, 2016). The higher wage in the industrial sector caused a massive outflow of human resource from the agricultural sector creating a big void in particular the estate sector. Hence, shortage of labour is a serious issue which threatens the competitiveness of the sector in the future.

Fourthly, the value-added contribution of the sector comes from three major sectors, palm oil (36.6% in 2010), fisheries (14.1%) and sawn timber (10%). In fact, the industrial crops accounted for 56.4% of the total value added in agriculture.

Under the new Agro-food Policy (2011-2020), a number of policy directions and strategies were identified to rejuvenate the sector in terms of growth and value-added contributions. This time around, efforts will be mobilized towards increasing income and ensuring food security to the country. The main thrusts of the strategies are to ensure competitiveness and sustainability. These are achieved through strengthening R&D, improving supply chain, greater private sector role, increasing production and productivity, exploring high value agricultural commodities; all intended to improve competitiveness of the sector. In ensuring sustainability, the following strategies are laid out; encouraging healthy diet, human resource development, biomass and waste management, environmental-friendly practices and addressing climate change. The institutional restructuring includes: a new MoA incorporated concept, implementation of agricultural flagship projects, enhancement of farmers and fisheries institutions, and rationalization of the government agencies (MoA, 2011). The ministry has set a number of targets to be achieved by 2020 as guidelines for objectives realization.

Besides the Agro-food Policy, under the Economic Transformation Plan (ETP), the government has identified the palm oil sector and the agriculture sector as two of the National Key Economic Area (NKEAs) besides other sectors such as services and energy (ETP, 2016). The palm oil industry is targeted to contribute a total of RM125bn (or 11%) to the country's GNI in the year 2020 while agriculture contribution is expected to reach RM29 bn (or 2%). As for agriculture, a total of 16 Entry Point Projects (EPPs) and 11 Business Opportunities have been identified to spearhead the development. The EPPs include among others: unlocking value from Malaysia's biodiversity through high-value herbal products, expanding the production of swift let nests, venturing into commercial scale seaweed farming in Sabah, farming through integrated cage aquaculture model to tap market for premium shrimp and others (PEMANDU, 2012).

With many strategies and targets, it would be useful to examine whether some of the major targets are achievable given the resources available and the macro-environment faced by the industry. The system dynamics model is the appropriate methodology to examine "what ifs" scenarios in the future to be compared to the current set up, structurally and institutionally (Sterman, 2004). The model also is able to give some indications on the tradeoffs between the short and long term's objectives.

Overall problem is stagnant and losing ground in domestic production and producer welfare and sustainable livelihoods. Shift in the crop composition driven by profitability and world price change. Despite the dynamic shift in composition, the overall growth of the agriculture sector is low relative to other sectors. Inequitable distribution of profit and income along the supply chain especially the food producers. The industry exhibits a non-linear behaviour and circular causal interactions between policies and impact and vice versa. Under such a system, a system dynamics approach is the most suitable method to understand the relationship between structure and its impact on behaviour, non-linear relationship between elements or variables, delays in the system as well as simulating the impact of changes in policies on the system. This research seeks to address the following questions:

- 1) What are the structural and institutional factors and policy paradigms that drive the crop mix change?
- 2) What causes low agricultural production and productivity?
- 3) What are the structural factors that cause the inequity throughout the agriculture?

4) What are the key policy intervention towards revitalization of the agriculture sector with respect to primary production growth, equity and sustainability?

### 1.3 Objectives of the Study

The general objective of the study is to identify the key policy interventions towards revitalization of the agriculture sector with respect to primary production growth, equity and sustainability.

The specific objectives are:

- (i) To determine structural and institutional factors that lead to the crop mix shift and slow growth in production;
- (ii) To determine structural and institutional factors that lead to the low income to the farmers and their uncertain livelihoods;
- (iii) To develop a system dynamics model to capture causal relationship between major structural elements in the sector that lead to the overall poor performance;
- (iv) To identify the key policy interventions to revitalize and sustain the agriculture sector with respect to primary production growth, equity and sustainability based on the system dynamics model developed above.

## 1.4 Novelty of the Study

So far only a handful of studies have analysed the agricultural issues within the SD-in-mean framework. Mainly, literature analyses the issue of agriculture within the individual crop framework. According to these conventional approaches, agricultural policies are analysed using econometric models or other standard statistical formulae and employing various estimation methods ranging from OLS to co-integration techniques. However, this study attempts to analyse the agricultural policy implications as a system employing SD modelling. To do this, a system is represented by feedback loops which simulate the dynamic behaviour of the system. The problem or system (e.g., political system, mechanical system, or plantation area) is first represented as causal loop diagram as well as a stock and flow diagram. Thus, all variables of interest are included in one whole system. Main advantage of this approach is it provides a foundation for constructing computer models to do what the human mind cannot do that is rationally analyse the structure, the interactions and mode of behaviour of complex socioeconomic, technological, and environmental systems. System dynamics methodology is based on feedback concepts and multi loop nonlinear and time lagged complex systems can be handled easily. Fully capturing the nonlinear dynamic relationships is exceedingly difficult with traditional econometric techniques. There is a dearth

of system dynamics analysis of the agricultural sector at large in Malaysia. This is a first attempt to study the agricultural sector using system dynamics approach in Malaysia. It is hoped that this study will provide the starting point for a much more comprehensive and advanced application of system dynamics to complex problems in the agricultural sector as well as other industries.

#### 1.5 Scope, Relevance and Limitations

The scope of the thesis confines to the effects of policy changes on dynamics behaviour of selected agricultural crops in Malaysia with relevance to primary production, costs of production, income distribution and crop mix shift.

The major problems of the Malaysian agricultural sector can be summarized as follow:

- (i) Rapid urbanization and industrialization is stressing on agricultural factors such as land, input and capital. The outflow of these resources from the agriculture sector will further lead to shrinkage of the sector;
- (ii) Yield improvement is mainly due to increase in factor intensity as fertilizer application or irrigation. The level of automation and mechanization is minimal;
- (iii) The productivity growth in all crops has been slow or stagnant, so the crop production growth, if any, is largely due to crop area expansion (and crop value growth is more related to its economic value in the world market) and cheap labour.

To this end, the research has applied systems approach that can be used to study and understand the behaviour of a complex system over time which is characterized by interdependence. As Richardson (1999) notes that system dynamics (SD) is a computer-aided approach to policy analysis and design. This approach can be applied to complex dynamic problems of agricultural, biological, environmental, social, managerial, economic, or ecological systems, literally any type of dynamic systems characterized by interdependence, mutual interaction, information feedback, and circular causality.

The findings of the system dynamics analyses may provide some policy lessons to policy makers as well as industry players particularly in evaluating the tradeoffs between the short-term benefits and long-term losses. The focus on oil palm plantation may increase production in the medium term but the country is susceptible to both economic and ecological risks due to the hazard of monocropping and not diversification. For instance, heavy subsidies may improve productivity in the short term but the fiscal burden cannot be sustained for long. Besides, the heavy use of fossil based fertiliser is detrimental to soil and water resources as proven in many parts of the world. The reliance on cheap labour solves the shortage issue but it may back fire in the long term as mechanisation and automation are left unattended.

The limitations of the model will also limit the scope of the analysis. The following limitations as well as the substantive assumption of the model given in Chapter four should be kept in view while evaluating this policy analysis.

- 1. The model used for policy analysis has largely been qualitatively and quantitatively validated with respect to its feedback structure, its internal tendency, and its response to exogenous policy. Thus, while an argument is made for the model being a valid representation of Malaysia's agricultural crop production system, the model is not claimed as an instrument of quantitative forecasting.
- 2. The growth of agricultural production shown by the model is low to maintain the current degree of self-sufficiency in all policy experiments. This is unrealistic and occurs because of ignoring technological growth and underestimating the impact of exogenous shocks to be strictly fixed.
- 3. The origins of the policies and the way government may influence their implementation (e.g. Roundtable on Sustainable Palm Oil certification) are outside the scope of the model. Interests of various economic and political groups play significant roles in initiating and directing development programs while the model assumes programs can be implemented independently of the influence of the various power groups.
- 4. Population growth rate is exogenously specified and no assumptions are made about a possible demographic transition or about changes in population growth rates related with the changes in resources per capita as manifested in many economic theories. Although such processes are controversial, their effects must be recognized.

#### REFERENCES

- Abas, R. (2011). A Study on the Malaysian Oil Palm Biomass Sector Supply and Perception of Palm Oil Millers, *11*(1).
- Action Aid (2000). Crops and robbers. Biopiracy and the patenting of staple food crops. ActionAid .http://www.actionaid.org (accessed on 16 March 2007)
- Agwu, A. E. (2006). "Enhancing Natural Rubber (*Hevea brasiliensis*) production through extension service delivery in South West Agricultural Zone of Nigeria." Journal of Agriculture, Food Environment and Extension **5**(2): 7-16.
- Amin Mahir Abdullah, Fatimah Mohamed Arshad, Alias Radam, Mohd. Mansor Ismail, Mohd Rusli Yacob, Mahfoor Harron, Zainal Abidin Mohamed, Ismail Abd Latif, Emmy Farha Alias (2010). Kajian Impak Skim Subsidi Baja Padi Kerajaan Persekutuan (SSBPKP) dan Skim Subsidi Harga Padi (SSHP), Iaporan akhir penyelidikan yang dikemukakan kepada Kementerian Pertanian dan Industri Asas Tani Malaysia, 525 ms.
- Arshad, B.K. Bala, E.F. Alias, I. Abdulla, Modelling boom and bust of cocoa production systems in Malaysia, Ecol. Modell. 309-310 (2015) 22–32. doi:10.1016/j.ecolmodel.2015.03.020.
- Arshad, F.M., N.M.R. Abdullah, B. Kaur and A.M. Abdullah (2007). 50 Years of Malaysian Agriculture: Transformational Issues, Challenges and Direction. Penerbit Universiti Putra Malaysia, Serdang, ISBN: 9789675026140.
- Association of Natural Rubber Producing Countries (ANRPC). (2011), website @ <u>http://www.anrpc.org/html/member\_country\_info.aspx?ID=14&PID=1</u> <u>8</u>.
- Bala, B. K., E. F. Alias, Fatimah M. Arshad, K. M. Noh, and A. H. A. Hadi. 2014. "Modelling of Food Security in Malaysia." *Simulation Modelling Practice and Theory* 47:152–64. Retrieved (http://linkinghub.elsevier.com/retrieve/pii/S1569190X1400094X).
- Balachandran, L., Herb, E., O'Reilly, E., & Tirmizi, S. (2013). Everyone Must Eat? Liberia, Food Security and Palm Oil, 40.
- Bank Negara Malaysia (2009). Bank Negara Malaysia Annual Report 2008, P25.

- Baxter, J. and Schaefter, E. (2013) 'Who Is Benefitting? The Social and Economic Impact of Three Large-scale Land Investments in Sierra Leone: A Cost-benefit Analysis'. Report for Action for Large-scale Land Acquisition Transparency.
- Britz, W. & Witzke, P. (2008). CAPRI model documentation 2014. (available at <u>https://bioenergykdf.net/node/112</u>).
- Bruinsma, J. (2009). "The Resource Outlook to 2050: By How Much Do Land, Water and Crop Yields Need To Increase By 2050?" Expert Meeting on How to Feed the World in 2050. Food and Agriculture Organisation of the United Nations Economic and Social Development Department.
- Byerlee, D. (2014). The Fall and Rise Again of Plantations in Tropical Asia: History Repeated? *Land*, 3(3), 574–597. http://doi.org/10.3390/land3030574
- Chin, F. Y. (n.d.). Forage Development and Management in Communal Grazing System in Malaysia.
- Clayton, A. M., Large scale commercial cattle operation in DARABIF. In: Devendra, C. (ed). Proceedings of 7th Annual Conference of MSAP. April 1-2, 1983 Port Dickson, Malaysia. (1983) 7-15.
- Clough, Y., Faust, H., & Tscharntke, T. (2009). Cacao boom and bust: sustainability of agroforests and opportunities for biodiversity conservation. *Conservation Letters*, 2(5), 197–205. http://doi.org/10.1111/j.1755-263X.2009.00072.x
- Coady, D., Grosh, M., and Hoddinott, J. (2004). "The Targeting of Transfers in Developing Countries: a Review of Lessons and Experience". World Bank, Washington, D.C.
- Department of Statistics Malaysia (2005). Malaysia: Economic Statistics Time Series, Putrajaya: Department of Statistics Malaysia.

DepartmentofStatistics(2007).MalaysiaEconomicStatistics-TimeSeries2007.

DepartmentofStatistics(2009).MalaysiaEconomicStatistcs-TimeSeries2009.

DepartmentofStatistics(2011).MalaysiaEconomicStatistics-TimeSeries2011.

- Dompok, B.G. (2010), Deepening Malaysia's Palm Oil Advantage, in Economic Transformation Programme (ETP): A Roadmap for Malaysia, Performance Management and Delivery Unit (PEMANDU), pp.310-313.
- Economic Planning Unit (EPU) (2011). Malaysia Economy In Figures www.epu.gov.my (accessed on 23 July 2011)

- Escobal, J., Agreda, V. and Reardon, T. (2000) 'Endogenous Institutional Innovation and Agroindustrialization on the Peruvian Coast.' *Agricultural Economics* 23(3): 267–77 (doi:http://dx.doi.org/10.1016/S0169-5150(00)00088-8).
- FAO (2008).Synthesisofmedium-termmeasuresproposedininteragencyassessments.<u>www.fao.org/fileadmin/user\_upload/ISFP/SR\_W</u> <u>eb.pdf[</u>accessed1Jan2013]
- FAO. (2009). Global agriculture towards 2050, How to Feed the World 2050, High-Level Expert Forum, 12-13 October 2009, Rome. FAO, Rome.
- FAO. (2011), *"Commodity Review and Outlook 1988-89"*, Food and Agriculture Organization of the United Nations, Rome.
- FAOSTAT, 2004: Food and Agriculture Organisation of the United Nations, Statistical Databases, Available at: http://faostat.fao.org and FAOSTAT, 2007: http://faostat.fao.org/site/377/default.aspx#ancor.
- Fatimah, M. A, Mad Nasir S. and Alias R. (1997). <u>Rural Development Model in</u> <u>Malaysia</u>, paper presented in a meeting with the Hon. President of Peru, Lima, PERU, 13 October 1997, 25p.
- Favretto, N., Stringer, L.C. and Dougill, A.J. (2013) 'Unpacking Livelihood Challenges and Opportunities in Energy Crop Cultivation: Perspectives on Jatropha Curcas Projects in Mali'. Sustainability Research Institute Paper 45. Leeds: University of Leeds.
- Fishbone, L.G., Giesen, G., Goldstein, G., Hymmen, H. A., Stocks, K. J., Vos, H., Wilde, D., Zöcher, R., Balzer, C., Abilock, H. (1983). *User's Guide for MARKAL.* IEA Energy Technology Systems Analysis Programme, Upton, NY.
- Forrester, J. W. (1961). *Industrial Dynamics*. Productivity Press, Cambridge, Mass.
- Forrester, J. W. (1971). Counterintuitive behaviour of social systems; Technology Review, Vol.73, No.3,
- Forrester, J. W. (1973). *World Dynamics*, Productivity Press, Cambridge, Mass.
- Forrester, J. W. (2007). System dynamics the next fifty years. System Dynamics Review, 23(2-3): 359-370.
- German, L., Schoneveld, G.C and Gumbo, D. (2011) 'The Local Social and Environmental Impacts of Smallholder-based Biofuel Investments in Zambia'. *Ecology and Society* 16(4): 12.

- Goldstein, G., Loulou, R., Noble, K. (2004). "Documentation for the MARKAL Family of Models." IEA Energy Technology Systems Analysis Programmeme.
- Grunsin A. (2009). Senario Industri Lada Dunia. Paper presented at Simposium Industri Lada Dunia. Paper presented at Simposium Industri Lada Kebangsaan, Kuching, Sarawak.
- Guo, Zhimei, Yaoqi Zhang, Peter Deegen, and Holm Uibrig. (2006), "Economic Analyses of Rubber and Tea Plantations and Rubber-Tea Intercropping in Hainan, China." *Agroforestry Systems* 66 (2): 117–27. doi:10.1007/s10457-005-4676-2.
- Hasan, R. and Quibria, M. G. (2004). "Industry Matters for Poverty: A Critique of Agricultural Fundamentalism." Kyklos, 57(2): 253-64.
- Hassan, O. A., Ishida, M., Shukri, I. M., & Tajuddin, Z. A. (1994). Oil-Palm Fronds As a Roughage Feed Source for Ruminants in Malaysia Oil-Palm Fronds As a Roughage. *Malaysia Agriculture Research and Development Institute (MARDI)*, 1–8.
- IAASTD. (2009). "International Assessment of Agricultural Knowledge, Science and Technology for Development. 2009." Agriculture at a Crossroads. IAASTD: Washington, D. C.
- IFAD. (2003). "IFAD Press Release 05/03." IFAD Governing Council Annual Meeting. Rome. Available at: http://www.ifad.org/media/press/2003/5.htm.
- IIASA. (2009). Emissions of Air Pollutants for the World Energy Outlook 2009 Energy Scenarios Final Report, (report prepared for the International Energy Agency using the GAINS model), IIASA, Laxenberg. Available at www.worldenergyoutlook.org
- International Pepper Community, 2015. Available from: <u>http://www.ipcnet.org/n/map/?path=map&page=my</u>
- Irz, X., Lin, L., Thirtle, C. and Wiggins, S. (2001). "Agricultural Growth and Poverty Alleviation." Development Policy Review 19 (4): 449–466.
- Jamal Othman, & Yaghoob Jafari. (2014). Selected Research Issues in the Malaysian Agricultural Sector. *Jurnal Ekonomi Malaysia*, *48*(2), 127–136.
- Jamaludin, M. H., Hassan, M. H., Amin, M. R., & Zulhisyam, A. K. (2014). The Future of the Malaysian Beef Industry. *Journal of Tropical Resources and Sustainable Science*, 2, 23–29.

- Jelsma I., Bolding A. and Slingerland M. (2010) 'Smallholder Sugarcane Production in Xinvane, Mozambique – Report from the Field'. Wageninen: Wageninen University
- Johari, J. a., & Jasmi, Y. (2009). Breeds and Breeding Program for Beef Production in Malaysia. *Proceedings of the 8th Malaysia Congress on Genetics*, (August), 22 – 28.
- Kadir, A. A. S. a. (1994). Advances in Natural Rubber Production. *Rubber Chemistry and Technology*. http://doi.org/10.5254/1.3538690
- Kazianga, H. and W. Masters (2006). "Property Rights, production technology and deforestation: cocoa in Cameroon." Agricultural Economics **35**: 19-26.
- Kiong, W. S. (2007). Challenges facing pepper industry in malaysia in the 21, 1–13.
- Kurosaki, T. (1999). Agriculture in India and Pakistan, 1900-95: Productivity and Crop Mix. *Economic and Political Weekly*, *34*(52), A160–A168. Retrieved from http://www.jstor.org/stable/4408772
- Kurosaki, T. (2001). Specialization and Diversification in Agricultural Transformation: The Case of Rural Punjab , c . 1900-1995 \*, (February).
- Latiff, I.A., 2007. Cocoa industry of Malaysia. In: Fatimah, Mohamed Arshad, Abdullah, Nik Mustapha R, Kaur, Bisant, Abdullah, Amin Mahir (Eds.), 50 Years of Malaysian Agriculture: Transformational Issues. Challenges and Direction. Universiti Putra Malaysia, Serdang, Malaysia.
- Lawrence, D. C. (1996), "Trade-Offs between Rubber Production and Maintenance of Diversity: The Structure of Rubber Gardens in West Kalimantan, Indonesia." *Agroforestry Systems* 34: 83–100. doi:10.1007/BF00129634.
- Lee, C. H. (2012). Planting cocoa Challenges and Reality in Malaysia. *Malaysian Cocoa Board 5*, 1–19.
- Lee, C.H., 2013. Planting Cocoa—Challenges and Realities, Received from www.ipicex.com/doc1/2012/onral/PLANTING COCOA— CHALLENGES AND REALITY IN MALAYSIA.pdf.
- Lipton, M. (1977). Why poor people stay poor: urban bias in world development. Cambridge: Harvard University Press.

- Loh, T. C. (2002). Livestock production and the feed industry in Malaysia. *Animal Science*, 329–339.
- Loos, P. (2008) 'Socio-economic Impact of a Jatropha-Project on Smallholder Farmers in Mpanda, Tanzania'. Masters Thesis, University of Hohenheim.
- Macal, C.M. (2010). To Agent Based Simulation from System Dynamics. *In:* B. Johansson, S. Jain, J. Montoya-Torres, J. Hugan, and E. Yücesan, eds. *Proceedings of the* 2010 *Winter Simulation Conference.*
- Malaya (1957): First Malaya Plan, 1957-1960, Kuala Lumpur: Government Printers.
- Malaya (1961): Second Malaya Plan, 1961-65, Kuala Lumpur: Government Printers.
- Malaya (1966): First Malaysia Plan, Kuala Lumpur: Government Printers.
- Malaysia (1971).Outline Perspective Plan (1971–1990), Kuala Lumpur: Government Printers.
- Malaysia (1971): Second Malaysia Plan 1971-75, Kuala Lumpur: Government Printers.
- Malaysia (1976): Third Malaysia Plan 1976-80, Kuala Lumpur: Government Printers.
- Malaysia (1981): Fourth Malaysia Plan 1981-85, Kuala Lumpur: Government Printers.
- Malaysia (1984): National Agricultural Policy, Kuala Lumpur: Government Printers.
- Malaysia (1986): Fifth Malaysia Plan 1986-90, Kuala Lumpur: Government Printers.
- Malaysia (1991): Sixth Malaysia Plan 1991-95, Kuala Lumpur: Government Printers.
- Malaysia (1991): The Second Outline Perspective Plan 1991-2000, Kuala Lumpur, Government Printers.
- Malaysia (1993): The National Agricultural Policy (1992 2010), Kuala Lumpur: Ministry of Agriculture.

- Malaysia (1996): Seventh Malaysia Plan 1996-2000, Kuala Lumpur: Government Printers.
- Malaysia (1998): The Third Agricultural Policy (1998 2010). Kuala Lumpur: Ministry of Agriculture.
- Malaysia (2001): Eighth Malaysia Plan 2001-2005, Kuala Lumpur: Government Printers.
- Malaysia (2006): Ninth Malaysia Plan 2006-2010, Kuala Lumpur: Government Printers.
- Malaysia (2011): Tenth Malaysia Plan 2011-2015, Kuala Lumpur: Government Printers
- Malaysia(2011): DasarAgro-makananNegara(2011-2020). Putrajaya: KementerianPertaniandanIndustriAsasTani.

Malaysian Cocoa Board (MCB) (2014). www.koko.gov.my

- Malaysian Palm Oil Board (2014). Berita Sawit, 5 April 2014 <u>http://www.mpob.gov.my/images/stories/pdf/Berita\_Sawit/2014/2014</u> <u>BS Apr.pdf</u>
- Malaysian Palm Oil Board (MPOB), Malaysian Oil Palm Statistics, various issues.
- Malaysian Palm Oil Council (MPOC) and Malaysian Palm Oil Board (MPOB) (2008), Fact Sheets on Malaysian Palm Oil.
- Malaysian Rubber Board 2011b (2011), Malaysian Rubber Exchange , available at <u>http://www3.lgm.gov.my/mre/smrpricechart.aspx</u>.
- Manivong, Vongpaphane, and R. A. Cramb. (2008), "Economics of Smallholder Rubber Expansion in Northern Laos." *Agroforestry Systems* 74 (2): 113–25. doi:10.1007/s10457-008-9136-3.
- Marcoux, A. (1998). "Population Change Natural Resources -Environment Linkages in East and Central Africa." Population programmeme Service (SDWP), FAO Women and Population Division.
- McMahon, G. (1989) 'The Income Distribution Effects of the Kenyan Coffee Marketing System.' *Journal of Development Economics* 31(2): 297– 326 (doi:http://dx.doi.org/10.1016/0304-3878(89)90016-3).
- Millennium Institute. (2007). *Technical documentation for the Threshold21 starting framework model.* (available at http://www.cepal.org/ilpes/noticias/paginas/2/40352/T21SFDocument ation.pdfThreshold21, accessed on 30/01/2015).

- Millennium Institute. (2014). *T21-Kenya. Agriculture, Food and Nutrition* Security, and Rural Poverty Scenarios.
- Mohamed, Z., Hosseini, A., & Kamarulzaman, N. H. (2013). Analysis of Malaysian Beef Industry in Peninsular Malaysia under Different Importation Policies Scenarios and Rate Management Systems. *Pertanika Journals Social Sciences and Humanities*, 21, 1–16.
- Mohammad, A. F. and Sarjiman, Y. (2007), "Reviewing Rubber: Are We Losing Our Grips?". Dept. of Statistics Malaysia, *Journal of the Dept. of Statistics*, Malaysia. Vol.2, pp.15-42.
- Moss, J., Patton, M., Zhang, L. & Kim, I. S. (2011). UK FAPRI model documentation. Agri-Food & Biosciences Institute & Queen's University Belfast.
- MPIC (Ministry of Plantation Industries and Commodities), 2011. National Commodity Policy (2011–2020). Ministry of Plantation Industries and Commodities, Putrajaya.
- MPIC (Ministry of Plantation Industries and Commodities). 2011. National Commodity Policy (2011-2020). Putrajaya: Ministry of Plantation Industries and Commodities
- Nutt, W. O. (1983). Entering the 21 st Century: The Global 2000 Report to the President -- Book Review Article. *Long Range Planning*, *16*(3), 120– 124. Retrieved from <u>http://search.ebscohost.com/login.aspx?direct=true&AuthType=ip.shi</u> <u>b&db=buh&AN=12350955&site=ehost-live</u>
- Oluyole, K. A., O. A. Oni, et al. (2009). "Food Security among Cocoa Farming Households of Ondo State, Nigeria." ARPN Journal of Agricultural and Biological Science **4**(5).
- Orr, A. (2000) "Green Gold": Burley Tobacco, Smallholder Agriculture, and Poverty Alleviation in Malawi." *World Development* 28(2): 347–63 (doi:http://dx.doi.org/10.1016/S0305-750X(99)00127-8).
- Pauchard, A., Aguayo, M., Pena, E. and Urrutia, R. (2006). "Multiple effects of urbanization on the biodiversity of developing countries: The case of a fast-growing metropolitan area (Concepcion, Chile)." Biological Conservation 127: 272-28
- PEMANDU(2011).EconomicTransformationPlan.<u>www.etp.pemandu.gov.my[ac</u> cessed1Jan2013]
- Peters, F. (2009) 'Socio-economic Impact Study of Biofuel Plantation on Farm Households in Mozambique'. MSc Thesis, Wageningen University

- Rahman, A. K. A. (n.d.). The Malaysian Palm Oil Supply Chain : The Role of the Independent Smallholders, 17–27.
- Repenning, N., & Sterman, J. (2003). Formulationg Models of Simple Systems Using Vensim PLE. *Structure*, (September), 1–26.
- Richardson, G.P., 1999. Feedback Thought in Social Science and Systems Theory. Pegasus Communications, Waltham, USA.
- Sahn, D.E. (1990) 'The Impact of Export Crop Production on Nutritional Status in Côte d'Ivoire.' *World Development* 18(12):1635–53 (doi:http://dx.doi.org/10.1016/0305-750X(90)90060-B).
- Scholl, H.J. (2001). Agent-Based and System Dynamics Modelling: A Call for Cross Study and Joint Research. In System Sciences. Proceedings of the 34th Annual Hawaii International Conference on System Sciences. pp. 62.
- Schoneveld, G.C. (2014). The Geographic and sectoral patterns of large-scale farmland investments in sub-Saharan Africa. *Food Policy (48) 34-50.*
- Sterman, J. D. (1982). The energy transition and the economy: A system dynamics approach (Doctoral dissertation, Massachusetts Institute of Technology).
- Sterman, J.D. (2000). Business Dynamics: Systems Thinking and Modeling for a Com-plex World. Irwin-McGraw-Hill, Boston, USA.
- Suyanto, S., T. P. Tomich, and K. Otsuka. (2001), "Land Tenure and Farm Management Efficiency: The Case of Smallholder Rubber Production in Customary Land Areas of Sumatra." *Agroforestry Systems* 52 (2): 145–60. doi:10.1023/A:1010625019030.
- Teman, S. (2010) 'Effects of Biofuel Production on Farmers' Livelihoods in Mieso District of West Hararghe Zone, Oromiya Region'. MSc Thesis, Haramaya University.
- Tonelli, F., Evans, S., & Taticchi, P. (2013). Industrial sustainability: Challenges, Perspectives, Actions. *International Journal of Business Innovation* and *Research*, 7(2), 143. http://doi.org/10.1504/IJBIR.2013.052576
- Tscharntke, T., Clough, Y., Bhagwat, S. A., Buchori, D., Faust, H., Hertel, D., ... Wanger, T. C. (2011). Multifunctional shade-tree management in tropical agroforestry landscapes - A review. *Journal of Applied Ecology*, *48*(3), 619–629. <u>http://doi.org/10.1111/j.1365-</u> <u>2664.2010.01939.x</u>

- UN-DESA. (2008). "Don't Forget the Food Crisis: New Policy Directions Needed." Policy Brief 8, October, 2008. Available at: http://www.un.org/ esa/ policy/policybriefs/policybrief8.pdf.
- UNEP. (2014). Using Models for Green Economy Policymaking.
- Wahid, M. B. (2008). Issues Related to Production Cost of Palm Oil in Malaysia.

World Bank. (2007). Report No. 37502-VE. World Bank, Washington, DC.



# APPENDICES

## Appendix 1 : List of Equations for Oil Palm

Production Cost=(Production Cost per ha\*Total Planted Area)\*SMOOTH(1-"A&M Effect on Cost", 7) ~ RM/Year

A&M Effect on Workforce= IF THEN ELSE(Time>=2016, 0.5, 0)

Workforce in Oil Palm=(Total Planted Area/Average Labor Per Hectare)\*SMOOTH( (1-"A&M Effect on Workforce")/7) ~ worker

Average Labor Per Hectare= 12 ~ ha/worker

Total Mature Crop Area= ("Aged-Tree Area"+Mature Tree Area+Young Tree Area) ~ha

Total Planted Area=(Immature Tree Area+Total Mature Crop Area) ~ ha

Mature Crop Productivity=24 ~ ton/ha/Year

FFB Yield=Implemented Potential Yield+SMOOTH("R&D Policy for yield", 6)

~ ton/ha

Young Crop Productivity= 20 ~ ton/ha/Year

Old Crop Productivity= 14 ~ ton/ha/Year

production=Total Mature Crop Area\* FFB Yield ~ton/year

Change in Potential Yield=Desired Productivity Change\*"R&D"/Potential Yield Adjustment Delay ~ ton/(Year\*ha)

"R&D Policy for yield"= RAMP(6.87, 2016, 2017)

Profit= "Oil Palm Income (RM/yr)"-Production Cost ~ RM/Year

Production Cost per ha= WITH LOOKUP (Time, ([(1980,1220)-(2050,2000)],(1980,1220),(1992.42,1469.74),(2011.47,1692.11),(2029.24\,1870),(2050,2000) )) ~ RM/ha/Year

Expected Profitability of Oil Palm=("Oil Palm Income (RM/yr)"-Production Cost)/Production Cost

"Oil Palm Income (RM/yr)"=CPO Price\*Total FFB ~ RM/Year

Yield Gap=MAX(0,Maximum Economic Yield- FFB Yield)~ton/ha

Implemented Potential Yield=SMOOTH(Potential Yield, Time to Implement New Variety) ~ ton/ha

Desired Productivity Change=Yield Gap~ton/ha

Time to Implement New Variety= 1 ~ Year

Maximum Economic Yield=26~ton/ha

Potential Yield Adjustment Delay=6~Year

Potential Yield= INTEG (Change in Potential Yield, 17)~ton/ha

Relative CPO Price=Expected Price/"Reference CPO Farm Price (1980)"~1

"Conversion to Other Sectors (COS)"=Abandoned Area\*Normal COS Fraction~ha/Yr

Abandoned Area= INTEG (Decay-"Conversion to Other Sectors (COS)"

Replanting,60000) ~ha

Price Effect on Clear and Cutting= WITH LOOKUP (Relative CPO Price, ([(0,0.78)(3.5,1.33)],(0,1.32035),(0.27682,1.21421),(0.556575,1.11531),(1,1), (1.47706\,0.927149),(2.10856,0.871667),(2.79358,0.828246),(3.45731,0.787237) ))

Decay="Aged-Tree Area"/Normal Life Span\*Price Effect on Clear and Cutting~ha/Year

CPO Price= WITH LOOKUP (Time,([(1980,0)-(2050,6000)],(1980,715),(1991.77,1815.79),(2005.47,2815.79),(2020.46,3736.84\),(2033.09,4394.74), (2050,5000) )) ~RM/ton

RL Effect on New Planting= WITH LOOKUP (Normalized RL,([(0,0)-(1,1)],(0,0),(0.03,0.16),(0.13,0.39),(0.22,0.55),(0.34,0.7),(0.52,0.84),(0.66\,0.9 1),(0.83,0.96),(1,1) ))

~dmnl

Price Effect on Conversion= WITH LOOKUP (Relative CPO Price,([(0,0)-(3.5,2)],(0,0),(0.47,0.22807),(0.78,0.307018),(1,0.359649),(1.35933,0.447368 \),(1.85168,0.552632),(2.35474,0.701754),(2.96,0.903509),(3.5,1.32456) ))~dmnl

Normalized RL="Remaining Land (RL)"/Initial RL~1

Early Maturation=Immature Tree Area/EMP ~ha/Year

Initial RL=5.32669e+006~ha

Conversion=Normal Conversion Fraction\*OCA Effect on Conversion\*Immature Tree Area\*Price Effect on Conversion~ha

Normalized OCA="Other Crop Area (OCA)"/Initial OCA~1

Initial OCA=379992~ha

New Planting=Normal New Planting Fraction\*RL Effect on New Planting\*Immature Tree Area\*Price Effect on New Planting ~ha/Year

FFB per Mature Crop Area=Mature Tree Area\*Mature Crop Productivity~ton/Year

FFB per Old Crop Area=Old Crop Productivity\*"Aged-Tree Area"~ton/Year

FFB per Young Crop Area=Young Tree Area\*Young Crop Productivity~ton/Year

Total FFB=FFB per Young Crop Area+FFB per Mature Crop Area+FFB per Old Crop Area~ton/Year

Immature Tree Area= INTEG (New Planting+Conversion+Replanting-Early Maturation,

294000)~ha

Price Effect on New Planting= WITH LOOKUP (Relative CPO Price,([(0,0)-(3.5,2)],(0,0),(0.35,0.3),(0.68,0.6),(1,1),(1.35,1.28),(2.05,1.6),(2.62,1.79\),(3.0 1,1.92),(3.5,2) ))~dmnl

Normal Replanting Fraction=0.6 ~dmnl

Replanting=Abandoned Area\*Normal Replanting Fraction\*Price Effect on Replanting

~ha

"Remaining Land (RL)"= INTEG (-New Planting,4.32669e+006)~ha

Price Effect on Replanting= WITH LOOKUP (Relative CPO Price,([(0,0)-(3.5,3)],(0,0),(0.406728,0.157895),(0.759939,0.631579),(1,1),(1.12385,1.605 26\),(1.47706,2.11842),(2.03364,2.53947),(2.60092,2.78947),(3.5,3) ))~dmnl

"Other Crop Area (OCA)"= INTEG (-Conversion,670303) ~ha

Initial Value for Other crop area = Cocoa Area + Rubber Area (1980) "Reference CPO Farm Price (1980)"=719 ~RM/ton Ageing=Mature Tree Area/Ageing Period ~ha/Year Late Maturation=Young Tree Area/Late Maturation Period~ha/Year Mature Tree Area= INTEG (Late Maturation-Ageing, 400000) ~ha "Aged-Tree Area"= INTEG (Ageing-Decay, 130000) ~ha

Young Tree Area= INTEG (Early Maturation-Late Maturation, 199000) ~ha



## Appendix 2 : List of Equations for Rubber

Total Mature Area=(Young Tree Area+Mature Tree Area+"Aged-Tree Area") ~ha

"A&M Effect on Cost"=IF THEN ELSE(Time>=2016, 0.56, 0)

Production Cost=Production Cost per ha\*Total Planted Area\*SMOOTH(1-"A&M

Effect on Cost", 7) ~RM/Year

"A&M Effect on Workforce"=IF THEN ELSE(Time>=2016, 0.6, 0)

Workforce in Rubber=(Total Planted Area/Average Labor Per Hectare)\*SMOOTH( (1-

"A&M Effect on Workforce")\, 7) ~worker

Average Labor Per Hectare=6 ~ha/worker

"R&D Policy"=RAMP(1, 2016, 2017)

Change Fraction=0.025

Change in Potential Yield=Desired Productivity Change\*Change Fraction/Potential

Yield Adjustment Delay ~ton/(Year\*ha)

Rubber Yield=Implemented Potential Yield\*Effect of Tapping on Yield+SMOOTH("R&D Policy", 6) ~ton/ha

Expected CPO Price=SMOOTH(CPO Price, Time to Adjust Expected CPO Price)~RM/ton

CPO Price=919~RM/ton

Total Planted Area=Immature Tree Area+Total Mature Area ~ha

Rubber Income="Natural Rubber (NR) Price"\*Total Production ~RM/Year

Production Cost per ha= WITH LOOKUP (Time,([(1980,2200)-(2050,8000)], (1980,2200), (1996.06,4140.35),(2014.25,5719.3),(2030.52,\6982.46),

(2050,8000) )) ~RM/ha/Year

Expected Profitability of Rubber=(Rubber Income-Production Cost)/Production Cost

Profit= Rubber Income-Production Cost ~RM/Year

Labour=12 ~person/ha/Year

Relative Rainy Days=" Yearly Rainy Days (days/yr)"/"Average Yearly Rainy Days (days/yr)"

Relative Tapping=Normal Tapping\*Tapping Intentsity

Normal Tapping=0.9

"Average Yearly Rainy Days (days/yr)"=2000 ~ mm/Year

Time to Implement New Variety=1 ~Year

Effect of Tapping on Yield= WITH LOOKUP (Relative Tapping,([(0,0)-(1,2)],(0,0),(0.232416,0.27193),(0.495413,0.578947),(0.733945,0.736842),(0. 98471\,1.00921) ))

Desired Productivity Change=Yield Gap ~ton/ha

Yield Gap=Maximum Economic Yield- Rubber Yield ~ton/ha

Maximum Economic Yield=3 ~ton/ha

Effect of Rainy Days on Tapping= WITH LOOKUP (Relative Rainy Days,([(0,0)(1,1)],(0,0),(0.24159,0.381579),(0.498471,0.653509),(0.733945,0 .881579),(1,\1) ))

Effect of Relative Labour on Tapping= WITH LOOKUP (Relative Labour,([(0,0)-(1,1)],(0,0),(0.24,0.25),(0.49,0.5),(0.74,0.75),(1,1) ))

Relative Labour= Labour/"Normal Labour (person/ha)"~1

"Normal Labour (person/ha)"=12 ~person/ha/Year

Potential Yield= INTEG (Change in Potential Yield, 1.2) ~ton/ha

Potential Yield Adjustment Delay=6 ~Year

Implemented Potential Yield=SMOOTH(Potential Yield, Time to Implement New Variety) ~ton/ha

Tapping Intentsity=1\*Effect of Rainy Days on Tapping\*Effect of Relative Labour on Tapping

Expected NR Price=SMOOTH("Natural Rubber (NR) Price", Time to Adjust Expected NR Price) ~RM/ton

Relative NR Price=Expected NR Price/Reference NR Price~1

Relative Price Ratio=Relative NR Price/Relative CPO Price

Replanting=Abandoned Area\*Normal Replanting Fraction

\*Price Effect on Replanting ~ ha

Decay="Aged-Tree Area"/Normal Life Span\*Price Effect on Life Span ~ha/Year

Price Effect on Replanting= WITH LOOKUP (Relative Price Ratio,([(0,0)-(1,1)],(0,0),(1,1)))

Reference CPO Price=919 ~RM/ton

Reference NR Price=2737 ~RM/ton

Relative CPO Price=Expected CPO Price/Reference CPO Price ~1

Price Effect on New Planting= WITH LOOKUP (Relative Price Ratio,([(0,0)-(2,2)],(0,0),(1,1),(2,1.5) ))

Time to Adjust Expected CPO Price=1

"Natural Rubber (NR) Price"= WITH LOOKUP (Time,([(1980,2737)-(2050,12000)],(1980,2737),(1994.34,5743.41),(2014.25,8302.93),(2032.45\,10456.2),(2050,12000)))

~RM/ton

Price Effect on Life Span= WITH LOOKUP (Relative Price Ratio, ([(0,0)-(2,2)],(0,0),(1,1),(2,1.5) ))

Time to Adjust Expected NR Price=1

New Planting=Normal New Planting Fraction\*Price Effect on New Planting ~ha/Year

Immature Tree Area= INTEG (New Planting+Replanting-Early Maturation,323000)

~ha

Abandoned Area= INTEG (Decay-"Conversion to Other Sectors (COS)"-Replanting, 1000) ~ha

Latex per Mature Crop Area=Mature Tree Area\*Mature Crop Productivity ~ton/Year

Latex per Old Crop Area=Old Crop Productivity\*"Aged-Tree Area" ~ton/Year

Latex per Young Crop Area=Young Tree Area\*Young Crop Productivity ~ton/Year

Old Crop Productivity=0.35 ~ton/ha/Year

Total Production=Latex per Young Crop Area+Latex per Mature Crop Area+Latex per Old Crop Area ~ton/Year

Mature Crop Productivity=1.5~ton/ha/Year

Ageing=Mature Tree Area/Ageing Period ~ha/Year

Late Maturation=Young Tree Area/Late Maturation Period~ha/Year

Mature Tree Area= INTEG (Late Maturation-Ageing, 500000) ~ha

"Aged-Tree Area"= INTEG ( Ageing-Decay, 100000) ~ha

Young Tree Area= INTEG (Early Maturation-Late Maturation,692000) ~ha

## Appendix 3 : List of Equations for Cocoa

Total Mature Crop Area=(Young Tree Area+Mature Tree Area+"Aged-Tree Area") ~ ha

Average Labor Per Hectare=4 ~ha/worker

A&M Effect on Workforce=IF THEN ELSE(Time>=2016, 0.3, 0)

Workforce in Cocoa=(Total Planted Area/Average Labor Per Hectare)\*SMOOTH( (1-"A&M Effect on Workforce")\, 7) ~worker

LIP Effect on Cost=IF THEN ELSE(Time>=2016, 0.3, 0)

Production Cost=Production Cost per ha\*Total Planted Area\*SMOOTH(1-LIP Effect on Cost, 7) ~ RM/Year

Cocoa Yield=Implemented Potential Yield\*Effect of Insect Attack Intensification\*Intensifiaction Effect\*Effect of Fertlizer\*Effect of Labor ~ton/ha

"R&D Policy for yield"= RAMP(4.62, 2016, 2017)

Total Planted Area=Immature Tree Area+Total Mature Crop Area~ha

RnD Effect=IF THEN ELSE(Time>=2016, 0.92, 0)

Production=Cocoa Yield\*Total Mature Crop Area

New Planting=Normal New Planting Fraction\*Price Effect on New Planting+Land Policy ~ha/Year

Land Policy=IF THEN ELSE(Time>2020, 3000, 0)

Mature Crop Productivity=1.4 ~ton/ha/Year

Young Crop Productivity=0.7 ~ton/ha/Year

Old Crop Productivity=0.3 ~ton/ha/Year

Cocoa Income=Total Production\*Cocoa Beans Price ~RM/Year

Expected Profitability of Cocoa=(Cocoa Income-Production Cost)/Production Cost

Profit= Cocoa Income-Production Cost ~RM/Year

Production Cost per ha= WITH LOOKUP (Time,([(1980,1300)-(2050,2900)], (1980,1300),(1993.06,1847.37),(2011.25,2268.42),(2031.16,2661.4),(2050,2 900) ))

~ RM/ha/Year

Yield Gap=Maximum Economic Yield- Cocoa Yield ~ton/ha

Fertilizer Application500= WITH LOOKUP (Time,([(1980,0)-(2014,600)], (1980,500),(1981.98,307.895),(1983.02,236.842),(1986.13,205.263),(1988.2 1,192.105),(2003.29,181.579),(2014,157.895) ))~kg/ha/Year

"Labor (person/ha)"= WITH LOOKUP (Time,([(1980,0)-(2014,2)],(1980,2), (1981.77,1.76316),(1981.77,1.42105),(1986.13,0.5),(1990.4,0.263158),(1994 .87,0.175439),(2003.29,0.192982),(2008.8,0.201754),(2010.26,0.0701754),( 2011.3,0.0526316),(2013.06,0.0526316) )) ~person/ha/Year

Relative Labor="Labor (person/ha)"/"Normal Labor (person/ha)"~1

Effect of Fertlizer= WITH LOOKUP (Relative Fertilizer Use,([(0,0)-(1,1)],(0,0), (0.2,0.3), (0.28,0.54),(0.4,0.75),(0.6,0.86),(0.78,0.93),(1,1))) ~dmnl

"Normal Labor (person/ha)"=2 ~ person/ha/Year

"Average Fertilizer Requirement (kg/ha/yr)"=500 ~kg/ha/Year

Change in Potential Yield=Desired Productivity Change\*"Effect of R&D Subsidy"/Potential Yield Adjustment Delay ~ton/(Year\*ha)

Thinning Intensification Rate=Thinning Normal Growth\*Thinning Decision

Potential Yield= INTEG (Change in Potential Yield, 1.02) ~ton/ha

Potential Yield Adjustment Delay=6 ~Year

Implemented Potential Yield=SMOOTH(Potential Yield, Time to Implement New Variety) ~ ton/ha

Insect Attack Growth Rate=Insect Multiplication\*Insect Normal Growth

Insect Attack Intensification= INTEG (Insect Attack Growth Rate, 0)~dmnl

Insect Multiplication= WITH LOOKUP (Shading Tree Removal Intensification, ([(0,0)-(1,1)],(0,1),(1,0) ))

Intensifiaction Effect= WITH LOOKUP (Shading Tree Removal Intensification, ([(0,0)-(1,1)],(0,0),(1,1) ))

Thinning Decision= WITH LOOKUP (Cocoa Yield,([(0,0)-(1,1)],(0,1),(1,0)))

Thinning Normal Growth=0.001~dmnl

Desired Productivity Change=Yield Gap ~ton/ha

Maximum Economic Yield=5 ~ton/ha

Relative Fertilizer Use=Fertilizer Application/"Average Fertilizer Requirement (kg/ha/yr)" ~1

Effect of Insect Attack Intensification= WITH LOOKUP (Insect Attack Intensification,([(0,0)-(1,1)],(0,1),(0.2,0.9),(0.4,0.8),(0.63,0.6),(0.82,0.35),(1,0) ))~dmnl

Effect of Labor= WITH LOOKUP (Relative Labor,([(0,0)-(1,1)],(0,0),(0.17,0.16), (0.33,0.32),(0.5,0.48),(0.67,0.64),(0.83,0.8),(1,1)))~dmnl

"Effect of R&D Subsidy"= WITH LOOKUP ("R&D Subsidy",([(0,0.8)-(1,1)],(0,0.9), (1,1) ))~dmnl

Shading Tree Removal Intensification= INTEG (Thinning Intensification Rate,1)

Time to Implement New Variety=1~Year

Insect Normal Growth= 0.003 ~dmnl/Year

Abandoned Area= INTEG (Decay-"Conversion to Other Sectors (COS)"-Replanting, 100) ~ha

Relative CPO Price=Expected CPO Price/Reference CPO Price ~1

Decay=Normal Life Span\*"Aged-Tree Area"\*Price Effect on Clear and Cutting ~ha/Year

Cocoa Beans Price4400= WITH LOOKUP (Time,([(1980,4400)-(2050,15000)], (1980,4400),(1993.06,8212.28),(2017.03,9095.61),(2028.59,13186.8),(2050, 15000) )) ~RM/ton

Expected Cocoa bean Price=SMOOTH (Cocoa Beans Price4400, Time to Adjust Expected Cocoa Bean Price)~RM/ton

Price Effect on Clear and Cutting= WITH LOOKUP (Relative Price Ratio,([(0,0)-(1,1)],(0,0),(1,1))) ~dmnl

Price Effect on Conversion= WITH LOOKUP (Relative Price Ratio,([(0,0)-(1,1)],(0,1),(1,0))) ~dmnl

CPO Price=919 ~RM/ton

Price Effect on Replanting= WITH LOOKUP (Relative Price Ratio,([(0,0)-(1,1)],(0,0),(1,1))) ~dmnl

Reference Cocoa Bean Price=4400 ~RM/ton

Reference CPO Price=919 ~RM/ton

Relative Cocoa Bean Price=Expected Cocoa bean Price/Reference Cocoa Bean Price ~1

Immature Tree Area= INTEG (New Planting+Replanting-Early Maturation, 10425)

~ha

Relative Price Ratio=Relative Cocoa Bean Price/Relative CPO Price ~1

Time to Adjust Expected Cocoa Bean Price=1

Expected CPO Price=SMOOTH(CPO Price, Time to Adjust Expected CPO Price) ~RM/ton

Price Effect on New Planting= WITH LOOKUP (Relative Price Ratio,([(0,0)-(1,1)],(0,0),(1,1))) ~dmnl

Time to Adjust Expected CPO Price=1~Year

Replanting=Abandoned Area\*Normal Replanting Fraction\*Price Effect on Replanting ~ha

"Conversion to Other Sectors (COS)"=Abandoned Area\*Normal COS Fraction\*Price Effect on Conversion ~ha/Year

Mature Tree Area= INTEG (Late Maturation-Ageing-d1,14325) ~ha

Young Tree Area= INTEG (Early Maturation-d2-Late Maturation, 5000)~ha

Normal Life Span=7~Year

Early Maturation=Immature Tree Area/EMP ~ha/Year

Cocoa Beans Production per Mature Crop Area=Mature Tree Area\*Mature Crop Productivity ~ton/Year

Cocoa Beans Production per Old Crop Area=Old Crop Productivity\*"Aged-Tree Area" ~ton/Year

Cocoa Beans per Young Crop Area=Young Tree Area\*Young Crop Productivity ~ton/Year

Cocoa Production=Cocoa Beans per Young Crop Area+Cocoa Beans Production per Mature Crop Area+Cocoa Beans Production per Old Crop Area ~ton/Year

Ageing=Mature Tree Area/Ageing Period ~ha/Year

Late Maturation=Young Tree Area/Late Maturation Period~ha/Year

"Aged-Tree Area"= INTEG (Ageing-Decay, 5000)~ha



# Appendix 4 : List of Equations for Paddy

Total Paddy Area=Rice Area~ha

Workforce in Paddy=Total Paddy Area\*Average Labor Per Hectare\*SMOOTH( (1-"A&M Effect on Workforce"), 7) ~worker

Paddy Yield=Implemented Potential Yield\*Land Degradation ~ton/ha

"A&M Effect on Workforce"=IF THEN ELSE(Time>=2016, 0.4, 0) ~dmnl

Average Labor Per Hectare=1.46 ~worker/ha

LIP Effect on Cost=IF THEN ELSE(Time>=2016, 0.18, 0)

Production Cost=Total Paddy Area\*Production Cost per ha\*SMOOTH(1-LIP Effect on Cost, 7) ~RM/Year

Change in Potential Yield=Desired Productivity Change\*Change/Potential Yield Adjustment Delay ~ton/(Year\*ha)

Total Paddy Production=Paddy Yield\*Total Paddy Area ~ton/Year

Production Cost per ha= WITH LOOKUP (Time,([(1980,900)-(2050,2000)],(1980,954),(1985.99,1252.19),(1993.27,1474.12),(2001.41,164 7.81),(2011.25,1780.7),(2020.89,1879.39),(2031.16,1933.33),(2050,2000) )) ~RM/ha/Year

Paddy Income=Rice Price\*Total Paddy Production~RM/Year

Expected Profitability of Paddy=(Paddy Income-Production Cost)/Production Cost

Profit= Paddy Income-Production Cost ~RM/Year

Rice Area Discrad Rate=Normal Discard Fraction\*Rice Area\*Effect of Profit on Discard Rate ~ha

Relative Profitability=Rice Price/Cash Crop Price ~1

Desired Rice Area= Rice Demand/Paddy Yield ~ha

Paddy Yield= 2.6 ~ton/ha

Cash Crop Price=919~RM/ton

Rice Area= INTEG (Rice Area Increase Rate-Rice Area Discrad Rate,716800) ~ha

Development Time=1~Year

Rice Price= WITH LOOKUP (Time,([(1980,0)-(2050,2000)],(1980,480), (1990.92,508.772), (1997.34,552.632),(2001.41,640.351),(2006.97,824.561), (2011.9,1000),(2015.11,1078.95),(2020.03,1219.3),(2026.45,1315.79),(2035. 02,1385.96),(2050,1500) )) ~RM/ton

Rice Area Increase Rate=Government Support Decision for Land

Development\*Desired Rice Area /Development Time ~ha/Year

Regenaration=Land Degradation\*Regenaration Factor

Land Degradation= INTEG (Regenaration-Degenaration, 1)

Degenaration Factor=0.015

Regenaration Factor= 0.005

Degenaration=Land Degradation\*Degenaration Factor

Desired Productivity Change=Yield Gap ~ton/ha

Potential Yield Adjustment Delay=3~Year

Yield Gap=Maximum Economic Yield- Paddy Yield~ton/ha

Maximum Economic Yield=7.2 ~ton/ha

Potential Paddy Yield= INTEG (Change in Potential Yield, 2.85) ~ton/ha

Implemented Potential Yield=SMOOTH(Potential Paddy Yield, Time to Implement New Variety)~ton/ha

Time to Implement New Variety=5 ~Year

## **BIODATA OF STUDENT**

Abdulla Ibragimov is a PhD student at the Institute of Agricultural and Food Policy Studies, Universiti Putra Malaysia. He earned his Bachelor's degree in Business Management from National University of Uzbekistan in 2011. He obtained his Master's degree in Agricultural Development Policy from Universiti Putra Malaysia in 2014. He has carried out research in the areas of agriculture in Malaysia, commodity modelling, system dynamics applications, competitiveness of food sector in Malaysia and agricultural policy and development. He worked as an International Graduate Research Fellow (IGRF) in 2015-2017. He has been involved in System Dynamics modelling since 2012 and participated in several workshops/seminar and courses to improve his modelling skill.



#### LIST OF PUBLICATIONS

- **Abdulla Ibragimov**, Fatimah Mohamed Arshad, B.K. Bala, Kusairi Mohd Noh and Muhammad Tasrif (2014). Impact of CPO Export Duties on Malaysian Palm Oil Industry. *American Journal of Applied Sciences*, 11(8): 1301-1309.
- Ibragimov Abdulla, Fatimah Mohamed Arshad, Kusairi Mohd Noh, Bilash Kanti Bala and Amna Awad Abdel Hameed (2014). A System Dynamics Modelling of the World CPO Market: The Impact of Malaysian and Indonesian CPO Export Tax Policies, in Amna and Fatimah (eds. 2014). *Modelling of the Palm Oil Economy. Serdang: Penerbit Universiti Putra Malaysia. pp. 259-286.* ISBN 978-967-344-431-1.
- Fatimah Mohamed Arshad, B.K. Bala, E.F. Alias and **Abdulla Ibragimov** (2015). Modelling of Boom and Bust of Cocoa Production Systems in Malaysia. *International Journal on Ecological Modelling and Systems Ecology*, 309-310: 22-32. *(Impact factor 2.32).*
- Sahra Mohammadi, Fatimah Mohamed Arshad, Bilash Kanti Bala and Abdulla Ibragimov (2015). System Dynamics Analysis of the Determinants of the Malaysian Palm Oil Price. *American Journal of Applied Sciences*, 12(5): 355-362.
- Abdulla Ibragimov, Fatimah Mohamed Arshad, Muhammad Tasrif, N.L. Bach and Sahra Mohammadi (2015). A Systems Approach to Study the Malaysian Pepper Industry. *American Journal of Applied Sciences*, 12(7): 487-494.
- Fatimah Mohamed Arshad and **Abdulla Ibragimov** (2015). Malaysia's Cocoa Beans Decline: A Prognosis. *International Journal of Agriculture, Forestry and Plantation* 1(1): 1-14.
- Sahra Mohammadi, Fatimah Mohamed Arshad and **Abdulla Ibragimov** (2016). Biodiesel Production in Malaysia: A System Dynamics Approach. *Journal of Institutions and Economies* 8 (4).
- Mufidah, L., Mohamed Arshad, F., and **Ibragimov, A.** (2016). The mandarin orange industry in Indonesia: a policy evaluation. *Eurasian journal of sustainable agriculture*, *10*(5), 10–20.
- Abdulla Ibragimov, Fatimah Mohamed Arshad, Bala B. K., Bach N. L. and Sahra Mohammadi (2016). Management of Beef Cattle Production in Malaysia: A Step Forward to Sustainability. *American Journal of Applied Sciences* 13(9): 976-983.

**Ibragimov Abdulla** and Fatimah Mohamed Arshad (2017). Exploring Relationships Between Rubber Productivity and R&D in Malaysian. *Outlook on Agriculture* 46(1). *(Impact factor 0.47).* 





# UNIVERSITI PUTRA MALAYSIA

# STATUS CONFIRMATION FOR THESIS / PROJECT REPORT AND COPYRIGHT

### ACADEMIC SESSION :

#### TITLE OF THESIS / PROJECT REPORT :

#### EFFECTS OF POLICY CHANGES ON AGRICULTURAL PRACTICES RELATED TO SELECTED CROPS IN MALAYSIA

#### NAME OF STUDENT: ABDULLA IBRAGIMOV GAFURJANOVICH

I acknowledge that the copyright and other intellectual property in the thesis/project report belonged to Universiti Putra Malaysia and I agree to allow this thesis/project report to be placed at the library under the following terms:

- 1. This thesis/project report is the property of Universiti Putra Malaysia.
- 2. The library of Universiti Putra Malaysia has the right to make copies for educational purposes only.
- 3. The library of Universiti Putra Malaysia is allowed to make copies of this thesis for academic exchange.

I declare that this thesis is classified as :

\*Please tick (√)



CONFIDENTIAL



RESTRICTED



(Contain confidential information under Official Secret Act 1972).

(Contains restricted information as specified by the organization/institution where research was done).

I agree that my thesis/project report to be published as hard copy or online open access.

(date)

This thesis is submitted for :

PATENT

Em	ba	rgo	fron
		0	

\_ until \_ (date)

Approved by:

(Signature of Student) New IC No/ Passport No .: (Signature of Chairman of Supervisory Committee) Name:

Date :

Date :

[Note : If the thesis is CONFIDENTIAL or RESTRICTED, please attach with the letter from the organization/institution with period and reasons for confidentially or restricted. ]