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Singapore | 7 September 2018

Rising Politicians, Persistent Dilemmas: How Will Malaysia's Agricultural Policies Evolve under Pakatan Harapan?

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EXECUTIVE SUMMARY

- Pakatan Harapan's electoral victory raises questions about the direction, pacing, and coherence of Malaysia's future economic policies, not least within the agricultural sector.
- Concerns regarding the likely neglect of agricultural production under a Mahathir-led administration are overstated, and overlook previous attempts to mitigate agriculture's relative decline in economic significance.
- Broadly speaking, the new federal administration's agricultural priorities are likely to revolve around enhancing regional development, improving agriculture's working conditions, and reforming the paddy sector.
- Although the new administration appears keen to rejuvenate pre-existing agricultural schemes, farm work's persistent lack of attractiveness for citizens, looming federal budget constraints, and moral hazards stemming from long-term administrative deconcentration may impede progress with agricultural reforms.

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INTRODUCTION¹

Agriculture still matters. Notwithstanding Malaysia's remarkable urban growth, large swathes of the economy remain anchored in primary production. Nearly a quarter of Malaysia's total landmass is currently devoted to farming and forestry, and the agricultural sector continues to be the nation's third largest principal employer. Farming has long assumed a multi-functional role within Malaysia's economy and society, promising export earnings, food security, economic safety nets, and rural heritage preservation.

Farming's significance belies the fact that rural Malaysian incomes are currently only three-fifths that of their urban counterparts. Indeed, for decades, Malaysian politicians have bemoaned their constituents' difficulties with eking out livelihoods from the soil. Malaysia's recent general elections have been no different in this regard, with all key political parties touting solutions to numerous agricultural problems. Pakatan Harapan's unprecedented federal victory in May 2018, however, raises new questions concerning Malaysia's forthcoming agricultural policies. These include a possible return to agriculture's supposedly unfavourable treatment under a Mahathir-led administration, the Pakatan Harapan (PH) coalition's possible strategy toward agriculture and food security, as well as the extent to which the new federal government's policies can genuinely diverge from those of its predecessors.

THE MAHATHIR QUESTION

As it unfolds, Mahathir's second premiership inevitably elicits comparisons with his first stint between 1981 and 2003. Under his earlier tenure, federal authorities prioritised manufacturing and services growth over farming, allegedly precipitating two decades of agricultural neglect. However, this tumultuous interval could benefit from further historical scrutiny, peppered as it is with leading examples of agricultural interventionism.

Under Mahathir's watch, for example, state-owned enterprises accelerated their takeovers of Malaysia's most prominent European-owned rubber and oil palm plantation firms during the 1980s. These manoeuvres were spearheaded by several prominent Malay elites, such as Tun Ismail Mohamed Ali (Permodalan Nasional Berhad's inaugural chairman from 1978 to 1996, and Mahathir's brother-in-law), as well as Tan Sri Hj. Basir Ismail (appointed by Mahathir as executive director of Food Industries of Malaysia Berhad in the early 1980s).² The relatively amicable manner in which this 'Malaysianization' of the estate sector occurred helped consolidate ties between plantation groups and local universities, especially in the areas of agriculture and management studies, while also buttressing domestic research and development into new high-end uses for palm oil and rubber products.³

The Mahathir administration also planned and launched Malaysia's first three National Agricultural Policy platforms (in 1984, 1993 and 1998 respectively), which, for all their shortcomings, were earnest attempts to manage a number of intractable concerns building within the countryside since the 1950s. These challenges included widespread poverty among smallholders and fishermen, overly-fragmented landholdings, trade-offs between local food production and food imports, as well as agriculture's changing role within a rapidly industrialising economy.⁴

Although agricultural value-added increased noticeably after Mahathir left office in 2003, neither the Abdullah Badawi nor Najib Razak-led administrations were able to stem national-level declines in agriculture's relative contribution to Gross Domestic Product, a long-term trend commonly observed amongst most countries in the throes of urbanisation.⁵ Moreover, Malaysia's self-sufficiency levels in consumer staples like rice, eggs, poultry and pork have fallen since the early 2000s.⁶

The Badawi and Najib administrations' agricultural policies have in fact been repeatedly exploited by political parties who were once in opposition, but are now commanding federal power for the first time. Not only are these entities – consisting of Parti Amanah Negara, the Democratic Action Party, Parti Keadilan Rakyat and Parti Pribumi Bersatu Malaysia – now saddled with obligations to fulfil earlier campaign promises; they have to appear to do so while grappling with a political economy long moulded by Barisan Nasional (BN)'s hegemony. As the new Agriculture and Agro-based Industry Minister Salahuddin Ayub has taken pains to stress, the new federal administration would much rather reform pre-existing agricultural policy structures, such as the National Feedlot Corporation project, than terminate them outright because of their apparent wastefulness.⁷

ELECTORAL PLEDGES, LOCAL REALITIES

In the years since Pakatan Harapan and its predecessor Pakatan Rakyat (PR) were formed, agriculturally-related reforms were planted within numerous shadow federal budgets, joint policy platforms, and election manifestos.⁸ Some pledges have persisted, often changing in appearance, if not content. Others have appeared momentarily, only to disappear within a couple of years. Vows to abolish an increasingly wasteful price subsidy benefitting local millers producing low-quality rice, for instance, were rescinded by 2016, after the Ministry of Agriculture acted on such criticism.⁹

All in all, PH and PR have consistently promoted three core objectives related to agriculture since 2008: enhancing rural and regional development, improving agricultural livelihoods, and reforming paddy farming. Behind these themes lies another underlying aim: making locally-produced food more affordable. The leading authors of these documents – which include DAP's Tony Pua, currently a special adviser to Finance Minister Lim Guan Eng – evidently believed these pledges to be more politically popular than others.

Enhancing rural and regional development: This basket of policies aims to reduce geographic disparities in incomes and quality of life, not just between rural and urban regions, but between states within the Federation. PH/PR have previously blamed such disparities on inadequate local-level economic planning, low-quality education and housing in rural areas, insufficient investment in appropriate agricultural technologies (exacerbated by poor transportation networks), and top-down agricultural planning driving costly high-profile projects of questionable commercial value. And while state and district authorities may claim better knowledge of local conditions and needs than federal elites, they are generally deprived of the resources needed to fulfil their mandate. These federal-level practices, tarnished by political favouritism, have arguably driven a political wedge between city and country, and accelerated rural outmigration.

The PH-led government's touted solution to all these woes is to reassert the principle of federalism, enabling more equitable power sharing and resource distribution among states. This lengthy process of administrative deconcentration – where some decision-making responsibilities are shifted from central to state governments – is to occur in several stages. First, development expenditures and equalisation grants for rural infrastructure and education are to be systematically reviewed in greater favour of Malaysia's poorest states: Sabah, Sarawak, Kelantan, Kedah, Terengganu, and Perlis. Next, subnational administrative capacities for economic planning, implementation, monitoring, and evaluation are to be strengthened from the centre, while state governments will be given more room to suggest how federal funds should be allocated. Finally, state and district authorities will be allowed more discretion on expenditures on public transport, utilities, social amenities, and locally-conceived large-scale agricultural projects that would otherwise languish without initial public funding.

Federalism in practice nevertheless poses more questions than answers. The timeframe for redistributing various functions is unclear, and will almost certainly extend beyond a single term of administration. Empowering state governments through fiscal resources and technical capacity-building offers little guarantee that unproductive rent-seeking and outright corruption will not simply shift from the federal to state level. This is of some concern where state governments are being controlled by parties such as UMNO, whose operations are still heavily shaped by money politics. Nor does deconcentration, by its very definition, ensure that state governments would necessarily commit more resources to agricultural development than before, as opposed to manufacturing and services.

Improving agriculture's working conditions: PH/PR have long suggested a mixture of supply- and demand-side approaches to attract local interest in Malaysia's lower-paying sectors, including agriculture. But pledges to raise the national minimum wage to RM1,500 within five years are already provoking renewed outcries from senior plantation executives.¹⁰ And although the coalition has advocated a series of measures to tighten foreign labour supplies, including strengthening foreign labour rights through fairer contracts, it is still unclear if these measures would apply specifically to agricultural workers. PH in fact refrained from suggesting levy hikes on foreign farm

labourers during the 2018 campaign, despite advocating progressively heavier levies on foreign workers in manufacturing, services and construction.

The bulk of supply-side policies to improve agricultural working conditions are thus likely to focus on small farmers. PH/PR have, in the past, suggested subsidising female-owned enterprises in rural areas through Bank Pertanian Malaysia, and establishing an entrepreneurial fund geared towards persuading youths to run agricultural and ‘modern farming’ initiatives. But the most immediately feasible smallholder-oriented reform promised appears to be that of expanding existing safety nets to tide over smallholders, livestock breeders, and fishermen during periods of adverse weather and agronomic catastrophe, through more comprehensive rural insurance schemes. At the same time, any attempts to raise the minimum wage mentioned earlier will negatively affect small farmers reliant on hired help, unless they can find new ways to increase the value of their output.

Given these constraints, might PH/PR’s demand-side pledges for agricultural produce, if enacted, help increase farm product value? Some of these, including tax incentives and increased R&D funding for investments in higher-end finished products such as timber furniture, might benefit manufacturers more than local raw material producers. Similarly, efforts to cultivate a market premium for Malaysian produce by stepping up trade promotion efforts overseas and enforcing international product standards at home would not necessarily enrich agriculturalists automatically. PH/PR’s actual farm-focussed proposals, such as increasing support for farmer marketing cooperatives and direct sales to consumers, will probably only yield fruitful results if existing local trading and transport arrangements are not already competitive (something not always easy to determine). To be sure, agricultural diversification into higher-value crops/livestock/marine products might, in the longer term, help to combat shrinking incomes and the rural exodus. But some of PH/PR’s other core pledges, as seen below, risk obstructing attempts to do so.

Reforming paddy farming: Until very recently, the PH-led government, like its BN-dominated predecessor, had publicly conflated the rehabilitation of wet rice farmers with rehabilitation of the rice industry. In other words, for the roughly 300,000 agriculturalists currently involved in Malaysian paddy farming, future government policies to improve their livelihoods are likely to revolve around intensifying paddy production, rather than helping them shift into more remunerative crops. Despite general agreement that Malaysian rice cannot possibly compete on market terms with low-cost producers like Vietnam, Australia, and the United States,¹¹ popular pressures to restore Malaysia’s rice self-sufficiency levels to the heydays of 1970s and 1980s have only escalated in the wake of the 2007/2008 global food shocks.

Amongst other measures, the PH coalition has vowed to raise minimum income guarantees to rice farmers, provided higher productivity targets are met. Yields might also be raised through cost economies reaped from farmland amalgamation. But past

attempts at doing so by BN-led administrations have been resisted by farmers reluctant to sell off their land.¹²

To be sure, wealthier large-scale paddy cultivators might channel more resources into rice farming if farm gate prices were simply raised high enough. PH has repeatedly proposed increasing Paddy Price Subsidy Scheme pay-out rates to historically unprecedented levels. And ongoing attempts to reduce Padiberas Nasional Berhad (BERNAS)'s overwhelming power within Malaysia's rice supply chain may help redistribute more earnings from BERNAS to farmers themselves, first by increasing prices offered by BERNAS' substantial milling network, and second by channelling subsidised tools, fertilisers and pesticides directly to farmers, instead of through BERNAS. Both avenues would pare down opportunities for rent capture by the firm. Furthermore, post-GE14, Salahuddin Ayub has already expressed intentions to continue with the previous administration's costly irrigation and drainage works underpinning large-scale rice granary projects in both Sarawak and Sabah, aiming to double prior paddy yields.¹³ Presumably, such moves are also intended to prevent BN from regaining influence in Sarawak's pending state elections.

Yet Malaysia's domestic paddy-farming model is already being challenged by the recent termination of BERNAS' long-criticised monopoly on rice imports.¹⁴ Assuming the rice import business does indeed become more competitive over time, it will be local consumers, rather than paddy farmers and rice millers, who eventually benefit from lower retail prices, in line with popular pressures to reduce living costs. Unless local producers are awarded additional short-term production subsidies, the new federal government's grip on power would risk being loosened, given that Malaysia's main rice-producing states are – with the exception of Selangor - either under opposition-led state governments (Kelantan, Perlis) or in potential swing states (Perak, Kedah, Sarawak).

Given Malaysia's already-high federal debt, the new administration's recently-announced willingness to consider allowing the domestic paddy farming sector to shrink progressively – in favour of subsidising diversification into vegetable and fruit production to help increase farm incomes and reduce local obesity rates – should therefore be greeted with very cautious optimism.¹⁵ Precedents for crop-switching have already been established by states under the control of PH member parties. Penang's state government, for instance, launched a new agriculture centre in 2017 focussed on vegetable and herb farming.¹⁶

FINAL REMARKS

Malaysia's agricultural dilemmas raise broader questions concerning the pacing, direction and coherence of major economic reforms within the post-General Election landscape. Even if political considerations are discounted, it remains unclear how some fundamental policy tensions are to be resolved.

First, it is uncertain how agriculture and other low-paying sectors can be made more attractive for locals if the new federal administration is under concurrent pressure to improve job prospects and working conditions in a whole range of non-farming vocations, as well as expand educational opportunities for less well-off citizens.

Second, it remains to be seen if efforts to reduce waste and clamp down on graft within federal and state bureaucracies will yield sufficient savings to permit the maintenance of existing production subsidies, let alone their expansion in cases where local needs are more severe. For the rice sector, updated studies estimating the potential savings gained from ironing out existing ‘inefficiencies’ within BERNAS and national-level farming organisations, weighed against the subsidies needed to support domestic producers as rice imports are progressively liberalised, are much needed.¹⁷

Third, fiscal federalism will have to confront fundamental principal-agent problems associated with state-level decision-making, including policies that may deviate from central government agendas (such as production targets), as well as possible increases in local-level corruption.

One way around these dilemmas might be for the federal government to rejuvenate an old method of delegating power, namely incentivizing government-linked companies and investment entities to act as state-level economic catalysts. Those now in power recently argued – whilst in opposition – that an institution like Permodalan Nasional Berhad could help ‘transform agriculture into a national economic pillar’.¹⁸ Concrete details regarding such an arrangement (assuming it even comes to fruition) are still lacking, but they might involve restructuring initiatives like the above-mentioned National Feedlot Corporation, and re-launching them under the oversight of a government-linked firm, in close coordination with other federal-level agencies such as FELDA (whose numerous settlements across Peninsula Malaysia could provide suitable land for pasture and mixed farming).¹⁹

Such interventions, should they materialise, would nevertheless surely be subjected to heavy public examination, for fear of becoming the kinds of white elephants that PH/PR politicians once regularly criticised BN for fostering. Such scrutiny can only be a good thing. Given these conundrums, we are likely to see more continuity than change in the months ahead.

Appendix 1: List of Alternative Policy Documents since 2008

- Democratic Action Party, “Proposed 2008 Malaysian Budget” <<https://dapmalaysia.org/doc/Budget%202008.pdf>> (accessed 15 July 2018).
- Democratic Action Party, “DAP Alternative National Budget 2010” (Petaling Jaya: Democratic Action Party, 2009) <https://dapmalaysia.org/doc/DAP_Budget_2010_en.pdf> (accessed 15 July 2018).
- Pakatan Rakyat, “The Policies of Pakatan Rakyat (Common Policy Platform)” (Pakatan Rakyat, 2009) <https://dapmalaysia.org/repository/The_Policies_of_Pakatan_Rakyat-EN.pdf> (accessed 16 July 2018).
- Pakatan Rakyat, “Ubah Sekarang, Selamatkan Malaysia! (Buku Jingga) [*Change Now, Save Malaysia! (The Orange Book)*]” (Pakatan Rakyat, 2010) <<http://rafiziramli.com/wp-content/uploads/2011/09/Buku-Jingga-English-Abridged.pdf>> (accessed 15 July 2018)
- Pakatan Rakyat, “Shadow Budget 2012” <<http://rafiziramli.com/wp-content/uploads/2011/10/Pakatan-Rakyat-Shadow-Budget-2012.pdf>> (accessed 15 July 2018).
- Pakatan Rakyat, “Belanjawan 2013 Pakatan Rakyat [*Budget 2013 People’s Pact*]” <<http://rafiziramli.com/wp-content/uploads/2012/09/Belanjawan-Pakatan-Rakyat-2013-vAkhir.pdf>> (accessed 16 July 2018).
- Pakatan Rakyat, “Pakatan Rakyat 2014 Budget” <https://dapmalaysia.org/repository/Pakatan_Rakyat_Budget_2014-ENG.pdf> (accessed 12 July 2018).
- Pakatan Rakyat, “Belanjawan Malaysia 2015 [*Budget Malaysia 2015*]” <https://dapmalaysia.org/repository/Pakatan_Rakyat_Budget_2015-ENG.pdf> (accessed 12 July 2018)
- Pakatan Harapan, “Alternative Budget Malaysia 2016: Averting a Crisis” <<http://rafiziramli.com/wp-content/uploads/2015/10/Pakatan-Harapan-Budget-2016-Final-final-Version-English-v2.0.pdf>> (accessed 12 July 2018).
- Pakatan Harapan, “Alternative Budget Malaysia 2017” <https://issuu.com/researchwongchen/docs/alt_budget_2017_eng> (accessed 12 July 2018).
- Pakatan Harapan, “Alternative Budget Malaysia 2018: Spend Wisely, Cut Taxes, Choose Hope” <<http://www.wongchen.com/wp-content/uploads/2014/03/PH-Alternative-Budget-2018-ENGMPB.pdf>> (accessed 12 July 2018).
- Pakatan Harapan. *Buku Harapan: Rebuilding Our Nation Fulfilling Our Hopes* (Petaling Jaya: Pakatan Harapan, 2018) <<http://pakatanharapan.com.my/diymanifesto>> (accessed 9 April 2018).

¹ I would like to thank Francis E. Hutchinson and Lee Hwok-Aun for their feedback on earlier drafts. The usual caveats apply.

² Susan M. Martin. *The UP Saga*. Copenhagen: NIAS Press, 2003, Ch. 9; Shakila Yacob and Nicholas J. White. “The ‘Unfinished Business’ of Malaysia’s Decolonisation: The Origins of the Guthrie ‘Dawn Raid’.” *Modern Asian Studies* 44 (2010): 919-60.

³ Martin, *UP Saga*, Ch. 9; C. C. Goldthorpe. *Rubber manufacturing in Malaysia: Resource-based Industrialization in Practice*. Singapore: NUS Press, 2015.

⁴ G. Sivalingam. *Malaysia's Agricultural Transformation*. Petaling Jaya: Pelanduk Publications, 1993, Ch. 1; Fatimah Mohamed Arshad, Kusairi Mohd Noh, and Syahaneem Mohamad Zainalabidin. *Agricultural Policy and Institutional Reforms in Malaysia: Experiences, Impacts and Lessons*. Los Baños: SEARCA, 2014, p. 85.

⁵ World Bank. *World Development Report 2008: Agriculture for Development*. Washington, D.C.: World Bank, 2007, p. 4.

⁶ Pakiam, Geoffrey Kevin. “Agriculture in Johor: What’s Left?”, *Trends in Southeast Asia* 19/2018, p. 8.

⁷ Tasnim Lokman and Fahmy Azril Rosli, “Transparency and fairness: Salahuddin to reform ministry”, *New Straits Times*, 27 May 2018.

⁸ See Appendix 1 for the list of documents surveyed.

⁹ *The Star*, “Government abolishes ST15 rice subsidies”, 1 November 2015.

¹⁰ *Bernama*, “RM1,500 minimum wage will hurt plantation industry – Sime Darby”, 31 May 2018.

¹¹ R. D. Hill, *Agriculture in the Malaysian Region (Second Edition)* (Singapore: NUS Press, 2013), pp. 312-3.

¹² Jamie S. Davidson, “Stagnating Yields, Unyielding Profits: The Political Economy of Malaysia's Rice Sector”, *Journal of Southeast Asian Studies* 49, no. 1 (2018): 113-4.

¹³ *Ibid.*, pp. 123-4; Azril Annuar, “Agriculture minister looks to Sarawak to boost food security”, *Malay Mail*, 4 July 2018; Martin Carvalho, “Malaysia’s food security ranks No. 2 in South-East Asia”, *The Star*, 26 July 2018.

¹⁴ *Bernama*, “Bernas’ monopoly ends”, 6 June 2018.

¹⁵ Arfa Yunus and Nadia Hamid, “Gov’t to help increase paddy farmers’ income while reducing subsidies”, *New Straits Times*, 25 June 2018.

¹⁶ Christopher Tan, “Penang state sets aside land for veggies and herbs”, *The Star*, 3 February 2017

¹⁷ *Ibid.*

¹⁸ Pakatan Rakyat, “Belanjawan Malaysia 2015 [*Budget Malaysia 2015*]”, p. 47

<https://dapmalaysia.org/repository/Pakatan_Rakyat_Budget_2015-ENG.pdf> (accessed 12 July 2018).

¹⁹ See, for instance, Khairul Najib Asarulrah Khan, “Kementerian Pertanian, FELDA bekerjasama tingkat bekalan makanan [*Ministry of Agriculture, FELDA, co-operate to increase food supplies*]”, *Berita Harian Malaysia*, 11 June 2018.

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