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# Navigating Malaysia's Rice Shortage:

## Looking to the Industry



### A Cracking Rice Bowl?

In the agricultural season of 2021 through 2022, a staggering 520 million metric tonnes of rice was consumed worldwide<sup>1</sup>. Often hailed as the world's most vital grain, rice accounts for over 20% of daily caloric intake for more than half of the global population<sup>2</sup>. While approximately 90% of global rice consumption occurs in Asia, the appetite for rice is expanding beyond Asian borders, particularly in Africa and Latin America.

In regions facing economic hardship, rice provides over 50% of daily caloric needs for approximately 520 million people; a testament to its vitality. Consequently, the availability of rice is intricately tied to food security in much of the developing world, and any disruption could result in devastating consequences far and wide.

Alarm bells are ringing as global rice prices surge amid a decline in rice availability<sup>3</sup>. The price hike is driven by a combination of forces,



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<sup>1</sup> Statista. (n.d.). Total global rice consumption 2022/23. [online] Available at: <https://www.statista.com/statistics/255977/total-global-rice-consumption/#:~:text=Total%20global%20rice%20consumption%202008%2F09%2D2022%2F23&text=Global%20consumption%20of%20rice%20has.>

<sup>2</sup> Ricepedia. (2023). The global staple. [online] Available at: <https://ricepedia.org/rice-as-food/the-global-staple-rice-consumers.>

<sup>3</sup> GHOSAL, A. (2023). Rice crops are being threatened by El Nino after grain supplies were disrupted by the war in Ukraine. [online] ABC News. Available at: <https://abcnews.go.com/Business/wireStory/el-nino-threatening-rice-crops-grain-supplies-squeezed-101202794> [Accessed 25 Sep. 2023].

primarily stemming from climate change and shifts in trade practices. Droughts and floods have ravaged rice crops across Asia, from devastating floods in Pakistan to droughts gripping nations such as China, Thailand, and Vietnam, all exacerbated by a potent El Niño effect predicted to last up to twelve months<sup>4</sup>.

These extreme weather events, driven by global warming, have significantly impacted rice production. Recently, India, the world's largest exporter of rice, banned the export of non-basmati rice on the 20th of July due to concerns about meeting domestic demand amidst the El Niño crisis. This decision has sent shockwaves throughout the international rice market, with prices in August soaring to their highest level in 15 years. Subsequently, many Asian countries, including Malaysia, are scrambling to secure new supply deals to mitigate the potential fallout<sup>5</sup>.

## Malaysia's Shortage of Local Rice

There is no denying the importance of rice to Malaysia. As a key ingredient in many of our national dishes, it occupies a central place in the Malaysian diet. The average Malaysian consumes a substantial 77 kilograms of rice per year and this demand is projected to continue its upward trajectory alongside a growing population<sup>6</sup>.

Presently, Malaysia finds itself grappling with a concerning shortage of locally produced white rice, leaving supermarket and grocery store shelves conspicuously bare<sup>7</sup>. This shortage can be attributed to a multitude of factors, including panic buying triggered by reports of escalating prices for imported rice<sup>8</sup>. Furthermore, adverse weather conditions, reports of crop diseases, and insufficient access to clean water have collectively conspired to damage rice crops across the country<sup>9</sup>.

The compounding effects of these events have driven many Malaysians to turn to imported rice, but this shift comes at a cost. Padiberas Nasional Berhad (Bernas), Malaysia's sole rice importer, implemented a 36% price increase on imported rice, effective September 1st, citing mounting global pressures as the root cause<sup>10</sup>. In response to the crisis, the government has imposed a purchase limit of 100 kilograms of local white rice per customer per year<sup>11</sup>.

As Malaysia grapples with this rice shortage, pressing questions come to the forefront. Concerns about the nation's food security and the long-term sustainability and viability of its rice sector have now taken centre stage.

<sup>4</sup> Sharma, S. (2023). How India's ban on some rice exports is ricocheting around the world. [online] [www.aljazeera.com](https://www.aljazeera.com/economy/2023/8/16/how-indias-ban-on-some-rice-exports-is-ricocheting-around-the-world#:~:text=India%2C%20the%20world%27s%20biggest%20rice). Available at: <https://www.aljazeera.com/economy/2023/8/16/how-indias-ban-on-some-rice-exports-is-ricocheting-around-the-world#:~:text=India%2C%20the%20world%27s%20biggest%20rice> [Accessed 25 Sep. 2023].

<sup>5</sup> The Star (2023). Rice crisis a warning sign. [online] The Star. Available at: <https://www.thestar.com.my/aseanplus/aseanplus-news/2023/09/11/rice-crisis-a-warning-sign> [Accessed 25 Sep. 2023].

<sup>6</sup> Lim, I. (2023). Mydin says facing local rice supply shortage, fends off customers' accusations of hiding stock. [online] Malay Mail. Available at: <https://www.malaymail.com/news/malaysia/2023/09/10/mydin-says-facing-local-rice-supply-shortage-fends-off-customers-accusations-of-hiding-stock/90005> [Accessed 25 Sep. 2023].

<sup>7</sup> admin, A. (2023). Local rice shortage. [online] Aliran. Available at: <https://aliran.com/civil-society-voices/local-rice-shortage> [Accessed 25 Sep. 2023]

<sup>8</sup> MD ZAKI, H.U. (2023). Panic buying cause local rice supply shortage, minister said production to be increased. The Malaysian Reserve. [online] 18 Sep. Available at: <https://themalaysianreserve.com/2023/09/18/rice-stockpile-mohamad-sabu/#:~:text=AGRICULTURE%20and%20Food%20Security%20Minister,incloding%20among%20the%20traders%20themselves>.

<sup>9</sup> GEK SAN, K. (2023). El Nino hits rice industry. The Star. [online] 8 Jul. Available at: <https://www.thestar.com.my/news/nation/2023/07/08/el-nino-hits-rice-industry> [Accessed 25 Sep. 2023]; The Straits Time (2023). Shortage of local rice in Malaysia due to diseases and lack of clean water. The Straits Times. [online] 8 Sep. Available at: <https://www.straitstimes.com/asia/se-asia/shortage-of-local-rice-in-malaysia-due-to-diseases-and-lack-of-clean-water> [Accessed 25 Sep. 2023].

<sup>10</sup> BIRRUNTHA, S. (2023). 'Time to liberalise rice industry'. New Straits Time. [online] 4 Sep. Available at: <https://www.nst.com.my/news/nation/2023/09/950710/time-liberalise-rice-industry>.

<sup>11</sup> The Star (2023a). Restriction on sale of local white rice. [online] The Star. Available at: <https://www.thestar.com.my/news/nation/2023/09/08/restriction-on-sale-of-local-white-rice> [Accessed 25 Sep. 2023].

# The Malaysian Rice Industry

Malaysia's rice sector has long been characterised by heavy subsidies and protectionist policies, a practice that has been in place since 1971<sup>12</sup>. These measures have aimed to bolster local production and ensure the nation's self-sufficiency in rice, which stood at 62.6% as of 2022<sup>13</sup>. Despite these efforts, Malaysia continues to rely on rice imports, primarily sourcing the grain from countries such as India, Thailand, Vietnam, and Pakistan to meet the remaining local demand<sup>14</sup>. At the heart of this import process is Bernas, a state trading enterprise that holds a monopoly on rice imports into Malaysia.

It is crucial to comprehend the transformation of Bernas into a monopoly. In 1994, Bernas emerged as a corporate entity, originating from the National Board of Paddy and Rice (LPN), it subsequently underwent privatisation in 1996<sup>15</sup> after suffering major losses<sup>16</sup>. This transformation was part of a larger set of economic liberalisation measures implemented during the late 1990s, under the leadership of then-Prime Minister Mahathir Mohamad. The primary objective was to improve the efficiency and competitiveness of the rice industry, whilst relieving the government of its role in directly managing Bernas.

As part of this transition, the corporation was granted a concession to become the sole importer of rice in return for committing to social obligations<sup>17</sup>, which include managing a stockpile, purchasing paddy at a guaranteed minimum price, acting as the buyer of last resort and managing the disbursement of subsidies to farmers<sup>18</sup>. This transformation not only reshaped the rice industry, but has had profound implications on Malaysia's economy.

## Bernas and the Need to Liberalise the Rice Sector

Bernas, as the primary entity dominating rice imports, undermines the benefits from having more competition in the rice industry. This dominance leads to a limited diversity of suppliers, rendering the nation vulnerable to shocks and price manipulation, as exemplified by India's prohibition of non-basmati rice exports<sup>19</sup>. The price hikes initiated by Bernas have fueled an increased local demand for rice, thereby contributing to the current shortage<sup>20</sup>. Despite its original intent as a developmental entity, its import monopoly and procurement strengthening strategies, such as joint ventures with traders and millers, have only increased

<sup>12</sup> Mohamed Arshad, P.F. (2023). After half a century, rice sector monopoly ripe for change. [online] IDEAS. Available at: <https://www.ideas.org.my/after-half-a-century-rice-sector-monopoly-ripe-for-change/> [Accessed 14 May 2023].

<sup>13</sup> Lim, I. (2023). Mydin says facing local rice supply shortage, fends off customers' accusations of hiding stock. [online] Malay Mail. Available at: <https://www.malaymail.com/news/malaysia/2023/09/10/mydin-says-facing-local-rice-supply-shortage-fends-off-customers-accusations-of-hiding-stock/90005> [Accessed 25 Sep. 2023].

<sup>14</sup> Bernas (2023). Rice Importation. [online] BERNAS. Available at: <https://www.bernas.com.my/commitment/upstream/rice-importation>.

<sup>15</sup> BERNAS. (n.d.). Legacy. [online] Available at: <https://www.bernas.com.my/about-us/legacy> [Accessed 27 Sep. 2023].

<sup>16</sup> Barrock, J. (2023). Bernas — a moneymaking monopoly that paid RM670 mil in dividends in 2020. [online] The Edge Malaysia. Available at: <https://theedgemaalaysia.com/node/651029>.

<sup>17</sup> Barrock, J. (2023). Bernas — a moneymaking monopoly that paid RM670 mil in dividends in 2020. [online] The Edge Malaysia. Available at: <https://theedgemaalaysia.com/node/651029>.

<sup>18</sup> Mohamed Arshad, P.F. (2023). After half a century, rice sector monopoly ripe for change. [online] IDEAS. Available at: <https://www.ideas.org.my/after-half-a-century-rice-sector-monopoly-ripe-for-change/> [Accessed 14 May 2023].

<sup>19</sup> BIRRUNTHA, S. (2023). 'Time to liberalise rice industry'. New Straits Time. [online] 4 Sep. Available at: <https://www.nst.com.my/news/nation/2023/09/950710/time-liberalise-rice-industry>.

<sup>20</sup> Bernama (2023). Price hike for imported white rice leads to increased demand for local white rice. New Straits Time. [online] 4 Sep. Available at: <https://www.nst.com.my/news/nation/2023/09/951085/price-hike-imported-white-rice-leads-increased-demand-local-white-rice>.

barriers to entry, consolidating their control over the market<sup>21</sup>. Additionally, the substantial ownership of rice millers under Bernas has left farmers with limited bargaining power<sup>22</sup>.

Calls for market liberalisation to protect consumers and bolster food security have grown louder. Enhancing the role of the private sector, particularly in the realm of rice importation, could offset declines in domestic production and enhance access to affordable rice, thus bolstering the resilience of food supply chains<sup>23</sup>. A competitive environment is expected to stimulate innovation and augment overall efficiency. Instances such as Bangladesh's private sector-led rice imports during a catastrophic flood in 1998 emphasises the potential benefits of this approach, having effectively stabilised prices and ensured the consistent availability of rice. Similarly, the revision of the Philippines' rice tariffication laws in 2019 led to reduced prices offered by domestic firms and a corresponding decrease in price fluctuations.

## Market Inefficiencies Threatening Malaysia's Food Security

In 1988, the World Bank conducted an assessment of Malaysia's rice sector, which led to a critique of its protectionist policies, deeming the sector unviable and unsustainable<sup>24</sup>. While the government's intervention in the sector has primarily been justified on grounds of food security, it is notable that progress in terms of yield enhancement and improved producer incomes remains elusive<sup>25</sup>. This concern is further aggravated by the enduring issue of poverty among rice farmers.

The sector appears to exhibit symptoms of "premature deindustrialization," whereby the growth of a sector prematurely declines in its developmental trajectory<sup>26</sup>. This stands in sharp contrast to the dynamic rice value chains witnessed in countries such as China, India, and Vietnam. These nations have seen their rice sector rapidly advance, among its achievements include reduced rice prices, improved product quality, end-use diversity and enhanced food security.

Malaysia's rice industry model, in its present form, suffers from market inefficiencies and missed opportunities, thereby endangering the nation's food security.

One of the primary issues revolves around the allocation of subsidies to local producers, a process often criticised for its inefficacy. Research conducted by the Khazanah Research Institute, titled "Implications of the Dominant Shift to Industrial Crops in Malaysian Agriculture", shed light on the shortcomings of input

<sup>21</sup> Mohamed Arshad, P.F. (2023). After half a century, rice sector monopoly ripe for change. [online] IDEAS. Available at: <https://www.ideas.org.my/after-half-a-century-rice-sector-monopoly-ripe-for-change/> [Accessed 14 May 2023].

<sup>22</sup> Barrock, J. (2023). Bernas — a moneymaking monopoly that paid RM670 mil in dividends in 2020. [online] The Edge Malaysia. Available at: <https://theedgemaalaysia.com/node/651029> [Accessed 14 May 2023].

<sup>23</sup> Asian Development Bank (2023). Mitigating Emerging Food Security Risks in Rice Markets - World | ReliefWeb. [online] reliefweb.int. Available at: <https://reliefweb.int/report/world/mitigating-emerging-food-security-risks-rice-markets>.

<sup>24</sup> Deivaseeno Dorairaj and Govender, N.T. (2023). Rice and paddy industry in Malaysia: governance and policies, research trends, technology adoption and resilience. *Frontiers*, 7. doi:<https://doi.org/10.3389/fsufs.2023.1093605>.

<sup>25</sup> Mohamed Arshad, P.F. (2023). After half a century, rice sector monopoly ripe for change. [online] IDEAS. Available at: <https://www.ideas.org.my/after-half-a-century-rice-sector-monopoly-ripe-for-change/> [Accessed 14 May 2023].

<sup>26</sup> Mohamed Arshad, P.F. (2023). After half a century, rice sector monopoly ripe for change. [online] IDEAS. Available at: <https://www.ideas.org.my/after-half-a-century-rice-sector-monopoly-ripe-for-change/> [Accessed 14 May 2023].



subsidies in bolstering rice production and productivity. This study emphasised the dispensability of input subsidies and highlighted the significance of alternative growth stimulators, with a particular focus on Research and Development (R&D) initiatives. The report recommended shifting towards output-based and productive subsidies, which would reward and incentivize production efficiency and farm innovation. It attributed the sector's poor yield growth to a lack of R&D investment and stressed the critical role of a vibrant R&D ecosystem in fostering productivity and income growth for farmers. Thus, efforts to increase R&D investments are fundamental, especially in cultivating resilient crop varieties capable of mitigating the impending challenges posed by climate change.

Furthermore, addressing the challenges faced by farmers, such as water contamination and access to high-quality seeds must be attended to. Equally important is investing in programs aimed at upskilling farmers and introducing them to efficient agricultural practices and agro-technology. These initiatives play a vital role in safeguarding food security by enhancing the overall efficiency and sustainability of the rice sector.

## Concluding Remarks

The cumulative economic and fiscal costs of maintaining a protectionist import monopoly for over five decades are significant and increasingly deemed unwarranted<sup>27</sup>. Despite substantial subsidies disbursed to farmers between 1980 and 2021, amounting to RM 36.6 billion, the sector has displayed minimal growth. This is accompanied by diminishing crop yields and a declining self-sufficiency rate, which has dropped from 75% in the 1970s to its present standing at 62%. Such a low self-sufficiency level exposes the nation to fluctuations in currency values and disruptions in supply chains<sup>28</sup>.

However, the transition toward a liberalised rice sector and the ensuing reforms will demand a phased implementation process, to allow the industry to adapt gradually to new market dynamics. In the interim, the deepening of regional cooperation is crucial, given the interdependence of rice markets among neighbouring nations<sup>29</sup>. Collaboration to establish early warning systems concerning factors affecting rice production across borders can facilitate prudent preparations and measures aimed at safeguarding rice production and guaranteeing uninterrupted availability.

Ensuring an ample rice supply and price stability is paramount, as demonstrated by the global food crisis in 2008 when rice prices tripled, driving 100 million people into poverty globally<sup>30</sup>. This historical precedent illustrates the pressing need for proactive measures to secure access to essential food staples. Already, we are witnessing economic strain with some eatery owners suspending initiatives like the "menu rahmah," designed to ease the cost of living by offering RM5 set meals<sup>31</sup>. In times of localised scarcity, the affordability of such meal programs can become

<sup>27</sup> Mohamed Arshad, P.F. (2023). After half a century, rice sector monopoly ripe for change. [online] IDEAS. Available at: <https://www.ideas.org.my/after-half-a-century-rice-sector-monopoly-ripe-for-change/> [Accessed 14 May 2023].

<sup>28</sup> BIRRUNTHA, S. (2023). 'Time to liberalise rice industry'. New Straits Time. [online] 4 Sep. Available at: <https://www.nst.com.my/news/nation/2023/09/950710/time-liberalise-rice-industry>.

<sup>29</sup> Asian Development Bank (2023). Mitigating Emerging Food Security Risks in Rice Markets - World | ReliefWeb. [online] reliefweb.int. Available at: <https://reliefweb.int/report/world/mitigating-emerging-food-security-risks-rice-markets>.

<sup>30</sup> Ricepedia. (2023). The global staple. [online] Available at: <https://ricepedia.org/rice-as-food/the-global-staple-rice-consumers>.

<sup>31</sup> Latif, Y.A. (2023). Trader stops offering Menu Rahmah as local rice in low supply. Free Malaysia Today. [online] 20 Sep. Available at: <https://www.freemalaysiatoday.com/category/nation/2023/09/20/trader-stops-offering-menu-rahmah-as-local-rice-in-low-supply/>.

precarious, emphasising the vulnerability of social safety nets. In light of these impending challenges as the climate crisis looms, the necessity of intensifying efforts to ensure food security becomes increasingly evident.

Currently, the Ministry of Agriculture and Food Security (KPKM) has initiated a range of programs designed to enhance rice production, including the "Local White Rice Special Programme," which aims to boost production quotas by over 20%<sup>32</sup>. Despite KPKM's forecast of stabilised local rice supplies by the end of the year, Malaysia must address the issue from its very root, that is, a flawed rice market<sup>33</sup>. With unprecedented times and challenges lying ahead, building a resilient rice sector must remain a priority to safeguard the welfare of the people.

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<sup>32</sup> Shuyi, L. (2023). Malaysia tackles rice shortage with annual purchase limit and production boost. [online] Thaiger World. Available at: <https://thaiger.com/world/news/546409/> [Accessed 25 Sep. 2023].

<sup>33</sup> Malay Mail (2023). Mat Sabu expects local white rice supply to recover in October. [online] [www.dailyexpress.com.my](https://www.dailyexpress.com.my/news/219516/mat-sabu-expects-local-white-rice-supply-to-recover-in-october/). Available at: <https://www.dailyexpress.com.my/news/219516/mat-sabu-expects-local-white-rice-supply-to-recover-in-october/> [Accessed 25 Sep. 2023].