

THE ROLE OF GOVERNMENT IN  
AGRICULTURAL DEVELOPMENT

BY  
MAHZAM BT. MOHD SAAD.

KULLIYAH OF ECONOMICS  
INTERNATIONAL ISLAMIC UNIVERSITY  
1987

### **DECLARATION OF AUTHOR'S RIGHTS**

**The copyright of this thesis belongs to the author under the terms of the Copyright Act, 1987 (Act 332) Due acknowledgement must always be made of the use of any material contained in, or derived from this thesis.**



الجامعة الإسلامية العالمية ماليزيا  
INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA  
بَوْتِنَبْرُؤُسْتِنِي اِسْلَامِيَّةً اِنْتَبَارًا رَجِيًّا مُلْتَمِسِيًّا

THE ROLE OF GOVERNMENT IN  
AGRICULTURAL DEVELOPMENT

by

MANZAM BT. MOHD SAAD.

A project paper submitted to the Kulliyah of Economics  
in fulfilling the requirement for obtaining the Bachelor of  
Economics.

Faculty of Economics, International Islamic University,  
Petaling Jaya, Selangor, Malaysia.

Sessi 1986/1987.



20807

## ACKNOWLEDGEMENT

I would like to express my thanks and appreciation to Ustadz Parid, a lecturer at Kulliyah of Economics, who is my supervisor for his support, guidance and advice for the completion of this project paper.

Not to forget my gratitudes to Encik Azmi and Puan Noriah from Ministry of Agriculture for providing me the informations needed.

Also my special thanks to my mother who have been patiently gives guidance and moral support during my studies.

Lastly, I would like to thank Sr. Norlida, Puan Rohana and Sr. Misliah, who have kindly helped me in typing this paper.

May Allah SWT bless all of us.

Mahzam bt. Mohd. Saad,

April 1987.

## SYNOPSIS

The role of Government in Agriculture Development.

The development of the Malaysian economy depends largely on the progress in the agricultural sector. The agriculture sector serves not only as a source of food and raw materials but also produces the country's major exports. Hence, the agriculture sector plays an important role, the government involvement in this sector is really needed. Therefore, this paper is aimed to evaluate the success of the government strategies towards the agricultural development. The finding of the research have shown that, there are many constraints to agriculture development such as capital availability, lack of manpower etc. Besides that the agriculture sector are not free from the elements of riba and monopoly. So, the only way to overcome this obstacles is by creating 'Islamic man' through education system.

## TABLE OF CONTENTS:

	<u>PAGE :</u>
TOPIC	1
ACKNOWLEDGEMENT	ii
SYNOPSIS	iii
TABLE OF CONTENTS	iv
LIST OF TABLES	vi.
GLOSSARY	viii
CHAPTER I : <u>INTRODUCTION</u>	
1.1 Statement of study	1
1.2 Agriculture and public policies	2
1.3 Structural changes in Malaysian economy and its impact on the agricultural sector	4
1.4 Objective of study	6
1.5 Expected contribution from the study made	7
CHAPTER II : <u>RESEARCH METHODOLOGY</u>	
2.1 Introduction	9
2.2 Library research	9
2.3 Field study	9
2.4 Problems encountered	10
CHAPTER III : <u>LITERATURE REVIEW</u>	
3.1 Introduction	12
3.2 The role for agriculture development in the poverty eradication	12
3.3 Role of Agriculture in economic development	14
3.4 Unique consideration RE The agriculture sector plan	15
3.5 The agricultural lag	19
3.6 Agricultural in Dualistic Development Models	21

CHAPTER IV :	<u>AGRICULTURE SECTOR IN MALAYSIAN ECONOMY</u>	
4.1	Introduction	23
4.2	Plantation	23
4.2.1	Export crop	24
4.2.1	Food crop	35
4.2.3	Miscellaneous crop	37
4.4	Agriculture : Islamic Perspective	39
CHAPTER V :	<u>GOVERNMENT AND AGRICULTURE DEVELOPMENT</u>	
5.1	Agriculture development	47
5.2	NAP : Its objectives and strategies	51
5.3	Development of Agriculture smallholders	58
5.4	Agriculture and poverty	61
5.5	Constraint to agriculture development	63
CHAPTER VI :	<u>AGRICULTURE DEVELOPMENT : ISLAMIC POINT OF VIEW</u>	
6.1	Introduction	68
6.2	Development in Islam	68
6.3	NAP : islamic perspective	69
CHAPTER VII :	<u>COMMENTS, SUGGESTIONS AND CONCLUSION</u>	
7.1	Comments and suggestions	82
7.2	Conclusion	87

LIST OF TABLES:

<u>TABLE NO</u>	<u>TOPIC:</u>	<u>PAGE:</u>
4.1	Malaysia : Rubber areas on estates and smallholding 1967-1980 (in '000 hectares)	
4.2	Major buyers of Malaysian rubber (1965-1984)	
4.3	Areas planted with oil palm (hectares)	
4.4	Area planted / new planted of oil palm during year 1985 (hectares)	
4.5	Palm kernel and crude oil palm production	
4.6	Percentage of rubber production and percentage of oil palm production and export percentage and import of rice	
4.7	Malaysian: projected area and production of cocoa	
4.8	Total area planted of padi by various state (wet padi)	
5.1	New land available for agricultural development by state in Malaysia, 1981 (in hectare)	
5.2	Land development 1984	
5.3	New bottler income	
5.4	Malaysia : poverty rate according to state 1976 and 1984	
5.5	Peninsular Malaysia : the poverty rate for rural and urban areas 1970, 1976, 1984	



LIST OF TABLES : ( continue )

<u>TABLES:</u>	<u>TOPIC:</u>	<u>PAGE:</u>
6.1	Subsidy allocation in agriculture on selected activities in Peninsular Malaysia, 1976-1981*	
6.2	Loan / credit approved according to types 1975-1979 (\$ '000)	
6.3	Primary interest rate for USA and Malaysia	
6.4	Inflation rate in OECD, USA and Malaysia	

## GLOSSARY

AID	: The agricultural Input and Diversification
BPM	: Bank Pertanian Malaysia
DOA	: Department Of Agriculture
FAMA	: Federal Agricultural Marketing Authority
FELORA	: National Land Rehabilitation And Consolidation Authority
FELDA	: Federal Land Development Authority
FOA	: Farmers Organization Authority
LPN	: National Padi And Rice Board
MAJUJUKAN	: Fisheries Development Authority
MARDI	: Malaysian Agriculture Research And Development Institute
NAP	: National Agricultural Policy
PORIM	: Palm Oil Research Institute of Malaysia
RRI	: Rubber Research Institute

CHAPTER I

INTRODUCTION.

## CHAPTER I

### INTRODUCTION

#### 1.1 Statement Of Study

Agriculture sector is the backbone of the Malaysian economy. The performance of this sector has great influenced to the growth and the development of the Malaysia economy since the second world war. In 1974, it generated not less than 32% of the GDP, provided employment for over 50% of the economically entire population and accounted for about 60% of Malaysian foreign exchange.<sup>1</sup> In 1985 agriculture sector has generated for about 20.3% of the GDP, provided employment for about 35.7% and 19.3% export earning.<sup>2</sup> It shows that from 1974 to 1985 the contribution of the agriculture sector to the Malaysian economy began to decline.

In the effort to stimulate growth in agriculture sector and the economy as a whole, there has been growing direct and active participation by government and public sector in the development of the agriculture and the implementation of public policies in supporting of agriculture. The government's endeavour to support agriculture sector has been seen largely through substantial allocations of public development expenditure for agriculture incentives and subsidies, price support and credits among others has been a common features.

---

<sup>1</sup> Malaysia, Malaysia Economic Report 1974/75, K.L government printer ; 1974.

<sup>2</sup> Datu' Abu Bakar, "Peranan Kerajaan Terhadap Pembasmian Kemiskinan disektor Pertanian" ( Seminar economy UKM ), 1985

However it is rather unfortunate that the agriculture sector accounts for the highest incidence of poverty, accounting for 46.1% for all household in 1980 as compared to other sector of the economy whose incidence ranged from 14% to 34%. Within the agriculture sector, the largest group in poverty are the fishermen (55.3%), padi farmers (55.1%), rubber smallholders (41.3%) and coconut smallholders (38.9%). In general, about 66.6% of poverty households were within the agriculture sector.<sup>3</sup> Due to this problem government policies has been critiszed of being unable to implement or run their policies effectively.

## 1.2 Agriculture and Public Policies

Before proceeding to discuss the impact and implications of government policies or public policies in agriculture, it is of implicit relevance to examine the status of agricultural sector and public policies, vic & viz public sector involvement in the development of agriculture. This will provide the background to the objectives and intensions of government policies and programmes in stimulating growth and enhancing distribution in the agriculture sector.

Malaysian agriculture is basically dualistic comprising, large-scale and relatively capital intensive estate sub-sector, and traditional small-scale sub-sector. Within the former, there is

---

3

Malaysia : Fourth Malaysia Plan 1981-85, K.L , Government printer ; 1981

a further division between the government organised smallholders, and the estates. Estate type agriculture accounts for about 30% of the total cultivated area in Malaysia and concentrates primarily on a few commercial crops like rubber etc. After the cultivation of crops, important agriculture related activities are forestry and fishing which also have been significant in term of land use and contribution to export earning especially forestry.

The development of agriculture and the improvement of socio-economic status of the rural population, has always been given heavy emphasis in development and economics policies. In fact in agriculture the government's role has, all the time been "supportive". This has been clearly evident from policies and strategies outlined in the country's. Five year development plans which symbolises the government's endeavour to acheive the stated objectives of development policy. Distinct in the policy framework is the pursuit to reduce the high incidence of poverty, particularly in the agricultural (and rural) sector. The whole process requires accelerated growth and structural trasformation of the economy along lines which emphasise, among others, the modernization of agriculture and effective policy as well as public sector intervention in the process of growth to maximise desired effects especially on distribution.

The rationale underlying public policy and active public sector involvement in agriculture, involves economics, social and political consideration. Economically agriculture provides livelihood for nearly half of the country's working population and still contributes significantly to the GDP and foreign exchange earnings. The socio-political consideration arise from the fact . From the

fact that agriculture is primarily an indigenous sector, moreover the agriculture sector, as at least the peasantry has always been economically backward relative to more advance non-agriculture sector. Also the agricultural sector is beset with many inherent and complex socio-economic problems, among others, including a high poverty. This directly or indirectly contributes to make the sector depressed or deprived when compared to other sector in the economy. As the indigenous population, and the Malays being the majority, in particular are politically dominant, but constitute the majority of the poor in the country, it is imperative that the formation of any policy for agricultural and rural development must give as much attention to the effects of its policies on the welfare of the peasant sector as to the effects on the general level of economic activity of the country as a whole. In other words, it is a political and social necessity that the development policy in agriculture should manifestly be to the advantage of the farming population in the peasant sector, at least uplifting their incomes levels and improve their welfare.

### 1.3 Structural Changes in Malaysian Economy and its impact on the Agricultural Sector

Malaysian like other developing countries for the past few years have emphasized on the industrialization. The process of industrialization and policies favouring the manufacturing industry more or less affect the agriculture output. It can be observed that this sector has been neglected in terms of investment allocation. In the first Malaysian Plan (1966 - 1970), development allocation for agriculture and rural development accounted for

about 26.3% , while in Second Malaysia Plan (1971 - 75) is accounted for about 23.1% . In the Third Malaysian Plan (1976 - 80) it was increase to about 25% of the total plan allocation. However during the mid-term review of the Third Malaysian Plan, this sum was revised and subsequently reduced to about 23.6% of the total revised development allocation <sup>4</sup>. Although subsidies and other support systems are provided for agriculture in the form of credit and extension services, irrigation and the provision of agriculture inputs ; such subsidies only constitute a low proportion of value added in agriculture and does not significantly affect the bias against agriculture.

The emphasis on industrialisation has further aggravated the problem of rural urban migration. In Malaysia, this problem has been manifested in shortages of labour in paddy as well as plantation sectors, and in land being idle. Thus, in recent years the rates of growth of the agricultural sector have slow-down, when compared to other sectors, especially the manufacturing. As an example output in agriculture is projected to grow at only 3.5% per annum between 1981 - 90, and to contribute only 14.4% of GDP by 1990. Whereas manufacturing output, is projected to grow at 10.9 % per annum over the same period, and to contribute 26.6% of GDP by 1990. In employment agriculture is expected to contribute only 8.2% between 1981 and 1990 but the manufacturing is expected to contribute 29.6% .

---

<sup>4</sup> Malaysia, Second Malaysia Plan (1971 - 75), Third Malaysia Plan (1976 - 80) and Mid-term Review of Third Malaysia Plan, K.E .



Recognising the above structural process as an inevitable phenomena, the issue in the future is to ensure increase agriculture production despite on ward migration of labour. More than 50% of the labour force in Malaysia is directly dependent on agriculture and will remain so in foreseeable future. In addition many millions of jobs in small-scale agrobased and rural enterprises depends on agricultural production and incomes. As a first priority, investment, pricing and trade policies that presently discriminate against agriculture need to be reversed.

Within agriculture, sustained programmes of institutional, technical and ingrastructural support by government for small-former offer the best hope for increasing growth and employment. And this would be a step towards eliminating poverty.

#### 1.4 Objective of the Study

Although manufacturing sector is excepted to be a major contributor to the GDP, agriculture has always been seen as the major sector in Malaysian economy base on its functions.<sup>5</sup> Traditionally agriculture can fulfill four basic functions reflective of the Malaysian's past priorities they are :

- (i) To produce exportable commodities to enable the country earn export earnings.
- (ii) To provide employment to the people, in particular, the rural population.

- (iii) To provide population with the necessary basic food.
- (iv) To supply local industry with the necessary raw material such as rubber.

Hence, government plays an important role in agriculture development, it is the main objectives of this paper to :

- (i) Discover and to study the effort made by the government on those issue pertaining agriculture development.
- (ii) Analyse and evaluate the weakness and the successful of the government policy towards agriculture development especially NAP (National Agriculture Policy)
- (iii) To evaluate the achievement of the government agencies in eradicating poverty and in increasing rural income.
- (iv) To evaluate the role of technology in assisting the rural development.
- (v) To comment and to suggest possible modification in development strategies commensurate with National development strategies priorities.

#### 1.5 Expected Contribution from the Study Made

This discussion in this paper will pay much attention on the role of government in agricultural development especially in overcoming the problem of poverty and slow growth in agricultural sector. By discussing this matter, we can evaluate by how much has made their effort in accelerating agricultural development and overcoming the problems facing the agriculture sector and it is this effort commensurates with NAP objectives i.e.

- (1) To increase farmers income.

- (ii) Achieve national food security.
- (iii) Diversify the production of crop commodities.

In addition it is almost desire that the ideas and suggestion brought forward in this paper will be taken as a guide line to the government or their agencies for changing and improving agriculture sector in Malaysia.

CHAPTER II

( RESEARCH METHODOLOGY )

## CHAPTER II

### RESEARCH METHODOLOGY

#### 2.1 Introduction

In writing this paper, research will involve both library research and field study to obtain the necessary information and required data. Apart from that, articles and reports from journals, magazines and other periodicals and forms of mass media will also provide a source of information in the research.

#### 2.2 Library Research

The subject - matter of this paper will involve an analysis of government policies in the context of agriculture development, hence the library research will include material in the second to the fifth Malaysia Plans, apart from other sources. Most of the secondary data will be obtained through this method. Research is done in many libraries including public libraries, such as the national Library as well as other universities Library and Government departments such as the EPU also the Agriculture Department. Utilisation of such Library will facilitate the research work, and it is through this method that the bulk of information will be obtained.

#### 2.3 Field Study

This method will mainly involve interviews with the officials of the government institution concerning agriculture such as FELDA, Agriculture Department etc, as well as other personal individuals to get a first hand information on the views and attitudes towards the subject matter. Other personal individuals will include academicians

etc. The main advantage of this method is the opportunity and ability to develop a personal contact and achieve a better understanding through discussion during the interview.

#### 2.4 Problem encountered

One of the problem faced in using the first method (library research) is the inavailability of certain materials. A major problem encountered in doing the research is the inavailability of obtaining data in certain aspects concerning this matter. As a result, there is a lack of data and information in the research.

The second method (field study) faces the problems of cost and time consumption as it requires. Firstly setting appointment on tight schedules. Secondly, travelling to the various places and the time taken by interviews itself. A main problem anticipated in using this method is the degree of willingness of the interviewee to have an open attitude during the discussions and not to adopt a negative or prejudiced attitude towards the interviewer. Some interviewees especially government officers clarified certain information as confidential information. So this also resulted, a lack of vital data and information in the research.

All information and data which been selected will be processed and analyse. With the result of this analysis, policy and alternatives suggestion to basic country development and economic especially toward National Agricultural Policy (NAP), will be made.

CHAPTER III

( Literature Review )

## CHAPTER III

### LITERATURE REVIEW

#### 3.1 INTRODUCTION

There are several essays that had been discussed pertaining agriculture development which can be a guideline or basic for this writing.

#### 3.2 The role for agriculture development in the poverty eradication

Agriculture development represent not only an increase in agriculture production meaning agriculture growth but also an improve in the economic well-being of the agriculture community in general and the poverty groups within the sector in particular. Poverty eradication is an essential process of development. In this context agricultural development can be summed up as an increasing food production for the population, increasing farm incomes and export earning, increasing agricultural productivity, improvement of rural living standard and creating gainful employment. <sup>6</sup>

Therefore development cannot be seen as an increase in a quantity term but rather on the development of people particularly the poor. The development was genuine only, if it involved the production of goods and services required by the majority of people,

---

<sup>6</sup> Dr. Arshad Ayub, "The role of agricultural development in poverty eradication" ( bengkel pembangunan negeri Kelantan ), 29-30 Oct. 1982 ; page : 3