



Tropentag, September 16-18, 2015, Berlin, Germany

“Management of land use systems for enhanced food security:
conflicts, controversies and resolutions”

Assessment of Comparative Advantage of Rice Production in Malaysia

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Abstract

In recent years, the Malaysian rice sector has experienced structural changes to increase its competitiveness within a dynamic environment influenced by political, technical, economic and international trade challenges. Globalisation and international trade have played an important role in Malaysian national development and therefore have important implications for the rice sector, which must compete with other international producers. Using a Policy Analysis Matrix, this paper examines if Malaysia would have a comparative advantage in rice production under different scenarios of existing policies and economic reforms. This study uses data from 2011 through 2012, covering four granary areas in Malaysia. The empirical results show that rice farming is competitive and generates positive social profits. Other empirical results show that three out of the four granary areas have comparative advantages in producing rice with Domestic Resource Cost values (DRCs) less than one. Similarly, Social Cost Benefit or SCB values in these areas are less than 1, indicating that the comparative advantages in rice production are noteworthy. Given that it is socially profitable in three of the areas, clearly there are farms that produce a net surplus for the country. They generate social profits, but they might still depend on support to generate sufficient incomes for their families. In this case, policy should focus on encouraging structural change which enables these farms to grow to the point where they can generate sufficient income from social profits alone, ie. without (or with much less) subsidy. This way the government could get more self-sufficiency for less money. In the other region, however, the average farm is not producing a social profit. But here too there probably are farms that are profitable socially. For further understanding, these farms should be identified using disaggregated data and studied more closely in the future.

Keywords: Comparative advantage, Malaysia, policy analysis matrix, rice production, social cost benefit