My Say: Let the next golden crop be grown for food

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The new norms arising from the Covid-19 pandemic are not only affecting our lives but the food markets too. Just as our lives are about to “normalise”, food prices have spiralled beyond our imagination. The magnitude of increase is in the three-digit percentage for some food items such as vegetables, unheard of in the pre-pandemic era.

No one expected it but it was brewing all along.

To understand the evolution of the phenomenon, the price hike issue can be sliced up into three components. First, the increasing trend is largely due to an imbalance in fundamentals, where demand is chasing supply. Second, “excessive increase” in price is corollary to market power emanating from a highly concentrated or non-competitive market structure. Third, the ground on which market participants interact is clouded with uncertainty due to the advent of the Covid-19 shock, which
was unprecedented and unexpected. Other technical factors include Covid-19 mitigation measures that disrupted the supply chain of goods (including inputs) globally and locally.

The convergence of the above factors has created an inflationary effect worldwide and Malaysia has not been spared. The ability to absorb the price shock depends on the state of the food sector of the country. A net food exporter country may be able to handle it better than a net importer like Malaysia.

Malaysia’s supply of food was seriously challenged due to a labour shortage, thanks to restrictive movement controls and lately an increase in fossil fuel-based fertilisers and other input costs. This situation was

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The Covid-19 pandemic marks a watershed moment for sustainability and climate action. Apart from the lost lives, economic damage and social disruption, the pandemic has sent a stark warning that humankind must urgently change the way we live, work and play to mitigate the impact of our businesses and lifestyles on the environment.
fuelled by an increase in petrol prices and high freight charges in shipping. The cost of production has certainly recorded a big increase. Climatic factors and natural calamities such as floods and landslides have halted or reduced some commodity production such as rice and vegetables in some areas.

Conversely, as the economy starts to recover so is demand for food, including for those from the “horeca” sector, namely the hotel, recreation and catering (or sometimes hotel, restaurant and café) industry such as tourist destinations. After almost two years under a number of lockdowns and movement control measures, consumers are eager to dine in. The tourism bubbles have also increased demand for food and services. Some consumers, particularly those in the T30 (top 30% of household income earners) may have accumulated high savings as the lockdown reduced their consumption of food away from home and dining-in expenses. Similarly, for the B40 group (the bottom 40% of household income earners), dining in at food establishments has increased too.

As for traders, they are eager to recover losses after two years of low sales. Hence, high prices are a boon to them. They are noted to be asymmetric in pricing practices, that is, quick to respond to price increases while being very sticky when prices are trending downward.

A troubled food production system in the face of growing demand has resulted in a big gap in supply compared to demand as it takes time for production to respond to market signals. Hence, it is normal for prices to increase in such situations.

The allegation of exorbitant prices is a data-laden issue. Only data can verify this allegation but data is scanty. The data needed to verify the “excessive profit” of market players are cost of production and margin for the producers. To establish whether market power exists, the data needed are the number of players, market share of each player, marketing cost and margin and historical price trend. If the margin is extremely large compared with “normal” days and correlates with a highly concentrated market (where there are a few big traders with a large market share each), there is high probability that the alleged exorbitant price of the

situation by reaping higher profits. After all, their interest has always been maximising profit rather than the welfare of producers or consumers.

As for producers, farm management data is badly needed to ascertain how much costs have increased, which items contribute to the increase and so on. Historical farm management data is needed for comparison over time and space. But such data are not valued by the local agencies, hence the dearth of such data and minimal analysis is done.

The technical factors, particularly pandemic shocks and the consequent supply chain disruption in international waters, are the major factors that contributed to the increase in the prices of input items and costs. The impact is damaging for a country like Malaysia, that depends on imports for all her inputs, which are seeds, animal breeds, fertilisers, chemicals, veterinary medicaments, feed for livestock and fisheries, soybean and corn, machinery and parts. While importing these items, Malaysia imports the inflationary effect too. It’s no wonder that the country’s food production is costly, inefficient and not competitive.

In short, the food sector has fumbled because production is not big enough to serve the local population, inflation is inevitable as it comes in through our imports and supply disruptions are aggravated by the capacity problem.

This is an extraordinary time for Malaysia, where the pandemic has caused income losses to many, including producers and consumers alike. Hardship is everywhere. Under the “normal” situation, the market will correct or rationalise with time. The future is clouded with uncertainties as Covid-19 keeps on mutating, climatic threats are mounting and resource depletion is real.

The major stakeholders affected by this crisis are small producers and poor consumers. The government is duty-bound to help them. As for producers, temporary relief can be provided through temporary subsidies. Large incentives must be provided to the producers and entrepreneurs for organic fertilisers using local resources. This is the best time to expedite local input production.
coupons should be provided to selected groups to help reduce the expenditure burden. Issuance of approved permits (APs) does not improve production as proven in the case of cabbages where APs have been maintained since they were introduced in the 1980s.

Producers and consumers need to strengthen their market bargaining power through their respective cooperatives, as practised in advanced countries. Until this is done, they will forever be the victims of market power manipulations.

The bigger agenda needed is a shift in the country’s policy on food. Under the pandemic, food is considered one of the essential sectors. However, the food sector’s performance before the pandemic did not match its “essential” status, except during festive times. With the exception of eggs, poultry and pork, the self-sufficiency levels of all food items have gone down and the trade deficit has grown wider, from RM1 billion in 1990 to RM21 billion as at 2020.

This is the right time to make essential food essential in the country’s policy by prioritising it through a “food first policy”. The multiplier effects of food are plenty: better human capital, as proven in Japan and Nordic countries; enhancement of local biodiversity; a dynamic rural community; ecological advantages and, most of all, food nutrition security.

What is needed urgently is building up domestic food production capacity in all dimensions to increase food production. This includes bigger allocation for food, aggressive research and development, adoption of technological advancements, efficient extension infrastructure, nature positive food and producer and consumer cooperatives. Let the next golden crop be grown for food.

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