



**REGIONAL WORKSHOP ON COMMODITY EXPORT DIVERSIFICATION
AND POVERTY REDUCTION IN SOUTH AND SOUTH-EAST ASIA
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The Case Study on the Malaysian Palm Oil

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1. Introduction

During the early days after gaining independence in 1957, Malaysia's economy was mainly dependent on tin and rubber. These two primary commodities accounted for more than 50 per cent of the GDP during the period. The policy at the time was to nurture economic growth through the sustenance and development of these two export commodities. However, as early as the 1960s, the government recognized the need to expand the narrow base of the economy and diversify into other economic activities to generate growth. The diversification strategy involved initiatives to develop manufacturing through the establishment of industrial estates and also to diversify agricultural output and exports through palm oil. Hence, the debut of the Malaysian "golden-crop" that was to change not only the landscape of Malaysian agriculture and the Malaysian economy but also the lives of millions of its population.

The emergence of palm oil into the Malaysian economy during the late 1950s and early 1960s could not have come at a better time to assist the country in alleviating poverty, especially in the rural areas. Social resentment as a result of high disparity of income between the rural (mainly consisted of ethnic Malays) and urban (mainly consisted of the ethnic Chinese) led to the bloody racial riots in 1969 (Mohd Noor 1997). This racial riot prompted the government to formulate the New Economic Policy, NEP (1970-1990) with the overriding objective of achieving national integration and unity. The integration and unity was to be realized through a two-pronged strategy of reducing and eradication of poverty and a restructuring of the Malaysian society to correct economic imbalances and eliminate the identification of race with economic function. It was during this era that rural and agricultural development was given increased emphasis to provide employment and income earning opportunities to the rural poor. The government through its agencies such as the Federal Land Development Authority (FELDA) opened up extensive new lands for re-settlement of the rural landless. The development of these land schemes, which mainly consisted of organized oil palm and rubber smallholdings, marked the beginning of the key role played by palm oil in the export diversification and poverty alleviation programs of Malaysia.

The main objective of this paper is to provide a review on the role played by the palm oil industry in assisting Malaysia to diversify its primary commodity export base and more importantly how the industry had helped the government in its fight against rural poverty. It is not an overstatement to say that the palm oil industry in Malaysia had formed the economic base towards creating the current wealth of the nation. This wealth had produced the social, economic, and political stability as well as the prosperity that Malaysians had enjoyed for most of the period since independence.

This paper is divided into three major parts. The first part discussed the achievements in the crop diversification programs of Malaysian agriculture, which saw the growing dominance of palm oil in Malaysian agricultural production and exports. This is followed by a description of the development programs, progress and achievements in poverty alleviation. It can be seen that there appeared to be a strong association between the success of palm oil in organized smallholdings and the reduction

of poverty in agriculture and the rural areas. The final part of the paper focussed on the FELDA case, its inception, development and progress. This part would also highlighted the role played by FELDA through its organized smallholder land schemes, which are mostly under oil palm, in helping its more than 100,000 settlers to overcome poverty.

2. Diversification and Poverty

2.1 Crop Diversification

Initiated against the backdrop of the Korean War rubber boom, Malaysian commercial agriculture in the 1950s was synonymous with rubber (Sekhar 2000). During those days, there were already some 1.5 million ha of rubber in the country whose expansion was spearheaded by the expanding world automobile and transport industry. The advent of the synthetic rubber, which was cheaper, had negatively affected the development of Malaysian rubber. The ready supply of this cheaper substitute led to the fall of rubber prices resulting in drastic reductions in incomes of those involved in rubber. Malaysia's foreign exchange and the general economy also suffered. The need to diversify the country's agricultural base was pressing and a crop diversification policy was inevitable to find better economic alternatives to rubber.

Oil palm, introduced earlier into the country in 1917, was the prime crop choice for the diversification program (Mohd Jaafar 1994). Large tracts of rubber land were converted to oil palm over the next three decades (Sekhar 2000). Coupled with intensified new land development, in particular by the FELDA, state agencies and the private sector, oil palm areas expanded from a mere 55,000 hectares in 1960 to 1 million hectares in 1980, only over a span of two decades. Oil palm planted areas later profoundly doubled to 2 million hectares in 1990.

Table 1: Agriculture Agricultural Land Use, Malaysia, 1970 - 2000
(‘000 hectares)

Crops	1970	1985	1990	1995	2000
Oil Palm	320.0	1,482.4	2,029.5	2,539.9	3,338.3
Rubber	2,181.8	1,948.7	1,836.7	1,679	1,590
Cocoa	n.a	303.9	419.1	190.7	111.4
Paddy	533.4	655	680.6	672.8	692
Coconut	348.64	334.1	315.6	248.9	115.7
Pepper	10	5.4	11.5	10.2	10.9
Vegetables	n.a	31.8	35.2	42.2	32.1
Fruits	n.a	150.1	204.6	257.7	261.7
Tobacco	n.a	16.2	10.2	10.5	18.5
Others	n.a	70.6	85.2	90.4	14.5
Total	n.a	4,998.2	5,628	5,742.3	6,185.1

- Sources: i. Malaysia (1970), Second Malaysia Plan
ii. Malaysia (1999), Third National Agricultural Policy (NAP3)

Currently, the cultivation of oil palm in the country covers an area of 3.4 million hectares accounting for 54 per cent of the overall agricultural land use. Of this total, more than 20 per cent is under FELDA and this covered an area of 685,520 hectares (Table 2). Another 462,186 or 20.82 per cent are independent smallholders and under other smallholder schemes. As such smallholder involvement in oil palm cultivation accounted for more than 41 per cent of the total oil in the country.

Table 2: Distribution of Oil Palm Areas (hectares)

Category	1999		2000	
	Hectares	%	Hectares	%
Private Estates	1,942,452	58.62	1,993,292	58.92
Public Sector				
FELDA	674,948	20.37	685,520	20.26
FELCRA	132,354	3.99	134,357	3.97
RISDA	41,561	1.25	37,011	1.10
State Schemes	235,565	7.11	242,002	7.15
Independent		8.65		
Smallholders	286,513		290,818	8.60
TOTAL	3,313,393	100	3,383,000	100

Source: Malaysian Palm Oil Board (2001)

Parallel with the increase in oil palm areas, production and exports of palm oil and palm oil products also increased. From a share of only 7.7 per cent of agricultural exports in 1970, palm oil exports now accounted for about 30 per cent of all agricultural exports (Table 3). In 1999, total exports of palm oil reached RM137.9 billion. It was the leading commodity exports of Malaysia and had even surpassed petroleum exports.

The success of the palm oil export diversification program was not only attributed to just merely efforts in enhancing production but was also accompanied by initiatives in penetrating and deepening of markets, R&D and a conducive regulatory framework. This was done through strong institutional support of the government. Three main institutions were involved to implement these policy objectives. They were the Palm Oil Registration and Licensing Authority (PORLA), Palm Oil Research Institute of Malaysia (PORIM) and Malaysian Palm Oil Promotion Council (MPOPC).

PORLA's general function was to ensure the orderly development of the palm oil industry. PORLA issue licenses to those involved in the production, transportation, storage, exports and sale of palm oil and its products. Generally, the regulatory activities of PORLA were for the quality control of palm oil and its products (Jailani and Malik, 1995). All trade contracts were to be registered with PORLA and traders were required to declare the quality of palm oil to be exported and ensure that the exported palm oil meets the quality specifications as declared in the contract. The task of improving productivity, value-added, quality and all other aspects of the industry's output performance was PORIM's main function. PORIM undertakes all aspects of R&D in palm oil to enhance the performance of the industry.

The MPOPC was established in 1990 to undertake public relations and market promotion of palm oil mainly in the export markets. It was run as a private company and promotes palm oil by organizing and participating in trade missions, exhibitions and distribution of information on the nutritional aspects of palm oil. The organization also facilitates joint-venture programs. In promoting exports, PORIM was also engaged in providing technical support and information on palm oil to increase consumer knowledge on palm oil and palm oil products through the Technical Advisory Services (TAS) whose activities are aimed at increasing the utilization of palm oil.

The activities of PORLA, PORIM and MPOPC were funded from a compulsory cess of RM5 per tonne for PORIM, RM1.75 per tonne for PORLA and RM1.00 per tonne for MPOPC. In addition, national R&D funds under Intensification of Research in Priority Areas (IRPA) are also available to researchers in PORIM. PORLA and PORIM had since been merged to form the Malaysian Palm Oil Board in order to further consolidate and strengthen institutional support to the industry.

Export diversification through palm oil is such a success that the agricultural sector had become too dependent on the commodity. The policy of export diversification in the agricultural sector to promote new sources of economic growth in the agricultural sector and enhance income of the small farmers continues till this day. The NAP3 has identified a number of potential agricultural products for the purpose of diversification.

Table 3: Share of commodities in agricultural exports, Malaysia, 1970-1995 (%)

Sector	1970	1980	1985	1990	1995
Food	-	-	11.9	15.5	12.7
Palm oil	7.7	25.9	28.3	19.7	29.3
Rubber	50.5	20.4	20.6	13.6	11.4
Sawlogs	18.8	24.6	19.9	18.1	6.4
Sawn Timber	5.8	12.3	8.2	13.8	10.8
Other forest products	-	-	3.1	10.4	18.3
Others	17.2	16.8	7.6	7.8	9.6

Sources: i. Malaysia (1981). Fourth Malaysia Plan, 1981-1985 National Printing Department, Kuala Lumpur

ii. Malaysia (1999) Third National Agricultural Policy (1998-2010) Ministry of Agriculture, Kuala Lumpur.

2.2 Poverty, poverty alleviation programs and progress

2.2.1 Poverty alleviation programs

During the colonial era, poverty redressal programs were almost non-existence. Development programs mostly emphasized the development of urban areas with the assumption that the 'trickle-down' theory of economic wealth and the work of Adam Smith's 'invisible-hand' would spread itself to the rural areas. Various previews and

studies conducted had indicated that this approach had fall short of expectations (Ungku Aziz, 1963; Chamhuri 1987; Mohd Sukri 1992). The First Malaya Plan (1956-60) was criticized by Rudner (1975) for not giving due emphasis to rural development and the issues of poverty in the rural areas. However, beginning in the late 1950s and early 1960s, rural development and poverty alleviation had been a main development agenda of the nation. The Second Malaya Plan (1961-1965) gave a high priority to rural development and poverty by increasing budgetary allocations, establishing rural and agricultural related development institutions, providing physical infrastructure and implementing a diversified range of agricultural development programs. However, the programs were still broad-based without special reference to specific target groups. This general strategy continued into the First Malaysia Plan (1966-1970).

The 1969 racial riots had its roots in poverty and inequality between rural and urban and between races. Rural poverty in 1970 was at a high of 58.7 per cent. Incidence of poverty in the paddy subsector was at 88.1 per cent, fishermen (73.2 per cent), rubber smallholders (64.7 per cent) and coconut smallholders (52.8 per cent) (Table 4).

Table 4: Number of poor households in agriculture, Peninsular Malaysia, 1970

Subsector	Total Households ('000)	Total poor households ('000)	Incidence of poverty (%)
Rubber	350.0	226.4	64.7
Oil palm	6.6	2.0	30.3
Coconut	32.0	16.9	52.8
Paddy	140.0	123.4	88.1
Other Agriculture	137.5	126.2	91.8
Fishermen	38.4	28.1	73.2
Estate Workers	148.4	59.4	40.1
Total	852.9	582.4	68.1

Source: Malaysia (1976). Third Malaysia Plan, 1976-1980, Kuala Lumpur.

The main causes of poverty were attributed mainly to inaccessibility of small farmers to productive assets namely, land and capital. It was also due to the low returns of agricultural enterprises that they were involved in. As such the principle elements of the early strategy of the government to redress poverty involved the provision of land and capital to the rural poor through massive development of new land and enhancing the productivity of the traditional farms. It was then that government agencies such as FELDA, FELCRA (Federal Land Consolidation and Reclamation Authority) RISDA (Rubber Smallholder Development Authority) and other State Governments' agencies developed land, planted mostly with rubber and later with oil palm, to be distributed to the landless poor. Management expertise from the government was used to run the organized smallholdings. RISDA also provided replanting funds to rubber smallholders who wished to switch to oil palm. The cultivation of oil palm had certainly played a dominant role in enhancing the income of the rural population and in the alleviation of poverty among agricultural smallholders.

In the other programs, Integrated Area Developments Projects (IADP) were also established to enhance in-situ development. This IADPs mainly involved paddy farmers. However, it was the land schemes that had give a new meaning to rural development and better living for many of the poor.

2.2.2 Progress in poverty alleviation

Table 5 exhibited the incidence of poverty in the agricultural sector for the 1970-1990 period. Poverty in agriculture declined from 68.3 per cent in 1970 to 21.1 per cent in 1990. As can be seen from the table, the incidence of poverty among oil palm smallholders was the lowest as compared to other sub-sectors in agriculture. While the average incidence of poverty in the sector in the period was between 21.1 per cent to 68.3 per cent, the incidence of poverty among oil palm smallholders was only between 8.2 per cent to 30.3 per cent. Aggressive new land expansion for organized oil palm smallholders can be associated with significant declines of incidence of poverty among oil palm smallholders, from 30.3 per cent in 1970 to only 8.2 per cent in 1980. In 1984, oil palm smallholders were no longer identified as significant group to be related with poverty.

Table 5: Incidence of poverty in the Agricultural Sector Malaysia, 1970-1990

Year/sector	1970	1975	1980	1984	1990
Rubber smallholders	64.7	59.0	40.0	43.4	24.1
Oil palm smallholders	30.3	9.1	8.2	n.a ^{1/}	n.a ^{1/}
Coconut smallholders	52.8	50.9	47.1	46.9	27.1
Paddy farmers	88.1	77.0	73.0	57.7	39.0
Other agriculture	91.8	78.0	64.3	34.2	n.a
Fishermen	73.2	63.0	52.0	27.7	27.7
Estate Workers	40.1	47.0	38.0	19.7	19.7
Total in Agriculture	68.3	63.0	49.3	23.8	21.1

^{1/} Combined with 'other agriculture'

Source: Malaysia, Malaysia Plans: various issues

Published data subsequent to 1990 on incidence of poverty by subsectors were not available. However, incidence of poverty in the rural areas could be used as a proxy for incidence of poverty in the agricultural sector since the majority of the population in the rural area received most of their income from agriculture (Table 6). Incidence of poverty in the rural areas declined from 21.8 per cent in 1990 to only 11.8 per cent in 1997. Thus, the government of Malaysia, though its poverty redressal programs, in particular the organized smallholder programs involving oil palm, has been able to enhance the incomes of agricultural smallholders and lifted them from the vicious cycle of poverty. Through this and other programs, the incidence of poverty in agriculture has been successfully reduced from as high as 68.3 per cent in 1970 to only 11.8 per cent in 1997.

Table 6: Incidence of poverty, Malaysia rural and urban, 1985-1997

Year/sector	1990	1995	1997
Rural	21.8	16.1	11.8
Urban	7.5	4.1	2.4
Total	17.1	9.6	6.8

Sources: i. Malaysia (1991) Sixth Malaysia Plan, 1991-1995, National Printing Department, Kuala Lumpur

ii. Malaysia (1999) Mid-Term Review of the Seventh Malaysia Plan, 1996-2000, Percetakan Nasional Malaysia Berhad, Kuala Lumpur.

3. The FELDA Story

3.1 Historical Perspectives and Progress

The idea of new land development was initiated in 1955 but it was only since independence in 1957 that a definite policy for land development was promulgated as a basic strategy to uplift the economic status of the rural sector. The main mechanism was through the creation of FELDA, which was formed on July 1, 1956 to provide a milestone in rural development. With an initial working capital of merely RM10 million, the first FELDA rubber scheme was developed at Ayer Lanas in 1957, which only involved 1,620 hectares. of land. A year later, five more schemes were developed (Tunku Shamsul and Thong, 1988). FELDA's involvement in oil palm only began in 1961 with an initial area of 375 hectares. Under an aggressive management, oil palm under FELDA schemes expanded rapidly over the years (Table 7). By the year 2000, total cumulative area under oil palm amounted to 685,520 hectares

Table 7: FELDA Cumulative Area in Production (hectares)

Year	Rubber	Oil Palm
1965	639	1,083
1970	23,670	15,894
1975	44,416	85,257
1980	69,023	196,507
1985	100,024	306,887
1995	171,570	675,392
2000	149,617	685,520

Sources: Tunku Shamsul and Thong (1988) and FELDA (2001)

FELDA's model of land development was basically construed to the provision of a highly centralized administration and management. Settlers were brought into the land schemes and were only given subsistence payment until the first crop harvest. Credit

facilities and a wide range of support services as well as community services were provided aimed at aiding rapid adaptation and change of the settlers.

The resettlement scheme under FELDA was planned with the aim of creating a new living community, with roots in the new soils. During the early years of its inception, FELDA adopted the concept of cooperative land ownership. Under this ownership concept, settlers were not given or allocated their individual holdings but had an equal and uniform share in the ownership and profits of the block holding. This was viewed by the government as being rationale because in a wider perspective, oil palm had always been a plantation crop. However, the cooperative system, which was put on trial, received many complaints from settlers. Aggravated by uneven income distribution and differentials in work skills, the system was later transform into *three-stage development package* (Tunku Shamsul and Thong 1988). It was decided that in stage 1, the cooperative system would prevail to prepare the settlers with the know-how of field maintenance and harvesting. In stage 2, the settlers would be accustomed to managing a smaller block or field in order to be more self-reliant. In stage 3, settlers were given their individual land titles lots. However FELDA continues to centrally manage the scheme.

In 2000, the number of settlers in all the FELDA land schemes totaled to 102,750 (Table 8). Slightly more than two thirds of the settlers were involved in palm oil production whilst the rest in rubber. More than 48,800 settlers had already been given their individual land titles and these constituted to almost 220,000 hectares of land (Table 9)

Table 8: FELDA Land Schemes, 2000

Crop	Scheme		Area planted		Settlers	
	Nos.	%	Ha.	%	Nos.	%
Oil Palm	183	66.5	311,956	69.8	69,128	67.3
Rubber	92	33.5	134,693	30.2	33,622	32.7
Others	-	-	129	-	-	-
Total	275	100	446,778	100	102,750	100

Source: FELDA's Homepage (2001)

FELDA is now expanding spread its wing to East Malaysia. With vast tract of potential land, Sabah and Sarawak are poised to become the leading oil palm growth corridors of the country (Figure 1).

Table 9: Land titles of FELDA schemes distributed by State up to 2000

States	No. of Settlers	Area (Hectares)
Pahang	22,124	100,564
Johor	9,573	43,514
Negeri Sembilan	6,931	31,505
Terengganu	2,114	9,609
Perak	2,990	13,591
Kedah	1,879	8,541
Selangor	1,883	8,559
Melaka	1,332	6,055
Total	48,826	221,938

Source: FELDA (2001)

3.2 Farm Incomes

Targeting at poverty eradication, FELDA instituted a number of specific selection criteria of its settlers. Whilst the poor and landless applicants were of great priority, they should also be within the age bracket of 21-50 years, married and physically fit. According to Tunku Shamsul and Thong (1988), most of the settlers were originally agricultural workers (22%), estate workers (10%), rubber smallholders (14%) and paddy planters (12%) who formed the crux of poverty group in the country. By participating in FELDA land schemes, many were better off earning incomes in excess of the national poverty threshold incomes (Table 10).

Table 10: Income of FELDA Settlers (RM)

Holding sizes	1980	1985	1995	2000 ^{1/}
4.1 (10) ^{2/}	805	885	1426	1232
4.9 (12)	1085	764	801	705
5.7 (14)	1230	1203	2201	2010
Average	1040	950	1439	1316

^{1/}Extrapolated based on average FFB price for 1999

^{2/}Numbers in parenthesis denote acres.

Sources: Tunku Shamsul and Thong (1988) and FELDA (2001).

3.3 The Changing Facet of FELDA

The opening up of new land for cultivating and production of palm oil palm and rubber offered vast economic peripherals to FELDA. The institution has diversified from the core upstream sector into downstream portfolios like milling, refining, kernel crushing, marketing, engineering transport, trading and security. Either on its own or

through strategic alliance, these economic ventures had turned FELDA into highly integrated conglomerate. “FELDA Plantations” had also been incorporated in 1992.

Waves of urbanization had brought facets of new development in some FELDA schemes. Due to close proximity to development corridors of the country, schemes like Sungai Buaya (in northern part of Kuala Lumpur), Bukit Cherakah (in the fringe of Kuala Lumpur), Sendayan and LBJ (both bordering the new Kuala Lumpur International Airport) were being re-developed into residential and industrial satellites. This had resulted in a drastic boom of land prices of these schemes. Many of the earlier settlers and families are now millionaires from the sale of their land.

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Figure 1: Distribution of FELDA Projects, Malaysia, 2000

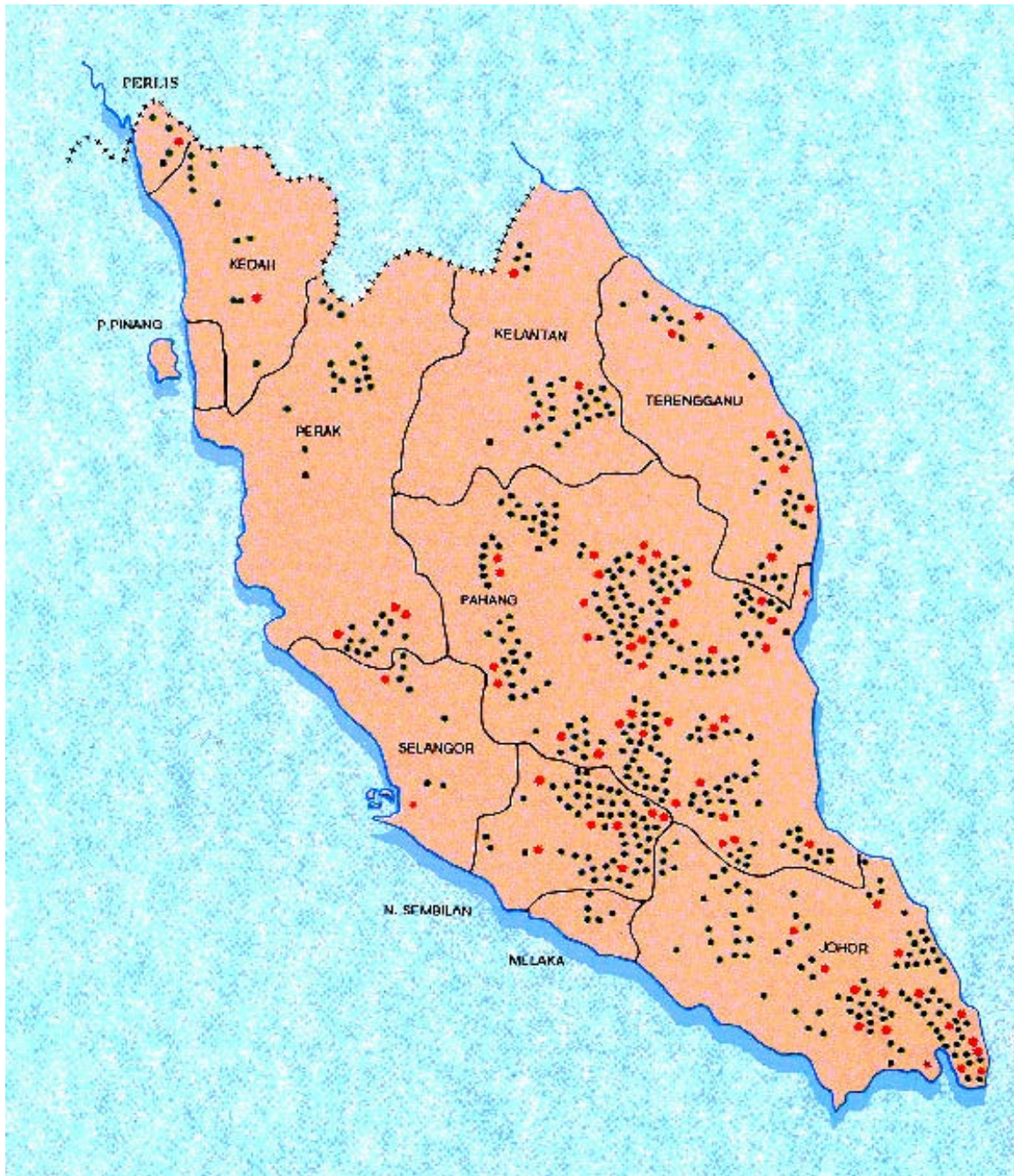


Figure 1: continued

