# Seminar on "Problems and Prospects of Rural Malaysia"

## 22 — 26 November 1985

DETERMINANTS OF RURAL POVERTY AND UNDERDEVELOPMENT:
THE CASE OF MALAYSIA

by
KHOR KOK PENG
Research Director
Consumers' Association of Penang

**CONSUMERS' ASSOCIATION OF PENANG**
**87 Cantonment Road,**
**Penang, Malaysia.**

# DETERMINANTS OF RURAL POVERTY AND UNDERDEVELOPMENT: THE CASE OF MALAYSIA

by

Khor Kok Peng

## PART I: INTRODUCTION

In many developing countries, economic growth has taken place simultaneously with the persistence of poverty, particularly among the rural population. At the same time the gap between the rich and poor countries, and between the rich and poor within Third World countries has widened. The promise of development has not been fulfilled for most of the people in rural areas in the Third World.

In the case of Malaysia, economic growth rates have been amongst the highest in the world in the 1960s, 1970s and up to 1985. Ours is a country with abundant natural resources and a well diversified export base whose expansion has in the past spurred the economy towards high growth. However, this growth has been unevenly distributed between geographical regions, economic sectors and socio-economic classes. A substantial portion of the population has not shared in the benefits of growth, and income inequalities have remained high. In 1973, the top 20% of households in Peninsular Malaysia received 54% of total income, whilst the bottom 80% of households obtained only 46% of total income.[1] In 1983, 497,600 out of 906,600 rural agricultural households had incomes below the poverty line, giving a high incidence of poverty of 54.9%. This was higher than the 1980 poverty rate of 45.7% for rural agricultural households.[2] With commodity prices being so low at present, the poverty rate among these households would have increased further at the end of 1985.

It is true that by some social indicators, especially health and education, Malaysia's level is higher than most developing countries. For instance in 1983, infant mortality rate was 21.1 per 1000; life expectancy at a birth was 65 years for males and 70 years for females; and the literacy rate was 71% in 1980.[3] However, it also cannot be denied that many rural households are still living in relative deprivation, with low incomes and basic needs still unfulfilled. Recent studies by the Institute of Medical Research have shown that 43% of pre-school children in poor kampongs suffer from malnutrition.[4] In 1980, 22% of rural houses in Malaysia had no toilet facilities altogether.[5]

In 1983, 49% of rural houses had no piped water and 63% did not have electricity.[6]

This paper attempts to provide some explanations for the continued poverty in rural Malaysia despite the country's relatively good growth of output up to the early 1980s. Most explanations of rural poverty in Malaysia have focused on an analysis of factors or structures within the rural area itself. Such theories range from the psychological explanations popular with the colonial administrators (i.e. the native people are culturally lazy and extravagant) to the analysis of land ownership and middleman exploitation. We can of course dismiss the unashamedly racist theories of culture and psychology. The analysis of structural factors within the peasant sector (land, credit, etc.) is valuable, but only partial. I believe that an adequate explanation for rural underdevelopment in Malaysia should incorporate the following major elements:

a. The international dimensions, or how the country's external dependence on other countries, effects rural incomes. Because of such dependence, the industrial countries are able to extract substantial surpluses from the rural produce. This results in unbalanced development at the global scale.

b. The national dimension, including the flow of surplus from rural to urban sectors and the utilisation of the surplus in investments mainly in urban areas at the expense of rural areas. This results in unbalanced and uneven development within the country.

c. Exploitative structures within the rural sectors themselves. An analysis is required of the specific modes of surplus extraction in each sector, i.e. the mechanisms through which the incomes of the rural producers are reduced and transferred to others.

d. The clash between the modern sector with superior technology and economic power against the traditional sectors, resulting in the small producers losing their resource base.

e. Environmental problems, including resource depletion and pollution, affecting the ecological bases of rural production.

The scope of this paper is too limited to provide a detailed exposition of these five factors. However I will attempt to provide an outline of these problems, giving estimates wherever possible. The paper will also give a brief conclusion on the implications of the current recession and other pressing problems on the future of the rural sector.

## PART II: SOME GENERAL CONCEPTS

This paper argues that poverty and inequality are closely related to one another. This relationship explains the paradoxical co-existence of high growth with persistent poverty. When an economy expands rapidly yet the poor remain poor then the only explanation is that the benefits of growth are accruing to a minority at the top and middle ranks of society. In other words, income is unequally distributed (causing poverty), and the extra income from growth is again unequally distributed (contributing to the persistence of poverty).

A major factor causing unequal incomes is the unequal ownership and access to productive assets (land, machinery, technology), financial resources (credit and surplus money) and distribution facilities (wholesaling, retailing, transport, storage, etc.). Since these assets and facilities are required for production to take place, those that own or control them are able to obtain a share of the output or income of the direct producers. This share which is obtained by virtue of ownership or control of assets and facilities is the result of the transfer or extraction of surplus. "Surplus" can be defined as that part of the output which is not consumed by the persons involved in its production or distribution. The surplus can represent either savings on the part of the producer (usually if he owns the productive assets) or else a transfer of part of the product (or its value) over to other persons or institutions. A "surplus transfer" usually occurs because the producer does not own the productive assets (land, machine, etc) which are essential for his economic activity. By virtue of their ownership or control of such productive assets, non-producers are able to exact a share of the output (for example, the landlord obtains rent; the capitalist, profits; the investor of money, interest). The flow of value to those controlling productive assets and economic processes can be termed "surplus transfer".

In the context on international economic relations, "surplus transfer" can be defined as income produced in a country but not accruing to residents of the country. "Transfer of surplus" thus refers to the flow of resources from one country to another on account of the latter's control or ownership of productive assets or distribution processes in the former. Such surplus transfers may include the repatriation of profits by foreign firms, the international transfer of value through unequal terms of trade, and the flow of interest to a creditor country.

The transfer of surplus from one country to another, from rural to urban areas, and ultimately from producers to owners of assets and facilities, is a major factor causing income inequality and poverty in the world as a whole, and in rural Third World areas in particular. Each production system or mode of production may have its own specific mechanisms of surplus transfer. In this paper it is not possible to give a detailed analysis of the different modes of production in operation in rural Malaysia. However I will try to give outlines of the analysis and hope they will shed some light on the structures causing poverty, inequality and under development.

## **PART III: INTERNATIONAL DIMENSIONS: EXTERNAL DEPENDENCE AND SURPLUS TRANSFERS**

The world market interacts with the rural areas of Malaysia in a number of ways and through this interaction substantial amounts of surplus are transferred from the rural sectors to foreign countries, mainly the rich industrialised countries. The Malaysian economy is over-dependent on the world market for investments, trade, finance and technology. Each form of dependence results in its own surplus transfer, thus causing the country to lose income. Since a large part of this income is originally produced in the rural areas, it is the rural population which carries most of the burden of external dependence.

The major form of dependence related to rural Malaysia is trade dependence. In 1985 merchandise exports accounted for 46% of the Gross Domestic Product. Of total exports of $38 billion, four major rural commodities (rubber, tin, palm oil and sawlogs) accounted for $11.9 billion, or 31%. Smallholders and workers involved producing and distributing these commodities probably form the largest segment of the Malaysian labour force. They are dependent on the world market for the demand and prices of their commodities. Thus to a large extent the incomes of the large part of the rural population are dependent on the world market. At present, (the end of 1985) commodity prices at very low levels, the role of the world market in causing persistent poverty is very clear. A downswing in the prices of rubber and palm oil can cause a corresponding fall in the incomes of hundreds of thousands of smallholders and estate workers. The low tin price has also led to the closure of mines and thousands thrown out of their jobs. Incomes are thus reduced by both low prices and unemployment. Between 1980 and 1983, the poverty rate increased for rubber smallholders (from 41% to 61%) and estate workers (from 35% to 58%) due mainly to the decline in rubber price. The present prices of rubber and palm oil are far below the 1983 level. In mid-November 1985 the price of RSS One grade of rubber was 180 cents per kilo (27% below the 1983 average of 247 cents) whilst the crude palm oil price was $670 per tonne (33% below the 1983 average of $999). Thus the present poverty rate among the 530,000 rubber and palm oil smallholders and estate workers would have increased substantially.

The low prices of Third World export commodities vis-a-vis industrial products of the rich countries which we in turn import results in a transfer of surplus from developing countries to the rich countries.

The poor terms of trade for Third World commodities
is largely due to the control of the commodity markets by powerful transnational corporations, through which they are able to obtain an overwhelming share of the revenue generated by the commodities, giving little left over to Third World producers.

This is amply shown in a series of brilliant studies conducted by Frederick Clairmonte of UNCTAD (with the assistance of John Cavanagh) on the control of the worldwide production and marketing of a wide range of commodities, including food and beverages; agricultural raw materials; and ores, minerals and metals. (See list of References) These studies conclusively show that a handful of transnational corporations by 1980 controlled 70-80 per cent of global commodity trade. Over the past two decades, domination of primary commodity markets has been concentrated further by the shift from single-commodity traders to mega multi-commodity trading corporations paramount in several global commodity markets. In the case of bananas, three transnational companies alone dominate 70-75 per cent of the global market; in cocoa, six corporations account for over 70 per cent; and in leaf tobacco, 85-90 per cent of trade is controlled by six companies. Clairmonte examines in detail the oligopolistic nature of the trade and distribution chain in commodities. His study on fibres and textiles shows that 15 trading companies control 85-90 per cent of world cotton trade. There is high level of collusion between these firms which dominate the purchase and sale of physical cotton and also control and manipulate prices on the New York cotton futures market. As a result the developing and centrally planned countries which produce over 80% of world cotton play a marginal role in determining prices, but are subjected to the destabilising effects of widely oscillating prices. Generally, due to the small size of the transnational corporations and collusion between them, they are able to exercise power in order to obtain prices geared to profit maximisation. Producers in developing countries are price-taker and generally obtain a very small portion of the sales value of their commodities. In the case of the world banana economy, Third World domestic growers obtained only 11.5% of the global retail value of bananas, the rest being earned by foreign enterprises controlling transport, wholesale and retail. Clairmonte estimates that for most commodities that enter international trade, value added by foreign enterprises accounts for 80-90 per cent of the retail price.

The already poor export prices of Third World countries are made worse by a steady deterioration in their terms of trade. Through this mechanism, surplus is transferred because the same unit of export produced can now buy less imports, thus resulting in a fall in living standards. A fall in terms of trade thus perpetuates poverty whilst increasing inequalities on a world scale.

In the case of Peninsular Malaysia, the commodity terms of trade has fallen substantially since Independence, from an index of 100 in 1959 to 58 in 1981.[7] Using 1959 as base year, the losses resulting from terms-of-trade decline were equivalent to 21.5% of the GDP in Peninsular Malaysia in the period 1971-75; 15.9% of GDP in 1976-80 and as high as 28% of the GDP in 1982. There are extremely substantial outflows, especially if we compare these with the country’s savings which averaged 23.6% of GDP in 1981-83. Terms of trade losses in Peninsular Malaysia were in other words equivalent to the entire savings of the nation. The country's savings rate could have doubled without such trading losses, thus enabling a much higher rate of investment which if properly channelled could greatly reduce rural poverty.

Besides these enormous losses, Malaysia has also to pay out large sums for freight and insurance to foreign ships carrying out exports and imports. This amounted about $2 billion per year in 1981-85.[8] Thus, a significant part of rural producers' incomes are creamed off by freight charges. In 1976-78 for instance, 12% of rubber export value from Malaysia went towards freight payment.[9]

Foreigners still also own a substantial share of corporate capital in Malaysia. In 1983, foreign residents owned 33.6% of total share capital in Malaysia.[10] This leads to an outflow of profits earned by the companies. Malaysia has also become heavily indebted to foreign banks since the early 1980s. The country's external debt will total $40.5 billion at the end of 1985, for which substantial interest payments have to be made. In 1985, investment income earned by foreign companies (on account of profits and interest) will total $5.8 billion or 7% of the GDP. This means less income available to the rural population directly (through lower income) and indirectly (through less funds available to government for rural development).

Finally, the world market also impinges upon the rural sector through high and increasing prices of imports of raw materials and machinery or equipment used by rural producers. With the increasing penetration of "agribusiness", Malaysian smallholders and farmers are increasingly using imported tractors, fertilisers, pesticides, and other farm materials. Since import prices are rising annually, the cost of production increases for the farmers, thus eating into their net incomes. Moreover, the use of foreign machinery renders the farmers subject to technological dependence. To maintain the equipment, spare parts at often highly inflated prices have to be paid for. Once "hooked" onto the modern agribusiness technology, the farmers have to surrender part of their gross income to pay for increased prices of material inputs and parts for equipment. This is on top of the increased cost of living, partly induced by the rising prices of imported consumer goods. Thus rural producers in Malaysia are often caught in a pincer between falling prices for their commodities and increasing prices for their production inputs and consumer items. This of course results in low net incomes – and persistence of poverty.

From the above it can be seen that external dependence is a major factor keeping a large segment of Malaysia's rural population in poverty. The most direct and immediate external determinant of rural incomes is of course the fluctuation in commodity prices. Within months or even weeks the incomes of smallholders can be chopped by large percentages as a result of the vagaries of the world market. An outstanding example is the sudden drop in the price of crude palm oil from $l,450 per tonne in June 1985 to $660 in mid-November 1985. With the rubber, tin and palm oil prices at extremely low levels in November 1985, the role of the world market in perpetuating poverty in rural Malaysia is very clearly seen.

## PART IV: NATIONAL DIMENSIONS: THE RURAL-URBAN FLOW OF SURPLUS AND INVESTMENT PATTERN

Very substantial surpluses are lost to the country due to external dependence and our weakness in international economic relations. However this only accounts for part of the explanation for rural underdevelopment in Malaysia. There are also substantial inequalities within the country by geographical area, between urban and rural areas. This is partly due to the fact that substantial surplus flows out of the rural areas to urban areas. This surplus is predominantly retained within the urban areas and spent by their owners for both consumption and investments. This sustains the higher consumer lifestyle of the elite and middle class in urban areas, as well as channelling investment and further growth and employment in the urban sectors.

How is surplus transferred from rural to urban areas? How is it retained and used in urban areas?

Firstly, most of the rich owners of productive assets – land, estates, and mines – live in urban areas. Part of the proceeds from rural production accrues to these property owners in the form of profit and dividends from estates and mines; rent from land farmed by tenants; part share of the revenue from share-cropping arrangements; and proceeds from leasing cultivated land on contract. Some of the surplus derived could be reinvested in the rural sector, for instance through replanting of crops, opening new mines, etc. However the owners usually also have business in urban areas and make use of the surplus derived from the rural sectors for projects in urban areas. Moreover, a large part of the surplus is used to sustain a high lifestyle in urban areas. This generates business in the urban areas, for instance leisure and entertainment services, supermarkets, hotels, etc. A large part of the consumer expenditure is spent on luxury imports, e.g. cars, alcohol, electronic goods, etc.

Secondly, surplus is withdrawn from the rural areas through the trade mechanism. Middlemen and traders cream off a substantial part of rural incomes. Dealers and wholesalers who purchase crops from farmers often pay them far below the retail price. Extraction of surplus through marketing has been shown in the case of rubber, fishing, vegetables, fruits and rice.[11] Farmers, fishermen and smallholders are usually tied down to one or two buyers who are able to dictate prices. At the same time, traders and shops sell production inputs and equipment at high prices to rural producers. Thus the same terms .of trade losses sustained at international level also takes place at national level, and the chain of middlemen from rural producer to final retailer takes away parts of the rural producer's surplus at each stage of production. Again, since most of the traders live in big and small towns, the surplus obtained is mainly spent in urban areas. Moreover, rural people also spend a large part of their income on production inputs (which generate business for urban industries or trading houses) or on consumer goods produced in urban areas or abroad. There is little retention of rural income within the rural areas.

Thirdly, many rural households are usually indebted due to their poverty. They borrow from shopkeepers, landlords, pawnshops, moneylenders, and dealers, since it is difficult to get loans from banks. The interest charged is often exorbitant. Often the person giving the loan is able to extract further surplus by tying the loan to the purchase of the farmer's produce at very cheap prices. Again, the surplus obtained is channelled to urban areas. Moreover although banks collect deposits from rural areas, very little is recycled to farmers as loans.

Fourthly, substantial amounts of tax are imposed on some rural producers. This is particularly in the case of rubber, where smallholders have to pay export tax, research cess and replanting cess, resulting in a very high tax burden. In 1973, the poorest rural households earning below $100 per month had a tax burden of 40.9% whilst those earning $100-150 per month were taxed 33.5%.[12] This was very high compared to the average tax burden of 34%

for the whole population and 28% for the whole rural population. Whilst rural households are thus heavily taxed (mainly through export and import duties, excise and sales taxes), government expenditure is mainly channelled to urban rather than rural areas. Even though substantial government funds have been given to land development schemes, irrigation in padi areas and subsidies for farmers and fishermen, yet in relation to total expenditure the proportion is not significant. In the revised 4th Malaysia Plan allocation, out of a total of $60 billion of development funds allocated, only $8 billion (or 16.3%) was for agriculture and rural development and only $211 million (or 0.4%) was for village and community development.[13] A sector by sector analysis would show that the bulk of the remaining expenditure (e.g. on commerce, industry, transport, communications, utilities, health, housing, etc.) is allocated for urban areas. If we look not only at federal government expenditure but also the investments of the Off-Budget Agencies, we will find that an overwhelming share of the public sector's development funds was spent on projects in urban areas. For instance, billions of dollars were spent on urban construction projects such as the Penang Bridge, Komtar, Dayabumi and other UDA and SEDC schemes; heavy industrial projects such as the national car and steel plants; and even the development of exclusive social clubs. Few of these luxury or capital-intensive projects will directly benefit the rural population.

The accumulation of surplus or savings and the direction in which it is channelled into investments is a crucial determinant of which sectors, geographical areas and products will expand or contract, grow or fall behind, develop or be underdeveloped and neglected. One of the best indicators of the utilisation of surplus is the direction of bank loans to various sectors. At the end of June 1985, outstanding commercial bank loans to agriculture were only $2.8 billion, or a mere 6% of total bank loans of $46.3 billion. In contrast, outstanding loans to manufacturing were $8.2 billion; real estate, construction and housing $15.9 billion; and general commerce $8.6 billion.[14] This shows that there is very little new private investment in agriculture. We have also seen that very little of total public sector expenditure is being directed at agriculture. Thus agriculture is being relatively neglected by both private and public sectors. In 1984, credit to agriculture from the whole financial system was $4.5 billion, or 7% of the $64.3 billion total credit given to the private sector.[15] In the same year agriculture and rural development accounted for 3.9% of total federal government expenditure and 13.3% of total federal development expenditure.[16] Thus it can be seen that agriculture is getting a very low share of investments in the economy. The private sector finds agriculture unattractive in view of the super-profits to be made from the property and housing sectors in the recent past. New investments flow to where the profits are highest and thus agriculture is left behind. Meanwhile, government expenditure is also channelled to urban areas at a higher rate than their population size. Again, the rural population is relatively neglected.

As a result of surplus being channelled and invested in urban areas, particularly in property and housing, the agricultural sector has suffered a substantial decline in recent years. The share of agriculture in the economy has fallen. Between 1970 and 1985, its share of employment fell from 50.5 to 35.2 per cent and its share of GDP fell from 30.8 to 19.5 per cent. In recent years the growth rates in agriculture have been dismal: - 0.6%, 2.8% and 2.1% in 1983 to 1985 respectively, when GDP growth was 5 to 7.6 per cent.

The decline in agriculture and rural areas vis-a-vis the overall economy is the result of unbalanced and uneven development in Malaysia between the regions, due to inequalities between urban and rural areas, the rural-urban transfer of surplus and the utilisation of the surpluses and external loans in urban areas.

## PART V: STRUCTURES WITHIN THE RURAL SECTOR

After discussing the international and national dimensions, we should also examine the structures and institutional factors within the rural areas to see how they contribute to poverty and inequality. In this analysis we will make use of the concept of the "mode of production".

A mode of production is a specific complex structure comprising the ownership of productive assets, control over marketing and credit facilities, type of labour process and pattern of income distribution. Each of these components is related to the others, so that they comprise a particular structure or system. The distribution of income, which is tied to the ownership and control of productive and marketing facilities, is linked directly to the various mechanisms of surplus transfer.

In the rural areas, there are three major modes of production which operate and co-exist with one another in different sectors. These are the:

a. Capitalist corporate export sector, comprising estates and mines. They are owned by corporations which employ workers who are paid wages (daily or monthly). The companies arrange for credit and marketing, some having their own processing factories and their own trading subsidiaries. Income distribution is thus primarily between profits and wages. This mode of production covers rubber, palm oil, coconut, tea and other estates, as well as tin mines.

b. The petty mode of production, in which farmers, small-holders or fishermen own their own production facilities (such as land and boats) sufficient to employ their own family labour. If the producer consumes his own produce (e.g. rice), then we call it the petty subsistence mode. If he markets his produce (e.g. rubber) then it is the petty commodity mode. In such a system, the producer does not transfer surplus on account of ownership of assets but is able keep his own net income for the household. However, the producer usually does not control marketing facilities (which are crucial in the petty commodity mode) and thus surrenders part of his surplus to the dealer or trader. He may also require credit facilities, and thus transfers part of his surplus to the moneylender. Thus, surplus is transferred on account of trade and credit but not ownership of productive assets.

c. The "semi-feudal" mode of production, in which peasants also operate. However in this case, they do not own productive assets, and thus rent in land or boats and nets. Thus the tenants have to transfer part of their surplus to the landlords or boat owners in the form of rent or through income-sharing arrangements. Surplus is also lost through trade and credit, as in the petty mode.

In the peasant sector in Malaysia, the petty and semi-feudal modes co-exist even within the same village, and there are also "impure" combinations of the two modes in a single household. For instance, a padi farmer may operate six acres of land, of which he owns three and rents in the other three acres. He is termed an "owner-operator-cum-tenant" or "owner-tenant operator," and belongs to a social formation comprising elements from both the petty and the semi-feudal modes. In Malaysia, the padi, fishing, vegetable and fruit growing, and rubber smallholding sectors belong to this social formation.

Another point worthy of note is that there are three varieties of marketing processes. Firstly, where a peasant produces solely for his family's own consumption, there is no marketing of his produce and thus no loss of surplus through trade. Due to the high degree of commercialisation in agriculture, such a peasant is rare in Malaysia, although subsistence agriculture may still be prevalent among shifting cultivators in East Malaysia. However, in areas producing food (rice, vegetables, fish), peasants may partly consume and partly sell their produce and thus half-participate in the trading process, thereby losing trading surplus for that part of their produce which is sold. Secondly, there are products such as rice, vegetables, fish, fruits, livestock and eggs which are marketed wholly or mainly within the country. In such cases the producer may lose trading surplus to the chain of Malaysian middlemen and traders but the surplus is retained within the country. Thirdly, there are the export crops or products such as rubber, oil palm, cocoa and tin which are mainly exported, where prices are determined by international traders. A large part of trading surplus is thus lost to the country in the form of high trading margins of the commodity dealers, and freight and insurance charges of foreign firms.

## The Capitalist Export Sector

In this sector, there is continuous poverty in the estates due to the low wage rates paid which can hardly keep up with inflation. Preliminary estimates from CAP[17] based on official statistics show that:

a. The average real monthly wage (in 1967 prices) of rubber tappers in estates was $130 in 1983, which was 8% below the level in 1974 ($142) and 14% below the level in 1979 ($151)
b. The average real monthly wage (in 1967 prices) of oil palm harvesters in estates was $155 in 1983, which was 19% below the level in 1980 ($192) and only 14% above the 1967 level ($136).

Further, the share of income going to wages has remained low through the years. In 1981, wages comprised only 7.8% of the sale value of estate rubber. In 1980 the share of wages in the net income of large rubber estates was only 32% whilst gross profits accounted for 68%. From this it can be seen that the rate of surplus extraction is very high in this sector.

Despite attempts by the rubber estate union to convert the present system of daily-paid wages to a stable monthly wage system, estate employers have refused to do so, giving the reason that their companies will become unprofitable. The mass inflow of immigrant labour and the daily-rate system have combined to keep estate wages at levels which have not improved over the past two decades.

Decreasing employment opportunities have also acted to depress incomes in the corporate export sector.[18] In the tin mining sector, 20,000 workers lost their jobs in the past five years with the employment level dropping from 40,080 in July 1980 to 22,761 in April 1985. In rubber estates, the total workforce dropped by 35,000 from 157,872 in December 1980 to 123,239 in April 1985. Thus, about 55,000 jobs were lost in tin mines and rubber estates in the five years from 1980 to 1985.

The maintenance of low wages, the low share of wages in net income of the companies, and the retrenchments due to the poor demand and prices determined by the world market have combined to account for persistent poverty and continuing wide inequality in the capitalist export sector.

The Peasant Sector

The peasant sector comprises rubber and oil palm smallholders, coconut smallholders, padi farmers, vegetable and fruit cultivators and fishermen. As stated earlier this sector is characterised by a combination of the petty mode of production and the semi-feudal mode.

In terms of land size, most smallholdings in Peninsular Malaysia are small. According to 1970 Census data, there were around 545,000 smallholder households operating the land and another 87,000 “absentee landlords” who rented out the land of the smallholdings, 44% were below 3 acres in size and another 22% were 3-5 acres; thus, two-thirds the smallholdings were below 5 acres in size. The small size of land operated is a major cause of low incomes. In padi, 90% of single-crop farmers own plots below 2.5 hectares, the minimum size required for poverty-line income.[19] In rubber, 50% of smallholders in 1977 owned holdings less than 2 hectares in size.[20] Poverty is closely related.to these small plots of land.

In terms of land ownership, the 1970 Census shows that of the 631,574 smallholder households, 14% were “absentee landlords”, 56% were owner-operators, 20% were pure tenants whilst 10% were owner-tenant operators (i.e. they operated their own land as well as rented in land). From this, it can be seen that 56% of the smallholders were within the “petty mode of production”, owning the land they operated without paying rent to anyone. However another 20% of smallholders were pure tenants, paying rent for all the land they used, thus belonging to the semi-feudal mode. The 10% owner- tenants paid rent on part of the land they used, whilst 14% of agricultural households were “pure landlords” who did not farm but obtained rent from the pure tenants and the owner-tenants.

For the tenant farmers or smallholders, rent becomes an important form of surplus transfer. The arrangements for payment and the quantum of rent are varied. In the case of padi, half the farmers are owner-farmers, 25% tenants and another quarter are owner-tenants. About 60% of padi lands are operated by the owners themselves whilst 40% is rented to tenant farmers.[21] In the East Coast, rent is usually paid on a crop-sharing, (pawah) basis, as a fixed share of' the crop. In Kelantan in most instances the share of the crop going to the landlord and tenant is equally divided.[22] In the West Coast states, cash rents are more prevalent. A study by Selvadurai in

Table 1

Smallholder Households by Size of Land, Peninsular Malaysia, 1970

| Farm size (acres) | No. of smallholder households | % |
|---|---|---|
| Below 1 acre | 54,244 | 10 |
| 1 - 3, acres | 187,602 | 34 |
| 3 - 5 acres | 121,085 | 22 |
| 5 - 10 acres | 122,085 | 22 |
| 10 - 15 acres | 34,441 | 6 |
| 15 - 25 acres | 16,689 | 3 |
| 25 acres & above | 7,955 | 2 |
| Total | 544,849 | 100 |

Source: S. Selvadurai, Agriculture in Peninsular Malaysia (1979), p. 13
Note: This table includes only smallholders operating the land and excludes absentee landlords.

Note: Figures do not correspond with total in Table 1

Table 2

Agricultural Households by Tenure Status, Peninsular Malaysia, 1970

| Tenure status | Total No. households | % of households | Average acres operated |
|---|---|---|---|
| Owner-operators | 353,398 | 56 | 5.7 |
| Tenant operators | 127,941 | 20 | 3.9 |
| Owner-tenant operators | 63,510 | 10 | 6.8 |
| Absentee Landlords | 86,725 | 14 | - |
| Total | 631,574 | 100 | |

Source: S. Selvadurai, Agriculture in Peninsular Malaysia (1979), p.14-15

1972 gives estimates showing that rent constituted 21% of the net income of tenants in Sungei Manik, 25% in Province Wellesley and 42% in Kelantan (Table 3). Selvadurai estimates that the net returns per acre of double-cropped land in 1975 for owners-farmers in high productivity areas as $880 whilst a tenant-farmer will get $600. In this estimate, rent would be $280 or 32% of the tenant's income. In low productivity areas, the net returns would be $500 per acre for owner farmers and $320 for tenant farmers, implying that rent would be 36% of income.

Table 3

Rent Proportions in Padi, 3 areas

| | | | Tenant Farmers in |
|---|---|---|---|
| $ Per Acre | P. Wellesley | Sungai Manik | Kelantan |
| 1. Rent | $62 | $43 | $61 |
| 2. Total production cost | 176 | 78 | 91 |
| 3. Value of padi produced | 360 | 248 | 173 |
| 4. Net income of tenant | 184 | 179 | 83 |
| 1 as % (1 + 4) | 25% | 21% | 42% |

Source: Selvadurai, Padi Farming in West Malaysia (1972)

In the case of rubber,[24] 70% of rubber smallholding land is believed to be owner -operated, 25% owned by non-operators (i.e. land rented out by landlords) and 5% "mixed" (partly owner-operated, partly rented). Of the total 490,000 smallholdings, 70% are owner operated (occupying 64% of land area); 13% operate under wage labour (occupying 15% of land); 11% operate under share-cropping (10% of land). A few smallholdings operate under lease (pajak), rent, and mortgage (gadai). Thus about a quarter of the smallholdings occupying also a quarter of total smallholding land area is operated under wage labour or share cropping. In both cases, the proceeds of sales is divided equally between the landlord and the operator. Rent is therefore 50% of the output, constituting a high degree of surplus transfer.

Marketing constitutes another major problem for farmers who tend to obtain low prices for their products. The high trade margins obtained by dealers and other middlemen constitute surplus transfers. Even in the case of padi where there is a minimum guaranteed price, farmers often complain that private traders as well as LPN deduct excessive amounts from the price for moisture content. Other malpractices include short weighing of the padi through tampering of the weights. One major problem is that due to indebtedness, farmers are forced to sell to their creditors. A study of Krian district showed 57% of farmers were indebted to their padi buyers.[25]

In. the case of vegetables and fruits, a survey by Ooi Kim Aun in October 1980 shows that there is a monopolistic system of marketing in which the farmer is totally dependent on wholesalers for credit.[26] The wholesaler is thus in a strong and exploitative position and the farmer has to accept whatever price is offered. In the case of some vegetables, the retail price is three or four times higher than the price received by the farmer. For instance for cucumber the farm price was 13 cents a kati but market price was 55 cents.

Other findings include lady's fingers (farm price 27 cents per kati, wholesale price 45 cents, retail price 70 cents); sawi: farm price 40 cents, wholesale price 70 cents, retail price 110 cents; and long beans: farm price 22 cents, wholesale price 50 cents, retail price 75 cents. In the case of fish, Ishak Omar shows excessive profits are made by middlemen and retailers.[27] In 1980, it only cost $16 to transport fish from Kuala Trengganu to Kuala Lumpur but the price difference was $41. The mark up in fish prices between the Kuala Lumpur wholesale market and Kajang retail market (14 miles away) was 40-100 per cent depending on the fish species.

In the area of credit, many farmers also face difficulties. Most farmers require credit for both consumption and production because of their low incomes, and thus become indebted. According to Selvadurai (1979: p.58) about three-quarters of the padi farmers are in debt and most of the loans are for consumption purposes. A study of four Johore districts in 1971 showed that 39-58 per cent of rubber smallholders were in debt. (Table 4) A study of padi peasants in Kemubu in 1968 also showed 72% of the farmers were indebted. (see Table 5) According to Selvadurai: "The results of the survey show that the amount borrowed during the year exceeded greatly the amount repaid during the same interval. This indicates that the size of the debt increased over the course of the year. Thus 73% of the farmers reported borrowing an average amount of $305 but only 50% made repayments during the year and the average amount repaid was only $191."[28]
Source: S. Selvadurai, Ani b Arope, Kemubu Study, 1968.

Most, of the credit obtained by farmers come from "informal sources" rather than financial institutions. According to Mokhtar Tamin, 70% of credit given to the rural sector comes from informal sources, especially shopkeepers-cum-dealers and pawnshops which provide for half of rural credit.[29] According to Selvadurai's study of three padi areas in Kelantan, Malacca and Selangor in the 1960s, moneylenders (merchants, landlords and wealthy farmers) provided 66-85 per cent of the loans to farmers, whilst relatives and friends provided 9-33 per cent of the loans. (Selvadurai 1979: p.58). It is believed that the informal sources of loan charge rates of interest which are higher than banks. The interest paid on loans is another form of surplus transfer.

From the above it can be seen that poverty in rural areas is also caused by structures and institutional factors within the rural economy itself. In particular there is the problem of land shortage and the small size of land, the lack of competitive and good marketing system and the indebtedness of farmers. The already low incomes of farmers are taxed further by surplus transfers in the form of rent (paid by tenant), trading losses and interest charged on loans.

## PART VI: CLASHES BETWEEN THE MODERN.AND TRADITIONAL MODES OF PRODUCTION

In the previous section we considered the structures within rural sectors that contributed to poverty. In doing so we focused on the transfer of surplus from rural producers. In recent years however many rural producers have faced an even larger problem – a threat to their sources of livelihood due to a clash between the modern and the traditional modes of production. In particular, the corporate sector is rapidly expanding, armed with financial resources made available by the banks and by their own internally generated surplus. The characteristic of this mode of production is to expand its operations in order to survive and progress. As a result, it is penetrating deeply into the geographical areas and resources occupied or used by the petty and semi-feudal modes of production, causing displacement of the producers from their means of livelihood.

<u>Table 4</u>

Debt of Rubber smallholders, W. Johore, 1971

| District | % farmers in debt | Avrg. debt ($) | % farmers indebted to rubber dealers and average amount | |
|---|---|---|---|---|
| | | | % | $ |
| Pontian | 52 | 88 | 49 | 55 |
| Muar | 58 | 495 | 8 | 186 |
| Batu Pahat | 39 | 182 | 24 | 137 |
| Avrg. all districts | 46 | 229 | 28 | 102 |

Source: S. Selvadurai, Socio-economic survey of rubber smallholdings in West Johore (Mry of Agric 1972)

<u>Table 5</u>

Indebtedness of padi peasants, Kemubu, 1968

| | Average debt of indebted farmers |
|---|---|
| Debt one year ago | $232.87 |
| Borrowing during year | $305.06 |
| Total | $537.93 |
| Repayments during year | $190.87 |
| Balance of debt at time of interview | $347.06 |

Source: S. Selvadurai, & Ani bin Anope, Socio-economic study of Padi Farms in Kemubu, Kelantan 1968

In the process the capitalist, mode, which controls more surplus and thus capacity for growth and investment, “swallows up” the petty and semi-feudal modes. The producers in these traditional systems are displaced or thrown out of their livelihood, and eventually have to seek employment in the capitalist mode itself. In its unremitting expansion, the capitalist mode therefore destroys viable village economic activities, dislocates the traditional producers from their land and in the process makes available new employees for its own operations.

This phenomenon takes place within an economic sector itself as well as takes the form of a clash between different sectors. When it takes place within a sector, the activating agent is usually the introduction of a new and more powerful form of technology. For instance in the fishing sector, the big trawler boats owned by businessmen, operated by a crew who are paid wages and using more powerful boats and nets, have intruded into the inshore fishing grounds of traditional fishermen, who have been operating on the basis of family labour using simple but effective traditional methods. The trawler businessmen have little consideration for ecology because their interest is quick profit. When the fishing grounds are overfished they can change their line and invest their capital in some other sector. Thus the fishing grounds have been gradually depleted of fish. The catch in the fishing industry has fallen and the future of the small fishermen is now in the balance.

Another example is the introduction of new technology such as combined harvesters in the padi sector. This makes it profitable for businessmen or large farmers to rent in large tracts of land. It also encourages ordinary farmers to use the machines in place of casual labour. The introduction of the new technology has thus displaced agricultural labourers and encouraged a trend towards land concentration.

When the clash takes place between modes of production in different economic sectors, there is often a more open and clear cut confrontation. The most common forms this takes in Malaysia are:

a. The urban area rapidly expanding and encroaching into agricultural communities. Here we have various private and public sector projects such as highway and road construction, shopping-office block complexes, and housing estates, taking over land being rented by agricultural producers and thus displacing them from their livelihood and residence;

b. Large tracts of forest being destroyed by logging companies or by the construction of dams, thus displacing village communities (especially indigenous peoples). This is currently happening on a wide scale in the East Malaysia states;

c. Pollution of the rivers and seas caused by industrial effluents, causing the death of marine life and thus affecting the catch of traditional fishermen. Here it is the wastes of industry which destroy the basis of livelihood of communities.

The continuous expansion of the capitalist mode will lead to more and more of the traditional modes of operation being eaten up. If the displaced farmers are unable to find employment the resulting joblessness will increase poverty.

'

## PART VII: SOME CONCLUSIONS

There are international, national and sectoral factors at work which have together contributed to the persistence of poverty and the widening of inequality despite economic growth in Malaysia. For a satisfactory explanation of rural underdevelopment we therefore need to understand both external dependence and internal structures, for they both result in rural producers and workers losing substantial surplus. The importance of both factors in determining the conditions of poverty can be illustrated by an example using two export crop farmers. Smallholder A owns and operates seven acres of rubber and obtains all the income accruing to his output (although he could of course be exploited by the middleman nexus). Smallholder B also operates 7 acres but being poor is a pure tenant and through share-cropping arrangements gives half his income to the landowner. When the price is $3 a kilo, the 7 acres yield a net income of $400 a month. Smallholder A keeps all the $400 whilst Smallholder B gets only $200. Thus, internal ownership structure is an important cause of Smallholder B's poverty. Now let us suppose the rubber price drops to $l.50 a kilo. Then A's income drops to $200 whilst B's income falls to $100. The fall in export price also has contributed to poverty. Now Smallholder A has become poor even though he owns his own land, whilst Smallholder B is doubly crushed by falling world prices and the transfer of half his income to his landlord.

However, looking statically at external dependence and internal structures alone is also insufficient. We also need to analyse the dynamics of economic developments. In this context, we need to examine firstly the impact of the world economic slowdown on the rural sector. Secondly, we need to analyse the interactions between the capitalist and the traditional modes of production, since this is causing large-scale displacement of farmers.

The current recession and the capitalist displacement of traditional agricultural activities are having a serious effect on the rural sector. The first effect is direct – the fall in commodity prices reduces incomes, the displacement of communities halts agricultural production and affects employment and income. But there is also a crucial indirect effect. In the past two decades, surplus labour has flowed from rural to urban area. With the recession affecting all sectors, it is most unlikely that the urban economy can expand as rapidly in the past. There is a slowdown in job creation in the government, construction and manufacturing sectors. They will no longer be able to absorb masses of rural people into their employ.

Therefore there is a strong case to be made to place top priority now on agriculture – and on a type of agriculture that is not export oriented (for the world market is now so much constrained by recession and protectionism), but caters for the local market. In this respect, food production is an obvious area for development that we should fully encourage.

It is now not only timely but also urgent for a comprehensive review be taken of Malaysia's agricultural sector. In such a review, many issues related to rural poverty should be studied and policy dilemmas and alternatives should be weighed carefully. Among the issues are the proper balance between producing for exports and producing for the local market; the choice of crops to grow and encourage; the question of land alienation, distribution, ownership, land shortage and the small size of land plots; problems relating to land tenancy, marketing and credit; the urban-rural relationship; and the utilisation of government expenditure for the benefit of the rural poor.

After almost three decades of Independence, rural Malaysia is now increasingly demanding what is justly theirs, that they share in the benefits and fruits of development. The rural poor, more than any other group, have the right to genuine development. If the economy is arranged in such a way as to continue pumping investments mainly in urban centres, especially if there are luxury projects which do not satisfy basic needs, then the rural population will not be granted their full and fair rights to development. We should therefore construct and implement a new model of agricultural and rural development which engenders greater self-reliance from the world market, which provides productive assets and marketing and credit facilities to the poor, which fulfils the basic and human needs of the majority and which does not damage the ecological balance but is instead in harmony with the environment.

References


1. Jomo K.S. and Ishak Shari, Income distribution and. the role of the state in Peninsular Malaysia, In Osman Rani, Jomo and Ishak, Shari (ed), Development in the Eighties (1981), p. 215

2. Malaysia, Mid-term review of the Fourth Malaysia Plan (4MP) (1983), p. 80

3. Mid-term Review 4MP, p. 79

4. Institute for Medical Research Malaysia

5. Statistics Department Malaysia, General Report of the Housing Census 1980, Vol. 1 p. 35

6. Mid-term Review 4MP, p.79

7. Khor Kok Peng, Dependence in the Malaysian Economy (1983), p.229

8. Ministry of Finance Malaysia, Economic Report 1985/86

9. Khor Kok Peng, op cit., p. 186

10. Mid-term Review 4MP, p. 101

11. See Part V of this paper

12. Ismail Salleh, "The Burden of Taxation on Consumers," (1980), paper at CAP Seminar on Economics, Development and the Consumer, 1980

13. Mid-term Review 4MP

14. Ministry of Finance Economic Report 1985/86, p.113

15. Bank Negara Annual Report 1984, p.55

16. Ministry of Finance Economic Report 1985/86

17. Preliminary data from CAP study on rubber

18. Data in this paragraph are from Statistics Department, monthly Bulletin of Statistics, July 1985

19. Ministry of Finance Economic Report 1984/85, p. 175

20. Ministry of Finance Economic Report 1983/84, p. 167

21. S. Selvadurai, Agriculture in Peninsular Malaysia (1979)

22. S. Selvadurai & Ani bin Arope, Socio-economic study of padi farms in the Kemubu area of Kelantan 1968 (1969)

23. S. Selvadurai (1979) op. cit., p. 55 - not in the text

24. These estimates are based on the 1977 Risda Census of Rubber Smallholders

25. Fatimah Arshad, Impact of Padi and Rice Marketing Structure and Practices, paper at CAP Seminar on Economics, 1980

26. Ooi Kim Aun, the Marketing of Vegetables and Fruits, paper at CAP Seminar on Economics, 1980

27. Ishak Omar, Fish Marketing in West Malaysia, paper at CAP Seminar on Economics, 1980

28. S. Selvadurai & Ani bin Arope (1969), op.cit.

29. Mokhtar Tamin, Rural Credit: Past Record, present and future, paper at CAP Seminar on Economics, 1980

30. S. Selvadurai (1979), op. cit., p. 58 - not in the text

Please take note: Reference no. 23 and 30 are not in the text