

## **Does revitalizing agriculture as a growth engine defy logic?**

By Quah Boon Huat

According to the Malaysia Productivity Corporation's Productivity Report 2010/2011 which was launched on 12 May 2010, Malaysia's aggregate productivity grew a commendable 5.78% in 2010, very much better than the previous year's -1.94%. As expected, manufacturing did extremely well, topping the rankings list at 9.42%. In the previous year, manufacturing productivity had contracted 11.94%.

Agriculture (which includes forestry, livestock and fishing) came in near the bottom of the productivity rankings. In spite of the V-shaped recovery of the Malaysian economy in 2010, productivity grew just 1.82%.

How has agriculture performed in terms of productivity growth over the last 10 years? What about its share of gross domestic product (GDP)?

During the 9th Malaysia Plan (2006-2010) period, agriculture's productivity growth rate had averaged 2.65%, which was lower than the nation's aggregate productivity growth rate of 3.00%. In the 8th Malaysia Plan (2001-2005) period, it had been 2.08% versus 2.36%.

Thus, at least over the last decade, agriculture's productivity growth, on the average, had lagged behind Malaysia's aggregate productivity growth. Not only that, the growth gap had increased.

In terms of contribution to GDP, its economic importance had started declining in the early post-independence years when Malaysia set its sights on industrialization. In 1960, agriculture's percentage contribution to GDP was 37%. By 2000, the figure had fallen to 8.4%. And in 2010, it was 7.3%.

Despite agriculture's decline, there has been a surge in renewed interest in it, starting in the 9MP. According to the 9MP document, agriculture will be revitalized to become the third engine of growth. And under the 10th Malaysia Plan (2011-2015), agriculture and palm oil and related products have been designated National Key Economic Areas (NKEAs).

So, does revitalizing agriculture as "the third engine of growth" defy logic?

The answer, of course, is No.

Sure, agriculture's share of GDP is small and declining. But that doesn't mean we should allow the decline to continue.

Why? It's easy; think food security.

And though no longer a dominant growth engine, agriculture still has an important macro-economic role. It is important especially in the rural areas where it provides income, employment and investment opportunities.

Also, with 2020 just around the corner, Malaysia needs every growth engine to run

effectively and smoothly to ensure that Vision 2020 becomes a reality.

But for agriculture to live up to the government's expectations, the government must tackle the issues the sector currently faces. In the candid words of the 10MP document, the sector faces issues like "limited access to suitable land and financing, lack of skilled workers, uneconomic scale operations, inadequate support services, lack of R&D support and weak linkages to the market".

We can also add to the list the issue of weak inter-sectoral linkages.

Analyses using the 1991 and 2005 input-output tables published by the Department of Statistics Malaysia show that agriculture's backward and forward linkages had actually deteriorated over the 1991-2005 period. It was also not a key sector in both years.

A key sector is a sector that has both backward and forward linkage indices above unity. Strong backward and forward linkages are important because of their growth multiplier effects. In other words, growth in a key sector, as compared to growth in a non-key sector, will induce stronger economic spillover effects.

What can be done to strengthen agriculture's inter-sectoral linkages and help it graduate into a key sector and therefore a credible growth engine?

One answer lies in moving the government's agricultural interventions away from 'production-centric strategies' and encouraging the farming/production subsystem to link-up with the post-harvest subsystem. In so doing, agriculture would be able to increase its contribution to the overall economy because there would be greater avenues for value adding along the entire agro-supply chain.

So, there is indeed logic in revitalizing agriculture as "the third engine of growth". But for agriculture to evolve into a credible growth engine, it needs help. There are issues that must be tackled urgently. Among them are its weak inter-sectoral linkages.

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