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THE MALPRACTICE OF MIXING LOCAL RICE WITH IMPORTED RICE IN MALAYSIA: HOW POLICIES INFLUENCE MARKET BEHAVIOUR

by Dr Sarena Che Omar

ABSTRACT

Recent revelations by MARDI confirm widespread malpractice in Malaysia's rice market, where local rice is being mixed with imported rice and sold at premium prices under misleading labels. This article explores the structural and policy-induced factors behind such behaviour, rather than focusing on identifying culprits. It highlights how prolonged price controls, specifically the Guaranteed Minimum Price for paddy and the ceiling price for local rice have created a "squeezed middle" in the supply chain, reducing profitability for millers and incentivising unethical practices. Drawing on economic theories and international case studies, the article argues that controlling both ends of the supply chain has made the industry uncompetitive and vulnerable to manipulation.

Furthermore, existing legislation lacks specific provisions to regulate the mixing of rice types, leaving consumers exposed. The article proposes a phased, well-communicated reform of the rice price ceiling as a more sustainable path forward—one that protects consumers while revitalising the domestic rice industry. Without addressing these structural inefficiencies, Malaysia risks continued malpractice and a deeper reliance on imports, which threatens its long-term food security.

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THE MALPRACTICE OF MIXING LOCAL RICE WITH IMPORTED RICE IN MALAYSIA: HOW POLICIES INFLUENCE MARKET BEHAVIOUR

by **Dr Sarena Che Omar**

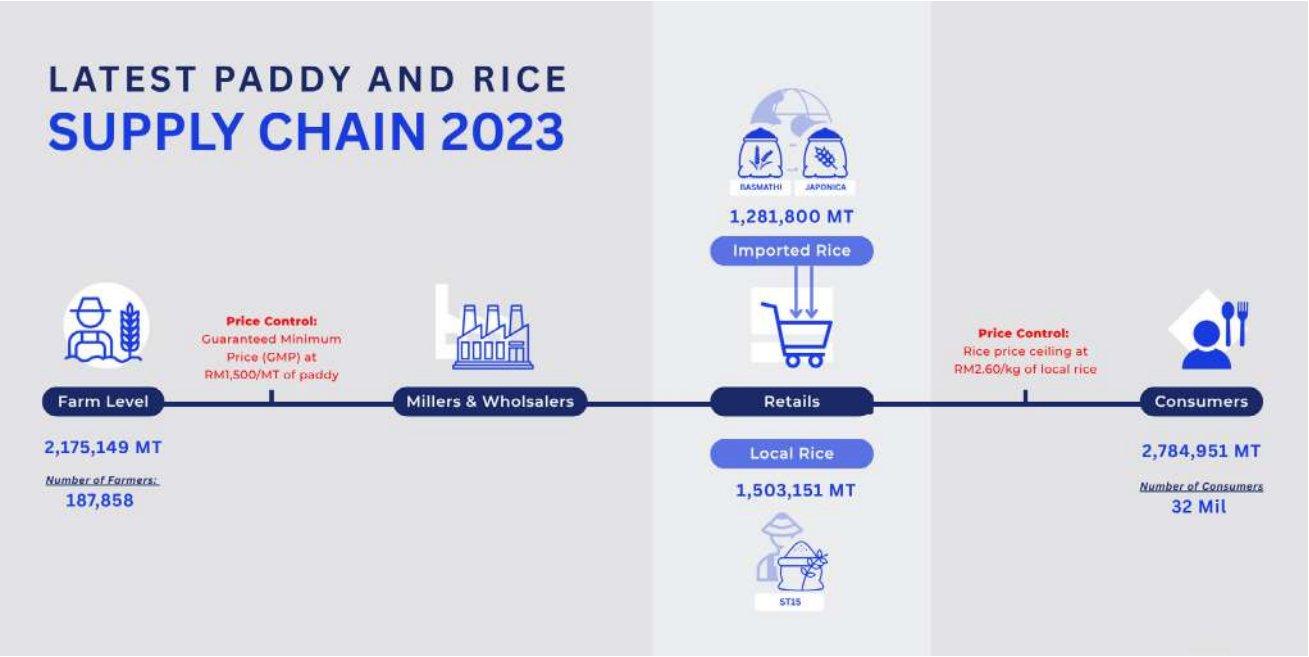
Malaysia has been shocked recently when MARDI announced that their DNA fingerprinting test analysis confirmed that almost 2,500 out of 5,000 samples of rice labelled as imported rice sold in Malaysia, had local rice mixed in it (Yamin; 2025). This implies that consumers are being misled when they purchase a bag of imported rice, which they paid a premium price for, thinking it is 100% imported rice, when in fact, it has been mixed with what presumably would have been cheaper and lower-quality local rice.

While this has been suspected for some time, it has only recently been proven. Credit is due to the researchers at MARDI for confirming these suspicions and allowing subsequent targeted actions and policy decisions to be made based on concrete evidence.

This brief article does not intend to discuss the authenticity of the analysis, nor how it is being analysed. It is also not aimed at speculating which companies are responsible. Instead, this article aims to discuss why these parties behave in such a way. This is important as simply catching the perpetrators will not solve the structural issues of the paddy and rice industry. As long as the structural issues are not addressed, such incidents of malpractice will likely persist in various forms due to regulatory loopholes. This paper explores the types of structural and market issues that have led to such malpractices that ultimately put consumers at the losing end.

The Paddy Industry at a Glance

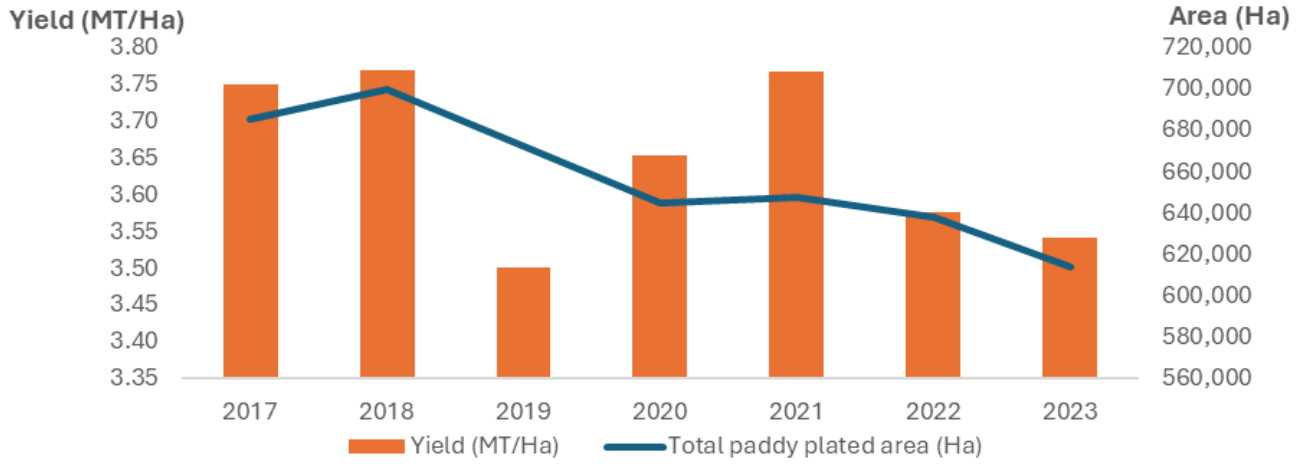
Figure 1: Malaysia Paddy and Rice Supply Chain, 2023



Source: : (Ministry of Agriculture and Food Security 2025)

Referring to the latest data statistics published by the Ministry of Agriculture and Food Security, in 2023 there were 187,858 paddy farmers nationwide, producing about 2.2 million MT of paddy, which has a conversion ratio of 69% into 1.5 million MT of rice (Figure 1).

Figure 2: Malaysia's Total Paddy Planted Area and Paddy Yield from 2017 to 2023

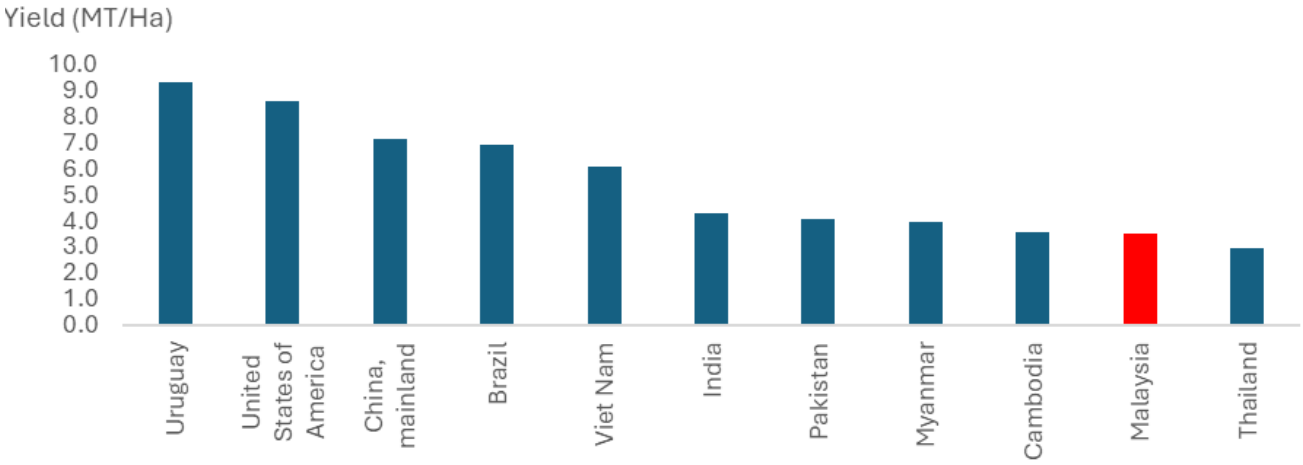


Source: (Ministry of Agriculture and Food Security 2023, 2025)

Since this was insufficient, the remaining 48% was imported. If we look at the longer-term trend, the numbers are concerning. Since 2017, there has been a steady decline in total paddy planted area by 10% reduction to 614,082 Ha in 2023 (Figure 2). It is acceptable if the slight decline in total land area is compensated by an increase in yield or productivity (measured in metric tonne per hectare). Unfortunately, our national productivity average per hectare has also shown a long-term decline by 5.6% from 3.75 MT/Ha in 2017, to 3.54 MT/Ha in 2023.

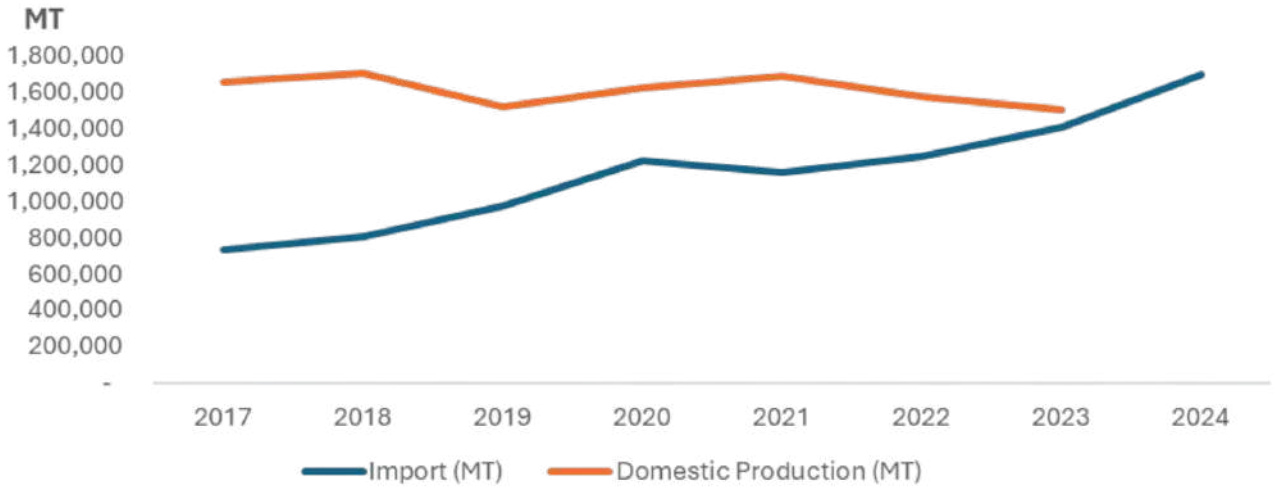
Furthermore, this yield is lower than the yield of the world's top 10 rice exporters (Figure 3). These statistics indicate that our paddy and rice industry is lethargic. If the current trend continues, we will likely expect to experience reduced domestic production and higher reliance on imports (Figure 4). This scenario may be a result of the long-term regulatory and structural restrictions, which will be further elaborated in the next section.

Figure 3: Comparing the Paddy Yield (MT/Ha) of the World's Top Ten Rice Exporters, with Malaysia, 2023



Source: (FAO 2025)

Figure 4: Malaysia's Total Rice Import and Domestic Production from 2017 to 2023



Source: (COMTRADE 2025) HS Code 1006, Year 2017 – 2024

The Economics of Price Controls

Given the importance of this industry to Malaysian citizens, there have been laws such as ACT 522 and policies that were put in place to secure the supply and price of rice to Malaysians. Credit when it is due, these regulations have indeed benefitted the public, where rice is made available most days of the year and at very low prices. This, however, came at a cost to the industry. This paper will focus on the impact of two market interventive measures: the paddy price floor, and rice price ceiling.

The price of paddy sold by the farmers to the millers, directly impacts the farmer's profits, while the price level of local rice sold at the stores impacts consumers (Figure 1). In the literature, there has been much debate over this traditional policy dilemma: should governments provide high prices at the farm gate to encourage production (which leads to higher prices at the consumer end) or ensure low prices to protect consumption at the risk of supply shortage?

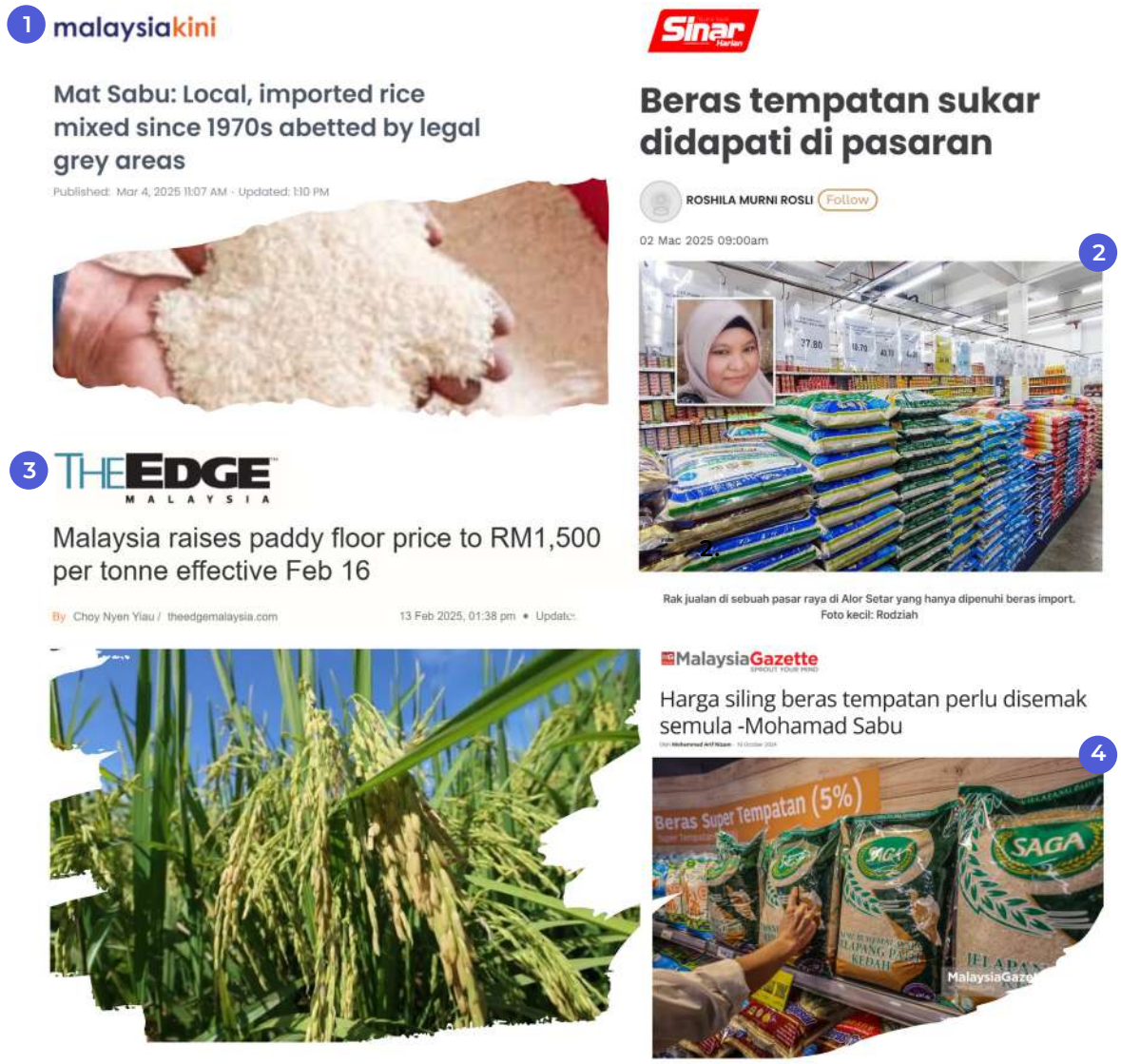
In the short term, high farm gate prices do benefit farmers (price floor), but they also result in higher retail price. Meanwhile, lowered food prices (price ceiling) do benefit consumers but discourage production upstream as profits are limited. Thus, short-term, there is the economic trade-off where the benefit of one party, comes at a cost to the other party.

However, in the long term, it is important to note that higher food prices without market intervention creates a more dynamic industry. Here, profitability encourages more production, better quality, and improved economic growth of rural communities, which compensates for the higher food prices (Díaz-Bonilla 2016).

So, how does the discussion above, apply to Malaysia? First, we need to understand the impact of price controls, through an economic angle.

Price controls are measures introduced by governments which could either be price ceiling or price floor. A price ceiling is introduced at the retail end, where the prices of goods are controlled from rising above a decided 'ceiling' price. It is often used by governments to protect consumers from being exposed to high prices of essential goods. Price floor, are introduced at the farm gate as a measure to protect the farmers' interests by keeping a price of a good from falling below a "floor" price. For example, the current price floor for paddy is at RM1,500/MT Guaranteed Minimum Price (MADA, 2025), while price ceiling of *Beras Putih Tempatan* is at RM2.6/kg (Nizam; 2024).

Figure 5: Newspaper Headlines on Rice Mixing, Price Increases, and Local Rice Supply Issues



Source:

1. *Malaysiakini. "Govt Studying Need to Raise Local Rice Ceiling Price – Mat Sabu." Last modified October 16, 2024. https://www.malaysiakini.com/news/736222.*

2. *Sinar Harian. "Beras Tempatan Sukar Didapati di Pasaran." Last modified July 18, 2024. https://www.sinarharian.com.my/article/715490/berita/nasional/beras-tempatan-sukar-didapati-di-pasaran.*

3. *The Edge Malaysia. "Paddy, Rice Industry Players Urge for Better Policies and Coordinated Efforts." Last modified July 17, 2024. https://theedgemalaysia.com/node/744241.*

4. *MalaysiaGazette. "Harga Siling Beras Tempatan Perlu Disemak Semula – Mohamad Sabu." Last modified October 16, 2024. https:/malaysiagazette.com/2024/10/16/harga-siling-beras-tempatan-perlu-disemak-semula-mohamad-sabu/.*

The standard demand and supply model can be used to explain the impact of introducing price ceiling and price floor (Goodwin et al. 2022). Before a price ceiling is introduced, assume the equilibrium price is at E_0, where quantity supplied (S_0) equals quantity demanded (D_0). However, imagine that the government insists to maintain the price at E_0 to ease its citizens' cost of living, while demand continues to rise from D_0 to D_1. As prices are cheaper than the equilibrium price, quantity demanded increases, but the quantity supplied is still at S_0. This creates shortages and, in most cases, entails a deterioration of the quality of the product supplied. This is because the producers make little profit when being forced to maintain a price of E_0 under the new demand curve. This discourages producers from producing more in quantity, or from producing higher quality products. In this case, the opportunity cost of keeping prices low, resulted in lowered supply and poorer quality.

Meaning, introducing a price ceiling may ease consumers' cost of living, however it is likely to lead to shortages or quality deterioration. This is because a price ceiling set lower than the equilibrium sustains, or encourages the product's demand, but not its supply. Suppliers lose the profit incentive to produce more or ensure high quality of production. As an example, rent control in Massachusetts from 1985 to 1998 has been shown to cause some form of deterioration of the rental houses and a shift of the housing market away from a rental status (Sims 2007). In another systematic review study, Kholodilin (2024) reviewed more than 200 academic materials on rent controls across 51 countries and concluded that rent controls resulted in poorer housing quality and housing supply, among others.

In the case of a price floor, it is the lowest price that can be paid for a given good or service. An example of this is the minimum wage and the price floor at the farm gate. The main purpose of a price floor is to protect suppliers from price volatilities so as to ensure that the providers of inputs, such as sellers of goods and labour (e.g. farmers and employees) can enjoy a stable and a fair income. In a market with perfect information, the price of the product, the quantity supplied, and the quantity demanded would result in an equilibrium price, E_0. However, when price controls in the form of price floors are introduced, which sets the price higher than the E_0, there will be a surplus of products supplied, as farmers are willing to produce more than what is demanded in order to enjoy higher profits. This results in a situation of 'oversupply' or unsold products. If governments or its agencies have to come in to purchase them as a buyer of last resort, it comes at a cost to the taxpayers. In Malaysia, BERNAS is the buyer of last resort of paddy. While it doesn't come at the direct cost of tax payers, BERNAS must replace this loss somewhere, hence the sole right to import rice to cover its losses is given to BERNAS. The higher the need of buyers of last resort, the more uncompetitive the industry becomes, which ultimately impacts the tax payers/citizens.

According to Avignon and Guigue (2024) from the *Institut des politiques publiques* (IPP), price floors can be suitable when there is monopsony power such as that experienced by many farmers selling to a single or a few large buyers, provided that the price floor carefully reflects global commodity prices. Meaning, price controls are useful when free market fails to deliver competitive pricing due to cartels, supply hoarding or monopolistic distributors. There are also non-economic objectives of price controls such as national security, political stability and rural economy preservation. But this discussion focuses on the economic lens, and thus, while the importance of non-economic objectives recognized, is not elaborated further here.

More often than not, the full benefit of introducing price floors does not happen in most cases and leads to market inefficiencies. For example, there is some argument that an increase in unemployment (surplus of labour in the market) is experienced due to the introduction of minimum wage (price floor). A study on minimum wage within OECD countries showed that a 10% increase in minimum wage causes a drop of 0.7% in employment and increases unemployed by 0.64% (Kim and Lim 2018). While this topic is highly debated, the purpose of this example is to show that market interventions including price controls carry impactful consequences to the economy, both positive and negative.

The Impact of Price Controls on the Paddy and Rice Industry in Malaysia

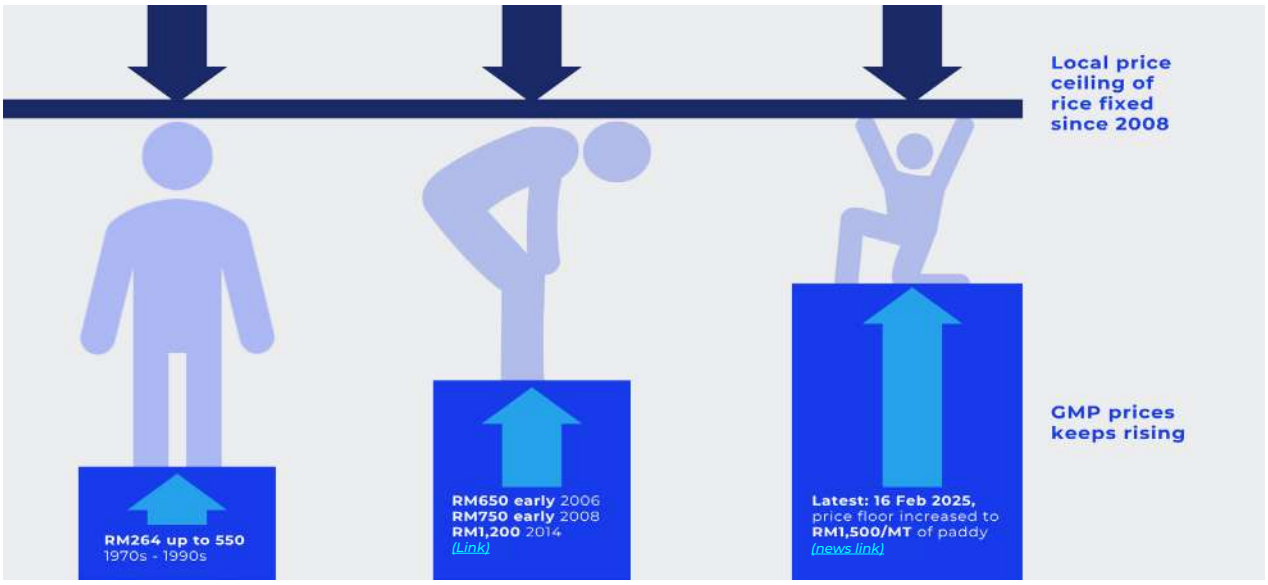
So how does Malaysia circumvent this trade-off between imposing a price floor and a price ceiling? In the case of Malaysia's paddy and rice industry, we have ended up controlling both ends of the supply chain. Meaning, implementing both price floor (to benefit the farmers) and price ceiling (to keep retail prices low to benefit consumers). This created an artificial market, and the only other country that does so to their paddy industry, is Indonesia (Firdaus 2018).

The Guaranteed Minimum Price ("GMP") of paddy sold to millers, was first introduced in 1998 at RM550/MT of paddy. This policy was introduced to ensure that farmers receive a fair price for their paddy, to retain paddy farmers for food security reasons. Based on the author's engagement with paddy farmers, however, the effect of GMP is short-lived as markets tend to adjust, such as the costs of input, machine, and land rent increases within a few seasons of the introduction of GMP[1]. Over the years, this has resulted in a vicious cycle whereby GMP was increased multiple times to cope with higher costs of production, which later increases total paddy production as a market reacts to the higher GMP.

At the same time, there is a price control at the consumer end. Since 2008, the ceiling price of rice has been maintained at RM2.60/kg for *Beras Putih Tempatan* (Nizam; 2024). So, what are the implications of implementing both policies over a long period?

Imagine standing within a lift, where the floor keeps moving up, but the ceiling remains at the same position. The person in the middle will eventually be squeezed. As GMP keeps rising at the farm gate level ('lift floor'), while the price of local rice at the consumer end remains the same ('lift ceiling'), it implies that over time, profits obtained within the middle segment of the paddy and rice supply chain, decline (Figure 6).

Figure 6: Illustration on the Squeezing of the Mid-section of Malaysia's Paddy and Rice Supply Chain as Floor Prices Keeps Rising



Source: PNBRI and MADA pers.com (2025)

As first predicted by author (Dr. Sarena Che Omar) in her report titled "The Status of the Paddy and Rice Industry" 2019, squeezing of the midstream segment results in either the exit of smaller millers, the upstream and downstream expansion of larger millers, and, the occurrence of malpractices (Omar, Shaharudin, and Tumin 2019). All three predictions have been confirmed. As shown in the data below (Table 1), the number of millers has decreased over two decades, as they are unable to maintain a profit under such circumstances, while the output has grown. This suggests consolidation: while smaller players have to exit, the surviving larger ones have been expanding their operations.

[1] Author's personal communication with paddy farmers from the Northern States.

Table 1: . Number of Paddy Millers and the Estimated Output Value

Year	Number of Registered Millers	Output Value (RM mil)	Output Value (RM mil) per miller
2000	291	1,254.3	4.31
2010	211	2,278.4	10.80
2020	157	4,603.5	29.32
2022	171	9,221.6	53.93

Source: Banci Ekonomi dan Survei, DOSM

Millers that have sufficient capital, are able to expand its milling operations to achieve economies of scale, move downstream and upstream or into other businesses in order to diversify business risks. However, those without capital (usually the smaller millers), will have to eventually close their business due to the tighter profit margins. This explains the drop in the total number of millers but the increase in the total value of output. Additionally, there are claims that some midstream segments of the supply chain resorted to questionable practices such as unfair paddy quality ratings, modified scales to measure the paddy harvests, and the mixing of local (cheaper) rice with imported rice (more expensive) in order to maintain a profit. This happens because local rice is sold at such a low price that it is no longer profitable, and to survive as a business, mixing it with imported rice (which is not price controlled), allows these industry players to attain some level of profit when the mixed product is sold as 'imported' rice.

This suggests that prolonged price controls leading to the squeezing of the middle segment of the supply chain, promotes the malpractice behaviour including the incidence of the mixing local and imported rice. It also possibly explains the incidence of shortages or absence of local rice, and low quality being evident in the industry.

The Role of Laws and Regulations

The paddy and rice industry is one of the most regulated crops in Malaysia, with controls across the supply chain from paddy cultivation, movement of paddy, storage of rice, up to price controls at the stores. However, upon scrutinizing all Acts relating to the paddy and rice industry, particularly Act 522, there is no clause that specifically covers the control against the mixing of local and imported rice.

The closest relevant Act, in this case, would be Section 5 of Trade Descriptions Act 2011 related to the labelling and the claims made i.e misleading the consumers. Currently, there is no regulation stating the percentage of imported rice a bag of rice should contain to be labelled as imported rice. It is only on the pretext that labelling it as 'imported' implies to the consumers that it is 100% imported. When in reality, it could only comprise 80% or even 50% of imported rice (as an example). This act of labelling without a declaration of purity level with the intention to mislead consumers, is thus, contestable.

Regardless, even if a new regulation is introduced to prevent the mixing of rice, it is merely putting a band-aid on new problems but does not address the structural disability of the industry.

Thoughts on the Way Forward

In summary, the narrowing of profit margins in the midstream segment resulting from increasing paddy price floor without adjusting the rice price ceiling, may have resulted in a non-competitive industry. This imbalance, leads to the tendency to commit malpractices. Having said that, it is acknowledged that abruptly removing the rice price ceiling (floating prices) may come as a shock to the consumers who are already burdened by food price inflation. This may not be seen as a strategic nor compassionate move on the part of the government. Nonetheless, it can be deemed to be a brave and necessary move in order to save the industry over the long term, as it will benefit the consumers through adequate supply and quality of produce.

One of the best-case studies to reference is the significant and positive impact of the 1980s New Zealand agricultural reform (deregulation). The removal of subsidies and control prices such as guaranteed minimum prices for wool and lamb had, in the long term, transformed New Zealand's sheep and wool industry into a global leader (Rae, Nixon, and Lattimore 2004).

The current minister of Agriculture and Food Security, YB Datuk Seri Haji Mohamad bin Sabu, announced in November 2024, that his team will be reviewing the paddy price ceiling (Choy 2024). This is a step forward in the right direction. It is recognized that a significant amount of research and careful considerations must be done before a decision is made on whether to float the price of rice for end consumers. However, we must avoid overdeliberation on this matter, lest we miss the opportune time for meaningful reform. In order to manage the impact on consumer wallets, a possible compromise is not a sudden floating price, but a gradual and well-communicated increase in the price ceiling for local rice with regular impact assessments. In the long term, this saves the industry by creating a more sustainable industry for the private sector to compete fairly and thrive. Only by having thriving paddy and rice supply chain players, can consumers be assured of the sustainable supply of affordable and quality local rice.

Image source: S photographer (2025) from Adobe Stock

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