After the Boom: Responding to Falling Rubber Prices in Northern Laos

Overview

Rubber prices in northern Laos have fallen significantly over the last few years, eroding much of the initial enthusiasm of both farmers and government officials about rubber providing a way out of poverty for poor upland farmers. This thematic study examines responses to this price drop by Lao rubber growers and state institutions in northern Laos. It also examines the reasons that prices are what they are, given that price volatility was identified as a risk during the mid-2000s, and that in at least some cases, steps were taken to protect contract farmers from falling prices.

The study

Drawing on 20 days of fieldwork in mid-2015 in five districts and seven villages of Luang Namtha and Oudomxai provinces, this study is one of the first efforts to connect an earlier body of research on the rubber-planting boom of the 2000s with the subsequent fall in prices.

Its focus is on qualitative changes that have taken place – and are currently continuing – in northern Laos. These were captured through 33 key informant interviews with 68 participants at the provincial, district and village levels, complemented with a review of available scientific literature, media reports and online sources as well as consultation with a small group of expert researchers.

Responses to falling rubber prices

The drop in prices, both globally and in northern Laos, has been precipitous (Figure 1). From highs around CNY 14/kg of lump rubber in 2011, prices paid to Lao farmers fell by half, then by half again, reaching a low of around CNY 3.5/kg in 2014. Prices during the fieldwork period for this study were just slightly higher and have since fallen even lower.

Rubber remains a significant smallholder crop in the north, and the fall in prices has placed a serious strain on rubber-based livelihoods. This has prompted a range of responses by both state institutions and rubber growers.

Responses by government

Responses by government institutions include forming provincial- and district-level committees on rubber; using these committees to broker rubber sales at prices (slightly) higher than those being offered by rubber-purchasing companies (in some cases waiving of companies’ tax requirements in return); and encouraging smallholders to work hard and “stick it out” until prices rose again.

These encouragements happen both informally and via policies aimed at preventing conversion to other land uses (e.g. bananas).
Despite the effort expended by these committees, their impact remains limited due to low leverage over companies’ ability to dictate rubber prices to Lao rubber growers and, in the absence of substantial regulatory intervention, the ongoing power of Chinese markets to drive land use decisions in Laos.

Among the most important responses to falling rubber prices by government officials has been a decision to not enforce minimum (“floor”) prices that were, in at least three of the districts we studied, allegedly written into company contracts. This is especially notable given the limited leverage in the brokered rubber sales mentioned above, and it highlights the fact that the extreme exposure to global price swings currently being faced by Lao rubber growers is, at least in part, the result of policy decisions rather than simply a lack of planning.

Responses by rubber growers

Responses by growers include waiting for prices to rise (i.e. not tapping); continuing to tap but relying largely or only on household labour; taking collective action to attract (slightly) higher prices; and selling or leasing plantations to wealthier actors who either maintain them in rubber or convert to current boom crops such as banana.

The widely discussed phenomenon of land conversion to bananas is occurring in multiple districts where we conducted fieldwork, but is difficult to measure, in part because state efforts to ban land conversion to banana probably selects for under-reporting by growers and state officials alike.

Especially notable is the fact that many rubber plantations are going un-tapped because they have been sold out of the smallholder arrangements under which they began, and are now in “large-holder” production arrangements where prevalent wage labour or share-cropping schemes make tapping economically unviable. In such a context, only smallholders who use household labour “can afford” to tap, although this reflects their precarious situation. Smallholders we spoke to who continue to tap would like to see prices in the range of 50–100 percent above current values, and explain their choice to continue tapping by noting the need to recoup their earlier investments even while markets are poor.

Figure 1. Global versus “farm-gate” rubber prices, Luang Namtha, 2000–2015
Source: Index Mundi (SCE data) and Luang Namtha PICO (annual purchase price data)
Changing relations between companies, government and rubber growers

With Chinese companies basically dictating prices to Lao growers, falling global demand has brought more localized issues of market power into view. Many of the key informants we spoke to – both rubber growers and state officials – noted that control over rubber imports into China by a limited number of companies (probably just three) is an important factor in setting prices.

The prices that Lao growers receive are substantially lower than what Chinese growers receive; while good data is difficult to get, Lao prices seem to be roughly half what Chinese growers command (although with substantial variation). While some of this difference may be due to quality, monopoly control over the border trade – and in particular access to quota-based import allowances – seems to be a major factor. Growers and government staff in Laos thus note the need to have more discussions with Chinese authorities about opening the border to Lao rubber, as well as pursuing other options for its sale.

Although rubber was widely imagined during the 2000s as a strategic crop for northern Laos, efforts to scale up the successful experience of Ban Hat Nyao did not materialize. While the Chinese companies charged with scaling up the smallholder model received significant subsidies from the Chinese government, Lao farmers did not significantly benefit from these arrangements and thus rejected or sold many of the plantations that resulted. This, combined with a price crash that occurred just as rubber was coming into production (unlike in Ban Hat Nyao, which had seen prices rise), selected for the emergences of larger plantation holders and undermined the conditions under which a smallholder model could prosper.

Regulating the rubber market to protect smallholders

Rubber can still become a strategic smallholder crop in line with the vision of the agriculture sector that is often put forward by Lao ministerial officials, but the consolidation of rubber holdings that has occurred in the last few years must be recognized and addressed.

If rubber is to become a strategic commodity, it needs to be actively treated as such; this means actively regulating the market rather than letting rubber behave like a classic “boom crop” that follows globally dictated cycles of boom and bust. Experience across Southeast Asia (and China) suggests the possibility of protecting smallholders from the swings of global markets and the opportunistic behaviour of the private sector, for example through regulating prices via a mix of contracting and state-based price supports (see details below), and pursuing a mix of diplomatic and local efforts.

Such an approach would need to recognize that current conditions are not simply the result of global market forces, but local factors as well, and address the latter through coordinated institutional and policy efforts.

Such efforts might include: (1) enforcing contracted floor prices where they already exist, requiring reasonable floor prices in new contracts, and investigating legal possibilities for renegotiating existing contracts to include reasonable floor prices and other protections; (2) creating a state price support (subsidy) mechanism that would purchase rubber from farmers at a higher and more stable guaranteed price, as is currently done elsewhere in the region; (3) providing other (e.g. land-based) subsidies to poorer and/or smaller-scale rubber growers, so as to target support to growers who need it most; (4) changing government policies to further incentivize value-adding within Laos, so as to take power away from actors who control the export market; and (5) undertaking diplomatic efforts to place rubber (both processed and unprocessed) on the list of freely exportable goods.

Current government efforts focus largely on getting farmers to self-organize in order to enhance their collective bargaining power, and using negative policy instruments like conversion bans to influence land use decisions. The tools suggested above are based on a more active approach to regulation. This approach would be more expensive to implement – simply put, regulation costs money – but given the limits to current policies, it is likely to be more effective at helping Lao rubber growers in both the short and long term.
This brief is a summary of the original study:


The document is available on line at: http://mrlg.org/resources/after-the-boom-responding-to-falling-rubber-prices-in-northern-laos/

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