

# Falling Rubber Prices in Northern Laos: Local Responses and Policy Options

Thoumthone Vongvisouk, PhD  
National University of Laos, Faculty of Forestry

Michael Dwyer, PhD  
University of Bern, Centre for Development and Environment

16 December 2015

## Executive Summary

Rubber prices in northern Laos have fallen significantly over the last few years, eroding much of the enthusiasm developed by both farmers and government officials in the 1990s and early 2000s about rubber providing a way out of poverty for poor upland farmers. The drop in prices paid to Lao rubber growers has been precipitous (**Figure 1**); from highs around CNY 14/kg of lump rubber (*yang korn*) in 2011, prices fell by *half, then by half again*, reaching a low around CNY 3.5/kg in 2014; prices during our fieldwork were just slightly higher (~CNY 4) and have since fallen even lower (~CNY 2.5).

This study examines responses to this price drop by Lao rubber growers and state institutions. 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 prevent contract farmers from falling rubber prices. 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 pieces of research to connect an earlier body of research on the rubber-planting boom of the 2000s with the more recent fall in prices. Its focus is on qualitative changes that have taken – and are currently taking – place in northern Laos; these were captured through 33 key informant interviews with 68 participants at the provincial, district and village levels, as well as a review of available scientific literature, media reports and online sources and consultation with a small group of expert researchers.

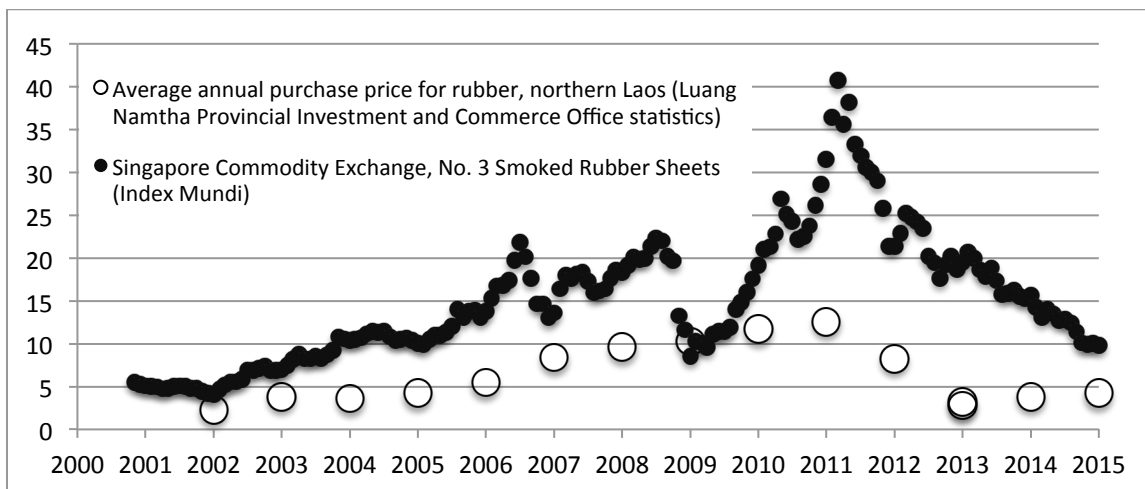


Figure 1. Global versus “farm-gate” rubber prices, Luang Namtha, 2000–2015

Rubber remains an important 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 and alike.

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 using the waiving of companies' tax requirements as an incentive); and encouraging smallholders to work hard and "stick it out" until prices rise again, both informally and via policies (e.g. a ban on conversion to bananas) aimed at preventing the switch to other land uses. Despite the effort expended by these committees, their impact remains limited due to low leverage over companies' abilities to dictate rubber prices to Lao rubber growers.

Among the most important response 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 that we studied, described to be 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 a policy decision rather than due to a lack of planning.

Responses by growers include waiting (not tapping) for prices to rise, continuing to tap but relying largely or only on household labor, taking collective action to attract (slightly) higher prices, and transacting their plantations through sales or leases, either to wealthier actors who maintain plantations as rubber or investors who convert to current boom crops like bananas. The widely discussed phenomenon of land conversion to bananas is occurring in multiple districts where we conducted fieldwork, but may be less common than many people imagine; however, efforts to ban the conversion to bananas probably selects for under-reporting by both growers and state officials alike.

More important, we argue, 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 labor or share-cropping schemes make tapping economically unviable. In such a context, only smallholders who use household labor have an economic incentive to tap. Smallholders who are continuing 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.

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 the importance of control over rubber imports into China by a limited number of companies (probably just three). 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 the major factor. Growers and government staff in Laos thus note the need to have more discussions with Chinese authorities about opening the border rubber trade, as well as pursue other options for the sale of Lao rubber.

Although rubber was widely imagined as a strategic crop for northern Laos during much of the 2000s, efforts to scale up the successful experience of Ban Hat Nyao did not materialize. This was due in part to the difficulties of translating the public-sector-based crediting arrangement Ban Hat Nyao received into the private-sector credit model of product-split-based contract farming, and in part due to the drop in rubber prices that has occurred just as large areas of rubber plantations are coming to maturity. Ban Hat Nyao, in contrast, had its plantations mature just at the beginning of a long price *increase*.

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 possibly addressed. Moreover, if rubber is to become a strategic commodity, it needs to be actively treated as such; this means regulating the market rather than letting rubber behave like a classic “boom crop” (i.e. following globally dictated cycles of boom and bust). Experience in the region suggests the possibility of protecting smallholders from the swings of global markets and the opportunistic behavior 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; (3) providing other (e.g. land-based) subsidies to poorer and/or smaller-scale rubber growers, so as to target state 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 commodities.

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 will be more expensive to implement – simply put, regulation costs money – but given the limits to current approaches, they are likely to be more effective at helping farmers in both the short and long term.

Our work also identified a number of areas for additional research. These include (1) quantifying the distribution and dynamics of rubber holdings, given the substantial but unmeasured shift from smallholding to “larger-holding” in recent years; (2) studying the strategic dimensions of Chinese agribusiness so that Lao farmers are better able to benefit from transnational commodity chains (this includes the need for much better data on rubber prices than is currently available); (3) studying the household-level and social implications of smallholders’ continuing to tap their rubber using household labor at very low prices; and (4) understanding the role of indebtedness – including but not limited to debt accumulated from smallholder plantation establishment – plays in current decisions about land use, land conversion and land transactions.