

## Spring Rice Harvest 5.19.96

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### **Mekong River Basin Development Issues**

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Spring Rice Harvest

The winter-spring rice crop is in and it was another prosperous year for Vietnam. At the beginning of the year, it looked as if last year's record prices and restraints on exports would be repeated. In January, a typical newspaper headline cried "Rice Prices Soaring!" (VNS 1/30/96) By May, however, headlines said "Paddy Low Price Causes Difficulty for Farmers." (STD 5/10/96) This year's main harvest ended up somewhere in between, with increased supply and prices lower than last year, but still higher than the historical average.

At the beginning of the year, paddy rice prices in Vietnam rose from 1900 dong per kg (equivalent to US \$172 per ton) to over 2100

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dong per kg for standard 15% moisture rice. These prices were higher than the usual price of 1200 dong per kg at the beginning of harvest. By late March, the price had dropped to 1700 dong per kg, which was still well above prior years. Currently the price in the Mekong Delta is as low as 1,300 to 1,500 dong per kg, still higher than in years past when it usually falls to about 1000 dong per kg at the end of harvest.

When supplies began to pile up and prices started to fall earlier in the spring, the government took action and bought paddy rice at 1800 to 2000 dong per kg, shipping some 300,000 tons to the north, where milled rice prices had risen to 4,300 dong per kg, and putting the rest in reserve. Preferential loans were made to government food companies to buy rice in an effort to stabilize the price. Vietnam negotiated government to government sales and shipped rice as repayments against the national debt. These actions helped maintain domestic prices through mid March. However, when the full impact of the bumper winter-spring crop began to be felt, prices began to decline rapidly, although they remained above price levels in previous years.

#### Effect of Prices and Policies on Farmers

The factors that influence prices have not changed: demand, supply and credit availability for farmers and processors. But rising rice prices early in the season in Vietnam only benefitted those farmers that could harvest early. Most farmers faced having to sell their rice in a declining market. This year, the Central Bank severely restricted credit lines in an effort to control inflation. Processors were not able to get credit to buy rice. Farmers were not able to pay their debts. Panic selling then forced the prices down. Even with production at record levels, fewer farmers are reaping the profits of this harvest. Some are unable to pay the government tax on their rice, others are not able to repay their production loans and borrow to invest in the next crop.

In the north and central areas it is worse. Crops already planted for the summer-autumn season were devastated by bad weather. They have suffered an extended cold spell which was the worst in 40 years, as well as a drought which caused water levels to drop by half in some areas. Farmers have not replanted damaged crops, despite pleas from the government to do so. All over Vietnam, rice blast and insect damage are destroying rice crops. This years floods in the Mekong Delta could hurt the next harvest. As a result of these repeated hardships, many rural households are giving up farming or turning to other crops.

The volatility of the commodity market in Vietnam's planned economy also adversely affects farmers. It is difficult for the government to be responsive enough and act quickly to cushion

extreme swings in pricing. Often, the damage is being done faster than the corrections can take place. The farmers are the most vulnerable. They watch prices fall and then are forced to sell in a declining market to pay off their bank debts, which can involve interest rates of over 2% per month (the equivalent of 24% per annum) or more from private lenders. The Vietnamese rice farmer is still riding a government constructed roller coaster in this economic transition into a market economy.

The traders and middle men, meanwhile, are able to exploit this system. They have the liquidity to buy low, hold inventory, and sell it later when demand rises. The way in which the government implements its laudatory goal of stabilizing prices, controlling inflation and guaranteeing food security, often plays into the hands of the traders. Unless some effort is made to address this profiteering though, farmers will not reap the benefit of their increased productivity. Inevitably, then, farms will be consolidated, fewer farmers will till larger areas, and unsustainable industrialized farming will take over in Vietnam, leaving countless small farm households without their way of life.

Rising rural migrations are already documented. In Vietnam, the gap in income between farm and industry is growing and a greater percentage of farmers are becoming landless. Farmers per capita income remains at \$200, below the rising national average of \$300. (VET) Changes in labor practices is the fastest growing trend in rural life in Vietnam. Hiring labor is becoming much more common, with 5.6 % of households in the Mekong Delta now earning their living working for hire under contract, rather than farming for themselves. The Mekong Delta Development Research Center predicted 2.8 million displaced farmworkers in the Delta will be moving to the cities by the year 2000. (ST)

Vietnam has now consolidated all rice exports under two state owned corporations. Rather than loosening its grip on rice trade, Vietnam is exerting more controls. The new export monopoly has put dozens of local and regional exporters out of business. These smaller exporters dealt directly with the farmers, who may eventually be able to grow and export higher quality rice. Farmers should be able to hold crops in an unstable market, and not be forced to sell to traders when they are caught in a credit squeeze. Currently, a major part of Vietnam's rice exports are government to government sales of very low quality rice (25% broken) such as sales to the Philippines and Cuba. Exports of low quality rice do not provide farmers with the kind of profit that provides them with an incentive to store, process and ship rice in ways that enhance quality, not to mention the effect of shipping such low priced low quality rice on farmers in the importing countries. Farmers who provide massive quantities of low quality rice through industrialized farming methods are simply becoming the outdoor equivalent of factory workers.

When low quality rice exports dominate the market, farmers get only the lowest price. Money is made by traders as the rice changes hands on its way to the port. Overseas, low quality exports compete at the bottom of the world market on the basis of price. And world trade in low quality rice is weak, somewhat volatile and subject to major disruptions, such as last year when India suddenly exported over 4 million tons of low quality rice. Last year, Vietnam's farmers were able to sell everything that looked white, even 25-35% broken, due to massive smuggling to China. This year, since farmers like to plant what sold well last year, they planted high yield low quality varieties again. But it did not pay off as well for Vietnam's farmers this harvest.

#### World and Regional Rice Market

Last year was a record breaker for world trade in rice, with 20.5 million tons traded, up from 16.3 million in 1994 and 15 million for the two prior years. Forecasters were predicting lower prices this year due to a stable supply and lower demand in Asia, so buyers held off purchasing rice, waiting for lower prices. Demand in Asia is declining, as some of last year's importing countries, such as China and Indonesia, increased their own production. FAO has predicted 1996 world rice production to rise to 557 million metric tons, and world trade to amount to about 18 mmt of that total. Although unpredictable weather may affect these predictions, they indicate continued increases in worldwide production of rice.

Earlier in the year, it appeared as if last year's trend of growing food needs in Asia would continue to drive up prices and demand for rice, especially when China began importing through official and cross-border trading. But that trend soon slowed and then reversed course. High prices did not materialize and demand decreased. China even exported a small amount of high quality rice, and production is up in the south, where China had to import such great quantities last year. Rice prices were in a steady decline in April, ending speculation that 1996 would continue the dramatic prices of 1995. Overall, rice prices continue to increase from year to year, as does production.

Food security at any cost? Indonesia has had to import rice the last few years due to land loss from its fast growth and drought conditions. Now, it has decided to increase its rice production, but at a tremendous social and environmental cost. Indonesia announced plans to convert over a million hectares, almost 3 million acres, of peat marsh and rainforest in Borneo into rice paddy over the next 10 years. Funding for this \$200 million project will be taken from money initially earmarked for Indonesia's reforestation. Migrant workers will be brought in from Java to farm the newly cleared land. (IHT)

Last year, India edged out Vietnam as the world's third largest exporter of rice, selling to the Middle East and the Philippines. The overthrow of the ruling party may change the liberalization trend and reduce the country's export of food grains.

Laos still has not recovered its food security. For five successive years its rain fed crop has been damaged, by severe floods in 1995, and by drought and pests. The areas hardest hit are the traditional "rice bowls" of Laos. Rice accounts for 75% of the caloric intake of Laotians, and with a major shortfall occurring again this year, food aid is already needed. No stocks were maintained for food security at national or local levels and the lack of transportation and distribution channels contribute to the problem of feeding all parts of the country. (VIR)

Two formerly food dependent Southeast Asian countries, Cambodia and Burma, are exporting rice this year, Last year's floods had badly damaged Cambodia's rice crop. But not only is Cambodia becoming food self sufficient in 1996, it began exporting a small amount of rice from a bountiful spring harvest. (Indochina Digest)

Fifty years ago, Burma was the world's top exporter of rice. Burma's military regime (SLORC) seems intent on reclaiming some of that status. For the past several years Burma has been using slave labor conditions and repressive tactics to extract higher production and greater "contributions" from its farmers. It is increasing production and expanding its role in the export of rice. (FEER) Farmers are required to sell some of their rice to the government at below market prices. (Asiaweek) SLORC has also completed many infrastructure projects by "conscripting" labor - using forced labor for irrigation projects and expanding the amount of land in production. Except for a small amount that goes to Cuba, all the low quality rice being exported currently from Burma is going to Africa, to compete with the African farmer in their low price market. While foreign investment in agriculture is low, agriculture is expected to fuel Burma's economic growth.

The ASEAN Food Security Board said that its members reached an agreement on the amount of rice to be contributed and held by each country. Vietnam will set aside 14,000 tons, Thailand 15,000, Indonesia 13,000, Malaysia 12,000, Philippines 7,000 and Brunei 3,000 tons of rice. These stocks will be available for emergency use if any country in the group has a shortage. (VET 2/96)

Will rice shortages continue to threaten food security in Asia? Perhaps, but if so, it will be felt by the poor, who continue to depend on rice for their food. More affluent Asians are turning to pizza, hamburgers, western style prepared and imported foods, reports Inter Press Service in Manila. Mirroring the world wide trend away from self-sufficient home grown and prepared meals, the

changing diet of Asia includes less rice. South-east Asia is the fastest growing market for wheat, most of which comes from the US, Canada and Europe. Aggressive marketing, of both processed foods and animal feed by western companies is having an effect. In the last ten years, wheat imports in the Philippines, for instance, grew over 10% per year, while rice consumption fell from 303 grams per day in 1987 to 282 grams per day in 1993. (VNS/IPS)

The increase dependence on globally traded foods, and away from regional production is a trend which could result in food insecurity, and further vulnerability to volatile markets. Food may not be cheaper to buy than to grow in the future. The gamble being made by some Asian economies, that their growing money supply can always purchase sufficient food, may not pay off. Meanwhile the livelihoods of millions of farm households are in jeopardy.

### Changes in Vietnam's Agriculture

Vietnam expects to dramatically increase its agricultural productivity, by bringing more land into production with new irrigation and flood control projects, expanding agro-forestry and aquaculture, increasing livestock production and industrializing food processing. The new five year plan for Vietnam makes increasing agricultural output a top priority.

This goal will need to be reconciled with other rapid changes taking place in rural areas. Farm land loss, due to population growth and industrialization, continues in Vietnam. (See "Landslide" TRP Vol 1, No.4) Although the percent of people in Vietnam engaged in agriculture is declining, still, 70% of the people contribute to the country's food production. But internal migration is increasing as farm families seek new areas to cultivate or go to work in urban areas. Some families do both, by working in the cities between harvests. But rapid industrialization is eliminating much of the marginal work that provides them with the extra income they need to continue farming.

When the government allocated land to farmers, it failed to provide title certificates in time so that some farmers who needed to borrow against their land rights could obtain mortgages and start production. Farmers have subsequently lost their land and

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