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ABSTRACT

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RICE MARKET LIBERALIZATION AND POVERTY IN VIET NAM

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Market liberalization, though an important element in economic reforms in developing countries in the past two decades, has been accused of harming the poor through higher food prices, layoffs in formerly state-owned enterprises, and the erosion of social safety net programs. Since the 1980s Viet Nam has relaxed a number of government controls over rice production and marketing, stimulating large increases in rice production. Yet the government retains control over rice exports and internal rice trade. *Rice Market Liberalization and Poverty in Viet Nam,* Research Report 114, analyzes whether further loosening of state controls in Viet Nam's rice markets would help or hurt the poor and draws lessons for other countries.

RICE PRODUCTION AND MARKETING IN VIET NAM

Rice cultivation and rice policy are crucial to Viet Nam. Rice accounts for three-quarters of its population's caloric intake and is grown by more than two-thirds of its households on more than 60 percent of its cropped area. Furthermore, rice sector reforms have had impressive results, stimulating agricultural growth of 5 percent a year and transforming the country from a rice importer into a major exporter.

Rice production in Viet Nam is dominated by small, irrigated farms and concentrated in the Mekong River Delta in the south and the Red River Delta in the north. Rice cultivation is less intensive in other regions, but rice is by far the most important staple throughout the country. Yield increases were responsible for more than 57 percent of the rice production growth during 1985–95, with rice area actually declining, and future growth will rely more than ever on raising yields.

Rice marketing in Viet Nam has rapidly developed into a complex system without the central management that policymakers once thought was necessary. Tens of thousands of traders handle millions of tons of rice every year, channeling it from surplus farmers to urban consumers, rural rice-deficit areas, and exporters. The role played by the state-owned enterprises in the rice marketing system is minimal, except in long-distance trade, where they dominate, and exports, where they have a legal near-monopoly.

RICE POLICY AND THE POOR

Minot and Goletti constructed a simulation model to examine the impact of alternative rice marketing policies on prices, production, consumption, and income. Their model shows there is some justification for the government's concern that eliminating rice export quotas would raise prices and hurt some Vietnamese households. The two delta regions, with 45 percent of the population, are rice-surplus regions that would gain from higher rice prices. The other regions of the country are rice-deficit areas that would lose on average. Most harmed would be poor urban households, nonfarm rural households, and those in the central highlands. At the same time, net gains to rice farmers and consumers would be around US$200 million. Furthermore, poor households would tend to gain both in absolute terms and relative to nonpoor households because the poor are

predominantly rural farmers who benefit from higher rice prices. These gains, particularly in the delta regions, result in a slight reduction in overall poverty and an overall increase in household and national income.

By replacing the quota with an export tax and gradually reducing the tax rate, the government could liberalize rice exports slowly. This option would have the advantage of generating revenue that could be used to alleviate the impact of higher rice prices through targeted assistance.

Gains from rice export liberalization depend heavily on the elasticity of demand for Vietnamese rice on world markets. The more elastic world rice demand is, the larger the benefits to Viet Nam of export liberalization. More accurate estimates of export demand elasticity for rice could thus help the government in its policymaking process.

Removing restrictions on internal trade of rice would have little impact on average prices and incomes but would have large regional effects, lowering prices in the north and raising them in the south. The distributional effects would be relatively small, however, and would cancel one another out, so there would be no change in the national poverty rate.

LESSONS FROM THE VIET NAM EXPERIENCE

First, the experience of Viet Nam shows that relatively equal distribution of land is a key ingredient if market reform is to reduce poverty. Whereas the proportion of landless people is around 20 percent of the rural population in other Asian countries, in Viet Nam it is barely 2 percent.

Second, the potential offered by market reform cannot be translated into growth unless other infrastructure is in place. Viet Nam had invested in a relatively good irrigation and extension system before market liberalization. Benefits from such services were realized because of a relatively well educated workforce; the strong response of the private sector to market incentives followed.

Third, an export-oriented strategy can be consistent with food security and with smallholder production. Policymakers' fear that liberalizing rice exports in Viet Nam would create widespread food insecurity and exacerbate poverty is understandable, but this analysis demonstrates that it is largely unfounded.

Fourth, regional and distributional dimensions need to be taken into consideration when undertaking policy reform. A better understanding of the trade-offs may be useful in designing policies that at least partially offset the distributional bias of policy reform.

The results of the analysis in this report were presented to Vietnamese policymakers in late 1996, leading them to enact a series of annual increases in the rice export quota and to lift restrictions on internal rice trade. In the wake of these reforms, rice prices have been stable or declined and the north-south price margin has narrowed, showing that sound policy research can lead to beneficial policy actions.

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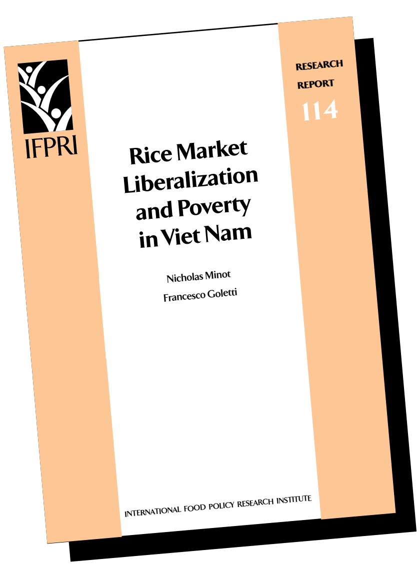

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