Research Brief

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Surviving Vietnam's coffee boom and bust

Introduced by the French in the 1850s, coffee was not a significant crop in Vietnam until the 1980s. Between 1990 and 2000, Vietnamese farmers planted more than 1 million hectares of Robusta coffee, boosting Vietnam past Colombia as the world's No. 2 coffee producer after Brazil. Several factors caused rapid growth of the coffee sector in Vietnam: the government's policy of privatization and economic liberalization, state-sponsored migration into the Central Highlands, and price spikes generated by frosts in Brazil. By the mid-1990s, more than 1 million Vietnamese were participating in the coffee economy. By the end of the decade, coffee accounted for 10 percent of Vietnam's annual export earnings.

Photo: FAO

Since the price collapse, many small farmers continue to struggle with low returns on their crops.

Yet Vietnam's entry into the world coffee market contributed to a precipitous decline in prices. As the supply rose, demand was little changed, and by late 2001, producer prices were at a three-decade low. The price collapse reversed the fortunes of many small farmers. For three consecutive years, prices were so low that most farmers could not cover their production costs. Prices recovered modestly in 2002-03, but many small farmers continued to struggle with low returns. Small farmers control 80 percent of the country's coffee area, with the rest controlled by the Vietnam National Coffee Corp. Finding ways to improve the situation for coffee farmers became and remains a key component of Vietnam's agricultural strategy.

The wave of expansion

SANREM CRSP researchers Dang Thanh Ha of Vietnam's Nong Lam University and Gerald Shively of Purdue University examined small farmers' responses to the boom and bust in Vietnam's coffee economy. To do so, they collected data using surveys in the Central Highlands' Dak Lak province, which has seen tremendous economic and social change in recent decades. After reunification in 1975, the government of Vietnam designated Dak Lak as a New Economic Zone (NEZ) and established hundreds of state farms and cooperatives there. The NEZ drew farmers from heavily populated lowland areas, increasing population density in Dak Lak from 17 people per square kilometer in 1975 to more than 90 per square kilometer in 2002. Most of the migrants were ethnic Kinh, Vietnam's majority, who represented a tiny portion of the province's population in the 1970s but now make up more than 70 percent.

The rise of the coffee economy nearly doubled gross domestic product in Dak Lak from $204 per capita in 1990 to $390 in 2000. But the rapid growth raised environmental and social concerns. Between 1990 and 2000, about two-thirds of coffee output growth was due to crop area expansion, which destroyed forests. The portion of the province's land covered by forest decreased from 90 percent in 1960 to less than 50 percent in the late 1990s. From a social perspective, the massive influx of Kinh farmers into regions of ancestral importance to ethnic minorities generated land conflicts between migrants and local residents.

The plummet in prices

Using data from 1999 and 2003 surveys of coffee farms, the researchers analyzed responses to falling prices. They took into account the role of ethnicity, the importance of access to irrigation, and households' subjective outlook on future coffee prices. The data identified four patterns of farmer response to plummeting prices:

- no response
- changes in irrigation and fertilization input
- changes in land use, or
- finding other income, either by borrowing money, seeking off-farm

employment, or selling livestock.

Nearly a third of households surveyed reported no change in strategy or activity. The most common response was reducing the amount of fertilizer applied to coffee, a measure to cut expenditures. A number of households reported that, while they reduced fertilizer for coffee, they increased fertilizer for other crops, especially corn and black pepper. Of households surveyed, 17 percent eliminated fertilization, and 19 percent reduced or eliminated irrigation, which requires electric or gasoline pumps. A small proportion of households reported borrowing money. Small farms were more likely to seek off-farm employment or to sell livestock. No households reported selling land.

Kinh migrants were more likely to change crops, borrow, or engage in off-farm employment than members of ethnic minority communities, evidence of better access to credit and labor markets. Households with an established water source such as a well were more likely to seek nonagricultural income and to shift land away from coffee, which demands large amounts of water. Larger farms were more likely to reduce inputs (irrigation and fertilizer). Households with a larger number of workers were more likely to seek off-farm employment, probably reflecting immediate need for cash and food. Farmers with secure land tenure were the least likely to change their behavior. Other things equal, households with above-average expectations for future coffee prices were less likely to change crops. This suggests that crop changes are largely driven by price, while changes in input use are conditioned by external factors and household characteristics.

Crop diversity is key

The patterns the researchers documented suggest that a broad range of policies may be required to help small farmers adjust to temporary price changes or broader shifts in the market. Opportunities for small farms and ethnic minority households to enhance liquidity in the short term appear to be limited, requiring them to adjust to price changes in more fundamental ways, including shifting land to new crops. Repeated cycles of investment and disinvestment in perennial crops are likely to be detrimental to these households in the long run and could lead to instability in the agricultural sector as a whole.

The results also suggest that small farms might benefit more from price stabilization than comparatively larger farms. While growing a variety of crops is understood to be a risk-reducing strategy for small farmers, this study indicates that small land holdings are a constraint to crop diversification. Expanding rural livelihood opportunities to diversify income is more likely to benefit Vietnamese farmers with limited land resources than promoting new cash crops. This may apply in other settings where promoting cash crops among small farmers has shown a downside as well as an upside.

Conclusions

A range of policies may be needed to help small farmers survive price swings, including:

- **stabilizing prices**
- **expanding rural livelihood opportunities, and**
- **encouraging crop diversification where land area allows.**

More information: Ha, Dang Thanh, and G. Shively. 2007. Coffee Boom, Coffee Bust, and Smallholder Response in Vietnam's Central Highlands. *Review of Development Economics*. 2007. http://www.blackwell-synergy.com/toc/rode/0/0/

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