

FIELD NOTES
Rubber Boom in Luang Namtha: Seven Years Later

Weiyi Shi¹
April 27, 2015
Revised June 5, 2015²

The original report (February 2008) was written near the height of the rubber boom: 2010-2011 saw the highest latex prices at the farm gate and in international markets. In 2008 Luang Namtha (LNT) was in a frenzy to plant more rubber trees: The provincial government saw rubber as the holy grail of development; Chinese companies couldn't get and clear land fast enough; for the most part, Lao villagers also desperately wanted their own plantations. The resulting arrangements of rubber development were highly diverse, including smallholder plantations developed by villagers, various contract farming schemes with companies, and land concessions given to rubber investors. In spite of brewing tensions among the land hungry investors, the villagers, and various levels of the Lao government, all parties had one conviction in common: rubber held the key to LNT's prosperity.

In April 2015, seven years after the original report, I revisited Luang Namtha. Although the visit was brief and in no way qualifies as rigorous field research, my notes here can hopefully serve as an incomplete update and help future studies.³ My immediate observation is probably not surprising to most: Luang Namtha today is far from having a prosperous or even functional rubber economy.

- **A large number of rubber trees have matured, but few are tapping.** The expanse of mature rubber forests remains unknown, but the ones that are tapping tend to be villagers' own trees. Villagers use surplus family labor to tend to a small number of trees. Given the **depressed latex prices and labor shortage**, plantations developed by companies are mostly idle.
- **"Contract farming" arrangements are only loosely followed, mostly dissolving into separate plantations.** Villagers and companies have split their shares of trees years ago, with villagers typically obtaining 30% of the trees after the company cares for all of the plantation with hired labor for the first three years.⁴ Villagers and companies now mind their own plantations. This outcome is against the spirit of contract farming and results in further de facto **land loss** for villagers. The limited latex sales occurring at the moment also appear not to be bound by contracts.

¹ All rights reserved. Contact author at w3shi AT ucsd.edu. Link to this document: http://pages.ucsd.edu/~w3shi/rubber_boom_in_luang_namtha_seven_years_later.pdf. Research is in part supported by the National Science Foundation Doctoral Dissertation Improvement Grant.

² ERRATUM: The April 27, 2015 version noted on page 3 under subheading "Ban Den Kang" that "the yearly income per family from latex is around 200-300m kip, not a copious amount but it does supplement earnings." The 200-300m figure is highly implausible and an obvious mistake. This sentence has been removed in this version.

³ On this visit I surveyed five villages in Long and Namtha districts, three of which were also in the 2008 report, spoke with three companies, and two government associates (one in Luang Namtha, the other in Xishuangbanna).

⁴ This was referred to as the "1+4" contract farming scheme in the original report (villagers put up only land).

- **After the split, it's common for villagers to sell their shares of trees**, but the sales are **NOT entirely driven by the declining latex prices** in the last couple of years. Sales also occurred soon after the split due to villagers not being able to care for their shares of trees. Labor input was one of the biggest problems in 2008, and the shortage is even more obvious today.
- The new "it" crop has taken over. At the moment it is banana plantations. The report in Vientiane Times that **villagers are cutting down rubber trees to plant bananas** appears to be true. This phenomenon is not only common in Luang Namtha border areas (e.g. Ban Mom and vicinity), but also across the border in Xishuangbanna.
- Most villagers' **livelihoods are not immediately impacted by low latex prices** in recent years. This is largely because they have not had time to develop a lifestyle that's dependent on latex sales. At Ban Had Ngao, where latex is their main source of income, fortunately there is a strong association that provides credit to a few struggling families.

The rubber frenzy in Luang Namtha appears to be distant memory before any parties have had a chance to reap substantial benefits. The drop in latex prices, however, may be blessing in disguise. **Back in 2008 two time bombs already started ticking: (1) acute increase in labor demand as trees enter the tapping stage; and (2) contractual disputes**, both of which are currently abated by the depressed latex prices. The price drop hit just as many plantations began to mature. As a result companies now have little interest in hiring people to tap or collecting latex, and nobody seems to care too much about what was actually written in contracts signed almost a decade ago.

If latex prices are to rise again in a few years, one can expect both of these issues to become contentious. In terms of labor, companies may be able to offer higher wages to entice LNT villagers to work on plantations, but this pool is limited, and many villagers already have their own plantations. **To have a functional rubber economy in LNT, large labor influx will be inevitable** (one only needs to look at the recent history of Xishuangbanna's rubber development). **This is the number one issue that concerns investors today.** In terms of contracts, contracting parties may not be too hung up on the specific terms today when little profits are at stake. As the profit margins rise, chances for disputes will also rise.⁵

What is certain is that rubber has permanently transformed the landscape of Luang Namtha. Hilltops after hilltops, the neatly arranged rubber canopies not only portend opportunities, but also serve as a constant reminder of land lost and resources foregone. Villages have much less land now to dedicate to other productive use, let alone conservation, while most of the existing rubber plantations remain unproductive. Even if they become productive in the future as trees continue to mature and latex prices recover, substantial portions of these plantations do not belong to villagers. They belong to companies who operate largely autonomously from local communities either on land concessions or through nominal contract farming arrangements that have become

⁵ Investors and villagers may have parted their ways for now by separating plantations, but the division may be called into question in the future. Stealing latex (by tapping others' plantations) has always been common in China during the height of latex prices. Investors may also invoke exclusive rights to purchase latex that were or were not the original agreements. Both parties are of course also subject to potential changes in governmental policies and how they are executed at different levels.

concessions. According to a LNT government associate, after villagers and companies separate their plantations after the first few years in a typical “1+4” contract scheme, companies are mandated to pay land taxes on their shares of the plantations.⁶

Below I document a few cases and interviews in greater detail. In addition to learning about rubber, it was fun and at times surreal to catch up with some of the same traders and investors I hadn’t contacted for seven years!

Ban Den Kang

Den Kang was a Hmong village in Long District covered in the 2008 report, where I described it as a pretty promising case of contract farming. At the time, the village had a contract scheme with Tongly-Jingu, a Lao-Chinese joint venture. The company paid for 50% of the seedlings in exchange for 10% of future latex sales. The village chief reports that the company has held up its end of the deal, collecting in fact at a somewhat higher price than the odd traders that come by the village. However, many villagers prefer to sell to other traders to evade the 10%, while others cite that the company does not come to collect often enough to meet their urgent financial needs. The less villagers sell to the company, the less the company comes to collect. With latex prices low, nobody seems to be terribly interested in rubber or the specifics of the old contracts. If prices rise again, one could imagine that the company might be more motivated to enforce its contracts with the village. A visit to Jingu’s Muang Long office suggests that the company has found its new initiative in Long, mak nam mun (Sacha Inchi, or 印奇果). The billboard outside the office prominently features the company’s mak nam mun contract as the latest darling of opium replacement).

Rubber planting in Den Kang is family-based, involving little outside labor. Villagers tend to no more than 1-2 hA of trees per family; they spend about three days in a week. At the moment they get around 3000 kip per kilo for dried latex. Villagers report that their rubber holdings are small enough that the families can manage on their own.



New roofs are common in Den Kang.



Billboard outside Jingu project office in Muang Long.

⁶ I did not have the chance to verify if this practice is widespread in reality. Ironically, even if it was, this practice is in fact a violation of the original contract farming contracts signed between investors and the Lao government. Investors are not to pay land taxes under contract farming arrangements.

Ban Sivilai and Ban Cha Kamping

In the 2008 report, Ban Sivilai and Yunnan Rubber (a subsidiary of Yunnan State Farms) failed to reach a contract farming agreement and the latter obtained small pockets of concessions instead. In this visit I found that in fact three years after the concession, Yunnan Rubber divided up the plantation and gave 30% of trees to Ban Sivilai. Yunnan Rubber shares this arrangement with many other villages it works with in Long. I inquired about the original contract, but the village chief reports that when the old Naiban passed way, the contracts were burnt together with his belongings, which goes to show just how “meaningful” the contracting part is for contract farming. The new chief claims to know little about the negotiation between Yunnan Rubber and the old chief. Although Ban Sivilai did not sell their share of trees, Ban Cha Kamping, which had the same arrangement with Yunnan Rubber (30% of trees going to the village after three years), sold their share almost immediately after the share was obtained. In other words, these **trees were sold before latex prices experienced steep decline**. The trees were sold for 25,000 kip per tree to a local investor (NOT Yunnan Rubber), which is ridiculously cheap. Reportedly villages couldn't fetch a better price because the trees were of uneven quality. The proceeds from the sale were distributed evenly among families in the village. When asked why the village decided to sell the plantation, the village chief described a failed case of collective action. The village couldn't discipline every family to put in the necessary work to maintain the trees. Discussion with a provincial government associate reveals that such sales are quite common, but they are poorly documented and difficult to confirm. Neither villagers and nor the companies are eager to reveal the details of these transactions since it is against the original contract. It's possible that declining prices may have accelerated the sale of trees, but it's equally worth noting that plenty of such sales may have happened before the drop in prices. The tremendous labor demand of a rubber economy is fundamentally at odds with some villagers' desired way of life.

Ban Sub Tod

Ban Sub Tod is a Lenten village in Namtha district. The village gave over 1,000 hA of concession to Yunnan Rubber in 2006. Prior to rubber, the land under concession consisted of forests. The contract farming scheme began in 2008, with a 50/50 division of trees after the first two years. The villagers' share has been further divided into families, larger families get more trees (150 trees per person). The villagers started tapping last year on a small scale. All labor comes from the village, no outside labor is hired. Yunnan rubber occasionally hires labor from the village, at 800 or 900 kip per tree just for glass clearing etc. not for tapping. The 800-900 kip is the wage that villagers get; there's also a middle agent who gets a finder's fee for finding labor for the company. Tapping for Yunnan Rubber is completed with Haw people from Phongsaly. **Last year the company had wanted to find a total of 650 families to help tap its demonstration (concession) plantation near Sub Tod, but was eventually only able to find 30 families.** Tapping is all compensated through the division of latex, and the local villagers were not interested given the low prices of latex - Yunnan rubber offered 70% of the tapped latex. Some villagers have for one reason or another sold trees to the village or other villagers, but no sale to outsiders are allowed. No outside individuals or companies have expressed interest in purchasing trees anyway. The villagers' understanding is that they can sell latex to whoever they want, but Yunnan Rubber has been the only collector in town. The prices are

between 3-4 yuan/kilo for lumps. Yunnan has a large factory nearby with a designed capacity of 20,000 tons/year.⁷



Mature rubber canopies near Ban Sub Tod, planted by Yunnan Rubber.



Reportedly a small labor camp near the concession plantation. I didn't get a chance to visit the camp to verify.

Ban Had Ngao

As the poster child for LNT's success in rubber cultivation, Ban Had Ngao experienced its first major decline in latex prices only in recent years. Families however are holding up well thanks to the strong presence of the growers' association in the village. For each kilo of latex sold, the association takes 0.20 Yuan to put in the collective funds. The association not only helps to organize sales, but also provides credit. Last year latex lumps from the village sold for 4.5-5 yuan/kilo. This was a steep decline compared to the 15 yuan/kilo price they were getting in 2010, but is still significantly higher than price points reported at Den Kang and Sub Tod for last year. Villagers attribute the better prices to selling in large quantities on a fixed schedule; no families would sell on their own to traders. This approach not only gives the association bargaining power, but is also welcome by traders who prefer to buy bulk with certainty. Ban Had Ngao sells to three different companies including Yunnan Rubber and Taijiang, both run factories in LNT. Now with latex prices trending low, Ban Had Ngao does have a few struggling families, for whom the association provides interest-free loans. No families have had to sell trees to make ends meet. Some villagers plan to plant additional rubber in spite of the price drop because they are "unsure what else to do." Ban Had Ngao's rubber development remains largely self-sufficient, but they do hire others occasionally for clearing grass and for tapping.

The Companies

The major investors from the 2008 report are all still around, with a few new additions (e.g. Shunyu and Yingmao). The "new" additions are not that new - there have been no new entrants in most recent years due to the depressed latex prices. Yunnan Rubber and Ruifeng were the biggest players in LNT in in 2008 and remain so today. Particularly Yunnan Rubber, a state-owned firm with ample financial backing from the Chinese state,

⁷ A Lao government associate shares that the company also imports latex from Thailand to process at the Lao factory, but I wasn't able to verify this.

appears to be relatively unaffected by the ups and downs in latex prices. They remain focused on rubber development, while private Chinese firms have branched out to other commercial crops (Diyuan, for example, now does bananas and watermelons).

Yunnan Rubber is in the process of **acquiring and consolidating plantations from struggling Chinese firms**. For an outsider, all these firms may look quite similar. They all have the same bright blue “opium replacement” signs in front of their plantations, but their access to “opium replacement” subsidies from the Chinese government is highly varied. There are firms like Yunnan Rubber, whose very ambitious developments in northern Laos have been financed almost exclusively with governmental grants so far - they are only beginning to apply for commercial loans. Some firms do not receive much in the way of direct subsidies but they get low-interest loans with the government as the guarantor. For others, opium replacement simply means a certain amount of tariff-free quota to import latex into China. Given this differential treatment across firms, some companies are not surprisingly more resistant to price shocks than others.

The conversation I had with a senior manager at Yunnan Rubber in LNT reminded me of similar talks I had with Chinese SOE managers in many other industries. The primary concern is to grow in size and scale; their own industry is invariably “strategic” for sustaining China’s growth. In spite of not being able to tap its plantations, Yunnan Rubber is planning to acquire still more plantations. Even though the current falling latex prices is partly attributable to a slowing economy in China, my interviewee sees latex as a “strategic” asset for China and anticipates that the demand will always be there. The current price decline is due to the peculiarities of the international markets.

The biggest stumbling block, he confirms, is labor shortage. Indeed, if the concession case near Ban Sub Tod is generalizable, then much of the firms’ rubber remains untapped. The cost of labor is substantial in LNT today. The prevailing wage for tending trees and clearing grass is 60,000 kip per day. The typical latex division when hiring someone else to tap is as follows: the tapper keeps all latex in the first year; in the second year tapper gets 70% and owner 30%, third year tapper gets 50% and owner 50%, and tapper 30% and owner 70% from forth year onward. In addition to dividing latex, companies pay 500 yuan per month for living expenses. Even with these relatively generous terms, companies have a hard time finding laborers. On how to alleviate labor shortage, the manager envisions constructing more camps to attract outside laborers into the rubber economy. “They will become one of us.”

An associate of the Xishuangbanna government shares that there is receding support on the Chinese side for “opium replacement,” both because of the number of firms already doing it and of limited evidence of success. Yunnan Rubber may be able to declare victory and win political capital in China by claiming untapped rubber forests as China’s “strategic” reserve, but Lao villagers can hardly benefit from this version of success.



Yunnan Rubber's new compound in LNT.

The Banana Craze

We've all heard from friends or read in VT that rubber is being cut down in the north to make way for bananas! Is it true? Well, I have yet to see it with my own eyes, but locals in LNT do confirm this practice. Villagers are cutting down their own plantations. In Meung Long, it is said that over 5,000 mu (roughly 333 hA) of rubber has been cut. In the vicinity of Ban Mom (Mom, Pabad, Xieng En, Lorme, Lormuey, Nanoy etc.), it's said over 100 hA has been cut. The rubber trees were aged between 8 and 10 years old, so they were cut before entering prime latex producing years. In Xishuangbanna rubber trees are also being cut down, but they tend to be more mature trees.

Like rubber, investments in banana plantations are Chinese, but the investors are predominantly small private firms and many are individuals. They are not associated with any opium replacement initiatives. With district-level approval, investors lease land from villagers at 500 yuan - 1000 yuan per mu, with contracts between 4 years and 10 years. Land price in Xishuangbanna is higher for banana plantations and goes up to around 2000 yuan per mu.⁸ The cheaper land is the main draw for investors. At least in accessible areas of Sing, Long, and Namtha, villagers function solely as landlords. The laborers who maintain banana trees with fertilizers and pesticides are usually hired from outside the communities.⁹ One banana investor says that the local people are too rich to want to work on plantations. Local villagers do participate in the harvesting and packaging phase as day laborers; the compensation is around 150 yuan/day. Almost all villagers agree that bananas are a much better crop than rubber: fast return, no long-term commitment, and it doesn't require as much labor (very true since villagers are just landlords). More research

⁸ For example, see this recent advertisement on Xishuangbanna's land rental website (dated October 15, 2014): the owner is planning to cut down all rubber trees to convert to a banana plantation. The asking price is 2200/mu/year. <http://xishuang.tuli.com/view-298708.html>

⁹ Villagers circulate stories that laborers working for banana plantation have fallen ill (and one reportedly died) from chemical usage. The actual cause of the illnesses and deaths of course is difficult to ascertain. Chinese traders confirm that chemical usage is common, and fertilizers and pesticides sometimes need to be smuggled in (see also VT 1/20/15 *Chinese-invested banana farm accused of leaking chemical*, 1/22/15 *Official responds to pesticide management concerns*), but that the technology used is no different from prevailing practices in China. In response to growing concerns about pollution from banana plantations, some investors have begun to distribute masks to workers. Ironically many of these bananas, when they are readied for the Chinese market, are labeled as "green" without pesticides. Traders explain that the green label refers to the last 3-4 weeks period in which indeed no pesticide is used.

is needed to substantiate this, but I suspect land titles may have partly enabled the latest banana boom.

In the 2008 report Lao Chen (pseudo name)'s restaurant in Meung Sing was an epicenter of LNT's burgeoning rubber development. The family brokered information on rubber seedlings, labor supply, and acted as subcontractors for the bigger fish. Today Lao Chen and his family are still in Sing and still running the same restaurant - it was surreal to see everyone! They are still functioning as brokers, this time for banana planters. The advertisements on their walls for rubber seedlings are now all about land plots for bananas. They also run quite a network of mechanics that repair excavators - useful implements when one crop of bananas gives way to the next. Lao Chen's son laments as much about the tanking latex prices as the next villager. He too plans to sell his small plantation or cuts it down to lease the land to banana planters.



A small banana plantation camp in Long district. The Chinese investors/traders reside in the white cottages in the back, only marginally nicer than camps in the front. They are from Anhui province in eastern China. The laborers come from all over Laos. The one pictured here (right) is from Huaphanh. The investors planted 500 mu of bananas so far.



Banana saplings by the roadside.



An excavator preparing the field for the next crop of bananas.



Roadside stand to wash and package bananas.



(above) Washing and packaging under the supervision of a Chinese Huana.



(right) Boxes labeled in Tagalog here, possibly because Filipino bananas fetch a better price in the Chinese marketplace... but this doesn't seem to be the prevailing practice; I've also seen many shipments labeled in Chinese.

Remaining Questions

My visit to LNT was brief and leaves many questions unanswered:

- **What's going on in the less accessible areas?** I was only able to visit villages not too far from the main roads, which are usually better off to begin with. Less is known about the more isolated communities. Are they still planting rubber? How are they impacted by the plummeting latex prices? These communities are the most vulnerable.
- **The welfare impact of rubber still needs more careful assessment.** More careful research is needed to understand just how much rubber is in stock, maturing at what times, and the projected labor demand. We know more about the economics of smallholder rubber farming in Laos than large scale commercial plantations. Even for smallholders, the widely cited association model at Ban Had Ngao is very unique. It hasn't been replicated anywhere else in LNT. We all know that associations are beneficial, but the viability of associations depends very much on the cohesiveness of individual communities.
- **The welfare impact of land titles in the context of commercial crops** warrants further research.
- **How to plan sustainable land use with fluctuating commodity prices.** Farmers in Laos are constantly following the next "it" crop. Yesterday it might have been rubber; today it may be bananas; tomorrow it will be something else. How do we strike a balance between planning sustainable land use and responding to market trends? What will happen if rubber prices continue to drop? Industry analysts are not very optimistic about the price of rubber in the next decade.