



Food Prices, Vulnerability and Food Security in Viet Nam

A UN Perspective

Hanoi, October 2008

**Dr. Jonathan London, City University of Hong Kong
Paul Quarless Van Ufford, Unicef**

Summary

1. Viet Nam is, by no means, facing a shortage of food or on the brink of a food security crisis. Agricultural production is very good and Viet Nam is a net exporter of rice and many other commodities. Rice prices rose sharply in late 2007, peaked in June 2008, dropped thereafter but remain higher than in previous years. The same has happened with other important food items in the consumption basket of the typical Vietnamese family, including pork, chicken, wheat, maize and eggs, among other food items.¹
2. The subsequent reduction in the purchasing power of many Vietnamese households, especially poorer ones, presents a substantial risk that households that had risen above the poverty line will fall back below it, as well as an important challenge to ensuring food security in Vietnam and the appropriate level of nutritional intakes by the Vietnamese people.
3. In this context, poorer women and children are particularly at risk since higher food prices can worsen their already precarious nutrition status. There is also a regional dimension to these concerns, with patterns of vulnerability often overlapping in certain regions which are characterized by high poverty rates, poor nutrition, and which are most affected by natural disasters and resulting crop failure. These regions have relatively high concentrations of ethnic minority populations.
4. In addition to the immediate nutritional impact posed by higher levels of food prices, the pressure for poor households to increase earnings also impacts on breastfeeding, child care, child labour, school attendance and out of pocket health expenditure.
5. Adding to these more immediate concerns over the impact of high food prices on levels of vulnerability and food security, it is important to note that Viet Nam is regularly afflicted by 6-7 natural disasters (typhoons and floods) annually, which destroy crops and food resources, as well as seeds, fertilizers and other resources in vulnerable areas. These climatic events, and their impact on food production in Vietnam, are likely to gain intensity with the advent of global warming and the specific threats that climate change poses for Vietnam's rural economy in the mid to long term.
6. The rapid pace that economic development has taken in Vietnam in the last decade and the challenges that the country faces as it enters middle-income status is starting to reveal a new

¹ Currently, food and foodstuff account for 4.9 percent of the national consumption basket used by GSO to calculate CPI inflation in Vietnam.

set of tests and structural constraints in the Vietnamese rural economy. These relate to the growing competition that exists for scarce land resources, the existence of bottlenecks in agricultural marketing and distribution systems, and the trade offs that the Vietnamese agricultural sector faces between producing food or high-value added export crops.

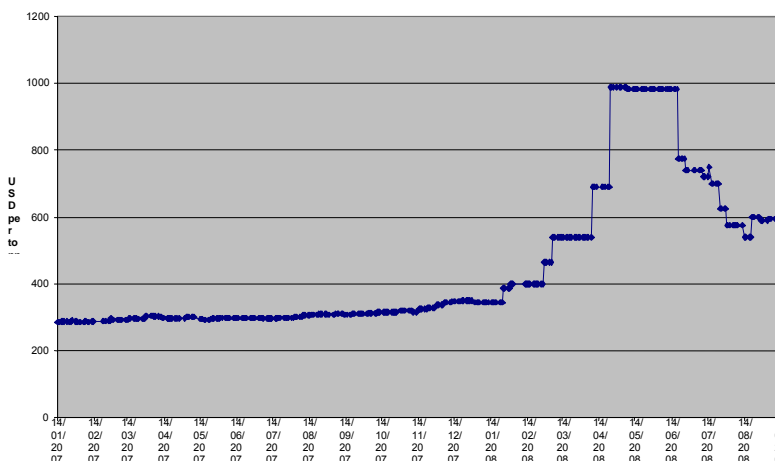
7. Altogether, these concerns raise the need to start placing food security and vulnerability at the top of the Vietnamese policy debate, and the necessity of taking a more strategic policy approach to these concerns.
8. In the light of this situation, the following policy response options are suggested:
 - Develop evidence-based policies for sustainable food production, maintenance of reserve stocks, distribution and contingency plans for food security and disaster risk reduction based on national information and mapping systems, including nutritional sentinel surveillance, food security and early warning, and market information systems.
 - Strengthen information systems and enhance capacity for data production, management and dissemination. An area of priority is the need to bring together data in a coherent, multi-sectoral analysis linking potential causal factors with impact, particularly on the vulnerable.
 - Strengthen existing safety nets and social assistance policies for vulnerable groups and the National Target Programme on Poverty Reduction, and assess the feasibility of widening and deepening their coverage.
 - Examine the options to expand and intensify existing nutrition programmes and interventions especially those targeted at vulnerable groups such as pregnant and lactating women and children under-5.
 - Review relevant policies in order to ensure that issues related to food security, vulnerability and protection mechanisms are appropriately reflected and incorporated to long-term strategic planning and policy thinking.

RISING FOOD PRICES AND FOOD SECURITY

9. Viet Nam is a rapidly developing economy with remarkable progress in food production. However, in the past year, increases in global commodity prices including food products have posed a new set of challenges to Vietnam's ability to maintain a path of sustainable and socially equitable growth. Given that Viet Nam is a net exporter of food, particularly rice, it might be expected that the country would benefit from higher international prices. However, this does not apply to the entire population as less than half of Vietnamese households are net sellers of food, and many net buyers of food have not seen their incomes increase in the same proportion as food prices. The impact of higher food prices throughout the country is complex as individual households differ in their production and consumption patterns, as well as in their sources of income. Distinct regional/local differences and market volatility are evident in the current situation.
10. In addition, Viet Nam is affected by 6-7 natural disasters (typhoons and floods) annually which destroy crops and food resources, as well as seed stock, fertilizers and other resources in vulnerable areas; this requires strategies and contingency plans for disaster risk reduction and damage control at the provincial and local levels.
11. With the purpose of protecting national supplies and reinforcing its food security, the Vietnamese Government imposed a temporary export ban on rice in March 2008. This was intended to maintain an affordable domestic rice price as well as safeguard national stockpiles. The prediction by international agencies on global shortages of rice and the rumors of domestic shortages in Vietnam led to panic buying at the end of April 2008.

12. Globally, the UN and the World Bank signaled their opposition to the rice export ban at the time. Measures to limit international sales by the few major rice exporting countries (including Viet Nam) caused strong disruptions to the normal pattern of trade². Apart from exacerbating the tendency for prices to rise, they also resulted in a greater incidence of contract defaults by exporters and fostered an intensification of government-to-government rice deals, presumably settled at lower prices than those offered by private traders. All this led to increased market volatility.
13. In Viet Nam, prices peaked in June-July 2008 and then, following good harvests, prices began to stabilize and the export ban was removed in July 2008. Subsequently, there has been a gradual decline in prices, which is partly explained by the inability of exporters to sell the stocks that were speculatively accumulated with the view of future price increases. Warehouses remain full and farmers in rice growing areas are unable to profitably sell their rice produce. This is undermining the financial position of many farm households, especially those that are required to repay loans that were raised for the purchase of inputs.

Figure 1: Rice Price Fluctuations: 2007-2008



Source: GSO

14. In early August, the Vietnamese Government required from domestic rice wholesalers that they buy up the remaining crops and sell these on to foreign clients. In tandem, state-owned banks began to extend loans at favourable terms to support the wholesalers. As part of this arrangement, the rice distributors are required to pay the farmers sufficiently to ensure profits of 40% for the latter. Despite these corrective measures, prices continue to fall. Indeed, almost all countries in this region are reporting that the domestic prices of rice have either remained stable or have declined steadily since mid-July 2008. In the coming months, international rice prices are projected to be exposed to further downward pressures. Whilst these most recent developments in rice markets might have reduced the immediate risk of a food security crisis in Vietnam, other structural constraints and challenges in agricultural markets, many of which underlie the current spike in food prices, remain to be addressed if food security in Vietnam is to be achieved in the mid to long term.

² FAO Food Outlook. June 2008.

ROOT CAUSES OF HIGH FOOD PRICES AND THE CHALLENGES OF ENSURING FOOD SECURITY IN VIETNAM

15. High food prices in Vietnam have been the result of a combination of external supply shocks, induced by recent dynamics in international commodity markets and a number of domestic factors, both of a demand and supply side nature.³
16. On the demand side, rising food prices have partly been fuelled by an excessive growth in aggregate demand, partly caused by the implementation of an expansionary fiscal and monetary policy package by the Government since at least 2007, as well as by subsequent inflationary expectations on price dynamics in Vietnam. The Government has acted in recent months by articulating an 8-point policy package largely aimed at cooling down the Vietnamese economy by means of raising interest rates and cutting down non-priority public expenditure and non-core investments by state-owned enterprises. These measures have served to reduce inflationary pressures in the economy, including those affecting food prices.
17. However, recent dynamics in domestic demand, and their subsequent impact on domestic (food) prices, might also be capturing more fundamental changes in demand patterns in Vietnam, reflecting the overall growth in wealth and income levels that many Vietnamese families have experienced in the past decade. In other words, higher, demand-driven, food prices may simply (and partly) reflect growing incomes in the average Vietnamese family, for which higher food prices have been matched by growing incomes. However, this might not be the case for large segments of the population that do not conform to this *'average household'* typology, including low-skilled workers, rural landless households, children, elderly people and other vulnerable groups of the population. This structural shift in food-demand and food-price patterns has not only left these groups of the population temporarily worse off, but is also challenging their long-term ability to purchase and secure adequate intakes of food.
18. On the supply side, recent food price developments in Vietnam have exposed several problems in food marketing and distribution systems, which might have led to an overshooting of consumer food prices, whilst at the same time reducing the beneficial impact that higher commodity prices potentially has on the earnings of net sellers of food and other agricultural products in rural areas. Hence, the evidence presented above of speculative and hoarding practices points to the existence of still underdeveloped and, sometimes, poorly regulated rural markets for agricultural goods, farming inputs and rural finance⁴. Recent evidence of large inter-provincial price differentials for many key food items, including rice and pork, and of highly imperfect pass-through effects from international prices, to retail, wholesale and farm-gate prices also reinforce these findings.⁵
19. Beyond these short-term supply dynamics, Viet Nam is confronted with a series of challenges that have the potential of undermining food security, at least for the more vulnerable segments of the population. The major challenge is the growing demand for land for industrial, residential, tourist and leisure purposes, which is reducing the amount of land available for agricultural activities. In 2007, there were about 4.1 million hectares of rice in Viet Nam, 360,000ha less than in 2000 which represents a loss of over 50,000ha per year. An additional challenge is the

³ Jongwanich, Juthathip and Donghyun Park (2008) *'Inflation in developing Asia: Demand-pull or cost-push?'* ERD Working Paper No. 121, ADB, Manila

⁴ See Vu Thanh Tu Anh and Brian Quinn (2008) *'Credit and trust; fruit markets in the Mekong Delta'* Policy Dialogue Paper 1. UNDP, Hanoi. for an applied analysis of some of these problems in the Pomelo fruit market in Mekong Delta.

⁵ Malik, Alia (2008) *'Food inflation in Viet Nam: An analysis of trends and policy implications'*. UNDP, Hanoi (Forthcoming)

recurrent natural disasters and epidemics as well as the potential impact of climate change on agriculture. For example, the Cuu Long (Mekong) Delta has faced regular epidemics caused by brown plant hoppers, with an estimated loss of about 1 million tonnes of rice per year⁶. Finally, the need to reduce high malnutrition rates (about one in three children under five are malnourished), the general pattern of increased food intake, and the current structure of Viet Nam's population will all likely translate into increased demand for food for the foreseeable future.

20. At the same time, growing pressures to increase the production of high value export crops will require efforts to improve productivity levels in agriculture so as to ensure an adequate level of food production in Vietnam for domestic consumption.
21. On the other hand, the implementation of Vietnam's WTO commitments in the sphere of agriculture could have adverse effects on agricultural and food production in Vietnam, if not accompanied by active measures to support Vietnamese agricultural producers to raise their competitiveness and insertion in international markets. In this sense, the past experience of other countries in the region, such as the Philippines,⁷ serves to highlight the challenges that WTO accession pose for the agricultural sectors of countries such as Vietnam.

IMPACT OF RISING FOOD PRICES ON VULNERABLE GROUPS

22. Alongside the economic causes and long-term ramifications of the volatile food prices, a number of social effects can be identified. In fact, the significant rise in food prices since 2007 has led to increased vulnerability among specific groups in the population. In the first place, the higher food prices exert downward pressure on households' purchasing power, especially in the context of general inflationary pressures in the economy. This is felt strongest amongst households with lower incomes, who spend a significant proportion of their income on food. Table 1 provides an overview of poverty rates in 2006.
23. In addition to the vulnerable position of those already below the poverty line to which table 1 refers, reduced purchasing power represents a substantial risk of households that had risen above the poverty line falling back below it. In this way, the sustainability of the success of Viet Nam's poverty reduction efforts over the past 20 years could quickly be undermined.

Table 1: Poverty rates in Viet Nam (2006)

	Poverty rate	Food poverty rate	Poverty gap
National	16.0	6.7	3.8
Urban	3.9	1.2	0.7
Rural	20.4	8.7	4.9
Kinh and Chinese	10.3	3.2	2.0
Ethnic minorities	52.3	29.2	15.4

Source: Viet Nam Development Report 2008.

⁶ From the speech by HE Dr Cao Duc Phat, Minister of Agriculture and Rural Development, on the occasion of World Food Day, 16 October 2008.

⁷ See, for instance, Bello, Walden *et al* (2005) *The Political Economy of Permanent Crisis in the Philippines* for a detail account of the impact of WTO accession on agricultural development in the Philippines during the 1990s.

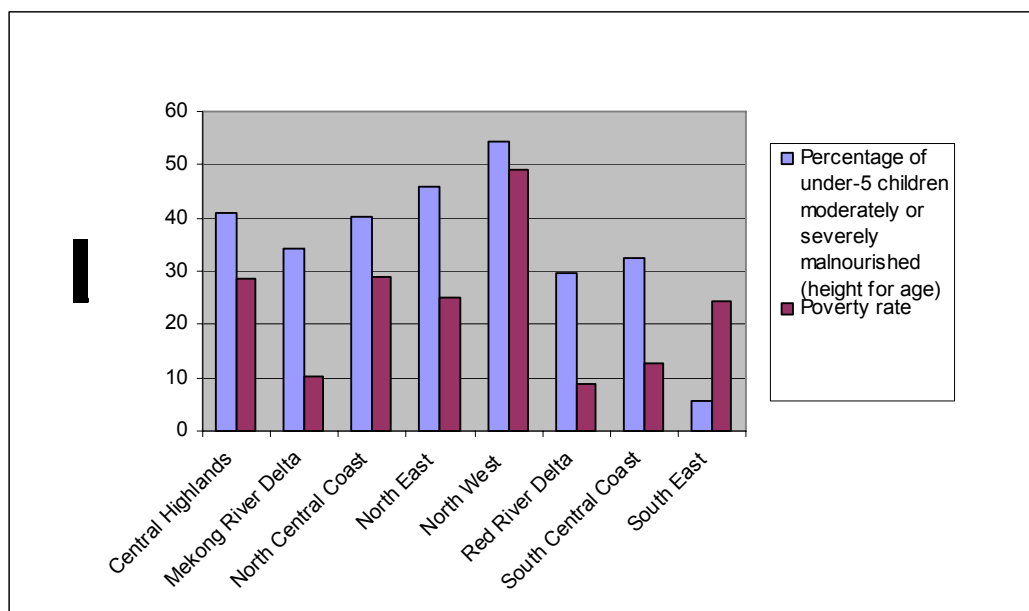
24. Table 1 shows a concentration of poor households in rural areas and among ethnic minorities, as found in the 2006 Viet Nam Household Living Standards Survey (VHLSS). However, the VHLSS excludes unregistered migrants, who tend to be poorer than other urban residents and have limited access to government sponsored social assistance schemes; it is thus highly likely that the rates of urban poverty are under-reported in the VHLSS⁸. Yet, in urban and peri-urban areas, poor households and migrants are particularly vulnerable to higher food prices.
25. In urban as well as in rural areas, higher food prices directly affect net buyers of food, since prices rarely translate into automatic adjustments in the wages and other types of incomes they receive in the same proportion as food price increases. The impact on farm households is more complex, but might be equally as adverse. Many farm households are at the same time net sellers and net buyers of food, depending on the period of the year. They also tend to sell their produce immediately after the harvesting season, when agricultural prices tend to fall. Furthermore, the existence of both structural and policy-induced market imperfections and bottlenecks along the value chain means that price dynamics in international and retail markets seldom translate into similar dynamics in farm-gate prices, which are those received by rural farming households. In any case, with the increase in the cost of farm inputs, small and poor farm households, where 50 to 70% of income is spent on food, are doubly affected as their net earnings fall, while their food expenditure rises.
26. One of the main concerns is how families are coping with increased prices. Although Viet Nam has very low unemployment by international standards, much of the labor force is engaged in agriculture or the informal sector and wages are comparatively low. There is also a notable gender dimension to agricultural labour force composition, with 51.5% of women 15 years and over classifying themselves as “farm self-employed,” compared to 44.3% of men.⁹ Migrants and others involved in industrial production may find their wages inadequate to make ends meet.
27. The adverse impacts of food and other price increases tend to be stronger in locations with high levels of *existing* vulnerability. Drought and flood-affected areas, for instance, are already experiencing lower food production and increased reliance on purchased food. In a similar way as natural disasters, patterns of poverty and malnutrition reveal spatial variation. Figure 1 shows that the Central Highlands and Northwest Mountains regions feature both high poverty and moderate & severe stunting rates among children under 5 years. These two regions also have relatively high concentrations of ethnic minorities. In sum, these regions are confronted with a number of overlapping vulnerabilities simultaneously.
28. Evidence from international settings suggests that increasing prices of food and other commodities pose special threats to women and children. First of all, for poor women and children higher prices may give rise to a decline in the quantity, quality and diversity of food intake. In order to compensate for the reduced purchasing power, households will likely shift to buying less nutritious foodstuffs or limit the number of meals consumed. The resulting micronutrient deficiencies pose the highest risk for young children and pregnant or lactating women. In a recent survey, 90% of urban women in Viet Nam reported to have reduced the quantity and quality of the food products they buy.¹⁰

⁸ Jonathan Pincus and John Sender (2007) “Quantifying Poverty in Viet Nam: Who Counts?” *Journal of Vietnamese Studies*, Vol. 3, issue 1, pp 108-150.

⁹ VHLSS 2006.

¹⁰ Kent Helmers, ‘Poorer women in SE Asia struggling to cope with rising food prices’. *Indochina Research*, 2008.

Figure 2: Regional variations in poverty and child malnutrition rates



Sources: VHLSS 2006 and MICS 2006

29. Second, the pressure on households to increase earnings through paid work may have an adverse impact on children as well. When women have to commit more time to income generating activities, this will likely have an effect on arrangements regarding childcare and breastfeeding. On an overall basis, households in Viet Nam are already in a vulnerable position with regard to breastfeeding - the exclusive breastfeeding rate in Viet Nam stood at 16.9% in 2006. In terms of childcare, a nation-wide survey on the family in 2006 found that nearly 7% of mothers and 21% of fathers reported having no time at all to spend with their children, due to the burden of making a living. Apart from this, the pressure on households to increase earnings may lead to an increase in child labour, particularly for girls who have to replace their mothers in domestic tasks.
30. Third, higher food prices also entail that poor families have less to spend on education and healthcare. Education has widely been recognized as one of Viet Nam's great success stories, with the country having achieved universal primary education. However, education is increasingly expensive, particularly as extra after-school study has become almost a necessity to get beyond secondary school. If families are unable to continue to invest in education, recent hard-earned gains in education enrollment at both primary and secondary levels could be jeopardized.
31. At present in Viet Nam, the availability of health services continues to increase, as does the quality of care. Yet, evidence suggests the affordability of care remains a problem, with out of pocket expenditures for health at around 62.8%.¹¹ The declining purchasing power of Vietnamese households will likely lead to increases in the incidence of foregone medical treatment and to even higher levels of out-of-pocket expenditure.
32. All of these trends paint an ominous yet incomplete picture. Timely and reliable data on the actual impact of high food prices on vulnerable groups in Viet Nam is imperative. There is also a need for state agencies at all levels to guard against what has in Viet Nam been called

¹¹ Joint Annual Health Review – 2007. Hanoi, Ministry of Health.

“achievement syndrome” (bệnh thành tích), whereby the desire for reporting ‘success’ distorts the actual situation.

33. It is generally acknowledged that social protection programs play an important role in the response to rising (food) prices. Safety nets help maintain household access to food and to essential social services. They also contribute to mitigate the effect of rising prices on the poor.
34. Viet Nam has a number of social protection and social security programmes currently targeting different groups of people, parts of the country and sectors. The poverty reduction programmes use different MOLISA-established poverty lines to determine eligible households in rural, urban, and remote mountainous areas. These programmes, while laudable, are generally not sufficient to meet the actual needs for social protection in the country. As a result of their limited coverage, their geographically targeted nature, and the fact that most formal social security schemes provide assistance based on household registration, they often fail to provide adequate response to new patterns of social deprivation, such as those that are emerging as a result of the rise in food prices, which is disproportionately affecting low-income households in urban areas, where most people are net buyers of food items and where there are currently large pockets of unregistered rural migrants working in low-paid jobs. There is therefore a need to review these various programmes to determine their impact in mitigating the effects of high food prices on the poor, and ways of increasing this impact.

POSTSCRIPT

35. The global financial crisis which began with credit and financial institutions, then progressively affected banks, markets, industry and consumers, is having an additive effect on the food crisis and poverty in developing countries. The general economic recession is affecting employment and incomes at the household level, as well as foreign investment and overseas development assistance.
36. The downturn in markets has also had an impact on commodity prices. This is particularly critical for Viet Nam in terms of certain crops and the effects this will have on farmers in rural areas. In recent weeks, there have been dramatic falls in prices of coffee, rubber, pepper, cashew and other export crops. This will be particularly serious for producers in highland areas whose income will be greatly reduced while food prices remain high. Lower incomes will exacerbate the effects of food prices on rural households.
37. While energy (oil) prices have also declined, there has been much less effect so far on rice and other staple foods. This will be particularly serious for coffee producers in mountainous areas whose income will be greatly reduced while food prices remain high.

POLICY OPTIONS

1. Short-term options and recovery implications need to be considered across different functional areas of government.
2. One priority should be to strengthen information/data systems across the relevant government agencies, and to ensure this data is used to identify more precisely the different vulnerable segments of the population.
3. It is also important to strengthen the evidence base for an improved policy response. In the first place, specific patterns of vulnerability and the impact of higher food prices on vulnerable groups will have to be further researched and documented. For instance, there is a need for further research into the high cost of out of pocket expenditures for health and, to a lesser extent, education. In addition to this, it will be important to strengthen national information systems including for nutritional sentinel surveillance, food security & early warning, and market information. An area of priority is the need to bring together different data in a coherent, multi-sectoral analysis linking potential causal factors (policies, price trends, etc.) to actual impact on the population in general and vulnerable groups in particular.
4. In terms of safety nets, the Government could consider examining existing social assistance policies and programmes for vulnerable groups and the National Target Programme on Poverty Reduction to assess the feasibility of widening and deepening their coverage. Current efforts in the NTP-PR mid-term review could include attention to this issue in particular.
5. Other short-term policy options and recovery implications include a variety of measures to address various behavioural issues. Existing programmes on nutrition awareness and breastfeeding may be expanded or intensified in light of the specific threats discussed above. The provision of increased appropriate support to pregnant and lactating women and to children through the health and population/family planning infrastructures should also be considered.
6. In the longer term, it is necessary to ensure that the Vietnamese agriculture and food system is capable of meeting Vietnam's basic food security requirements in coming decades. In policy terms, this can only be achieved through a policy approach that takes into consideration the various dimensions that intervene in assuring food security along the food supply chain, and is able incorporate policy interventions in the spheres of agricultural production, agricultural marketing and distribution, food safety and quality control, land policy, international trade, or competition policy, in a consistent and sustainable way.
7. The Government could promote a more sustainable regional trade policy including preferential arrangements for regional food imports, long term contractual arrangements with main exporters and import market guarantees. Emergency food (rice) stocks are too small and inappropriate for market stabilization, and only for localized emergencies. Above all, there is a need for appropriate and transparent information on domestic and international markets coupled with a credible consultative mechanism.