

Measures to Promote Rice Export from Vietnam

by Ass. Prof., Dr. NGUYỄN THỊ DIỄM CHÂU

Rice is a staple product of Vietnam and many developing countries. Such nations as Thailand, Vietnam, the U.S., India and Pakistan produce some 90% of the world rice output every year and they also consume some 85%. Thus, rice is a locally-consumed product. Leading rice exporters are Thailand, Vietnam, the U.S., India and Pakistan, and the leading importers are Indonesia, the Philippines, Nigeria, Iran, Iraq, Brazil, Japan and the EU.

1. Export of rice from Vietnam in recent years

From an importer of rice in the 1970s and 80s, Vietnam developed into one of the world's five leading exporters of rice. Since 1989, it often has ranked second among them. In the 2000s, Vietnam exported from 3.5 to 4.0 million tons. From 2001 on, quotas on rice exported were removed and all sectors were allowed to export the rice. This policy provided equal opportunity for all exporters, which made the rice export rise steadily.

Asia accounted for 33%-35% of the volume of rice exported by Vietnam in the 1990s and this figure rose to 45%-48% after 2000. In the first half of 2005, the Asia, especially ASEAN countries, such as the Philippines, Indonesia, Malaysia and Singapore, bought some 55% of the volume of rice exported.

The second largest buyer of Vietnam's rice is Africa which usually buys from 20% to 30% of the export volume, and 33.3% in 2004 in particular.

Middle East countries, such as Iran and Iraq, consume from 15% to 19% of the export volume. In the past two years, the share of this market fell because of political disorder. South America usually buys 7%-9% of the export volume but this figure rose to 14% in the first half of 2005. In Europe, Russia and Ukraine are two major buyers.

Export rice is usually of a white kind. Rice of higher quality fails to meet the market taste and isn't fragrant

enough. Vietnam is expected to export some 50,000 tons of this kind in 2005.

The figure shows that the volume of exported rice tripled in a 10-year period from 1989 (1.42 million tons) to 1999 (4.56 million tons) and stayed at this level from 2000 on. This result is due to the reform in the foreign trade policy which encourages companies of all sectors to purchase and process rice for export, and make more investments in production lines, warehouses and other facilities.

2. Prospects for the rice export business

a. Difficulties:

- Domestic competition: More and more companies engage in this business and offer a wide range of policies on sales promotion and pricing with the result that the profit reduces remarkably.

- After exporting, local companies usually require quick payments because they depend on bank loans for purchase of rice from peasants. This means that they are less competitive than foreign exporters of rice.

- Other exporters of rice from such countries as Thailand, India, Pakistan and the U.S., can export rice of high quality because they use modern technology and methods of harvesting and processing rice. And as a result, they are more competitive in terms of price and quality.

- Local companies can only import obsolete technologies of processing rice and running their businesses. Even foreign-invested companies in Vietnam use old equip-

ment and technologies although they are still newer than ones employed by local companies.

- Government's policies fail to encourage intensive investments needed for application of modern techniques of processing rice, instead of encouraging local companies to improve their installed capacity.

b. Advantages:

- Governmental bodies have promised to reform administrative procedures with a view to helping local companies reduce production cost, carry out trade promotion programs, build brand names, gather information about export markets and customers and develop supplies of rice for export.

- Customs duties laws will be amended with the aim of encouraging export, complying with international practices and agreements and making customs formalities simple.

- The Sino-Vietnam bilateral trade agreements will facilitate the export of rice along with other farm products from Vietnam to China in the coming years. Cooperation between authorities of border provinces also helps promote the bilateral trade. In addition, preferential treatment offered by China to Vietnam's exports (a 50% cut in customs duties and VAT) delivered to Yunnan is a very favorable condition for local exporters.

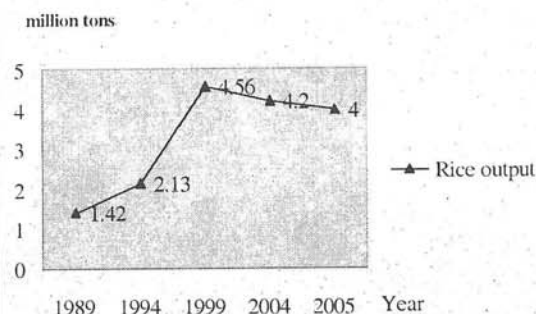
3. Measures to promote the rice export from Vietnam

a. Employment of capital: Exporters should keep a balance between fixed and working capital and try to gain the possibly highest turnover.

Retained profit must be used for building more processing factories and mills in Deltas with a view to increasing the export volume and reducing production cost.

b. Reliable supply of rice: Exporters should establish close cooperation with farmers by providing them with capital, technical assistance, new strains, etc. while farmers enter contracts to sell. New silos and warehouses should be built to ensure reliable supply of rice and avoid fluctuations in prices.

Figure 1: Volume of exported rice in 1989 - 2005 (million tons)



c. Marketing: Exporters should maintain their existing markets by attracting more buyers, and establishing close relations with a view to developing the customers' loyalty. New target markets may be North America, Japan and West Europe. Trade fairs and export promotion offices in foreign countries could be seen as good channels for introducing exports from Vietnam.

d. E-commerce and supply of information: All jobs must be computerized in order to make the best use of the information technology. This task is particularly important to front offices that deal with the public and customers. E-commerce is much more useful than traditional trading practices because it helps save overheads, establish direct relations with potential buyers without recruiting more salespersons. Generally, the e-commerce is much suitable for such small and medium enterprises as Vietnamese rice exporting companies.

e. Export and import practices: Exporters had better go to banks to buy options in order to prevent exchange risk when exporting rice on deferred-payment terms.

4. Some petitions to foreign trade authorities

The rice export business is much affected by changes in prices on the world market, so the government had better take measures to stabilize the market price in order to help peasants and companies maintain their production and activities. Some measures suggested here are as follows:

- controlling prices of farming materials, reducing taxes on the land use rights, and increasing investments in the infrastructure (such as irrigation system and rural road network for example).

- organizing a rice exchange in HCMC where rice from the Mekong Delta could be stored, processed and exported easily due to its well-developed infrastructure.

- encouraging the production of high-quality rice by introducing new strains suitable for local conditions and expanding markets for this kind of rice, thereby reducing the production of poor-quality rice.

- amending the customs duty law, especially Articles I and II of this law, in order to facilitate the export of rice.

- offering bonuses to exporters who achieve export targets, especially in exporting high-quality rice. ■

On the Role of Brokerage Firms

by Dr. TRẦN ĐẮC SINH

Besides acting as an intermediary, brokerage firms could help regulate the supply and demand, and stabilize market prices when they offer advisory services, underwrite new issues or keep custody. It's their role that makes all governments set laws and regulations to supervise and control their activities. Foreign experience shows that brokerage firms could only develop well in terms of both quality and quantity where commodities are abundant, competition is fair, controlling mechanism is reasonable and suitable for each period and the economy is deregulated enough.

In Vietnam, five years after the stock market came into operation, a network of brokerage firms have come into being and they basically fulfilled the role of intermediaries. Besides attracting investors to the market, they also helped develop the supply of commodities by giving advice to companies that want to privatize or have their shares listed, support the reform in the public sector and mobilize idle capital from the public. They also serve as a source of reliable and diverse information for investors, and disseminate knowledge of the stock market among investing community and companies.

Although both quantity and quality of brokerage firms have been improved in recent years, they can only supply simple services and fail to play well their important role. For example, they can only help companies mobilize capital from internal sources and rarely from potential investors outside the companies. Dealer's services are carried out cautiously therefore they can't create new markets, especially if the supply doesn't match demand. Their management of portfolios is not professional enough, and unfair competition appears when they offer advices on financial and investment matters. In addition, their ability to give advisory service is not good enough because they fail to help companies pay attention to basic problems such as structure of capital and shareholders, merger, acquisition, etc.

Their shortcomings come from various causes. Firstly, the Vietnamese stock market is in its first stage of development and its size is still small in comparison with the economy. In short, there are not enough conditions for the development of brokerage firms. In addition, the public knowledge of the stock market is limited. Secondly, most brokerage firms lack autonomy and activeness and they rely too much on support from their parent companies or governing ministries. Their sources of finance, expertise and experience are also limited and it will take a long time for them to develop into large-scale firms.

From foreign experience and the Strategy to Develop the Stock Market up to 2010 approved by the Government, I want to suggest here some measures to enhance the role of brokerage firms in the coming years.

(1) The Government should take action to encourage brokerage firms to diversify and specialize themselves with a view to expanding their activities and size. With only five kinds of services allowed for them by Decree 144, their activities are greatly limited while they can supply a wider range of services. Brokerage firms, like other companies, should have rights to secure bank loans and mortgage the stock they hold with banks in order to expand their operation. In addition, the limit on their branches must be removed so they can reach companies in all provinces and attract more investments to the market.

(2) The Securities Exchange Law has been made, but its subordinate legislation must aim at encouraging, instead of restraining, their activities, and must be easy for them to follow instead of for authorities to control them.

(3) Brokerage firms must computerize their activities and help clients to do business online. In the future they must aim at carrying out transactions outside the floor.

(4) The firm and securities authorities could look for training and advisory services from foreign organizations in order to prepare the human resource for future development.

(5) The Association of Brokerage Firms should play well their role by setting professional ethic code, settling disputes, supplying intensive training courses, etc. in order to enhance the status of its members.

(6) In the future when foreign firms are allowed to do business in Vietnam, there must be rules about operations of brokers and dealers and a mechanism for selecting foreign members of the stock market without causing troubles for their activities. ■