PROBLEMS WITH CAPITAL FOR STATE TRADING COMPANIES

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State trading companies (STCs), due to features of their operation, are always badly in need of capital. Just because of the lack of capital, many STCs have suffered losses and failed to link producers to consumers and play their leading role in the service sector. In the tendency toward globalization and regionalization, beefing up the system of STCs becomes a must, therefore, it's necessary to find measures to supply enough capital to STCs and help them employ it more effectively.

1. Mobilization and employment of capital in STCs

a. *Before the economic reform:*

In the centrally-planned economy, the system of STCs spread to all districts, controlled all supplies of goods, acted as the only wholesaler and dominated retail business. In this period, both fixed assets and working capital for STCs were supplied by the state and all profits were paid to the Treasury, so all STCs didn't care about securing capital of their own. Such problems as sales, debts, and business performance didn't matter to them. They only worried about how much capital they could get from the Treasury. Many STCs spent a lot of money on fixed assets (department stores, warehouses, head offices and branches) with a view to showing off their success, and as a result, most of them ran short of working capital and these assets became a great waste.

Objectively, the state-run trading system characterized by centralization, subsidization and monopolization is appropriate to the wartime economy. It was needed for concentrating goods for the front line and libarating the South. However, this mechanism became obsolete and unsuitable to the market economy. For a long time, the economy had stayed closed, most economic laws (of supply and demand; of value, etc.) weren't observed and everything was done according to plans made by the state. This situation made STCs pay no attention to preservation and accumulation of capital. Their capital decreased year after year. Many STCs made great losses and false reports on their performance.

b. *After the economic reform (from 1986 till now):*

The 6th VCP National Congress marked a change in economic policy and management mechanism, and in service industry as well. STCs were allowed to have more autonomy in their fields assigned by the state or of their own choosing. To them, capital has become a matter of life and death since.

In 1992, there were 2,520 STCs. After a lot of rearrangements, mergers and dissolution, the amount decreased to 1,280 in 1996, most of them were of small and medium sizes. Of this amount, 82 ones were run by the Ministry of Trade. At present, this amount keeps on reducing because of bankruptcy, dissolution and equitization. According to a report made by the MT, over 90% of STCs haven't got enough legal capital as required by the Decree 50/CP issued by the Government on Aug. 28, 1996. In HCMC, 70% of existing 169 STCs

are badly in need of capital.

Up to 1996, total capital controlled by MT-run STCs was VND1,123 billion and 1,480 billion of which was working capital (see Table 1).

Table 1: Distribution of capital among MT-run STCs in 1996

Size of capital granted	STCs	%
Under VND1 billion	2	2.4
VND1 - 3 billion	10	12.2
VND3 - 10 billion	43	52.4
VND10 -50 billion	24	29.3
Over VND50 billion	3	3.7

Source: The MT, June 1996.

Thus, most MT-run STCs (52.4%) had a capital of VND3-10 billion and only three of them had considerable capital: Vietnam Petrol Corporation (VND1,444 billion), Trading and Investment Corporation (VND234 billion) and Machines and Accessory Company (VND138 billion). Those three are holding monopoly in their fields and facing no rival.

In addition, their capital hasn't been employed effectively.

+ Fixed capital: most of their fixed assets were inconveniently located so it's difficult for STCs to make the best use of them whereas they have to amortize these assets every month.

+ Working capital: Distribution of goods requires increasing working capital. With large working capital, STCs can control supplies of goods and keep them in stock if need be. However, most STCs lack working capital, therefore their competitiveness and performance are poor.

Table 2: Distribution of working capital among MT-run STCs in 1996

Size of capital granted	STCs	%
Under VND1 billion	10	12.2
VND1 -10 billion	51	62.2
VND10 -30 billion	18	21.9
Over VND30 billion	3	3.7

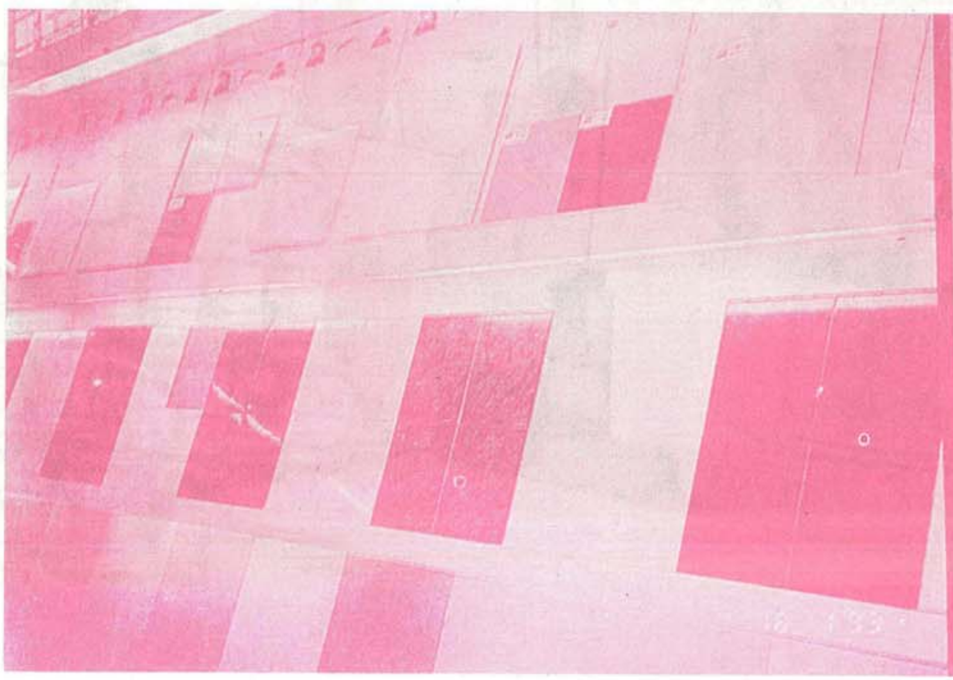
Source: The MT, June 1996.

Thus, the average capital of an MT-run STC was VND31.7 billion including a working capital of VND18 billion. Although this capital increased by 230% in comparison with 1991, it failed to satisfy the demand for working capital. In reality, only 80% of their capital, and 50% of their working capital was put in use, the rest lay in goods in stock and bills receivable. These MT-run STCs receive some VND10 billion from the Treasury every year. This additional capital is too small to satisfy their demand.

This limited source of capital hasn't been distributed well: certain STCs couldn't make the best use of its existing working capital while many others were running down. The Treasury could only supply 25% of their required capital, while their retained profit was small, so STCs had to depend on banks. However, most banks could only supply small and short-term commercial loans (with an interest rate of 1.75% a month). After securing bank loans, most STCs found it difficult to make a profit big enough to cover bank interest, especially those STCs that trade in or export agricultural products. Shortage of working capital makes these STCs unable to pay advances to farmers (as a way to help them increase the output), buy and store agricultural products in large quantities thereby ensuring supplies or raw materials for agro-industries and exporting them when prices are reasonable. To deal with this situation, many STCs took wrong ways of doing business to the detriment of their image and reputation. For example, in 1994, an STC, to make a bigger profit, decided to sell to Chinese customers a quantity of rubber ordered by other companies from Singapore, Hong Kong, Malaysia and South Korea, and as a result it lost these customers.

Thus, STCs lacking capital and short- and long-term business strategies usually lose their leading role in the market to non-state companies and fail to complete tasks assigned by the Government. Many STCs also meet with difficulties in securing bank loans: some of them have nothing to mortgage to banks. As for banks, in the years 1992-1996, they experienced a lot of fraudulence and deceit, therefore they become more cautious about supplying commercial loans. In 1996 and 1997, there was a paradox that capital was frozen in banks while companies were badly in need of it.

To deal with this problem. The Government has issued many decrees and guidelines. The Politburo's Reso-



lution 12-NQ/TW dated Jan. 3, 1996 stated: "(the Government should) reform the tax system, develop the capital market, and modernize the banking system and its service to help the trading business develop." This Resolution provided a direction for satisfying the demand of STCs for capital. However, new problems have arisen from realities of the trading business. The VSB governor, in his circular 417/CV-NH14 issued on May 31, 1997, required that "All state companies applying for bank loans must produce the business project approved by their governing ministries, bear full responsibility for employment of loans and pledge themselves to repay debt when due". This isn't a solution for the problem as expected. Realities show that this requirement is difficult to meet because there is almost no way to get a business project, especially a project based on loan capital, approved by the governing ministry. As a result, both banks and state companies waste many opportunities to develop their businesses in the market economy.

Although the supply of capital is limited, many STCs didn't know how to make the best use of it, some of them even used the working capital to build new and luxuriously furnished offices and many of them had to suffer losses and ran into debt. Up to January 1992 only, state-run corporation was in debt to the tune of VND5,347 billion. Some STCs pooled their capital in joint ventures with foreign or local partners and many projects of this kind made no profit or even went bankrupt. The following table shows us the business performance of MT-run STCs:

Table 3: Business performance of MT-run STCs in 1991-95

Year	Sales (VND bil.)	Realized profit (VND bil.)
1991	13,452	433
1992	13,044	328
1993	17,360	634
1995	22,500	682

Generally, total sales and profits realized by MT-run STCs increased over years but this didn't mean that all STC were doing well. In 1995 for example, VND11,664 billion out of the total sales of VND22,500 (equaling 51.8%) came from Vietnam Petrol Corporation and Vietnam Trading and Investment Company. Those two companies also contributed VND605 billion to the total profits of VND682. That is, besides two profit-making ones, most MT-run STCs made small profits and some of them were on the brink of bankruptcy. In the years 1991-95, STCs suffered a total loss of VND65 billion. The biggest lossmakers were Package and Exports Company(VND28,705 million); Food Corporation (15,398 million); Thăng Long Handicraft Export & Import Company (11,500 million); Northern Fiber Company (4,166 million); Thanh Hoá General Materials (329 million); Chemicals and Materials for Power Industry Company (381 million) and Hải Phòng Commercial Construction IV (102 million). Besides bad management and poorly-devised business plans, the main cause of these losses was the shortage and wrong employment of capital.

In short, the mobilization and employment of capital in STCs was alarming: their working capital was employed ineffectively, modern fixed assets are lacking, too much money was spent on unnecessary construction work, many financial investments –a new effort to increase STCs' working capital- proved unproductive or even led to multibillion losses. This situation have brought many STCs to the brink of ruin and caused bad effects on the economic development. Thus, strong measures are needed to secure morecapital for STCs with a view to helping them improve their performance and play well their role in the market economy. The following are our suggestions about this problem.

2 Measures to secure capital for STCs

a. Accumulating capital from different sources:

+ National treasury: Although this source represents a small percentage of STCs' capital but it is very important because it's the main and most reliable one. The Government should ensure 30% of working capital for all STCs, especially ones with feasible business strategies at both long and short ranges, and ones supplying public services and essential goods. In certain cases, the Government can ensure a bigger percentage if necessary. In addition, the Government should develop a new mechanism for supervising the employment of state-granted capital.

+ Bank credit: The Government should build a legal framework allowing state-run banks to smooth the flow of funds between "capital surplus units" and "capital deficit units" (STCs), to reform banking procedures with a view to providing STCs with timely loans and preventing credit risk. Banks can supply loans whose term and interest rates are suitable to each kind of STCs and features of their business. Particularly, the banks must find ways to mobilize and supply medium- and long-term loans to STCs trading in agricultural products for export and essential goods and services (such as iodized salt, notebooks and textbooks for students, food, etc.)

+ Other sources: STCs should improve their ability to employ their capital and make effective business strategies to increase the capital turnover and retained profit. Other good solutions to the shortage of capital are to equitize certain STCs and to cooperate with private traders or foreign companies in order to make the best use of partners' capital, managerial skills and new techniques.

b. Collecting debts:

It's necessary to reexamine all loss-making STCs on a case-by-case basis, responsibility for these losses must be clarified thereby finding out solutions for these STCs. Those STCs that suffered losses in the past but started to recover their strength could be helped by the state to develop and repay debts. Unnecessary fixed assets could be sold with a view to increasing their working capital. As for STCs that are solvent, the Government should take action to force them to repay debts, have them officially declared bankrupt and prosecute their managers if need be.

c. Selling agents, why not?

STCs, with their systems of outlets all over the country- especially in rural and mountainous areas, can act as selling agents for local producers in order to reduce the number of intermediaries and sum of advances, make the best use of their fixed assets, means of transportation and existing workforce, and improve the business performance.

d. Tax reform

The Government had better reform the tax system: imposing reasonable tax rates on each kind of STCs based on features of their businesses, making appropriate plans to impose new taxes (such as VAT or excise duties on non-essential goods), avoiding frequent changes in tax policies and tax rates that can cause troubles to STCs, and allowing STCs to keep a higher percentage of retained profit as a way to increase their working capital■