

### 1. Operation of state-owned trading companies in recent periods

In Vietnam, for the benefit of the working classes, the ownership by the state and by the communities has become predominant for a long time, so state-owned companies, including trading ones, are found in all industries.

The collectivization in the 1960s and 1970s in the North helped the public sector develop into the

In 1986, when the economic reform was introduced and the centrally-planned economy was removed, other sectors were allowed to develop. The state-run trading system was challenged. All companies, both private and state-owned, were allowed to buy materials and sell products at prices decided by them. The state-run trading companies (STCs), along with consumers' cooperatives lost the monopoly in both

sole facilities, etc. The market share controlled by them reduce from some 70% in 1985 to 30% in 1990.

In the years 1987-1989, many STCs suffered great losses or were dissolved; over 50% of STCs of grade I and some 30% of STCs of grade II suffered losses; and some 19% of STCs of grade III were dissolved. According to a survey of STCs of grade I in the three biggest cities of the country conducted by the

formance was poor. By the end of 1990, its capital was some VND1,800 billion (some 90% of it was held by STCs of grade I), and the capital turnover was 4:1. The average return on capital of STCs varied from 1.0% to 1.2% per month (compared with an average return of 4.5% per month received by non-public trading companies)

Recent surveys of STCs allow us to draw the following conclusions:

## OPERATION OF STATE-RUN TRADING COMPANIES AND MEASURES TO DEVELOP THEM

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biggest one providing pre-conditions for economic development in the socialist North and liberation of the South from American rule. Against such a backdrop, the state-run trading system came into being and was present in all industries and economic activities. It controlled all supplies of goods, held monopoly in import; export and wholesale, and retailed most goods by coupons.

The state-run trading system was organized into corporations and trading companies of grade I (at central level); of grade II (at province level) and of grade III (at district level) that controlled trading business all over the country. The trading system, at its peak, included 4,118 affiliate members, 48,760 outlets and employed 442,200 laborers. All of its operations were carried out according to detailed plans but no attention was paid to such matters as capital, sales, profits and losses, and business performance.

wholesaling and retail businesses and many of them have been running down or gone bankrupt since. They are now facing a lot of difficulties: lack of capital, unreliable supplies of goods, incapacity to cope with the market mechanism and compete against new rivals, badly-managed machinery, ob-

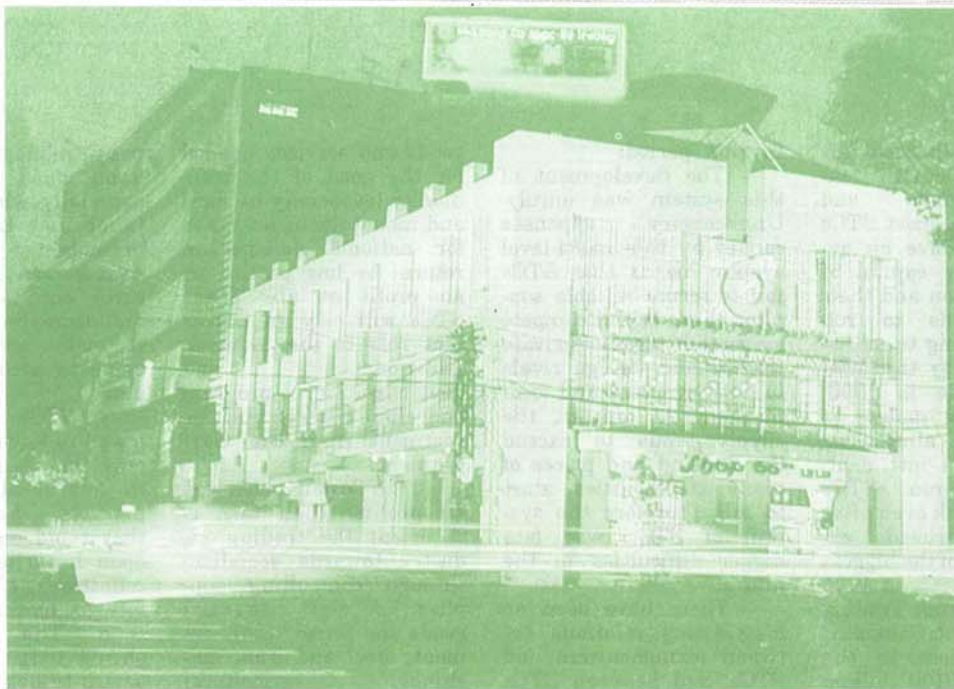
Institute of Trading Economics under the Ministry of Trade, 58% of them made profit, 32% broke even and 10% suffered losses while figures for companies of grades II and III were 57%, 25% and 18% respectively.

The state trading system's scope of operation was broad but its per-

+ Most STCs lack working capital, that is, their main assets are fixed ones. That is why all STCs tended to defer making payment to one another, therefore they all suffered huge overdue debts. The average capital of an STC is VND2.14 billion, 1.24 billion of which is working capital and the better part of it is loan capital. Some 33% of STCs have legal capital of under VND500 million, 14.5% have from VND500 million to 1 billion, 24.4% have from VND 1 to 3 billion, and only 10.5% of them have over VND10 billion. The average capital of STCs of grade III is 450 million (some 200 million of which is working capital), of grade II: VND2.1 billion (working capital 950 million), and of grade I: VND7.7 billion (working capital 4.81 billion).

+ In most STCs, retained profit is small, and the better part of their working capital comes from banks. In 1991, their total payable interest was





VND419.5 billion, representing 21.5% of fixed cost. By Jan. 1, 1992, state-run trading corporations were in debt to the tune of VND5,347 billion (576 billion of which -or 10.8%-was doubtful).

+ STCs haven't adjusted themselves to the market economy yet. Although they have lost the retail business to other sectors but they still control the wholesale business and foreign trade, however, they seem at a loss what to do in the market economy. The state-run trading system controlled only 23% of goods traded in the domestic market.

+ As a legacy of the centrally-planned economy, the amount of STCs, not their size, increased year after year. Before 1991, there were 2,254 STCs: 485 of them were of grade I; 959 of grade II and 110 of grade III.

Just because of lack of a central regulating body, these STCs tended to compete, instead of cooperating, with one another. For example, there were three STCs in Hà Nội run by the same ministry, not to mention other STCs of grades II and II, traded in the same item. Up to 1991, some 30.8% of STCs made no profit. Their total loss amounted

to VND199.298 billion (provincial STCs were responsible for 164.2 million of which.)

+ Similarly, the work force of STCs was of low quality while its size expanded over years. Most laborers have been trained in old-style schools and known almost nothing about modern trading business. In the first months of 1992, 48,500 out of 285,104 laborers employed by STCs were laid off. In this year, it was estimated that from 30% to 55% of the work force was unnecessary, and their performance was equal to some 60% of required standard. Of the army of managers, around 30% of them were incapable of running a company in the market economy.

The 7<sup>th</sup> VCP National Congress decided to keep on reforming the economy and the public sector with a view to helping it play the leading role in the socialism-oriented market economy. Many laws have been passed with the aim of providing state-run companies with preconditions for development in the market economy. The Government has taken measures to adjust the management mechanism and remodel the system of state-run companies. As for trading industry, the

Politburo's Resolution 12 aiming at "keeping on reforming the trading business according to the socialist orientation" and the Trade Law approved by the National Assembly of the 9<sup>th</sup> term were principal documents that confirm the contribution of the trading industry and introduce necessary measures to enhance the role of this industry in the economic development and growth of foreign trade.

The domestic market was expanded and unified and as a result, the trading industry enjoyed a boom: retail goods circulation increased by 10-12% a year and total retail sales reached VND160,000 billion in 1997. Supplies of essential goods (most of them were under control of state-run trading system) such as petrol, electricity, steel and iron, cement, fertilizer, rice and sugar were reliable, therefore market prices were stable. Total export and import value in 1997 made a sixfold increase in comparison with 1987, amounting to some US\$20 billion. An increasing number of Vietnam's staples, such as rice, seafood, rubber and oil, were exported.

The Politburo's Resolution 12 estimated that "the trading industry has helped to satisfy the de-

mand for essential goods. Local goods are abundant, market prices are rather stable, inflation rate is well under control and exports tend to increase over time. The trading industry has affected favorably the production, social division of labor, technological innovation, improvements in product quality; export and living standard.

In 1992, there were 2,520 STCs, after rearrangement as directed by Decision 388/QĐ, this amount reduced to 1,561 in 1994, including 371 STCs of grade I (or centrally-run ones) and 1,190 ones of grades II and III (or locally-run ones). Up to July 1, 1995, this amount rose to 1,849 (550 centrally-run STCs and 1,430 locally-run ones). By the end of 1996, this amount reduced to 1,280, including 82 STCs and three corporations run by the Ministry of Trade and the rest were run by local governments.

Although the amount of STCs were reduced and there were improvements in their organization and personnel, most STCs still perform badly. The situation facing locally-run STCs goes from bad to worse because of the lack of working capital. In many provinces, especially in

Northern mountainous areas, Central Vietnam, Central Highlands and Mekong Delta, most STCs of grade III have an average working capital of VND200 million and their business tends to run down. According to an estimate made by the Ministry of Trade in 1996, 40% of STCs under its control made almost no profit and ran into debt. Most locally-run STCs could only break even after covering overhead expenses. Some of the biggest loss-making STCs in 1995 were the Hà Tĩnh Trading and Investment Company: it was in debt to the tune of VND100 billion (including a total payment of 38.3 billion for tariff duties), Northern Clothing Company (lost VND4.2 billion in 1995), Thanh Hoá General Trading Company (lost VND1.967 billion), Chemicals and Materials for Power Industry (381 million), etc.

In big cities, there were too many STCs and they competed against one another. While private trading companies tended to specialize in certain items, STCs preferred to supply a wide range of commodities to both local and foreign markets. At present, certain specialized STCs, such as Petrol, Cement and Steel Corporations could control their market shares and made profits. An abundance of STCs forces the Government to divide its investment into small shares, and as a result, most STCs failed to deal with their financial difficulties and no STC becomes big enough to compete against foreign rivals. One of solutions accepted by STCs is to cooperate with private traders, or even to have all decisions made by private traders in return for a fixed income offered by them.

From those surveys, we can draw main shortcomings of the system of STCs

in this period:

- The development of this system was unruly. Unnecessary expenses caused by this multi-level system means that STCs fail to secure reliable supplies of goods and compete successfully against private traders and foreign rivals in both overseas and local markets. At present, the supply tends to exceed the demand and prices of many commodities start to fall, therefore the system of STCs will face bigger difficulties in the future.

- There have been no long-lasting relations between manufacturers and STCs, and between STCs of different grades, while these relations are much needed for formation of an effective distribution network that can stimulate production, regulate fluctuations in price and adjust spending tendency.

- There have been many violations of trade laws. The flood of contraband and faked goods caused bad effects on local production and export-import business. Advertising business wasn't well under control. Many officials of trading authorities paid too much attention to personal interests and caused harm to STCs.

- Poor performance and competitiveness make STCs unable to control the retail business and maintain their market shares, especially in rural areas.

## 2. Measures to develop STCs

a. At present, it's necessary to remodel the state trading system with a view to enhancing its role in the market economy. To accomplish this aim, the system of STCs must affirm their role and position, and achieve targets assigned by the Government in competition with other sectors. These STCs can be divided into two groups:

(1) STCs supplying

goods and services needed for the good of the community (especially in rural and mountainous areas) or for national defense in return for low profits, or no profit at all: These STCs will play an important role in the industrialization and modernization program and they deserve full investment from the Government.

(2) STCs doing business for profits: Their task is to orient the trading industry towards socialism through controlling supplies of such essential goods as petrol, coal, cement, steel and iron, machines, agricultural materials, food, seafood, medicine, and paper, and some other goods subject to excise duty (tobacco, beer, spirits and wine) because of their high profitability. Other sectors can take part in supplying these goods but the leading role must be played by STCs.

STCs of the second group had better specialize in certain items instead of being under management of local governments. Many STCs could be amalgamated to form big corporations, thereby avoiding unnecessary competition and expanding their market shares. These corporations will be controlled by corresponding government ministries (for example, the MARD controls STCs trading in agricultural products and the Ministry of Public Health controls trading in medicine and medical instruments, etc.)

b. The state management must be distinguished from the business management. In the past, all state companies must operate according to laws and regulations, and at the same time, under the command of ministries or local governments. This led to confusion about rights and duties of governing bodies and com-

pany's managers. This situation must be changed, especially when the State Companies Law has been promulgated. The STC management's duty is to carry out assigned tasks and they have the right to make necessary decisions to accomplish their duty.

c. STCs could be allowed to have more autonomy in their operation, in both local and foreign markets. For example, they could enjoy rights to open branches in foreign countries or accounts at foreign banks.

d. The Government should help STCs to get access to both foreign and local sources of business information and train their personnel or supply refreshing courses to their managers.

e. Like state companies in other industries, STCs could be equitized, sold or be allowed to enter into partnership with private or foreign companies if they are companies that aren't necessarily under the ownership by the state. This measure can create new dynamic for their management and personnel to improve their performance.

f. Cooperation relations between STCs and non-public trading companies must be developed. STCs could help to build the system of consumers' cooperatives in rural areas where STCs couldn't open their branches and help these cooperatives develop and operate according to the Cooperatives Law.

g. The role of VCP cells in STCs must be enhanced because their presence can help to orient the trading industry towards the socialism, struggle against wrong trends in trading. In private and foreign-invested companies, the presence of VCP cells in workers' association is important to efforts to protect laborers' interests and enforce laws. ■