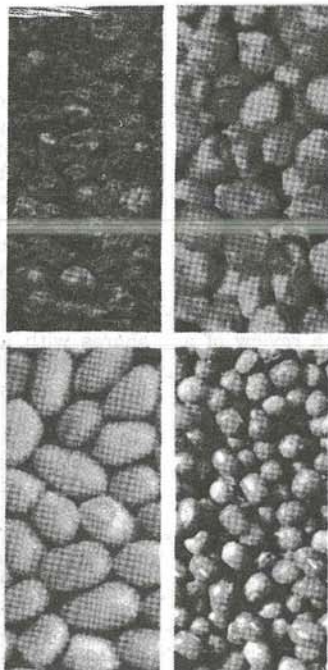


Home commerce and foreign trade are confronting the state-owned commerce in trading farm products with a lot of requirements. The situation is more serious with national or regional state-owned trading companies.

I. HOME COMMERCE ENVIRONMENT

There are characteristics affecting seriously trading business, or farm products trading to be precise. They are as follows:

1. The bridge between producing and consuming farm products has stopped existing. In the past, the products were transferred to state-owned trading companies by producers according to targets assigned to them, and these trading companies managed to distribute and consume the products. Nowadays, the truck-



ness. When each state enterprise was given full autonomy in its business, the competition between the state trading companies is inevitable. They competed with one another in buying, selling, or penetrating the territory of other companies... This situation also had effects on the peasants: they sold their products to private traders when prices went high, and appealed to the state-owned commerce when there was a surplus of farm products. And the state-owned commerce, especially big state trading companies, couldn't but implement their tasks of stabilizing and regulating the market.

3. The plan of production doesn't base on the market demand. This is a consequence hard to solve resulting from the way of doing business in the past. Besides that, farm product trading is a seasonal business, particularly in an obsolescent and small-sized agriculture. A lot of risks and losses can happen to the output of the most perfect plan of production, especially products easy to lose quality and value or hard to maintain and process such as sugar-cane, coffee bean, coconut, vegetable... Can the state-owned trading companies assure the peasant of buying up their products on time?

4. There are a lot of untapped potentials in home commerce. A population of over 70 million is an attractive market for domestic and foreign businesses. However, the spending power of the people in this market is weak because of a low income per capita, especially of the peasants (80% of population).

The domestic market has been being big enough to help develop the farm product trading.

II. FOREIGN TRADE ENVIRONMENT

Foreign and international environments have had considerable effects on our trading and production, especially when Vietnam adopted an open economic policy and integrated into economic activities of the region and the world as well. The distinguished features of the foreign and international environments affecting farm product trading are as follows:

1. In the world's markets, the demand for farm products is on the decrease, particularly for foodstuff. In 1970s, these products represented over 15% of value of the world's foreign trade. At present, this percentage lowered to 10%. This put farm product exporters at a disadvantage because they have to accept unfavorable terms of trade: index of farm product prices usually increases more slowly than that of manufactured goods.

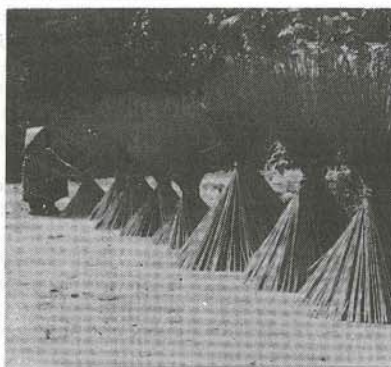
2. There is a keen competition among farm product exporters in the world market. Many contradictions

STATE OWNED COMMERCE AND FARM PRODUCT TRADING IN THE NEW SITUATION

by Dr. VĂN THÁI

farmers have to market the products by themselves, and the state-owned trading companies couldn't wait for the products to come. Therefore, "to be or not to be" is a serious challenge facing the state-owned commerce.

2. The private traders are present everywhere in the market with their various practices of competition. This made a lot of difficulties for the state trading companies, especially big ones which were hindered by old mechanism and old ways of doing busi-



were seen in the US-EEC trading of processed farm products. The prices of many items have come to a standstill or even gone down because of competition and ever-increasing supply. The price of coffee bean in the past 5 years has decreased by 40%. In 1986, we exported coffee bean at FOB price of US\$ 3,000 per tonnes, but at present, its FOB price is only 750 US\$ per tonnes, because Vietnam coffee bean didn't meet the liking of foreign markets. Vietnam peanut and cashew nut for export have experienced the price-slashing because of competition prices offered by China and India, two big exporters of these products. The price of cashew nut for export of Vietnam decreased by 30% in 1993 compared with that of 1992.

3. The political unrest in Soviet Union and East Europe recently has reduced the demand for many farm products of Vietnam which were exported in large quantities in the past. The turnover (mainly from farm products) to ex-USSR in 1991-1992 was only of one-fifth compared with that in 1990. The turnover of exports to Czechoslovakia decreased by 90%; to Bulgaria by 75% and to Romania by 98%. This situation did a lot of damages to farm product trading and producing in Vietnam. In 1992, the turnover of our exportation hasn't reached the level of 1990 yet.

Our effort to find new markets and integrate into the economies of the region and the world recently has recovered our farm product exportation and at the present, 30% of our exports value was from farm products. This is a condition favorable for stabilizing the production and trading of farm products in Vietnam in future.

4. We found it more and more difficult to satisfy the liking of foreign markets for farm products. The big exporters of farm products not only tried to increase quantity of their exported goods, but also improve quality. Thailand's manioc flour could be exported in large quantities because it was made into various items. Malaysia increased exports of palm oil-related products. Indonesia exported refined coffee. The EEC nations conquered the world's markets for their processed foodstuff because their refining processes are excellent and their export items are diverse.

III. ORIENTATION AND APPROACHES TO FARM PRODUCT TRADING

In the coming years, the state-owned farm product trading companies should give attention to the following approaches:

1. Securing helping hand

The state commercial concerns, especially the big ones, trading in farm

products play an important role in stabilizing prices, regulating supply and demand relationship, developing agricultural production and improving living standard in rural areas. The state commerce cannot do these tasks by itself, cannot accept big losses and small profits, especially in trading essential foodstuff. Therefore it should secure the helping hand of the government: preferential investment, international financing, loaning capital at low interest rate, reducing taxes, fixing the amount of rice kept in reserve and expenses of this task, price supporting, protecting against competition of foreign farm products. However, in a nation whose income mainly comes from agricultural production, supported prices cannot be given to too many items because it requires enormous funds.

2. Selecting type of products

In the multi-sectored market economy, the state commercial concerns, both big and small ones, should not depend on the government subsidy and limit their businesses in products whose prices are supported. Besides well known types of products, they should encompass a wider range of products, buy and sell various items and help stabilize the production and processing of farm products. Seeing that the prices and output of some main products (such as peanut, coffee bean, soya bean, green bean...) come to a standstill, they should look for new lines in order to keep their sales stable and create the capability of self-financing as their motto said "Have long term projects fed by short term ones, have expenses compensated by receipts".

3. Expanding the market

In order to carry out their task of regulation, the state commercial concerns should expand their markets, particularly in rural areas, for the time being, they should have branches in every town; try to learn of the demand of each region in order to supply the goods in exact quantity and on time and eliminate the seasonal decrease in trade and production in rural areas. Expanding the market should co-ordinate with selecting new lines. They should pay attention not only to markets in big cities and regions rich in farm products, but also markets in mountainous regions.

As for foreign markets, they should try to increase exports to EEC countries, Singapore, South Korea, Australia... and petition the government for resuming trade relation with ex-USSR and East European countries in order to repay old debts by farm products or barter them for machinery. The government can also

help expand the market by competing to gain contracts for the supply of foodstuff to international food aid programs.

4. Looking for capital and making profit

In order to carry out their tasks effectively, the state commerce needs very big working capital (some VND hundred billions at harvest time). The government could grant them loans of preferential rate of interest, foreign loans at low interest (equivalent to that of loans for agricultural development from WB).

Trading in farm products in Vietnam nowadays is a business of low profit, high degree of risk. This business is difficult to mobilize needed capital or find foreign partners. Therefore, the state commercial concerns should trade in new lines of farm products to secure their capital and profits. In order to increase the price stabilization fund, the farm product trading companies should be allowed to retain a percentage from supernormal profit earned by selling some imported goods, from funds allocated by the national budget (especially from 6 supporting funds for agricultural production); the taxes on their income and their basic amortization could be reduced. Various kinds of society with the object of giving economic or technical support, offering insurance service and investing or lending money will be a very useful means to stabilize the activities of these concerns.

5. Securing the source of merchandise

In order to compete successfully with other economic sectors and implement the task of regulation, the state commerce should maintain a network of branches in important areas. As for the source of merchandise, they should be present permanently in regions rich in farm products for sale, have contract with local authorities or main producers. As for the markets, both domestic and foreign ones, they should collect information about the demand and do their best to satisfy it. They should look for foreign partners in order to find new foreign markets for their merchandise. In doing this, they will become a bridge between production and distribution, between home and foreign markets.

Carrying out these approaches perfectly, the state commerce could achieve great success in developing its business and affirm its role in the market economy. What remains to be looked for is the human being. Its personnel must be well-trained, resourceful and capable of coping with the market economy and distinguished features of farm product trading in Vietnam today ♣