

The market has enjoyed two booms: paper and cement prices. This event has taken place regularly since Vietnam's transition to the market mechanism. Moreover these fevers showed the invisible hand of the market mechanism was testing the State's "visible hand" in macro-economic management. What interpretation could be placed on paper and cement fevers?

#### THE FEVER OF PAPER

In recent years the whole country's demand for paper was around

after another.

Firstly, around 50,000 tonnes of paper are imported annually into Vietnam. The price fever usually results from this source because domestic production is rather stable but paper importation is not always fit to the demand at a specific time. Even in the world's paper market, paper price also sees frequent sudden changes. As long as Vietnam has to import paper, it is still influenced by these changes.

At present, the price of Russian paper pulp increases from US\$815 to US\$865 per tonne, Indonesian raw

importers have to determine when to import with a view to earning profits due to their limited stockpile. Meanwhile, stockpiling an essential amount of paper for supply-demand regulation is a task of the State - of State run enterprises operating as leaders on the market with the aim not only at incomes like other businesses, but also at the entire society's interest: stabilizing the market. In reality, paper importers are really private ones who have their imports consigned by State enterprises. As a result, it is easily seen why there is a shortage of paper though a false one on the market.

Just because of this when the Government increased the import duty rate of paper by 20%, private importers met properly with what the State wanted to restrict paper imports. Besides they stopped importing paper since they thought they would have no income with a too high tax rate in comparison with the home market price (before the time of shortage). However paper supply-demand base not only on quantity but also on quality. A protective policy of paper production via tax can be decided at once but the domestic production capacity of paper can not satisfy the demand in both terms of quantity and quality in few months after that decision. Therefore while waiting for an answer to the problem of domestic investment in paper sector - it takes several years if the project is developed right now - the consumers have to suffer price fever and are forced to pay higher price (including 20% tax). Then, importers will resume their business and the market price will be kept stable at higher level. The inflation will be worsened by an additional factor.

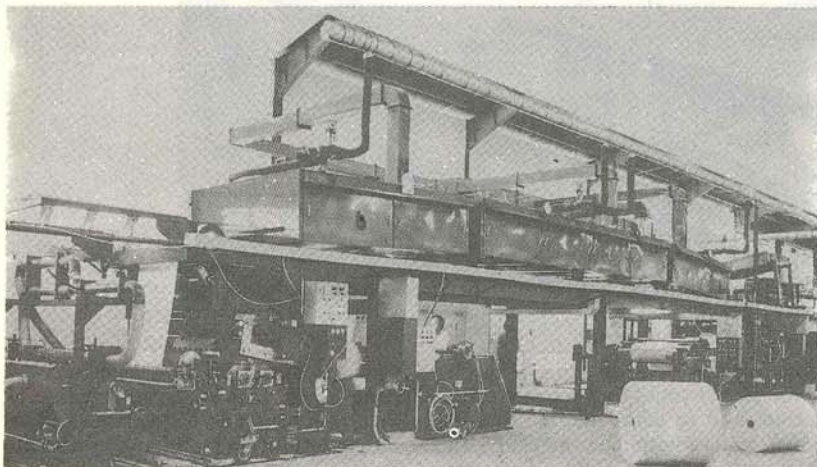
As for domestic paper production, the biggest investment in the Bãi Bằng Paper Mill has raised its production capacity to 100,000 tonnes per year but this figure is still not firm due to dependence on paper pulp imports - around 30% of needed raw materials. The problem of self-invested paper business even with the aim to export paper seems unsolvable now although Vietnam has advantages in afforestation for paper raw materials.

A paradox is Vietnam both exports wood for paper raw materials and imports paper pulp. Just after the country's unification, the State launched a campaign of planting every cultivable land with eucalyptus trees. But we lacked investment in raising the capacity of making paper pulp from these raw materials. Even slicing eucalyptus wood for export

# PAPER AND CEMENT FEVERS

## The Market and State Management

by TRẦN TÔ TỬ



150,000 tonnes. This figure will go on increasing in next years in line with the growth of population and per capita rate of consumed paper which is currently at two low level (1.8 kgs per capita compared with 2.4 kgs per capita in developed countries).

The supply for this demand comes from two sources: domestic production undertaking 70%, imports 30%. Many problems remain in both sources and have not been completely solved. Therefore once in a while crises of surplus and shortage follow one

materials from US\$930 to US\$970 per tonne. Paper price soars higher. The price of paper used for making notebooks shoots to US\$1,150 from US\$650 per tonne. The price of paper for package also jumps to US\$900 from US\$600. In general, paper prices of various kinds rise by 50%-70% on average.

Furthermore, the paper importation is controlled by other factors. The annual export quantity is planned. Quota granting can be done at the year's beginning, but paper



could be done so long as foreign partners came to "invite" us to form a joint-venture. It was proposed to ban exportation of wood for making paper, but if banned, the paper sector cannot self-provide with paper pulp, at the same time the fall of wood price cannot encourage farmers to enlarge green areas of bare hills. At that time even though we build more paper mills, we will face another difficulty: shortage of raw materials.

For the time being, most of paper producing enterprises are State-owned ones. They as well as joint-ventures exporting wood for paper raw materials apply the mode of buying wood through traders. Therefore, paper price, buying price of wood shoot up but the farmers cannot enjoy more profits since these differences belong to traders.

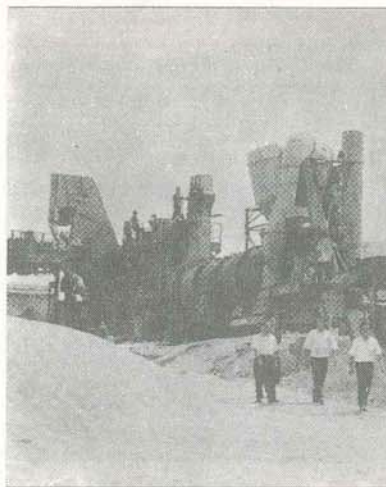
On the other hand, domestic paper source sometimes is in surplus owing to not only high selling price (including unreasonable costs as mentioned above) but also very poor quality of paper which makes consumers turn away from factories' products. So far the printing sector has renewed technology, machinery, equipment much more quickly than the paper sector. Printed materials increasingly meet customers' requirement, so it is unacceptable to print on such paper produced by 1960s' and 1970s' obsolescent technology.

In short, the paper fever still goes on as long as there are not yet large and in-depth investment in domestic paper production for raising capacity and quality. The State still has to spend around US\$50 million on importing paper plus VNĐ hundreds of billion to make up for loss of the paper sector. Those are costs to pay for lack of lengthy investment, exploitation of existing natural resources and paper importation due to easily profit earning.

#### THE FEVER OF CEMENT

Based on explanations of Vietnam Cement Corporation about causes of this price boom, the public can easily misunderstand this cement fever is not unusual and it will occur frequently since "there is a shortage of cement on the market all the time from now to 1998".

Maybe it's true, so far any entity can hardly forecast annual demand for cement exactly. The 1994's supply including imports totalled 5.75 million tonnes but the demand reached 6.5 million tonnes. In 1995 this figure can amount to 7.5 million tonnes whereas domestic production caters for only about 5 million tonnes, one million tonnes are imported, the market is still short of 2 million tonnes.



Does the State due to this reason still maintain the old mechanism for cement item: producing in accordance with planned targets, selling at directed price and distributing to stipulated addresses?

In retropection of previous fevers (in 1980s), most of commodities were produced and distributed by centrally planning, whenever private traders smelled the State's adjustment of industrial wholesale prices, they made temporary speculation-stockpiling goods for higher prices.

This time, according to an interview with the Director General of Vietnam Cement Corporation (\*), the State Pricing Committee's adjustment to make cement price up by 12% (April 24, 1995) "can originate from the rise of raw materials price". Therefore, was this adjustment planned long ago or levelled to the market price so as to avoid negative activities (obvious reaction after price boom)? Concerning previous adjustments of industrial wholesale prices, we can suppose a source of State's lifting cement price was revealed, so speculators stockpiled cement for new prices. Thereby there was a price boom beyond what the macro-economic managers had expected. If there is an investigation of cement stockpile in economic units, we can determine whether this supposition is right or not. The reality in recent days shows the amount of cement imported and transferred from other localities, though not large, forces speculators to have to "vomit" cement out, making its price drop sharply from VNĐ105,000 per package (50 kgs) to VNĐ75,000-80,000.

This investigation of stockpile should have been done by the State - at least for state-owned enterprises -

and they should have been forced to sell so as to stabilize the market. This is an essential administrative measure when there is a price fever-tougher but more effective than the measure of stipulating selling price but no salesperson accept to sell.

#### THE STATE'S ROLE OF MANAGEMENT

The above mention indicates although the State has full tools of macro-economic management but it still lacks a "script" and a "director". As a result, these tools are manipulated disjointedly, independently in accordance with assigned functions, even controlled by private interests-including systematically negative activities.

The radical strategic solution is still a techno-economic plan, an orientation of pushing up investment for domestic supply enough to meet the demand. Meanwhile, the importation of strategic commodities should be managed in line with domestic supply.

The tools: planning, export-import quota, tax, State owned enterprises, credit, investment capital, reserve fund, forecasting information, administration...should be coordinated in accordance with consistent action "manual" so as to overcome shortcomings of the market mechanism. Especially in case shortage-surplus crises boom, prices suddenly skyrocket and drop, these tools should be developed by a "quick reaction" program with order and chain support. Every fever has similar cause and some specific ones. The macro-economic manager should predict and sensitively grasp "illness" of the market in order to fill a proper prescription. In some circumstances, the State sometimes need not lose much power to effectively tackle shocks of the market mechanism.

The shocks of the market mechanism always bring many serious consequences into the economy: natural resources are wasted, consumers and producers suffer loss, changed prices reverse investment projects, high inflation and unemployment have bad effects on production and the people's living. Just because of these bad impacts, the State is required to perform its role more energetically and effectively.

Developed countries can give us many experiences, solutions. But all solutions applied to Vietnam can be invalidated if we cannot overcome three big problems: personnel, corruption and failure of order and discipline ■

(\*) Tuổi Trẻ Newspaper on May 6, 1995