

CHAPTER VII

CONCLUSIONS AND RECOMMENDATIONS

7.1 Summary

This study examines the existing glutinous rice (GR) marketing system and the marketing channels of GR in the Mekong Delta (MD), Vietnam. The market structure and the relationships between the different actors in the GR market are investigated. An effort is made to assess the marketing performance of the market services. Likewise, the study also provided recommendations to set up suitable marketing strategies, trade policies, regulations, institutions and services to promote private and cooperative GR production.

This study, the structure, conduct, and performance (SCP) approach and the marketing channel approach are applied, together with the insights drawn from the theory of institutional economics. Those approaches are used as a guideline to find out the different issues concerning problems. The interaction SCP model, showing that the three levels may interact when competition is imperfect, is applied. This model is a useful instrument to order the myriad of market features. In this study we analyze marketing costs, marketing margins, and also profit margin of each type of trader in the marketing channel as a measure of market performance.

Data in this study were obtained from two sources: primary and secondary sources. Secondary data included historical data on glutinous rice production, marketing activities and products surplus of GR in the Mekong Delta. Primary data were gathered through structured interviews with farmers; traders (assemblers, dryers, millers and wholesalers), state owned enterprises and some other knowledgeable persons who are involved in the GR business.

The glutinous rice production in recent years has shown a decreasing trend in terms of the cultivated area, however, the total production has increased because of productivity improvement, hence the yield of glutinous rice increased from 4.8 tons per ha to 6.1 tons per ha (from 2004 to 2006), depending on the area. In the study site, farmers have three crops per year; Summer-Autumn crop, Autumn-Winter crop, and Winter-Spring crop. The profit from the glutinous rice is 7,164 thousand VND – 7,839 thousand VND per ha, with ratio between profit per total cost from 1.09 to 1.22 times. The Phu Tan district has the highest yield and the most economic efficiency. The farmers sell their products immediately after harvest (about 90.21% to 92.17%).

There are no important barriers for the new traders to entry into the glutinous rice market in the MD, however, the largest obstacle with the new traders is investment capital with average score 2.38 (assemblers), 1.79 (dryers), 2.42 (millers) and 2.56 (wholesalers). The unstable output market is a also moderate problem to glutinous rice traders in the Mekong Delta, the average score for each traders is 1.38 (assemblers) and 2.00 (millers). The lack of glutinous paddy supply is the second obstacle with dryers (average score is 1.87).

This is no concentration of traders in the market at the Mekong Delta, the GINI coefficients are relatively low for all glutinous traders, and there are 0.2122; 0.2552; 0.3109 and 0.2143 for assemblers, dryers, millers and wholesalers, respectively. In the Mekong Delta, the market is the perfect market; which is a highly competitive market. There are no dominant traders who can really control the market. According to Hai,(2003), the GINI ratio of non-glutinous rice wholesaler is 0.7249 and millers is 0.6244, this mean the GINI coefficient of non-glutinous rice is higher than glutinous rice.

The GR traders obtain price information in market very easily; there are 53% of assemblers, 59% of dryers, 46% of millers and 61% of wholesalers who obtain price information without problems. Only 7% of assemblers, 10% of dryers, 12% of millers and 11% of wholesalers find obtaining price information in the market very difficult, because they think that the price they received is not the real price in the

market. The traders obtain the price information from media sources (such as watch TV, listen to radio or newspaper etc), state owned enterprises, private companies, friends and relatives and others, therefore, the most important source is from private companies and about 40% of assemblers, 41% of dryers, 38% of millers and 39% of wholesalers get price information from this source.

The structure of the marketing channel through which glutinous paddy/glutinous rice passes from farmers to final consumers is quite complex. There are three marketing channels in the marketing system at Mekong Delta. There are (1) Farmers – Assemblers – Millers/dryers – Wholesalers/retailers/SOEs – Retailers/export – Consumers, (2) Farmers – Dryers – Millers – SOEs/retailers/wholesalers – Consumer/export and (3) Farmers – Millers – SOEs/retailers/wholesalers – Consumer/export. But the main marketing channel is channel (1) with the highest percentage flow of glutinous paddy/rice. When compared with the marketing channel of non glutinous rice in the Mekong Delta that were found by Thang (2005), the glutinous rice marketing channel is less complicated than the non-glutinous rice channel.

The process of price formation in the market is simple; the domestic price depends extremely on the international price, however, when the traders bargain about the purchasing and selling price, some factors are taken into account. The result found that the moisture content and long or short distance transportation are main factors when assemblers set up the purchasing and selling price with average score 1.13 and 1.72, respectively. The dryers think that the moisture content and quality is the major factor (average score is 1.79 and 0.92, respectively). The quality and different seasons are main factors with miller in which average score is 1.38 and 1.04. The quality and long or short distance transport are major factors for wholesalers.

The average age of traders ranges from 41 (assemblers) to 45 (wholesalers) years old, with years of experience in glutinous paddy/rice business at about 11-15 years. Their reason for being involved in glutinous paddy/rice is high profit with 46.81% of assemblers, 41.03% of dryers and 55.56% of wholesalers. The majority of the intermediaries are men and women usually dominating the positions of the assembler and wholesalers. The percentage of total

income from glutinous rice business is from 59.87% (assemblers) to 93.67% (wholesalers). Some of the traders are involved in other business activities such as: paddy cultivation (from 44.44% to 93.62%), growing livestock (from 0% to 100%), and other activities such as government officers, teachers and etc. The miller has the highest investment capital (1,665,835 thousand VND), the assemblers have lowest investment capital (67,441 thousand VND).

In the buying and selling practices of traders, the main source to provide glutinous paddy for assembler is farmers (total 1,313 tons per year), and major costumers of assembler are millers (total 1,172 tons per year). The dryers have the biggest purchasing amount from assemblers (total 1,290 tons per year), and mainly sell to the private miller (total 1,399 tons per year). All of the traders purchase and sell at the local market, some of large-scale purchasing and selling in another province. All of the traders did not use contracts when purchasing and selling products; 21% of the millers and 22% of the wholesalers use contracts when selling their products.

The main means of transportation in the study areas is truck (van), the capacity of truck is small or medium (about 04 – 18 tons), because this is suitable with the location and some of the traders hired vehicles from a transportation service. The transportation cost is from 39,000VND – 72,000VND per ton depending on the location and means of transportation. If they transport by boat, the price will be cheaper, and if they transport by large transportation means, the price also will be cheaper.

The assembler does not store their products, and they have no warehouse. But all of dryers, miller and wholesaler own warehouses constructed by heavy materials. The storage length-time is from 1.6 months (wholesalers) to 3.6 months (millers). The main reason for storage is for speculative purposes (waiting for high price). There are 31% of dryers, 42% of millers and 56% of wholesalers who store for speculative purposes.

The main issues that traders pay attention to when they perform business negotiations with suppliers are regular clients and offers of a good price; average

scores are 2.21 and 2.81 (assemblers), 1.97 and 2.56 (dryers), 2.21 and 2.41 (millers) and 1.00 and 1.33 (wholesalers), respectively. The major issues that traders pay attention to when they perform business negotiations with the buyer are easily accessible money and also good price offers. Normally, when traders sell their products, the customer will repay them the money after one or two weeks, which means money easily obtained is the main issue.

The conversion ratio from glutinous paddy to glutinous rice is 67% in that; the 53% is unbroken white glutinous rice and 14% is broken white glutinous rice. In the 14% broken white GR, there are three kinds of this type. The first broken is 5%, the second is 6% and the third is 3%. From the processing of 100 kg of glutinous paddy to white glutinous rice there is 22 kg of husk and 11 kg of bran as the sub-product. The husk, they will use in the drying process, as fuel or sell it to the dryer. The bran, they use for feeding livestock.

Most of the investment capital of glutinous rice traders in Mekong Delta is borrowed from the state bank at about 75.00 – 84.62%, with the total amount from 112,766 thousand VND to 254,583 thousand VND. The second source of credit that traders can borrow capital are moneylenders at about 51,702 thousand VND (50% of traders) to 55,556 thousand VND (64.10% of traders) with a high monthly interest rate, (from 4.05 – 5.40%), because the conditions offered by the moneylenders are not complicated. The most difficult problem with the traders, when they want to borrow money occurs in the state commercial bank and non- state commercial bank and is not having enough asset collateral. The monthly interest of the state commercial bank and non-state commercial bank are the same (1.15%).

Marketing cost of assemblers, dryers, millers and wholesalers are 102,853VND, 72,657VND; 150,899VND and 113,028 VND per ton, respectively, in which the millers have highest marketing cost and the dryer have lowest marketing cost. The profit margin is 37,005VND per ton (assemblers), 87,608VND per ton (dryers), 63,608VND per ton (millers) and 75,491VND per ton (wholesalers). However, the percentage of profit margin per total cost is 1.42 (assemblers), 2.62

(dryers), 1.03 (millers) and 1.18 (for wholesalers). These numbers show that, if traders invest capital in the business they will gain a profit, for example, if the assembler invests 100 USD; they will make a 1.42 USD profit.

In the total value added, the dryers have the biggest percentage (33.23%), the wholesalers are second (28.62%), then the miller is 24.12%, and the last one, is assemblers with 14.03%.

The average storage cost of dryers, millers and wholesalers are 44,555 VND, 54,099 VND and 76,954 VND per ton per month, respectively, although this expense is increasing through time. The major storage costs are opportunities that cost capital, depending on the price of the products traders' store. It is 39,480 VND (dryers), 46,403 VND (millers) and 71,964 VND (wholesalers) per ton per month. In 2006, the dryers, millers and wholesalers have perfect price performance when they store their products in the first and second month (the actual price higher than the hypothetical price), but the third and fourth month the hypothetical price is higher than the actual price.

7.2 Conclusion

The glutinous rice farmers who receive low economic efficiency, the revenue of the glutinous rice production is high but the ratio between net profits per total cost is low because of high total cost. The cultivated areas are not concentrated, so the total cost will increase.

There are no important barriers for new traders to enter the glutinous rice market in the Mekong Delta. But the largest obstacle with the new trader is investment capital, because the new traders need to have a large amount of capital not only for buying products, but also for investment in the assets for the business.

This is no concentration of traders in the market at the Mekong Delta who are dominant traders controlling the market. The GINI coefficients are low for all traders. Thus the market is highly competitive.

The market does not have a formal price information center yet, so the traders wanting to get the exact price information in the market seems difficult. All of the traders receive price information through other traders or friends and sometimes the price information is not accurate, so this is a disadvantage for the traders and also the farmers.

There is no linkage directly from the farmer to the miller and company, thus the structure of the marketing channel through which glutinous paddy/glutinous rice passes from farmers to the final consumers is quite complex, so the total added value is high, which means that will reduce competitive advantages in the market.

The main exporters up until now are state owned enterprises. The private traders cannot become involved in the export market, so that will reduce the opportunity in which traders can expand into the international market and also increase the price of exports because there is more of a chance to select customers.

All of the traders are purchasing and selling at local markets, though some of the large-scale purchasing and selling is done in another province. The traders did not use contracts when purchasing and selling products, so their business transactions have a high risk

The main means of transportation is a small truck. The transportation cost by boat is cheaper than by truck, but some areas do not have canals, so they have to use trucks for transporting their product, which makes the transportation cost higher.

All of the traders store their product except the assemblers. Many also own their own warehouses. The length of time of storage is only 1.6 to 3.6 months.

The miller did not have enough capital to improve or change to new milling and polishing techniques. The conversion ratio is low with old technology, so the marketing cost of the miller is higher than it would be with updated equipment.

Traders pay high interest rates monthly for credit because they borrow from the moneylender. The banks do not have short term credit and also complicated conditions for the borrower. The traders have to pay more for marketing costs, so their economic efficiency is low.

7.3 Recommendation

Based on the above mentioned findings, the following policy measures could be recommended to improve the performance of the glutinous rice marketing system in the Mekong Delta, Vietnam:

1. The government should provide training courses about the glutinous rice cultivation techniques for the farmers, so as to make each farmer an expert in their field. This will mean a reduction in the production costs and improve economic returns.
2. Establish a cooperative group whose participants are farmers, the government, traders, and scientists from the cultivation areas, so all of them will become more efficient from this collaboration. The scientist will help the farmers increase their productivity, the relationship among farmers and traders through contracts, such as the traders will provide the inputs (fertilizer, pesticide, etc) for a low price and after the harvest, the farmers will sell their products to the traders at a fixed price or market price.
3. The government needs to encourage the more private traders to be involved in the glutinous rice export market. The competition between private traders and state owned enterprises is a good solution for reducing marketing costs and increasing economic efficiency in the marketing system.
4. Establish a formal price information center in the market. The price information in the market could be updated at all times and this information will be distributed to the media such as the internet, TV or radio. The price information should be more detailed about the varieties of products, location, and also quality.
5. The government should provide soft loans for the millers to change their milling and polishing machinery because the modern milling techniques will create a higher conversion ratio than the out-dated milling techniques. This means the millers can reduce the marketing cost.
6. The bank systems should offer traders credit with more flexible conditions. The banks need to expand to more kinds of capital loans such as short, medium and long term in order to satisfy the credit needs of the glutinous rice traders.