

The Development of a Private Trading System for Agricultural Products in Mountainous Areas of North Vietnam¹

Tran Huu Cuong

Faculty of Economics and Rural Development

Hanoi Agricultural University

Summary

During Vietnam's command economy, state companies played an important role in trading industrial commodities and agricultural products. Recent transformation toward a market-oriented economy with government intervention has stressed the emergence of new actors, particularly private traders who promote the development of the trading system, market competition and enhanced agricultural production. The goal of this paper is to analyze the development process of 110 private traders in two districts of the Son La province – Yen Chau and Mai Son. The traders are classified into three groups based on annual surveys based on such trader characteristics as ethnic group, profession, business resources, kind of products, and the volume and turnover of trade. Annually, thousands of tons of agricultural products are traded to regions of the country, with a turnover of tens billion VND from a production radius of hundreds of km. The study points to the positive effects of credit and loans from the State Bank on the business capital of private traders. It also points to certain constraints and opportunities of private traders in term of buying, storage, pre-processing, transportation, and payment.

Background

Son La province is representative of mountain areas of North Vietnam. Lying approximately 300 km to the north-west of Hanoi, along the Laotian border, the province covers 14,000 km² of hilly terrain, with 400,000 hectares of arable land and 1,000,000 of forest land. The population of Son La province is 900,000, more than half of which are ethnic minorities. The economy of Son La is largely dependent upon agriculture. Paddy is grown in valleys with sufficient water supply. Upland areas are usually cultivated with maize, cassava and hill rice. Many villages have no access to paddy land and are dependent on agricultural income from upland plots. Some farmers have been able to plant tea, coffee; orchards of litchi, mango, and longan; or to build fish ponds.

Son La is 8 hours by road from Hanoi. Within the district, the quality of roads varies enormously; some communes benefit from their roadside position while others remain 2-3 days walk away from the district market. Within communes there are also differences, with some villages in otherwise well-connected communes being a day's walk from the nearest road. Roads which may provide connections with the district towns during the dry season often become impassable by car and motorbike for long periods during the wet season. Horses, or more commonly, walking are the only alternatives at this time.

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Active daily markets in the district towns and small informal markets along the main roads, particularly road No.6, draw farmers from surrounding communes to trade their agricultural products. Recently, a private marketing network linked Son La with other provinces to distribute agricultural commodities to different regions and bring non-agricultural commodities in from outside. Many local private active traders have appeared, as a bridge between local farmers with external traders.

Objectives of the study are:

- Identify the development trends and characteristics of private traders in Son La.
- Analyze business activities of the traders and their contribution to the trade of agricultural commodities produced by small farmers.
- Identify constraints and opportunities to strengthen the development of the private business in the mountainous areas.

To meet these objectives we analyze information based mainly on a structured interview of 110 private traders in two districts Yen Chau and Mai Son of Son La province in 2002- 2003. The total sample represents about 80% of total traders in the two districts.

1. An appearance of the traders and their characteristics

In these districts many private traders appeared in the early 1990s when Vietnamese Government policy encouraged private business development.

Table 1 Characteristics of the traders

Indicator	All		<= 5 years		>5-9 years		=>10 years	
	Mean	C.V (%)	Mean	C.V(%)	Mean	C.V(%)	Mean	C.V(%)
Gender of female trader (%)	43	116	46	111	37	132	48	106
Age	39.5	22	34.0	22	41.0	23	40.8	17
Years in school	7.8	33	8.5	32	8.0	30	7.3	37
Ethnic (Kinh %)	74	77	73	63	70	106	79	53
Experiences of trading crops (years)	8.1	42	3.9	36	7.1	18	11.4	19
Experiences of trading (year)	8.5	41	3.9	31	7.4	14	11.9	18
Percentage of sample (%)	100		21		40		39	

Source: the survey, 2002- 2003

SD: Standard Deviation

Of the 110 traders interviewed, 39% of traders have more than 10 years of trading experience. Therefore, the age of traders is about 40 when they have acquired some business experiences and adequate financial capacity to remain in business.

About 70% of traders are non-minority Kinh from the plains area. They are familiar with trading, unlike local minority groups involved in self-sufficient farming. Recently, however, the number of minority traders has been increasing, mainly from the Thai and Tay groups.

In comparison with heads of household in the region, traders usually have a higher education level. High school education helps them to develop private business, but they have never attended any training courses on trade or business management (table 1).

A main characteristic of the traders is that many family members participate in this activity, with one key person acting as business management. He or she be a husband or wife or their children. In fact, nearly 50% of the traders are female while the husband may work as a farmer, or industrial worker, government staff and even as a trader's assistance.

The trading households not only purchase agricultural products, they usually combine agricultural with non-agricultural products. Their business strategy is diversification of products to reduce seasonal trading for agricultural products and risk. Particularly, they can link closely with their agricultural clients selling inputs to farmers and buying agricultural products from farmers. 95% of the traders are local people who can understand the traditional habits and behavior of their clients. This is a necessary and important for starting a private business.

Traders come from different previous full-time jobs: more than 50% were farmers, 16% industrial workers and 18% government staff. Some of the traders are still working at industrial factories or the governmental office in the districts and their trading activity is a part-time job. But some have retired or lost their previous job. No trading households have become a private or limited company.

Table 2 Characteristics of a person starting up a trade for agricultural products

Indicator	Unit	Mean
As a Independent trader	%	98
Local people	%	95
Mixed trading non-agricultural products	%	74
Volume of capital to start the trade	VND	23,800,000
Sources of trade capital :		
- Own capital	%	25.0
- From relative and friends	%	22.7
- Loan from the Government Bank	%	36.4
- Loan from other traders	%	9.1
- Other sources	%	6.8
His/her Job before becoming a trader		
- Farmer	%	52.4
- Industrial Worker	%	15.9
- Governmental staff	%	17.5
- No job	%	7.9
- Other	%	6.3

Source: the survey, 2002- 2003

In order to become a trader, beside personal management, capacity habits and household location, financial volume to start the trading business is estimated at 24 million

VND (1500 USD). It is not easy to seek financial sources in the area, where GDP per capita hovers at 150 – 180 USD per year. In fact, financial sources are limited to equity capital, relatives and friends, and the Government bank; of which the latter supplies more than 35% of total capital. Short and medium term loans to invest working capital of the business are an important influence on the trading enterprise.

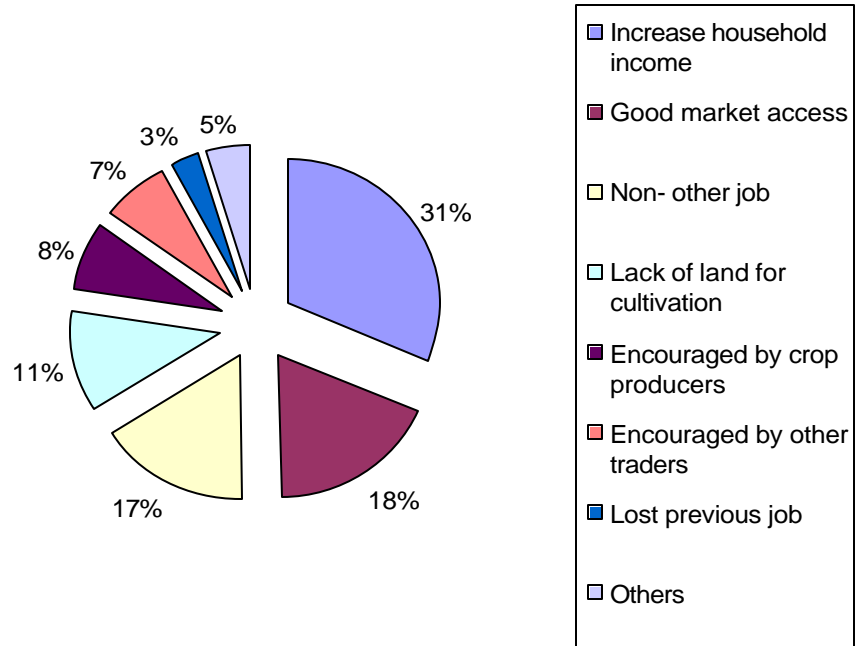


Figure 1. The traders’ reasons to start up trading agricultural products

Source: the survey, 2002- 2003

The main motivations for becoming trader are increased household income, household location, an alternative job and limited land for cultivation (see Figure 1). Therefore, in comparison with other jobs in these areas, trading represents a new employment opportunity to increase household income. This is why the number of traders significantly increases every year, leading to increased market competition among traders. From the farmers’ viewpoint, this is a good chance sell their agricultural products to many buyers and increase their market power, especially with respect to price determination.

2. Analysis of traders’ income sources

In the study district, farming is the main activity for most households. Trading is a new enterprise which some local people primarily farmers, set up to seek increased household income. On the one hand, traders remain traditional; on the other, they have developed the trading activity, as well as complementary activities such as transporting and processing agricultural products. They therefore have diverse income sources (see table 3), of which trading contributes nearly 70% (including agricultural and non-agricultural products), followed by farming with only 13%. In fact, households have not greatly change d the production scale of farming, preferring to concentrate their resources on the development of non-agricultural activities. Non-agricultural goods like salt, fish sauce, cloth, and small production tools are mainly for home consumption and contribute less than 10% of total income. Comparing the

three trader groups, the percentages are increasingly concentrated away from farming and non-agricultural trade and into agricultural trade and money lending.

Thus, the development of trading activity creates changes in both income level and structure and the development of other activities including non-agricultural products trading, transporting and internal processing by the local households.

Table 3 Income sources of the traders (%)

Income sources	all		<= 5 years		>5-10 years		=>10 years	
	Mean	C.V (%)	Mean	C.V (%)	Mean	C.V (%)	Mean	C.V (%)
Trading agricultural products	61.7	38	54.0	43	61.4	39	66.0	34
Farming	13.4	147	19.5	110	12.7	154	11.0	171
Trading non-agricultural goods	7.6	188	12.3	146	6.3	229	6.5	178
Lending money	0.9	456	0.5	420	0.6	450	1.5	380
Processing agricultural products	1.6	544	0.5	420	3.0	433	0.8	475
Pension	1.1	455	1.6	400	0.0		2.0	315
Transportation	5.7	221	2.6	227	6.8	231	6.3	181
Other	7.8	1.7	9.1	160	9.3	155	5.7	205
Total	100		100		100		100	

Source: the survey, 2002- 2003

3. Analysis of trading activity of interviewed traders

3.1. Categories of traded agricultural products and their characteristics

Agricultural products most frequently purchased by traders include 14 cereals, roots, fruits, and coffee. Only rice is transported from other regions and sold to local people there. It means farmers grow other crops for the market and buy rice for home consumption. Maize, cassava and fruit tree crops are relatively advantageous to produce there (see detailed analysis at the farm level in the next session). In fact, one trader does not purchase all of crops presented in table 4, he/she can trade about 4 – 5 agricultural products, with a maximum of 10 – 12 crops and minimum of 1 – 2 crops. This pattern does not differ by years of experience.

More than 80% of traders purchase maize. They can buy it either on the cob or as grain. The traders usually buy it on the cob at harvest and sell and dry it at home.

Cassava including dry cassava and fresh cassava is the second product in the two districts, where more than 50% of the traders purchase it.

Fruits like mango, banana, longan, plum and litchi are traded by 10% to 40% of the traders. Coffee is a new crop that has just been grown in these areas with a small number of farmers growing it and a small volume of grains sold

Table 4 Frequency of crops sold by the traders

Crop	All		<= 5 nam		>5 -9 nam		=>10 nam	
	%	SD	%	SD	%	SD	%	SD
Maize seeds	83	37	86	35	81	39	83	37
Maize cobs	53	50	59	50	51	51	52	50
Dry Cassava	50	50	36	49	49	51	60	49
Fresh Cassava	46	50	36	49	47	50	50	50
Mango	43	50	36	49	44	50	45	50
Rice	33	47	32	48	30	46	38	49
Banana	32	47	27	46	30	46	36	48
Longan	21	40	23	43	23	43	17	37
Plum	16	37	18	39	19	39	12	32
Coffee	16	37	32	48	16	37	7	26
Soybean	12	33	14	35	14	35	10	29
Tamarind	12	33	5	21	14	35	14	35
Mung-bean	11	32	5	21	12	32	14	35
Black bean	8	28	9	29	7	26	10	29
Litchi	3	17	0	0	2	15	5	21
No. of crop products	4.5	2.8	4,2	2,1	4,5	3,2	4,5	2,7
Max of crop products			10		12		10	
Min of crop products			2		1		1	

Source: the survey, 2002- 2003

3.2. Trade calendar of agricultural products

Besides rice and banana, which are traded year-round, other products are only purchased some months annually (Table 5). This is one of the main reasons why one trader has to engage in so many products. A problem for trading in the two districts is delayed collecting and transporting to retail markets because fruits are perishable products harvested in the rainy season, when rural and even national roads are very bad.

However, there are many crops with different seasons that can generate advantages and disadvantages for the traders. Their business can operate year-round because vehicles, machines and storage houses can be used more fully, saving business capital. But they have to deal with many sellers and buyers, leading to increased trading transaction costs and difficulties in specializing their business.

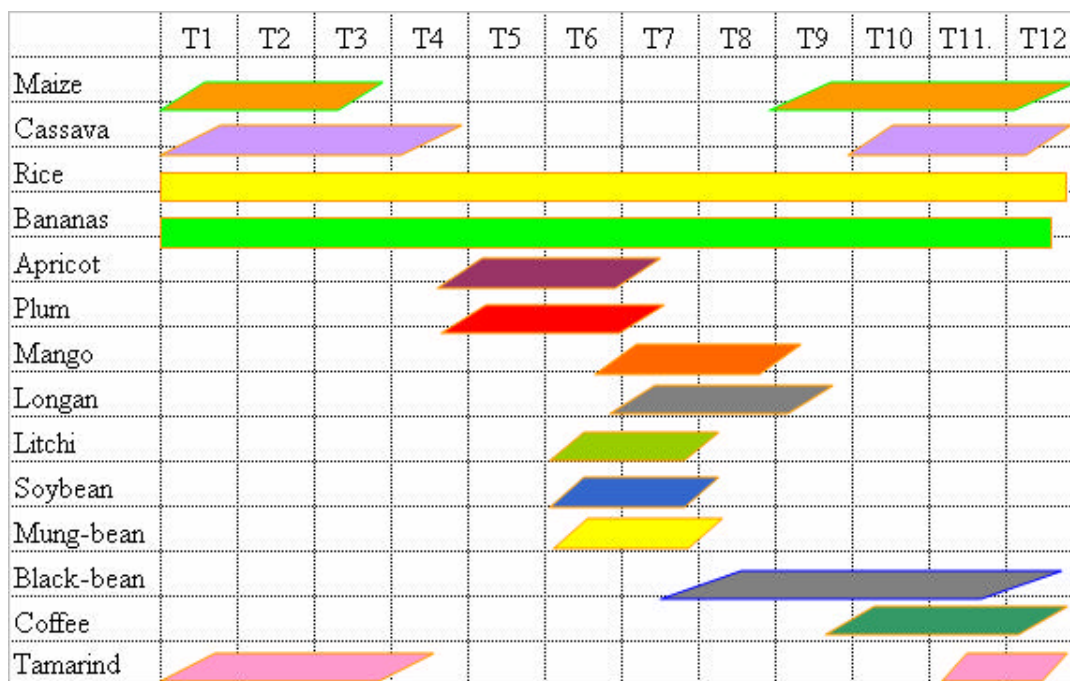
Rice and banana are not characterized by seasonal trading because traders buy rice transported from the Red River delta or other regions to sell to local people. This means that these areas have to import rice for home consumption. Each trader usually orders a small amount of white rice and sells it during about 10- 20 days before replacing the next order.

Meanwhile, banana is collected from local farmers by the traders to export to other regions. Traded bananas are green and not sold as final products but as a raw material for food processing. Green bananas can be stored longer before selling to external traders.

Fresh cassava and fruits are perishable, so rainy season traffic jams may damage these products after 3- 5 days.

In general, the trading calendar can be divided into two busy seasons per year. The maize and cassava trading season lasts for 6 to 7 months (from September or October of last year to March or April of this year). The second busy trading season for fruit crops lasts for four months (from middle of May to September).

Table 5 Trade calendar of crop products monthly



Source: the survey, 2002- 2003

3.3. Product volume and value transacted by the traders

Table 6 shows agricultural product volume and value, as calculated for both an average trader and the largest-volume trader for each trader group. The average trader transacts about 1015 tons of agricultural products per year, worth about 1.6 billion VND, in which is the highest 20,900 tons with a value of 34 billion VND.

In comparing the three groups, the greater the experience the higher the volume and value exchanged. Groups 2 and 3 have 5 to 6 times the volume and value of traded of group 1. It means that traders' business scale gradually increases over time, while the number of traders also goes up.

Table 6 also ranks the volume of each product. Maize and cassava are the main products traded, equivalent to more than 90% of total volume. Therefore, any decision to invest in transportation or storage facilities has to be based on these products.

Table 6 Trading performance per trader a year (2002)

Indicator	Unit	All		<= 5 years		>5 -9 years		>10 years	
		Mean	Max	Mean	Max	Mean	Max	Mean	Max
Total value	Mill.VND	1,626	34,000	276	1,220	1,742	34,000	2,235	26,090
Total volume	Ton	1015.57	20890	213.41	640	1177.05	20890	1284.52	6178
in which:									
Maize seed	Ton	586.86	20000	103.91	640	625.29	20000	707.56	5000.0
Maize cob	Ton	239.52	6000	42.27	400	268.78	6000	316.10	3000.0
Fresh Cassava	Ton	76.81	2000	24.91	200	70.61	900	110.85	2000.0
Dry Cassava	Ton	52.38	1000	4.41	50	48.88	600	81.61	1000.0
Banana	Ton	16.13	300	7.50	50	22.71	300	14.17	200.0
Rice	Ton	14.45	300	1.36	20	10.39	200	25.54	300.0
Mango	Ton	7.75	150	4.05	50	4.80	50	12.68	150.0
Longan	Ton	5.44	200	2.59	30	10.78	200.0	1.62	30.0
Tamarind	Ton	3.28	100	0.14	3	3.74	100	4.50	80
Soybean	Ton	3.23	100	0.64	6	4.06	100	3.78	70
Litchi	Ton	2.89	200	9.09	200	0.00	0	2.45	100
Plum	Ton	2.83	70	3.64	30	3.62	70	1.61	30.0
Apricot	Ton	2.73	100	7.55	100	2.52	50	0.34	10.0
Coffee	Ton	0.53	20	0.91	10	0.86	20	0.00	0
Mung-bean	Ton	0.23	20	0.00	0	0.00	0	0.59	20
Black bean	Ton	0.17	10	0.45	10	0.01	0.3	0.17	7
Others	Ton	0.38	24	0.00	0	0.00	0	0.95	24

Source: the survey, 2002- 2003

Table 7 shows some examples of buying and selling prices and margins for some agricultural products and non-agricultural products at the traders gate. In these cases, all of commodities are bought and sold at the same place. Normally, the trader's household is located nearby main roads; external traders transport non-agricultural commodities to the trader's gate but also they buy agricultural products there. Therefore, price margin includes the labor costs of buying and selling, storage cost, loss, tax and profit. Price margins are different among agricultural products and seasons. Price margins of fresh products are usually higher than of dry ones. They are also higher at times when many external traders come while the volume of products supplied is decreasing. However, the price of agricultural products is lower at the farm gate; this depends on the distance from the farm (village) to the trader's gate. So improvement of road quality in rural areas as an opportunity of market access and reducing transportation cost would be an initial solution to promote trading for agricultural products, Table 7 Average Prices and marketing Margins of some commodities sold by the traders 2002.

Price and Marketing Margin	Unit	Value
Buying price of fertilizer	VND/ton	2,400,000
Selling price of fertilizer	VND/ton	2,600,000
Margin	VND/ton	200,000
Buying price of maize seeds	VND/ton	1,550,000
Selling price of maize seeds	VND/ton	1,700,000
Margin	VND/ton	150,000
Buying price of rice	VND/ton	2,800,000
Selling price of rice	VND/ton	2,950,000
Margin	VND/ton	150,000
Buying price of salt	VND/ton	800,000
Selling price of salt	VND/ton	1,200,000
Margin	VND/ton	400,000

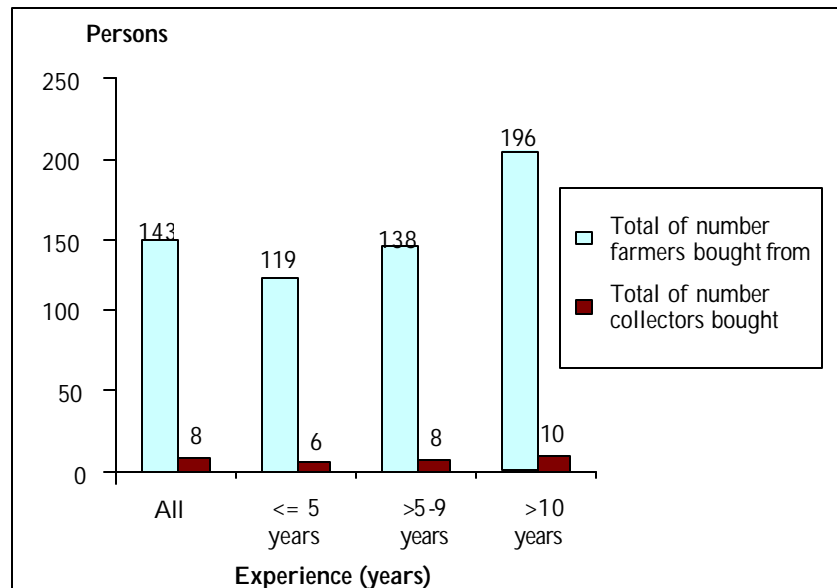
Source: the survey, 2002 - 2003

3.4. The trader's strategies in buying agricultural products

3.4.1. Seeking more suppliers and expanding supply area

Changes in market conditions compel traders to alter their business strategy to buy greater volumes of agricultural products. In the beginning of 1990, there was a small number of the traders who bought agricultural products directly from farmers. Farmers had to ship their products to the trader's shop in the village or commune. Recently the number of traders has grown and the old traders have expanded their business. Therefore, the traders have changed their method of buying products: on the one hand, they travel to local village to buy products at the farm gate. On the other, they can buy products from greater distances, through a new network of small collectors (small traders) or middlemen. These districts have both collectors (small traders) and middlemen; the collectors are independent business persons, who directly buy products and sell to the traders, while middlemen participate in the trading activity and get a commission for the traders.

Figure 2 shows that the number of farmers and collectors selling agricultural products to one trader include about 143 farmers and 8 collectors. However, traders can buy larger volumes of agricultural products from collectors compared with farmers, and they usually pay a higher price than when buying directly from the farmer. There is a difference among trader groups; group 3 has more years experience and more farmers and collectors.



Source: the survey, 2002-2003

Figure 2 Total of number farmers and collectors sold products to the traders

Figure 3 presents the proportion of actors selling agricultural products to traders. Farmers and collectors (middlemen) are classified into “occasional” and “regular”. Therefore, the traders always remain regular sellers, particularly regular farmers at from 50% to 65% of total sellers. This is a good point to create a suitable marketing network; it is easy to negotiate transactions and create trust between buyer and seller.

Figure 3 also shows that as the experience of traders is longer, the proportion of occasional farmers goes down, while the proportion of regular middlemen go up.

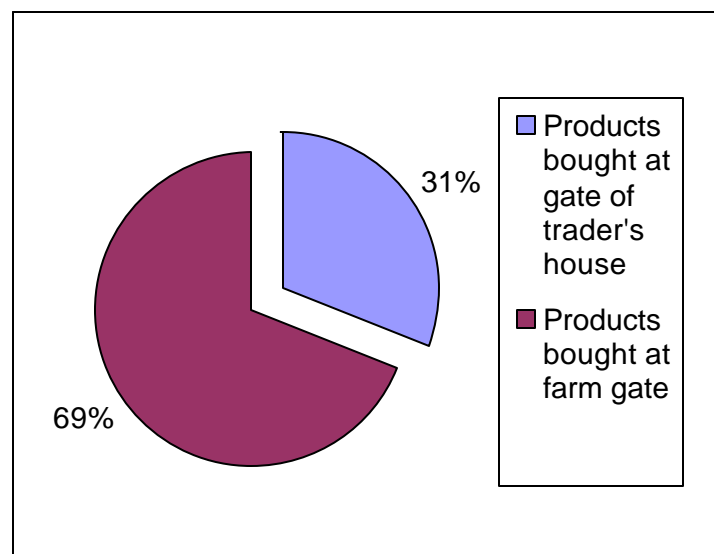


Figure 3 Structure of actors sell agricultural products to the traders

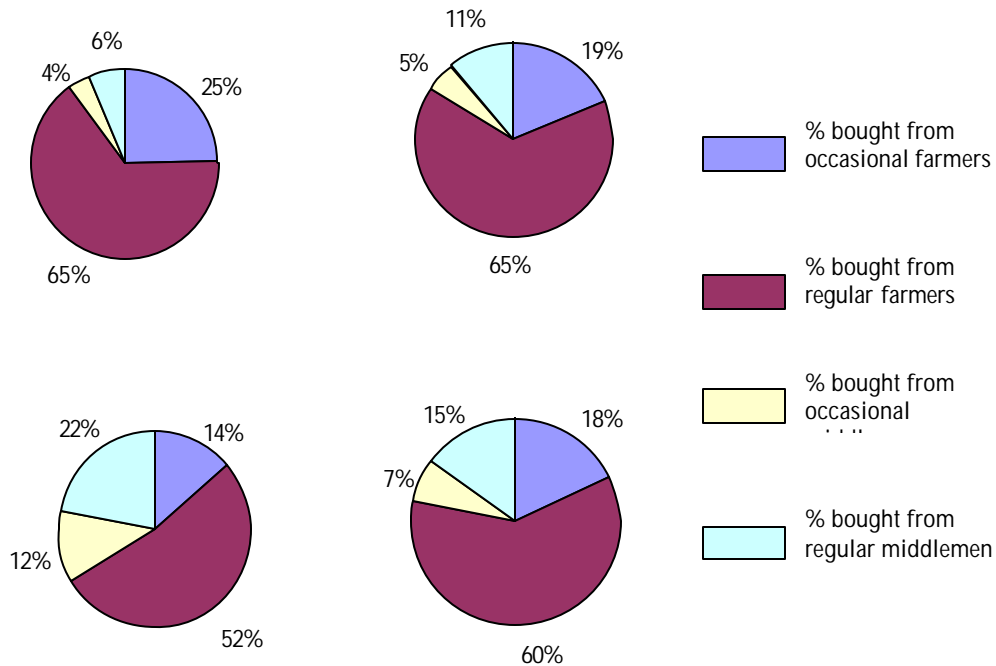


Figure 4 Proportion of products bought at farm gate and trader house gate

There are two main locations where the traders can buy agricultural products in these districts. First, the trader's buying location may be fixed. The trader set up buying points nearby the road where farmers and middlemen can bring products in. This form appeared when there were a few traders with small product supply areas. Second, the traders may travel to buy agricultural products at local villages. These traders are more active in seeking more products and competing with other traders. Recently, about 70% of products were bought by the traders at villages (see Figure 4).

Besides seeking and building good relationships with sellers, traders expand product supply areas through a collector network and investments in transport means (see detail in transport session below). Figure 5 reflects the radius within which the traders can buy agricultural products. One question is raised, why do traders with longer experience buy products at more distant locations? First, they have a capacity to reach there, the secondly they find opportunities to buy products at cheaper its prices. Areas of product supply are not only a boundary of each commune or district, but also reach many districts in Son La province. In fact, a trader's headquarter is usually located nearby the main road No. 6 the trader can buy agricultural products about 60 km far from his/her shop, with the longest being 200 – 250 km.

However, the expansion of the product supply boundary of the traders is not convenient in those districts where the road network is poor, especially in the rainy season. The traders have to use high capacity trucks and spend much time in transportation, causing marketing costs to swell. This problem affects both farmers and traders. Therefore a program of rural road infrastructure development will encourage trade in agricultural products.

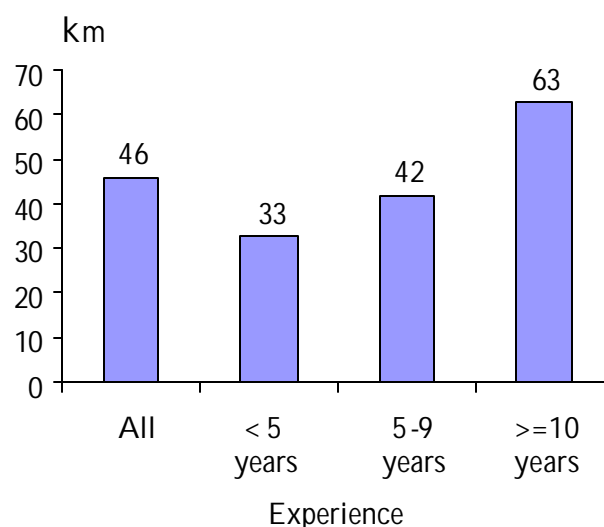


Figure 5: Radius of buying products with different groups of trader

3.4.2. Contracting with farmers and middlemen

As the number of traders gradually increases, farmers have many opportunities to sell their products to selected traders. Under increasing competition, traders bring out many strategies to attract, and sustain relationship with, farmers and middlemen who will supply agricultural products to them. How do they make an agreement with farmers?

Table 8 Frequency of purchasing contract/informal verbal agreement between the traders and farmers (in percentage)

Indicator	All	<= 5 years	>5- 9 years	=>10 years
Contract/informal verbal agreement	55	32	54	69
Content of the agreement:				
on kind of products	80	85	80	90
on product price	79	75	73	86
on product quantity	41	50	45	36
on product quality	9	13	9	7
on selling time	7	13	5	7
Others	25	0	23	29

Source: the survey, 2002- 2003

Table 8 presents key indicators of agreements linking traders and farmers. However, most of the agreements are not written, but informal and verbal. While they lack legal value, they do have a high value for relationships in the community, particularly in minority ethnic groups. Even the traders themselves have not registered their business in any legal institutions. They are recognized by society as a small informal trader and their trading is based on an individual household.

On average, more than 50% of the traders, 15% in group 1 and 35% in group 3, make an agreement with farmers before they make purchasing transaction. Thus over time, links between traders and farmers grow closer. This is an actual expectation of both actors in

trading behavior to make sustainable development of the marketing system as the first step towards modern trade in agriculture.

The kind of products, product price and quantity are important indicators used by most traders. These indicators are measured easily by sellers and buyers, but timing, and particularly quality, are determined on sight and it is difficult to quantify quality standards by the actors. Moreover, product quality changes time by time and season by season. So there are few cases where farmers and traders can agree about this indicator. In fact, product quality is identified by simple characteristics such as dryness degree, color, size, and damage by worms and termites.

3.4.3. The traders loans money and in kind incentives to farmers/middlemen

In order to retain old suppliers and attract new ones, traders have developed a credit strategy for farmers and middlemen. Table 9 shows the loan activity of traders for farmers and middlemen. Approximately 40% of total agricultural product suppliers get loans from the traders. Behind the loan activity, both parties understand that it is a commitment by the farmers to sell their products to the traders after the farmers received the loan. In other words, the traders deposit their money to farmers; it is sure that they can buy agricultural products from the farmers.

Table 9 also shows that the proportion of farmers/middlemen loaned is different among three groups of the traders, 23%, 31% and 54% respectively. The volume of money loaned is about VND 90 million; the highest is group 3 with VND 106 million, of which 85% of the volume of money is borrowed by the farmers. Some farmers borrowed over VND 35 million, while some middlemen loaned about VND 80 million.

The duration of the loans is short, less than 1 year. This means that farmers usually borrow money from the beginning or during the crop season and pay at harvest.

Table 9 Loan activities from traders to farmers/middlemen (collector)

Indicator	Unit	All	<=5 years	6-9 years	> 10 years
Traders lending money to farmers/middlemen	%	39	23	31	54
Total money loaned out by trader per year	Mill. VND	89	36	76.4	106.3
Proportion of loan to farmers	%	85	100	95	90
Proportion of loan to collectors	%	15	0	5	10
Maximum loan for farmers	Mill. VND		10	35	30
Minimum loan for farmers	Mill. VND		2	0.1	0.1
Duration of loan for farmers	Months	6	6.6	6	8.6
Interest rate for farmers per month	%	1.65	1.28	1.6	1.8
Maximum loan for collectors	Mill. VND		4	50	80
Minimum loan for collectors	Mill. VND		0.5	0.7	1
Duration of loan for collectors in months	Months	8.7	6	5	9.3
Interest rate for collectors per month	%	1.3	1.2	1.2	1.3
Payment problem from farmers/collectors	%		50	23	35

Source: the survey, 2002- 2003

The interest rate of the loan which the farmers/middlemen borrow from traders, is general higher than from the governmental bank generally. Therefore, the traders' loan activity can obtain two objectives, the traders can get higher interest rate of money loaned compared with depositing money into the bank. Secondly, they can get a benefit in the trading process.

However, figures in table 9 show that traders face problems of payment from farmers, 20% to 50% respectively in the trader groups. For example, many farmers delayed loan payment for many reasons such as low crop yield; the cash market price is higher than the contracted price; some farmers do not want to pay the loan, etc. This is an urgent problem which will obstruct trading development in these areas. At the same time, it is more difficult to solve this problem by the verbal agreement procedure and lack of legal framework between the two actors.

Besides receiving loans, farmers can buy some production inputs and home consumption commodities from the traders. Farmers can either pay in cash immediately or pay in kind at the crop harvest season. The traders using this business method can get profit from trading agricultural production inputs. In the case where farmers pay in kind with their products, the traders can obtain a higher profit including an interest rate on the loan. At the same time, they create incentives to farmers.

Table 10 presents information on the trader incentives in kind to farmers/collectors. More than 40% to 60% of traders respectively in three groups, provide production inputs (such as chemical fertilizers, and seeds), and consumption commodities (such as rice, salt, non-agricultural products) to farmers. Particularly in group 3, a traders provide more than 70 tons of chemical fertilizers, 4 tons of maize seed, etc. to farmers. While this can encourage crop production and the collector's operation, more than 50% to 60% of the traders have problems getting their money back. Some of them lose VND10 to VND20 million per year.

Table 10 Traders making incentives in kinds to farmers/collectors

Indicator	Unit	All	<=5 years	6-9 years	> 10 years
Traders loaning in kind to farmers	%	54	41	53	62
Total amount of fertilizer per trader	tons	38.5	9.86	15.5	72
Total amount of maize seeds per trader (for seedling)	tons	4.7	0.75	6.2	4.2
Total amount of rice per trader	tons	18	1.5	16	22
Total amount of salt per trader	tons	1.3	1	1	2
Traders have problems getting the money back	%	57	56	60	56
Amount of money per year lost	mill. VND	11.7	1.5	22.4	10.5
Trader forward collectors money to buy products	%	35	8	39	42
Total amount advanced to collector	mill. VND		5	15	21
Number of collectors advanced to	person		4	10	10
Trader have problems getting the money back from collectors	%		0	0	7

Source: the survey, 2002- 2003

3.5. The traders' selling strategies for agricultural products

3.5.1. Number of buyers and transaction procedure

The important second activity of the traders is selling the product. Traders are usually not involved in product transportation to retail markets. They sell products at their headquarters as a wholesaler. Persons who buy products from the traders are located in Son La province or other places. The number of buyers is estimated at about 25 persons per one trader, the highest being for trader group 3 with 35 persons. The buyers are divided into two groups: regular and non-regular, of which most are non-regular buyers (see table 11).

Table 11 Number of buyers contacted by the local traders

Actors	All	<=5 years	6-9 years	> 10 years
Total buyers	25	21	18	35
Regular buyers	7	4	6	9
Non-regular buyers	19	17	12	26

Source: the survey, 2002 - 2003

The traders know the home address of all their regular buyers. They usually contact each other by telephone before going to the traders' headquarters. Although the number of non-regular buyers is more than regular ones, traders prefer to sell their products to regular buyers because the volume of products sold and product price received are more suitable. However they have to sell to non-regular buyers in some cases because the buyers are located far from these districts, or the volume of product for the buyer is not enough for one trip, or they cannot store products longer, until the regular buyer comes.

Traders and buyers are linked by informal verbal transaction agreements based on such indicators as product price, volume and time of supply. There are no contract written between the trader and buyer. They mainly rely upon long time experience in the trading relationship and trust in each other.

These districts do not have wholesale market places for agricultural products, but a transaction including a negotiation and price determination occurs at the trader's headquarters or house on a time by time basis. The payment often takes place in cash immediately. However, in some cases, particularly regular buyers can owe a part of the total payment. This money will be paid at next time without its interest rate.

In many cases, in particular fruits and fresh cassava, buyers have to place an order kind and volume of products, give advance security money to the traders, and make an appointment before they receive products. The advance security money is 20 – 30% of the total value of products ordered by the buyer.

3.5.2. Marketing channels of agricultural products marketed in these districts

The marketing channels of agricultural products marketed in Son La province are portrayed in Figure 6.

Long & Cuong (2000) and Duc & Cuong (2001) pointed that 80% of total agricultural fresh commodities were exported to other provinces; 20% were consumed in the local market and processed before export to other regions. Agricultural products are processed as maize

seeds in animal feed factories; and banana, longan and litchi are dried by small machines in the household.

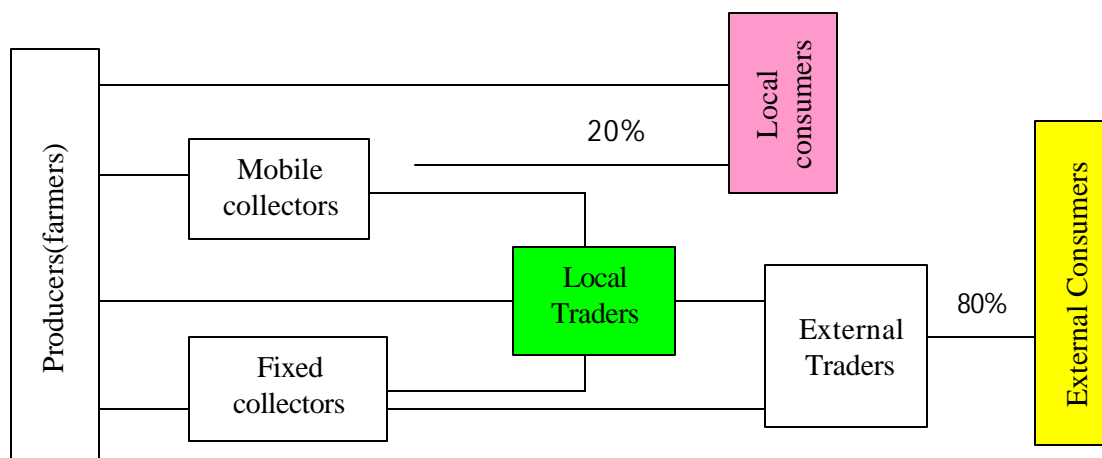


Figure 6 Marketing channels of agricultural products marketed in Son La

So thanks to local traders and external traders, a large volume of fresh agricultural commodities is exported to other regions. Table 12 shows the destination of agricultural commodities produced in the two districts.

Table 12 Destination of crop products from Two districts

Destination Province	Maize	Fresh cassava	Dry cassava	Banana	Apricot	Plum	Mango	Longan	Litchi	Coffee	Tamarind
Son La	x	x	x	x	x	x	x	x	x	x	x
Hoa Binh	x	x									
Ha Tay	x	x	x	x	x	x	x	x	x	x	x
Ha Noi	x	x	x	x	x	x	x	x	x		x
Bac Ninh	x	x									
Bac Giang	x										
Thai Nguyen	x										
Phu Tho	x										
Vinh Phuc	x	x	x								
Hung Yen	x		x		x	x	x	x			
Hai Phong	x	x	x	x	x	x	x	x			
Thai Binh	x										
Ha Nam			x								
Nam Dinh	x	x	x	x			x				x
Ninh Binh	x										
Thanh Hoa	x							x	x		x
Vinh						x	x				
Dien Bien									x		
China				x							

Source: the survey, 2002- 2003

Agricultural commodities are sold in about 20 provinces in north Vietnam with a distance of 300 – 400 km. Some products such as mango, plum, litchi and apricot are sold to retailers; while maize, and cassava are mainly sold to food processing factories. Banana can be transported to other places, it is even exported to China. Ha Tay, Ha Noi, Hung Yen and Hai Phong provinces purchase commodities. Those provinces have large cities or industrial zones or feed processing factories. However, if physical infrastructures particularly roads can be improved, they will make a big contribution to the trade of agricultural commodities among regions.

3.6. The traders' complementary activities

3.6.1. Transportation

Transportation assists traders, mainly in buying agricultural products from farmers in remote areas; or they can rent out transport mean to other traders. In other words, the traders engage in transport activity in internal areas of the province. Table 13 shows some transport means owned by trader groups. There are three kinds of transport mean including motorcycle, small tractor and lorry; their actual capacity is estimated at 100- 150 kg, 2000 – 3000 kg and 5000 – 7000 kg per unit respectively. About 60- 70% of total traders have one of those transportation means. Some new traders lacking capital usually own a motorcycle or tractor, while traders with long experience can buy a lorry. However, most of those transport means are bought second hand because they are cheaper. Using any transport mean also depends on the quality of the road and transport distance. In fact, many villages located far from the national road No. 6, have no motorable road or if they do the quality of the road is very bad. This leads to increasing transport costs and transport time, consequently decreasing the quality of products. This is a serious problem affecting trade in agricultural products in these districts.

Table 13 Transport Mode owned by the traders (in percentage)

Indicator	All	<=5 years	6- 9 years	> 10 years
Non- transport mean	32.4	45.5	25.6	32.5
Motorcycle (Mink, Honda)	17.1	22.7	20.9	10.0
Tractor (Dau ngang, may keo)	9.5	13.6	9.3	7.5
Lorry (Zin 130, 131; Huyndai)	41.0	18.2	44.2	50.0

Source: the survey, 2002- 2003

3.6.2. Storage activity

Agricultural commodities are generally fresh, perishable and bulky. So storage facilities are very important to encouraging trading activity. In comparison with other local actors, traders usually collect products in bulk before they are shipped to other regions. Since the volume of commodities they are produced at each farm is not great, traders usually spend more time to collect those from many farms. On the other hand, agricultural commodities have to be shipped long distances from the farm gate to the trader's place and subsequent destinations. That requires necessitates a storage facility at the trader's stage. Traders storage facilities are presented in table 14.

Table 14 Storage capacity of the traders

	Unit	All	<=5 years	6- 9 years	>=10 years
Stored products by trader	%	81	64	78	91
Capacity of storage place	Sq. meter	72	36	77	85
Cost to build storage house	Mill. VND	24.8	6.5	29.4	26.7
Maintenance Cost /year	Mill. VND	0.8	0.2	1.3	0.6
Speculation activity	%	39	5	35	48

Source: the survey, 2002- 2003

About 60% to 90% of the traders in the three groups are involved in storage activities. The storage facility is naturally designed and built as a storage house that protects commodities against rain and sun light for a very short time. The storage house is built of wooden or bamboo and roofed with palm leaves. Some are built of brick and roofed with tile. The size of the storage house depends on business scale, about 40 to 80 square meters with investment cost from VND 6.5 million to VND 26.7 million, respectively, from group 1 to group 3.

The traders store agricultural products to achieve different objectives in the short and long terms. Short term storage means the trader stores products during collection until enough volume is ordered by the buyer. Long term storage means the trader stores products as a form of commodity speculation, he/she will sell products at an increased price in the future.

Table 15 presents some agricultural products stored, storage forms, duration, and the proportion of products lost during the storage period. Storage forms include open storage rooms and bags. The first storage form is a simple method applied to all agricultural products, particularly fruits, to retard perishability. Alternatively, agricultural products are packaged in plastic bags for grain and bamboo boxes for fresh fruits.

Table 15 Products stored by the traders

Products	Storage form		Duration (day)		Storage losses (%)	
	(0) open in storage room	(1) Bags	Mean	Max	Mean	Max
Maize cob	0		26.6	150	6.5	20
Maize seed	0; 1		19.0	210	3.9	20
Fresh Cassava	0		2.9	10	3.1	15
Dry Cassava	0 ; 1		4.8	30	3.8	20
Rice	0 ; 1		35.0	160	3.1	20
Bananas	0		2.6	7	4.8	10
Plums	0 ; 1		2.0	2	2.0	2
Mango	0 ; 1		1.9	3	4.6	8
Apricot	0		2.0	2	2.0	2
Longan	0		2.0	2	2.0	2
Litchi	0		2.0	2	2.0	2
Mung-Bean	1		45.0	150	1.0	1
Soybean	1		30.0	160	5.0	20
Coffee seed	1		15.3	30	1.9	5

Source: the survey, 2002- 2003

The storage duration depends on the characteristics of dry or fresh products. Traders often store grains for an average of one month and a maximum of 3-5 months. Fresh fruits are stored a maximum of less than 10 days. The traders usually do not use any chemicals during the storage period.

The proportion of products lost storage duration depends on the kind of product, the storage duration and storage forms. Reasons for products loss include weights loss through water evaporation for fresh products; in the short term and mouse, termite and insect damage in the long term. In fact, traders storing products for 5-6 months may lose very high rate 15-20% of total product volume.

3.6.3. Processing activity

In order to increase commodity value and generate employment and income for their family, some traders process agricultural products. The processing activity is divided into two stages: pre-processing and processing. Table 16 presents processing activities at the trader level of the total traders interviewed, nearly 50% participate in the pre-processing stage and only 7.5% in processing stage. They focus on pre-processing activities like shelling maize seed from the cob and extracting coffee seed from the fruit. This is done by small machines with a capacity of about 1500 kg of maize seed or 100 kg of coffee seed per hour. In addition, there are other simple pre-processing activities, for example peeling and cutting cassava and banana before they are sold to external buyers.

Table 16 Processing activities done by the traders

Indicator	Pre-processed products	Processed products
Participation of the traders (%)	46.7	7.5
Activities:		
Taking off maize seed (%)	34.6	
Taking off coffee seed (%)	2.8	
Peeling and cutting cassava (%)	24.6	
Rice milling (%)		4.7
Making alcohol from cassava and banana (%)		1.9
Making cassava flour (%)		0.9
Heating fruits (longan, litchi) (%)		1.9
Making tofu (%)		1.9

Source: the survey, 2002-2003

In these areas, agricultural products are sun-dried; this is a problem influencing quality of the products, particularly for cassava and maize. For example, farmers usually cut cassava before drying it in the sun. If it is not sunny, cassava gets mouldy because of dampness and price falls by 30-50%. Some agricultural products, for example longan, litchi and banana, are dried, by a coal or charcoal heating facility with traditional technology. New electric drying equipment using a solar power source was introduced into the districts. However, while these dryers can solve technical aspects, the output still does not meet market requirements. Therefore, only about 2% of traders are involved processing activity on a small scale, and processed products are only sold on the local market. This is also true of rice milling and soybean processing serving local people needs. Hence, any solutions of processing technology

for agricultural products have to be based on what products certain markets require. For example, dried longan, according to people in Mai Son district has as its target market exports to China. For some years, the market had high demand and suitable price on the local market, so that many traders and local people participated in drying longan. But in recent years, dried longan cannot be exported to its traditional market, consequently most drying facilities are in disrepair and longan fruit has to be sold fresh to other provinces at a very low price.

3.7. The traders' comprehensive opinions on trading agricultural products

What criteria of what importance influence decisions on trading agricultural products? Table 17 mentions four main criteria as selected and ranked by the traders. The *price margin* is the selling price minus the buying price at the trader stage of the marketing channel. This criterion is the most important, for in it he/she makes the decision to trade any commodities or not.

Stability means that trading activity is better under the conditions of stable product price and volume bought and sold.

Convenience means that traders can easily buy and sell products to clients, and effect payments conveniently.

When the first three criteria are satisfied by a trader, the fourth criterion requires *money sources* for business activity. This capital comes from either owners or lenders and also reflects accessibility to outside credit sources for a trader.

Table 17 The traders' Ranking criteria to make decision on trading agricultural products

Criteria	Ranking
Price Margin	1
Stability	3
Convenience	2
Budget	4

Source: the survey, 2002- 2003

Traders have assessed their businesses based on three indicators: turnover, price margins and income from the trading activity (table 18). Approximately 92% of trading households' turnover and income have increased over the past ten years though price margins of agricultural commodities have gradually decreased, largely because traders have increased the volume of commodities marketed. If price margin goes down, the price that farmers receive has probably increased. In this case, the growth of trading has positively influenced farmer's production.

Table 18 The traders' opinion about trend of their business growth for last ten years

Indicator	Frequency (%)			
	Increasing	Standing	Fluctuating	Decreasing
Turnover	91.5	5.3	1.1	2.1
Price margin	13.8	34.0	7.4	44.7
Income from trading	77.7	6.4	2.1	13.8

Source: the survey, 2002- 2003

Table 19 shows the frequency of traders' opinions on the potential of ten agricultural products in two districts. There are four indicators: selling price that the traders can accept; stability of trading; marketability of products and suitability of crop production. Based on these opinions, there is no change between the recent situation and the potential for the next five years. Maize and cassava still have high potential, while fruit trees have low potential marketability and suitability in these areas. In fact, fruit trees still lack good signals on the market, post-harvest and production suitability.

Table 19 Traders' opinion about most potential for crop products next 5 years

Crops	Frequency of criteria (%)				
	Acceptability on price	Stability on trading	Marketability	Suitability on production	Total
Maize	9.8	13.8	18.7	14.4	56.7
Cassava	0.8	0.0	4.1	4.1	8.9
Sugar	0.8	0.0	4.1	2.4	7.3
Mango	0.8	0.0	2.4	0.8	4.1
Coffee	4.1	0.0	0.0	0.0	4.1
Longan	0.8	0.0	1.6	0.0	2.4
Banana	0.0	0.0	1.6	0.8	2.4
Litchi	0.0	0.0	1.6	0.0	1.6
Tamarind	0.0	0.0	1.6	0.0	1.6
tea	0.0	0.0	0.8	0.0	0.8

Source: the survey, 2002- 2003

4. Conclusions and implications

Local private traders have left previous employment as industrial workers and government staff, but mainly as farmers. Trading activity income contributes more than 60% of total household income. Trading household resources such as capital, turnover, physical facilities etc. are increasing annually. These indicators evolve with years of experience as a trader.

Local traders have set up a system with different suppliers for agricultural products not only at the district area but also in the large area of Son La province. At the same time, they have contacted many external traders from many provinces of North Vietnam. They contribute millions of tons of agricultural and non-agricultural commodities to interregional trade.

To attract suppliers and clients, they have built a short-and long-term business strategy based on diversification of products and activities, credit, and in-kind incentives for farmers and collectors. They have expanded complementary activities such as transport, storage and processing, thus creating jobs for household members, increasing income and raising the value of commodities.

Traders believe that, although crop products in these areas are abundant, their scale is too small and their competitiveness in agricultural products too weak at the regional market. Except for maize, market signals do not positively react to crop products in Son La.

Therefore, it is necessary to review thoroughly agricultural production strategies in both provincial and interregional markets.

The study shows that a big problem in developing marketing systems for agricultural products is the relationship among actors involved, particularly between farmers and local private traders. In the market-oriented economy we have to agree that for all private actors, the most important goal is maximizing profit in their business; if there are few buyers, where has monopolists in buying; if any actors lack of or have implicit market information, they will be tricked by other actors; if any actors lack business resources or market access, they will have low power in the market. Therefore, to make markets function efficiently and equally or equitably for all actors, two solution groups are promoted; the first refers to the micro level of each actor. A raised question is how to improve each actor's power in the market. An actor's power can be technological or institutional. In the case of Son La, farmers realize they lack both aspects. The second solution group refers to the macro level of public actors (governmental and non-governmental institutions), including local and national levels.

Governmental institutions have to be recognized as actors (not only interveners) even in a market-oriented economy. This does not mean that the governmental organizations directly participate in the trading activities as the former form of state-own trade companies. Rather, governmental institutions indirectly affect marketing activities by providing assistance for other private actors with the principle that every actor obtains a more equal "playing field". The activities of public actors are policy formulation, public investment in roads, communication systems, and market organization. In the case of two districts, road system including local and interregional roads are a big problem to promote the agricultural product trade. But the credit service of the agricultural bank to the private traders is a good example of participation of public actors in the marketing system. At the same time, we may question why farmers have to accept loans with higher interest rates from traders compared with interest rates from the agricultural bank in these areas. It means that the farmers have difficulty in access to credit services from the Agricultural Bank.

Verbal or written agreements are a procedure to bring out benefits for both farmers and traders. Changes in product price are as an important cause of failure of the agreement. Besides the innate behavior of participants, the availability of information on markets, prices, demand and supply creates an opportunity for re-negotiation between farmers and traders. Providing information is a role for the public institutions. In this case, it is appropriate that extension offices become directly involved at the commune, district and provincial levels. However, the agreement made has to include a trigger point for how much the percent margin may change before the contract may be opened for re-negotiation between the two parties?