Conglomerates and Strategic Alliance in Developing Countries

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Viet Nam
Presentation

– Conglomerates: concept and emergence
– Economic rational for conglomerates
– Possible anti-competitive effects
– How to regulate?
– Case of Vietnam
– Some conclusions
Emergence of Conglomerates

– Groups of widely different businesses, related or not related.
– Different from:
  • Cartels
  • Collusion
  • Merger
– Feature prominently in industrial organisation of emerging and transition economies.
  • For Political adaptation: rent-seeking
  • For Institutional Adaptation: second best response to market imperfections (finance, labor, technology…)

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Second best response to market imperfection

- Financial market: act as venture capitalists, higher credit grade to get access to loans
- Legal systems: avoiding formal dispute settlements (costly/unreliable in imperfect legal system)
- R&D and Labour market: Big firms and business grouping has more conditions for R&D and high quality experts
Possible downside effects

– Exclusion
– Monopoly
– Sclerosis (locking, too big to be failed)
– Frankenstein
How Should We Regulate Conglomeration?

• Less created barriers to entry: Competition law
• Less barriers to exit (Creative destruction) bankruptcy laws
• Price regulations or rate of return regulations (off setting monopoly effects)
• Create Contestable Market: Investment laws, government companies
Business grouping in Vietnam

• Recently emerging and fast growing tendency
• Featuring prominently as Business Associations and General National Corporations (90 and 91)
• Presenting in trading and industrial businesses. Forward and backward linkages
Laws/Regulations on Business Groupings in Vietnam

- Law on enterprise 1999:
  - Art.6: “discretion to joint-venture and enlarge the scale and scope of business”
  - Art. 107: Merging, separating and/or transforming business:
    + enterprises of same category have full liberty in deciding and carrying out those activities.
    + No prior-notification requirement. Just request of registering the newly established entity after merging/separating/transforming action.
Laws/Regulations on Business Groupings in Vietnam (cont.)

- Regulation on business associations
  - Law 102-SL/L004 dated 20/5/1957: basic documents regulating terms of reference of business associations
  - Decision No. 38-HDBT dated 10/4/1989 on economic alliance/linkages in production, distribution and services (industrial associations (footwear, textile and clothing))
Laws/Regulations on Business Groupings in Vietnam (cont.)

- Regulation on business associations (cont.)
- Decision No. 158/QD-TTg empowering the Head of Government Personal Department to approve the Terms of Reference of business association;

? Not yet in place a coherent and comprehensive set of regulations on business associations.

? Under drafting a piece of legislation on the establishment, activities and TOR of businesses associations.
Laws/Regulations on Business Groupings in Vietnam (cont.)

3. General National Corporation
- Decree 90/TTg in 1994 and Decree 91/TTg in 1994.

4. Drafting competition law:
   - Scope covers anti-competitive practice, abuse of dominant market power and concentration.
   - Subject matters include Viet Nam enterprises and businesses associations, foreign enterprises having effects on competition in Vietnam
---but not specific provisions yet on entry/exit barriers.
Laws/Regulations on Business Groupings in Vietnam (cont.)

5. Investment Law:
- Encouraging investment in some strategic sectors
- Restriction of foreign shares in some sectors

6. Pricing Commission: regulating prices of some strategic products and services, incl. those provided by natural monopolists. But not yet based on rate-of return regulation approach.
Conclusion

- Conglomerates can promote economic efficiency and be second best response to deficiency of market institutions in developing countries (legal, financial, educational infrastructures)

- But potential negative effects on competition and consumers. Need to be regulated.
Conclusion (cont.)

- Can address the effects of conglomeration by several means: competition laws (entry/exit barriers); investment laws (contestable market) and bankruptcy laws (creative destruction)

- But very difficult to regulate in practice: Not a supreme authority, division of regulatory power, blurring line between normal-abusive behaviors, and “means” for regulators.
Thank you