# COMPETITION BETWEEN STATE COMPANIES

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In Vietnam today, the competition between state companies has become common. To consumers, this competition is of great benefit, but it causes harm to their owner, the state. And from the economic and industrial aspects, how do we look at this problem?

The competition between state companies originated from many causes: Firstly, as a historical legacy, state companies, from the centrally-planned economy, have come into the market economy where other sectors are allowed to develop, so state companies have had to compete against not only one another but also non-state companies. Secondly, in their course of development in the market mechanism, state companies have expanded their operation into new fields, instead of specializing in one field or item as before, therefore they had to compete with all rivals for survival. Thirdly, the horizontal amalgamation of state companies according to Decrees 90 and 91 of the Government took place only on paper and wasn't accompanied by reorganization, so affiliate members of corporations kept on competing with one another (this situation is very common in cement, construction, and engineering industries). Fourthly, the existence of state companies run by local, especially provincial, governments while their operation couldn't be limited to a certain locality has led to competition between state companies in the same industry but from different provinces (this is common among provincially- run companies trading in petrol or exporting agricultural products) .

The competition between state companies also has its positive effects: Firstly, it's of great benefit to consumers, both spiritually and materially. Secondly, the competition in the market economy helps to allocate and employ resources more effectively than in the centrally-planned economy. Thirdly, it helps to develop industries both vertically and horizontally, improve the business performance, perfect the allocation of resources and accelerate changes in the structure of industry.

However, because the ownership of state companies is separated from the management, so other competition strategies, such as diversification and concentration, aren't, or couldn't be, carried out. Interests of both managers and laborers of state companies depend more on total sales than on performance. That is why price wars tend to break out at any time, especially when there are seasonal fluctuations in market demand. Price wars usually lead to reduced profits and incapacity for accumulating capital and making investment in fixed assets and R&D. Moreover, the competition in certain industries can cause harm to consumers' interests when state companies pay no attention to product quality and pollution, evade or avoid taxes and commit commercial fraud.

Generally, the competition is necessary, even between companies under the same ownership by the state, however, to make the best use of its positive effects, there must be a mechanism for regulating and giving orientation to the competition. The competition is affected by various factors, but we can examine here some of the most important ones.

### 1. Structure of an industry

Generally, the structure of an industry includes three elements: (1) amount of companies in the industry; (2) differences between companies; and (3) dependence on one another.

The amount of companies reflects the diversification degree of the industry: the bigger the amount, the higher the diversification degree. In a highly-diversified industry, the price competition is keener and the average profit is lower if other conditions aren't taken into account. In such an industry, there is hardly a company that controls the market. This is what happens to such industry as food processing. However, the competition there hardly leads to price wars. On the other hand, when the amount of companies is small, there will be some large-scale companies that play the leading role. The competition will depend on features of products supplied. If these products are highly standardized, the competition will be keener and keener. If there are many state companies in this industry they will go to price wars. This competition could be found in the market for petrol in Vietnam today and this competition led to price cuts in 1993, 1994 and 1998.

Differences between companies could be in size, cost, scope of operation or strategy. Differences in size usually lead to concentration for economies of scale, but differences in size hardly lead to differences in competitiveness, because a large-size company is not necessarily more competitive than a smaller one. For example, there are differences in size between state companies trading in petrol, but the most competitive isn't the biggest one because in price war the bigger company will probably suffer bigger losses.

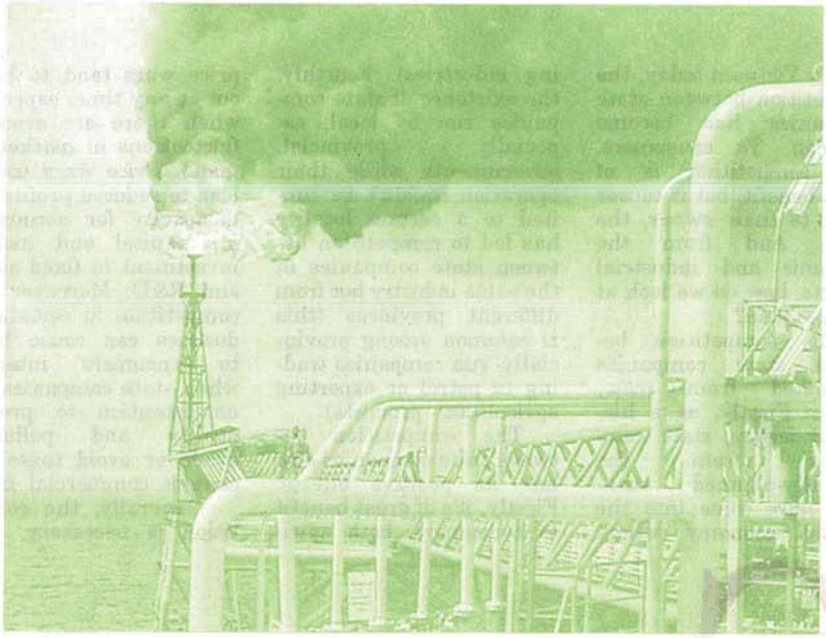
Differences between products can lead to other forms of competition, instead of price war. The more identical the products, the likelier the price war. This is what happens to companies trading in petrol, fertilizer, steel and iron, and transportation services in Vietnam.

The competition will be keener between companies with identical strength and capacity and this competition is more noticeable in processing stages that generate high added value.

Differences in strategies of companies can affect competition degree: similarity in strategy can make the competition fiercer. For example, when many companies pursue the same strategy of cost leadership, the price war will become likelier.

In an industry, there are certain relations between companies. Nature of the interdependence between companies will decide degree and feature of the competition. This interdependence is either concealed or official. The concealed interdependence usually originates from particular features of the industry in which all companies have to accept. For example, small companies have to accept the leader price set by bigger ones (in Vietnam, companies trading in petrol accept prices set by Petrolimex, or soft drink makers accept Coca Cola).

The official interdependence could be determined by official mechanisms: ownership, cooperation on distribution or purchase of inputs, and cooperation on production process. Cooperation on distribution can lead to product competition and vice versa while common ownership can get rid of competition and lead to monopoly.



**2. Development of an Industry**

Each industry usually experiences a life cycle including the following stages: introduction, growth, shakeout, maturity and decline. Degree, feature and objective of competition will changed over stages. In an industry at its first stage of development, the production cost is usually high but tends to reduce quickly, companies' strategies change over time and many companies come and go. The competition at this stage isn't keen.

At the second stage, companies can increase their sales and profits without winning market shares from rivals, that is, the competition is moderate.

When the shakeout takes place, the growth of industry slows down, companies start to fight against one another for a bigger market share, price cut and decrease in profit become noticeable. A few of companies survive the competition, become leaders and control the industry.

At the maturity stage, most companies are aware of the state of interdependence and they try their best to avoid price wars, therefore the competition lessens and the average profit increases. At the end of this stage, the price war can break out when signs of decline become clearer.

In the decline stage, decreases in market demand make the competition fiercer than in the previous stage. To make the best use of excess resources, companies will cut selling prices and the price war will break out.

As was stated above, the ownership of state companies is separated from the management, therefore owners and managers may differ widely in their interests. That is why the competition between state companies has its own special features. To make the best use of this competition in order to develop industries, the state, as the owner of state companies, had better form a mechanism for controlling the competition and preventing price wars because these wars will not only weaken state companies in the same industry, but also kill non-state companies with limited financial strength. The main measure to control competition is to create hidden or official interdependence between state companies by: (1) forming a mechanism for offering material incentives to managers based on performance, sales or output; (2) reorganizing state companies in the same industry and establishing their dependence on leading ones according to Decrees 90 and 91; and (3) equitizing state companies with a view to linking the ownership to the managerial machinery and developing cooperation beside competition.

In Vietnam today, however, it's difficult to link the competition to the cooperation because of special features of certain industries. It's worth noting that the competition between state companies in some strategic businesses ( petrol trading or export of agricultural products) isn't ordinary. Consequences of this competition will affect badly the leading role of the public sector and the development of these industries in both local and foreign markets. That is why the formation of a mechanism for controlling the competition becomes an urgent matter■