

Assessing the Economic Impact of Competition: Findings from Vietnam

Karen Ellis, Rohit Singh, Shyam Khemani,
Vu Huy & Tran Ngoc Diep

July 2010

Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD
www.odi.org.uk

Acknowledgements

This research was financed by the UK Department for International Development (DFID). However, the views presented in this paper are those of the authors and do not necessarily represent the views of DFID or the UK Government.

The authors wish to thank all those who provided information and data, comments and other inputs into this report, but take full responsibility for any errors or omissions the report may contain.

Contents

Tables and chartsiv

Executive Summary v

1. Introduction 1

2. General economic background and overview of competition policy framework 2

3. The sugar market..... 5

4. The beer market..... 13

5. The cement market..... 18

6. The mobile telephony market 23

7. Conclusion 30

Tables and charts

Table 1: Sugar market structure across the 5 case study countries.....	8
Table 2: Beer market structure across the 5 case study countries.....	14
Table 3: Future growth of the beer industry, 2006-2025 (annual growth rate projection)	16
Table 4: Cement market structure across the 5 case study countries.....	18
Table 5: Market structure and regulatory information about the 5 markets	27
Chart 1: Average sugar production (tonnes/hectare) in case study countries, 2007 (or closest year for which data available).....	9
Chart 2: Milling costs reflecting economies of scale in production	9
Chart 3: Average beer price per 500ml in USD, 2007/08.....	14
Chart 4: Retail cement price per 50kg bag (USD)	20
Chart 5: Vietnamese telephone services – penetration	24
Chart 6: Connection charge (Vietnamese Dong).....	24
Chart 7: Vietnam – mobile subscribers per 100 inhabitants.....	25
Chart 8: Average per minute mobile tariff (2007 and 2008 figures in USD)	26
Chart 9: Mobile subscribers per 100 inhabitants.....	26

Executive Summary

The Overseas Development Institute has been conducting research examining:

- how the policy framework (such as the existence of a competition authority, degree of state ownership, openness to trade etc.) affects the degree of competition present in a given product market; and
- how the degree of competition affects market outcomes such as prices, competitiveness, innovation and access to services.

The policy framework and economic performance has been compared in four product markets (sugar, cement, beer and mobile phone services) across five countries (Vietnam, Bangladesh, Zambia, Kenya, and Ghana). This paper summarises the findings from Vietnam. A synthesis of the broader findings based on the results from all five countries has been published in an ODI Research Report¹.

Key findings from Vietnam are as follows:

- The Government sets the policy for the economy, regulates the market and owns most of the business activity in the country. Vietnam thus has a very different economic structure to other countries in this study, and market outcomes seem to be relatively good. This is likely to reflect to some degree the high rate of growth Vietnam has enjoyed in recent years - an average annual real GDP growth rate of greater than 6% each year between 2003 and 2009, and above 8% in 2006 and 2007).
- In the past, private companies in general may have been deterred due to strong government involvement in markets, and the potential lack of a level playing field this implies. Liberalisation is however, underway. In many sectors, foreign companies can now have 100% ownership although joint ventures tend still to be the most frequent mode of entry for foreign private companies.
- All the industries in this study have been structurally determined to a great extent by central government plans. Provincial governments have also played an important role. This is particularly true in the cement and beer sectors where there has been a proliferation of plants across the country in order to create rural livelihoods. This has prevented economies of scale in these industries, but in the cement sector at least there seems to be industry consolidation going on as a result of market forces, which should permit greater scale efficiencies – though may also jeopardise competition in the longer run if allowed to continue unchecked.
- The introduction of a competition policy is an important component in the set of pro-market reforms that the Vietnamese Government has initiated, and the Vietnam Competition Administrative Department (VCAD), and the Vietnam Competition Council (VCC), have been established since the competition law was passed in 2005. However, due to the heritage of central planning and past government policy interventions, these bodies will be likely to face a number of challenges moving forward. The dominance of state owned enterprises, and large, diversified state owned conglomerates, has the potential to distort competition considerably. Private sector firms allege that these enterprises enjoy many advantages, such as preferential

¹ "Measuring the Economic Impact of Competition", Ellis & Singh (2010) available from: www.odi.org.uk/bdp

access to capital, land and other resources, access to subsidies, some degree of regulatory power etc. which creates an unlevel playing field for competing private sector firms. The extent to which this may be the case will need to be gauged by VCAD in assessing the impact on competition in specific cases. Such cases could provide a window for rectifying a more systemic policy which allegedly discriminates between public and private sector enterprises.

- Competition principles and competition law are relatively new to Vietnam, and thus a better understanding of competition concepts is being promoted by VCAD. Thus far, VCAD has undertaken a series of conferences, workshops, and meetings with industry and various other forms of information dissemination, in order to build understanding and encourage compliance with the law. This coupled with a strategy of competition advocacy is appropriate in a country implementing its first competition law.
- In the sugar sector, Government controls over investment and the potential for these to be politically manipulated have had a big influence on the number, size, location, technology, operational performance and growth of mills. Similarly, the government's role in supporting troubled mills affects the structure, conduct and performance of mills. All these measures affect the competition between mills, their efficiency and international competitiveness, such that the sector is struggling to some extent, and requires considerable subsidisation to survive. This represents a significant drain on the public purse and may not be sustainable in the long term. Thus as the economy continues to liberalise, further reforms may well be needed to allow continued growth. Natural market consolidation, industrial restructuring and new FDI would help to move the sugar industry onto a stronger growth path, and facilitate improved international competitiveness.
- Although the beer sector seems to be competitive and prices are relatively cheap, there do seem to be some exclusive agreements which have gone uncorrected in the past, and which have been confirmed after an investigation by VCAD, though it is not yet clear what steps have been taken to address this. The VCAD study found that in Vietnam, 70% of beer consumption takes place in restaurants. The study found that a large number of these restaurants have exclusive contracts with specific brands, which limits competition quite significantly.
- In 1995, a cement price crisis was caused by the decision by the state owned enterprise umbrella company to double the price from US\$46 per ton of cement to US\$90 per ton, due reportedly to increasing input costs. We were told that this price increase was the result of a joint lobby effort between the members of the SOE umbrella company, and the Ministry of Construction, to encourage the Price Control Division of the Ministry of Finance to permit an increase in the price of cement. Apparently all the other firms in the industry followed suit.
- Price stabilisation in the cement sector, and price leadership by the state owned cement umbrella company, alongside the control of various raw materials that the company enjoys, are likely to result in major distortions to competition. These matters could be examined by VCAD. In the medium term, many smaller and less efficient firms will likely close down and there will be some natural consolidation of the market, leading to fewer, larger and more efficient firms, operating at or above the minimum efficient size. This will be beneficial for the industry and the wider economy but will also require ongoing monitoring to ensure new competition problems – which are so common in the cement sector internationally – do not arise.
- The Vietnamese telecommunications sector has been growing at a rate of around 25 per cent per year, double the average for the Asia region and triple the world average. According to ITU

data, Vietnam had 27.56 mobile subscribers per 100 inhabitants in 2007 which increased to 80.37 in 2008. This is due to the expanding coverage and intense competition between the seven market players.

- The mobile telecommunications market is performing quite well, and seems to enjoy a reasonable degree of competition, despite its dominance by state owned enterprises, and the constraints placed on foreign ownership. However, further liberalisation, new entry and the establishment of an independent regulator to oversee the market are all likely to facilitate increased investment and to improve market performance, especially in relation to market penetration and geographic coverage, with significant knock-on benefits to the economy as a whole.
- In general terms, a high degree of state involvement in the provision of goods and services, and direct or indirect state involvement in pricing, may serve to undermine incentives for private investment in the market, and / or may result in inefficient production, thus generating an ongoing need for government subsidization and bail-outs, which must be drawn from a resource constrained state budget. In the longer term, this seems unlikely to be a sustainable model for economic development in a market economy, and may undermine Vietnam's growth performance.

Overall, the results of the study showed that markets characterised by more competition, with more players, more dynamic entry and exit, and more intense rivalry for customers (e.g. through price promotions, special offers, and marketing campaigns etc.) tend to deliver better market outcomes. These outcomes include lower prices and better service for consumers, as well as more internationally competitive production, which can generate increased exports, foreign exchange, jobs and industrial growth. It also showed that the introduction of competition – or indeed even the prospect of increased competition - can have a significant and immediate impact on prices.

However, the research has also shown that competition is often constrained, for various reasons. Problems such as market dominance and anti-competitive practices are very common in some markets, including the cement and beer industries. Thus competition authorities have an important role to play in monitoring, publicising and tackling such behaviour.

However, it is also clear that government policy and state involvement is very important in determining competition and market outcomes, whether it be through regulation and privatisation, state ownership, price controls, subsidisation, import protection, industrial policy or simply self-serving business deals. Although some of these wider policies may reflect other important policy objectives, it also suggests that the potential competition impact of these wider economic policies should be given consideration wherever possible, in order to ensure a good understanding of the overall costs and benefits.

Through comparison with the other countries studied, (which either do not have competition authorities, or have only recently introduced one), it seems the competition authorities in Zambia and Kenya have contributed to the development of a culture of competition, by raising the profile and understanding of competition issues, and by building awareness of the costs of competition problems. This is helping to arm the consumer movement with the evidence it needs to demand improved market outcomes. VCAD is now doing this in Vietnam as well.

Competition authorities have also played an important role in monitoring market behaviour. Simply the existence of a competition authority, and the knowledge that it can monitor and

publish details of any problems, can serve to constrain anti-competitive practices or abuse of dominance by firms, who fear the consequences (which may be bad publicity at the very least), if they infringe the law.

Although competition authorities may sometimes suffer from political interference when trying to tackle competition problems involving vested interests opposed to reform, they can still provide an important counterweight in government against vested interests wishing to pursue corrupt or self-serving business policies at the expense of consumers and the wider economy.

Ultimately, competition is fundamental to a well-functioning market economy, and appropriate competition policies and the establishment a competition authority can help to ensure markets work more efficiently and effectively. Competition can help undermine corruption, and facilitates international competitiveness, private sector development, and employment creation, which are in turn crucial for achieving the wider economic growth that is needed to lift developing countries out of poverty.

1. Introduction

The Overseas Development Institute (ODI) has been conducting a research project investigating the impact of competition in four product markets (sugar, cement, beer and mobile phone services) in five countries (Vietnam, Bangladesh, Kenya, Zambia, and Ghana). This paper summarises the findings from Vietnam. The findings from all the countries have been synthesised and published in an ODI Research Report².

The paper first provides a brief overview of the competition policy framework, then discusses the key competition issues that were identified in relation to each of the four product markets, and draws some comparisons with the findings from other countries – it does not provide comprehensive analysis of each of the markets.

Where limited published or independent information is available, the findings are based largely on interviews which were undertaken during a field mission that took place in December 2008. The paper has subsequently been updated to discuss any major developments that have taken place in the markets since then.

² Ellis & Singh (2010)

2. General economic background and overview of competition policy framework

Compared with many of its neighbours, Vietnam suffered three 'lost decades' of economic development due to war. But it is catching up fast. Notwithstanding a hiccup following the 1997 Asian economic crisis, Vietnam has boomed since the government started moving away from communist economic policies and central planning in the late 1980s under its 'doi moi' (renovation) policy. Vietnam is now among the fastest-growing economies in Asia.

However, the economy is still dominated by state owned enterprises (SOEs) and large private players are limited. In fact, many large SOEs are conglomerates which own businesses which dominate various sectors within the economy. The usual mode of private participation in the Vietnamese economy is via joint ventures. Although the number of industries where local equity stakes are mandatory is declining (particularly for export oriented industries), SOEs may still control essential resources, property rights and distribution networks, making joint ventures necessary.

SOEs enjoy significant advantages compared with private enterprises. For example, the Centre for International Economics (2001) notes that SOEs are able to obtain access to finance more easily. The Government's control of the banking system means it can favour designated SOEs and therefore influence the allocation of investment funds across the economy. In addition, the fact that any losses made by SOEs are effectively underwritten by the State, makes SOEs a much better credit risk than private enterprises.

The privatization programme in Vietnam, officially called the 'Equitization Programme' started in 1992 as part of the SOE Reform Programme, in the context of general economic reform. Equitization is defined as the transformation of SOEs into joint-stock companies and selling part of the shares in the company to private investors in order to improve the performance of the firms in question. Equitization differs from privatization in the usual Western sense in that it does not necessarily mean that the government loses its ultimate control over the firm. On the contrary, in the case of Vietnam, the government still holds decisive voting rights in many cases. There is some evidence of lack of competitive neutrality between large SOEs and firms with greater degrees of private ownership, and it is hoped that the introduction of a new competition law will address this matter.

Foreign investors also face difficulty with Vietnam's Foreign Investment Regulations which are very restrictive compared with other countries. Joint ventures have been the most common form of foreign investment as discussed above, but also due in part to Vietnam's restrictive land policies. Foreign investors may not own land use rights, but may lease land from the government or form a joint venture with a Vietnamese partner that holds land use rights. Because of difficulties in obtaining and preparing sites, foreign investors have largely opted to form joint ventures, most of which are with state-owned enterprises. The investment contributions of foreign investors in a joint venture are limited within a range from 30 per cent to 70 per cent and the Vietnamese partner's contributions almost always consist of land use rights. The Vietnamese partner,

therefore, does not actually contribute any capital, and the high property cost often places a significant financial burden on the newly-formed joint venture.³

Vietnam's membership in the ASEAN Free Trade Area (AFTA) and entry into force of the US-Vietnam Bilateral Trade Agreement in December 2001 have led to even more rapid changes in Vietnam's trade and economic regime. Vietnam's exports to the US increased 900% from 2001 to 2007. Vietnam joined the WTO in January 2007, following more than a decade of negotiations. WTO membership has provided Vietnam an anchor to the global market and reinforced the domestic economic reform process⁴.

As part of the structural economic policy reforms being undertaken to foster a market driven economy, the Government of Vietnam (GoV) enacted a Competition Law which came into effect in July 2005. To administer the law, the government has established the Vietnam Competition Administrative Department (VCAD), which is a government agency housed in the Ministry of Trade, and a separate independent adjudicative body, the Vietnam Competition Council (VCC), comprising of eleven to fifteen members appointed by the Prime Minister, at the recommendation of the Minister of Trade.

Cases alleging infractions of the competition law are initially investigated and resolved by the VCAD. There are, however, two different rights of appeal depending on whether the case pertains to 'unfair competition' or to 'restriction of competition'. 'Unfair competition' refers to practices such as misleading advertising, misrepresentation of products, discriminatory practices, discrediting competitors and their products, illicit multilevel (pyramid) sale schemes among others. 'Restriction of competition' refers to issues such as horizontal agreements, abuse of dominance and mergers which will increase economic concentration.

The VCAD has the authority to investigate and settle the former types of cases. But the decision can be appealed to the Minister of Trade, who may refer the matter back to the VCAD or re-confirm or modify its decision. In restriction of competition cases, the VCAD serves as the investigating authority and its findings are then submitted to the VCC for its consideration and settlement through the holding of hearings. In both types of cases, the parties have further rights of appeal to the courts.

Since 2006, under the unfair competition provisions of the law, the VCAD has investigated and concluded approximately 16 cases. The fines imposed have ranged between VND 15 million to VND 240 million.

Under the restriction of competition provisions, the VCAD has preferred promoting compliance by encouraging business to cease and desist in certain pricing practices that would otherwise constitute violations of the law. Some examples include attempts by insurance companies to cooperate and collectively set premiums for vehicles, steel companies to enter into price fixing agreements, and commercial banks to impose interest rate ceilings on deposits. A first case was referred to the VCC for adjudication in April 2009. This related to a complaint that was made by Jetstar Pacific Airlines and lodged with the Prime Minister and the Minister of Trade's offices (rather than directly

³ <http://ia.ita.gov>

⁴ <http://worldfacts.us/Vietnam.htm>

with VCAD) that the Vietnam Aviation Petroleum Company (Vinapco) had stopped supply of aviation fuel because it refused to pay an increase in the fuel charge fee. The case was scheduled to be heard by the VCC in mid 2009.

While the competition law applies equally to pricing, output and other business practices of state owned enterprises, the private sector firms allege that these enterprises still enjoy preferential treatment in access to capital, land and other resources which creates an unlevel playing field for competing private sector firms.

Interviews with various business enterprises and industry associations suggest that the role and importance of the VCAD and VCC as institutions for addressing competition matters has yet to be established. If business confronts competition problems that would normally fall under the purview of the competition law, there is still a tendency to first go to the Prime Minister or the relevant Minister to resolve matters. However, this may change over time as liberalisation continues, and as a stronger culture of competition develops.

3. The sugar market

Between 1995 and 2000, the Vietnamese Government undertook substantial investment in the sugar sector under the “One Million Tonnes of Sugar Programme” (OMTSP), which aimed to more than double Vietnam’s sugar growing area⁵. While the stated aim was to meet demands for sugar through domestic production, other implicit objectives of the program appeared to include employment creation, skills development in the regional labour force, a contribution to the reduction of hunger and poverty in rural areas, and industrialisation of the rural economy.

Over US\$750 million was spent on milling capacity and perhaps as much as US\$350 million was spent on infrastructure and capital in sugar growing regions. The investment took place under easy, government backed credit terms, infrastructure subsidies and behind high tariff and non-tariff trade barriers.

Thirty-two new sugar mills were built, bringing the total number of mills to 44. The area sown to sugarcane expanded from around 150,000 hectares to 350,000. Sugarcane crushing capacity expanded from around 10,000 tonnes a day to 78,000 tonnes.

Over most of the period of investment, domestic prices were between 50 and 70 per cent above the import parity price of sugar. However, the surge in production toward the end of the investment period made Vietnam close to self-sufficient in sugar production, and the combination of smuggling and market saturation caused prices to fall close to world prices in 1999–2000.

The most critical instruments of Vietnam sugar policy were:

- Its trade restrictions which protected the industry from world prices and on average raised domestic prices well above world prices;
- The role of government in raising, allocating, securing and distributing milling investment and working capital through Government’s use of state owned enterprises as vehicles of investment;
- Controls and regulation of direct foreign investment and private investment;
- Ownership and control of banking;
- Investment licensing and approval procedures;
- Land allocation procedures;
- The role of Government in supporting financially troubled mills;
- Subsidies paid for infrastructure in cane growing regions including: payment for roads, bridges and irrigation works, land development, and research, development and extension.

When the OMTSP came to an end in 2000, there were 44 sugar mills in operation of various sizes, with 38 of these being state owned (23 owned by local government, and 15 by central government).

The period between 2001-2003 was difficult for sugar mills, with many making large losses⁶. According to a government report the sugar industry had suffered a total loss of

⁵ Centre for International Economics (2001)

⁶ <http://xttmnew.agroviet.gov.vn/en/stories/TinTiengAnh/SugarReport.asp>

VND2,753 billion by the end of 2002, (VND 2,048 billion from locally owned mills and VND 704 billion from mills with foreign investment.) Domestic supply is estimated to have exceeded demand by 100,000-200,000 tonnes in the 2002/3 season. In addition, the amount of smuggled sugar continued rising, despite prevention efforts. Both these factors in combination substantially decreased prices: the domestic retail price of sugar dropped from VND 7,000 per kg to VND 5,000-6,000 per kg that year. Many small sugar processors stopped running during this time. In the Mekong River Delta, despite operating at full capacity, the millers were not able to purchase all the canes from farmers, resulting in the waste of unharvested crops.

In 2003, a Prime Ministerial decree - number 28 - sought to address the problems and restructure the Vietnamese sugar industry. Mills were divided into three categories depending on their performance:

- Group 1 included sugar mills that had the ability to develop, compete and integrate into the world market without support from the Government. There were only eight mills in this group (typically foreign-owned or joint ventures).
- Group 2 included mills which may continue to exist but faced great difficulties and were badly in need of support from the Government in the years 2002-05. This group included 14 sugar factories.
- Group 3 included 22 factories that needed restructuring (merger, dissolution, bankruptcy, etc.).

Also as part of Prime Ministerial decree number 28, the Government pushed for equitisation of many mills – especially those in group 2. Thus far, 21 sugar mills have been equitised since the decision was issued. Thus the Government is no longer the major shareholder in most Vietnamese mills, with many shares being sold to foreign investors, local investors and also farmers. Four underperforming sugar mills have been closed down. One sugar mill has been relocated from central Vietnam to the south. The cost of implementing Decree 28 was VND 2000 Billion⁷. The Sugarcane Association reported that since the industry's days of poor performance in 2003, many sugar mills have now become profitable and are paying taxes again.

In February 2004, Prime Ministerial Decree 26 was issued. It is a strategy for the sugar sector for 2007-2020. As part of this decree, the Government stipulated that it wanted 300,000 hectares of Sugarcane farming in Vietnam, with production volumes of 105,000 tonnes of sugar production per day. The decree also stated that no approvals would be granted for the construction of new sugar mills, but that existing mills could expand.

At the time of the ODI mission (December 2008), there were a total of 40 mills operating in Vietnam. There were 10 sugar mills which were either privately owned or were joint ventures with the Government. The mills with some private sector ownership tended to be better performing in terms of output and utilisation. Most of the top ten mills by sugar output were either joint ventures or 100% privately owned. It is a very unconcentrated market, with no mill having greater than 9% market share. Interviewees explained that private mills and mills which are joint ventures tend to perform better than SOE mills because they use better technology in milling, educate farmers in better farming methods and are able to set up longer term contracts with farmers for sugar cane supply.

⁷ Interview with Sugarcane Association

The study team was informed by one private mill that they had given away farming inputs to farmers for free (eg. lime, urea, fertilizer) on the condition that farmers supply cane to them. Private mills also provide more support to farmers through the provision of technological services such as the introduction of new, higher-yield seed types; and through financial support including loans underwriting farmers' preparation, seed, planting, fertilizer, and labour costs. One private mill has reportedly also built schools and power stations for villages that supply it with regular, specified volumes of good quality sugar cane.

The private / JV mills perform better despite the fact that SOE mills enjoy significant advantages as noted previously e.g. better access to finance, and the fact that any losses are underwritten by the state. The State does not establish a separate fund for compensating losses of the sugar sector. When losses occur, the Board of Directors must report this situation and request compensation. When such requests are approved, funds are provided. If not approved, the Government would in any case ultimately bear responsibility for the loan through its ownership of the banking system. This may allow inefficient and underperforming state owned mills to continue production, thus distorting competition.

The study team were told that sometimes the mills set up agreements to prevent competing with each other for the sourcing of cane. Thus each mill would source its cane from a different catchment area. This would mean that mills have a certain degree of monopsony power which could be used to keep the payments made to farmers lower than would be the case if farmers had a choice of mills to they could sell to. However, it seemed that farmers could renege on their commitment to supply cane to specific mills, and that as a result, some mills had a problem in sourcing a sufficient amount of cane.

The products of the different mills do compete with each other to some extent within regions, and there are different brands of sugar available on the market at both the wholesale and retail levels. The large mills distribute sugar using both Government-owned and private distributors who then sell onwards to the wholesale and retail market. The study team found no evidence of market distortions created by distribution channels. However, sugar produced in the south does not tend to get distributed in the north, as most sugar demand is in the south, particularly for industrial sugar, so there may be some degree of geographical market segmentation.

There is evidence that the different mills are innovating in the face of competition. For example, one firm invested 10,000 tonnes of breeding sugar cane for farmers and applied new planting techniques, leading to high yield crops and reduced production costs. In addition, a number of mills are using byproducts such as bagasse as a fuel to generate thermal energy to power their own operations and to generate electricity to meet industrial demand, thereby giving themselves an additional source of revenue⁸.

⁸ Subhes C. Bhattacharyya and Dang Ngoc Quoc Thang (2004)

Table 1: Sugar market structure across the 5 case study countries

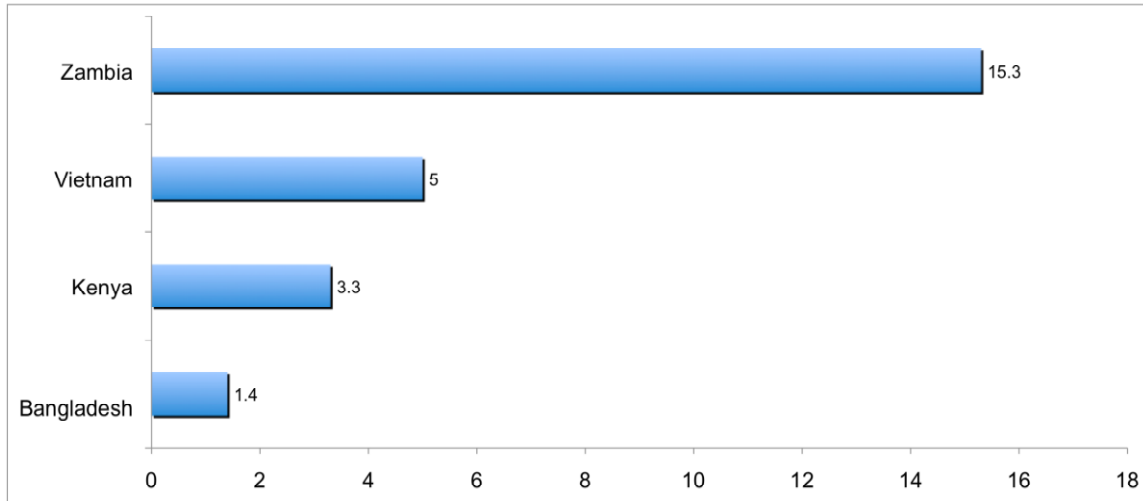
Country	No. of firms 2008	State ownership	Market shares of leading firm	Imports as % domestic consumption
Kenya	7	Yes, the State owns nearly all mills	54% (firm with most private sector participation)	15%
Zambia	3	No	93%	0%
Ghana	0	N/A	N/A	100%
Vietnam	40	Yes, high degree of state ownership	9%	4%
Bangladesh	16 SOE mills & 4 private refiners	Yes, State owns nearly all mills	47%	10%

Source: ODI, various sources

The Vietnamese sugar industry is by far the least concentrated of those studied by the ODI Research Team, with the greatest number of mills by some margin. These mills are widely dispersed across the country as well, in contrast to the other countries, where sugar industries tend to be located mainly in one area of the country. While we have concluded that the concentration of sugar production in some countries such as Zambia is too high, (as the lack of competition results in a very high domestic price of sugar, despite Zambia being a very cost efficient producer of sugar), it seems likely that the concentration of sugar production in Vietnam is too low, and does not allow companies to exploit economies of scale.

Vietnam's sugar industry is moderately efficient, compared with the other countries studied, as shown in chart 1 below.

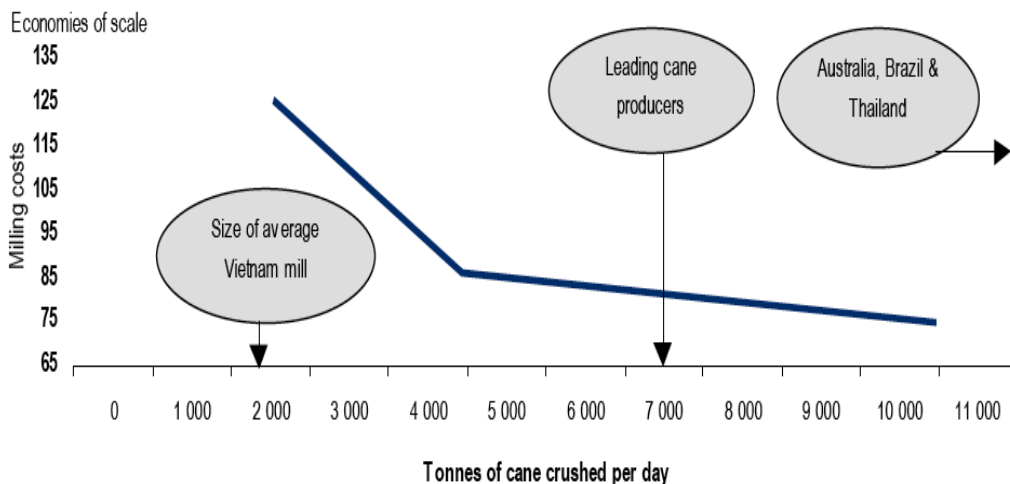
Chart 1: Average Sugar Production (Tonnes/Hectare) in Case Study Countries, 2007 (or closest year for which data available)



Source: ODI, various sources

Mills in the south of the country are far more efficient than those in the north due to climatic factors, thus the northern mills tend to bring down the average efficiency of sugar production in the country. If the industry was established on a commercial basis, rather than with an objective of job creation in mind, it would likely make more sense to grow sugar in the south and transport some of it to meet demand in the north (depending on transportation costs). The fact that there are many smallholders involved in agricultural production in Vietnam (many cane plots are as small as 0.2 hectares) as opposed to large estates, also increases transaction and coordination costs, and reduces scale economies. Thus Vietnamese sugar production is not really efficient compared with leading cane producers, as reflected in chart 2 below, although consolidation since then may be helping to ameliorate this problem.

Chart 2: Milling costs reflecting economies of scale in production



Source: Centre for International Economics (2001)

A deliberate government policy of selecting a greater number of small mills over fewer larger ones to satisfy regional objectives has resulted in the building of high cost mills

with low throughputs, instead of fewer, larger mills, operating on a more efficient scale. As a result unit costs of milling are substantially higher than need be. In addition, farms supplying larger mills appear to perform better than farms supplying small mills due to better extension efforts provided by the larger mills.

However, the Government regularly underwrites the losses of small mills, which means the small mills are likely to be able to go on matching the prices paid for cane by big mills, even if this means operating at a loss. Without such financial support from Government, small mills would feel the full competitive forces of large efficient mills and would be unable to continue operating. The continued government subsidisation of losses by inefficient sugar mills is likely to undermine competition in the market, and represents a waste of resources that could be spent better elsewhere.

A Centre for International Economics study (2001) states that since 1998, the State has only recommended prices of cane as raw materials, leaving open the opportunity for farmers and sugar processors to negotiate the price of cane, and avoiding unilateral price-fixing. The Sugarcane Industry Association (an association of the mills) confirmed that individual mills are free to set their own prices for cane, and to choose whether to have long term contracts with farmers or set spot prices. However, in a meeting with the Ministry of Agriculture in December 2008, the Department explained that they are trying to implement a pricing policy for sugar cane such that the price paid to the farmer is set in relation to the price at which the mill sells to the distributor. It is not clear what the objective of such a policy would be, and it does not seem to be in line with the principles of free competition. It is unclear whether this will apply only to Government mills or private mills as well.

Overall, putting the sugar industry on a strong growth path will require achieving economies of scale in milling (and closing many small inefficient mills), and for mills to compete with each other for cane. Although the Government has made some changes since the OMTSP came to an end, more needs to be done. To increase competition would require changes to subsidies, regulatory controls, ownership structures, mill governance, trade restrictions and research, development and extension.

Closure of small mills will displace mill workers, which may generate political barriers to reform. Social safety-nets may help to assist affected mill workers. For cane farmers, mill closures will have mixed effects. In the North where all mills are small and are likely to close, closures will require conversion to alternative crops. However, most other cane farmers will benefit from supplying larger mills. By world standards, cane transport costs are not high. With mill closures many growers in the centre and south would still have access to an alternative larger mill. To better utilise their equipment and to gain other economies of scale, medium and large mills are likely to be keen to take such cane. The economies of scale they achieve will also enable them to pay for higher transport costs. In addition, larger mills are likely to be able to better help farmers to achieve higher yields through more targeted extension programs.

Private ownership structures place powerful incentives on a company's management to be as efficient as possible in its use of resources. Managers and boards of directors of state owned mills do not face the same powerful commercial incentives and disciplines. At a minimum, it seems that governance of state owned mills should be restructured to resemble that of private mills. Equitisation of mills is an important route to this end and a precedent has been set in this area.

There are some parallels between the sugar industry in Vietnam, and the sugar industry in Kenya, which was also developed by the government with the objective of creating livelihoods in rural areas rather than for commercial reasons, and is now struggling to survive and compete on world markets, and faces high levels of debt and inefficient production processes. Once again, the sugar mills that are performing best are the ones with most private ownership, while the government mills are struggling to survive.

In fact in all three of the case study countries studied (Vietnam, Bangladesh and Kenya) which have adopted a state led approach to sugar production, the sector is failing, uncompetitive and ultimately unlikely to be sustainable, with damaging consequences for the many people whose livelihoods depend on it, as well as taxpayers in those countries who foot the bill. In stark contrast to the countries with state led industries, the Zambian sugar industry is private sector led, and is extremely efficient (as Chart 1 shows) and internationally competitive. It is expanding to take advantage of new market opportunities, and has the potential to create new jobs and growth.

Already foreign investment in Vietnam has played a big role in ensuring the establishment of several relatively efficient mills. Ensuring that the commercial environment remains attractive to foreign investment is likely to be important. This is an environment that: does not discriminate against or favour one mill over another; does not place restrictions on mill managers' options to choose what combination of inputs to use, what scale to produce at, where to operate or how to market the output; and is predictable and transparent in terms of implementation and administration of any regulations.

Promoting domestic competitiveness will do much to promote international competitiveness indirectly. But open trade will provide the ultimate incentive to adopt best practices as quickly as possible. With Vietnam's signing of the ASEAN Free Trade Agreement, import tariffs will be significantly lowered by 2011, which will help the industry become more competitive in the long run. The Vietnamese sugar industry has considerable potential to achieve productivity improvements. A strong argument exists to transfer some money currently used for various subsidies to fund R&D instead.

The economic performance of Vietnam's sugar mills could also be improved if they could generate other revenue streams. Vietnam produces about 5 million tonnes of bagasse per year, and there is potential for cogeneration using bagasse, which can also help overcome power shortages in the country. One study finds that up to 300 megawatts of power-generating capacity could be produced from sugar mills, and finds cogeneration to be a cost-effective option for all types of mill⁹. Especially interesting is the finding that the cost savings from cogeneration would more than offset the cost of introducing cogeneration in sugar mills with inefficient cane-processing technologies, by reducing their energy costs substantially. The Government could play a role in this, by establishing a Cogeneration Policy which established the framework for profitable electricity generation by the mills, and created the right investment environment to attract this kind of investment.

⁹ Subhes C. Bhattacharyya and Dang Ngoc Quoc Thang (2004)

Thus overall, the Vietnamese sugar industry has considerable growth potential, which could generate more jobs, exports and income. However, the industry requires considerable restructuring, reduced protection and subsidization by government and an improved competitive environment if the right incentives are to be created that will allow this growth to be achieved.

4. The beer market

For this study we focused on the market for formally produced clear beers (i.e. lager), though there are also local brews of different sorts produced in each of the countries. We considered the local brews to be operating in a separate market, as they are usually purchased and consumed in different ways, and thus do not appear to be close substitutes for clear beer. Thus the study excludes producers of local unpasteurized beer (Bia Hoi).

In Vietnam, there are seven major formal beer producers. The market segments within the formal beer market are mainstream bottled beer and premium beers. Mainstream bottled beer makes up an estimated 79% of the market, and premium beer makes up an estimated 21%. The top three players account for over 60% of market share. Two of these three were once fully state-owned firms which have now been partially privatised. One is based in northern Vietnam and has the highest market share in this region. The other is based in southern Vietnam and has the highest market share in this region but also has some presence in the central and northern region (it is the market leader for the country overall). The third of these three is a joint venture between a local firm and a foreign firm. The extent of brand loyalty within regions may serve to reduce the degree of competition amongst different producers and brands. The study team heard that although the dominant firm in the south is now expanding in the north, this has not lead to any significant price decrease. This might suggest that brand loyalty rather than price is the dominant factor amongst consumers in Vietnam.

Table 2 below shows the structure of the beer market in each of the countries we studied¹⁰. The beer market is often highly concentrated, due in part to economies of scale, and to the importance of brands and marketing which can represent a barrier to entry. Chart 3 provides a comparison of prices; Vietnam has the lowest price. Though other country specific factors will of course also affect prices, the figures show that prices are highest in the most concentrated markets, and lowest in the least concentrated market, which is Vietnam in this case.

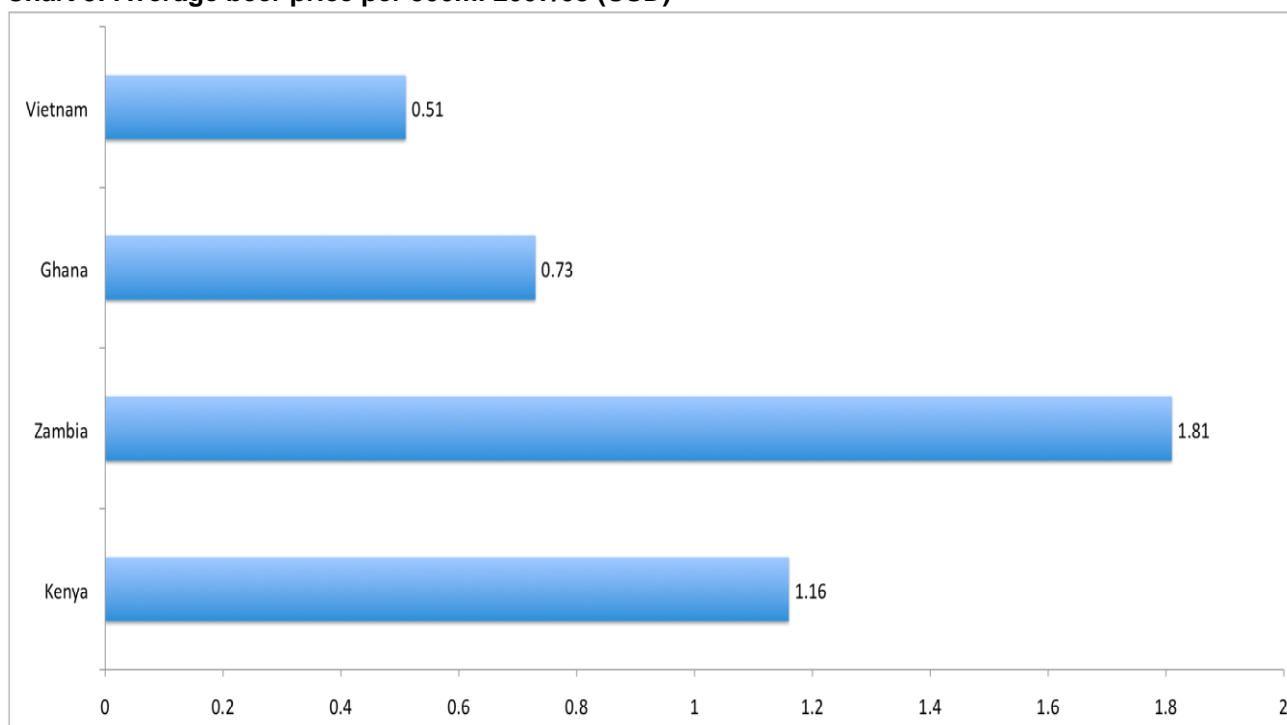
¹⁰ Bangladesh does not produce beer.

Table 2: Beer market structure across the case study countries

Country	No. of firms 2008	State Ownership	Estimated market shares of leading firm	Imports as % domestic consumption
Kenya	1	No	90-100%	<5% (premium end)
Zambia	1	No	85-90%	4% (premium end)
Ghana	2	No	60%	4% (premium end)
Vietnam	7 (of which, 3 are large with combined market share of 60%) ¹¹	Yes, majority of firms are SOEs incl. 2 of largest 3	31%	<5%(premium end)

Source: ODI, various sources

Chart 3: Average beer price per 500ml 2007/08 (USD)



Source: ODI, various sources

Vietnam appears to be the most highly contested and competitive of the beer markets being studied. There has been both new entry (through high profile international players forming joint ventures with domestic companies) and expansion in capacity by existing players in recent years, and both domestic demand and exports (largely to East Asian

¹¹ The beer market analysis in this study has only looked at clear beer (lager) production. ODI research found that Vietnam had 7 beer companies with a market share of 3% or more. However, there were in excess of 300 other small breweries nationwide making local unpasteurized beer (Bia Hoi) which have not been included in the relevant market in this analysis.

and South East Asian nations) have grown considerably. There has been an average compound annual growth rate in beer production of almost 13% for bottled beer, and just over 21% for canned beer over the period 2000-07¹². There has also been a trend away from state ownership in the sector, resulting especially from the partial privatisation of the largest beer producers. The proportion of FDI enterprises in the market has remained relatively constant.

Beer prices are low compared to the other countries in this study. However, we were told that the presence of a multi-level agency distribution network for beer may be contributing to higher prices than could be achieved otherwise. First level agents buy beer directly from brewers and then pass on the products at a marked up price to second, third, and then fourth level agents. This distribution pattern reportedly results in significant cumulative agency costs which consumers end up bearing. Increased investment in the industry is expected to lead to an improvement of current distribution networks, leading to lower prices.

Beer producers may have their own bottle manufacturing units, or import bottles from overseas; China in particular. One large bottle manufacturer has also recently set up in Vietnam, so the market for bottles is fairly competitive. This is in stark contrast to Kenya, where the beer monopoly owns the only bottle producer in the country and where such vertical integration appears to act as a barrier to entry.

No beer company in Vietnam has a dominant position (defined by the Competition Law 2004 as a single company with a market share exceeding 30%, or two companies with a combined market share exceeding 50%, or three companies with a combined market share exceeding 65%, none of which seem to be the case in Vietnam, although the top 3 have a combined market share of 60% which is reasonably close to the threshold. Whether these dominant firms exercise their relative dominance in the market is unclear. Although two of the big firms focus their production on different parts of Vietnam geographically (north and south respectively), it is hard to say whether this is a result of deliberate 'market division' on the part of the producers, or whether it simply reflects transportation costs and local brand loyalty. In any case, we understand that one of the firms has now expanded its activities into the other geographical location, which should serve to increase competition, and lessen concerns about geographical market division.

As in many industries in Vietnam, there have been very few cases of competition complaints and investigations. One of the reasons for this may be that law enforcement has been rather weak and companies are reluctant to recourse to courts to dispute claims (VCCI, 2007). However, there have been some reports of anti-competitive practices taking place in the sector, relating to exclusive distribution agreements which act as a barrier to entry.

A specific legal case arose in 2004, when a new Vietnamese brand of bottled draught beer attempted to enter the market¹³. It was alleged that incumbent beer producers forced distribution agencies, retail shops and bars to sign a contract with them, which included an exclusive term preventing these sellers and distributors from selling, exhibiting, introducing, marketing or even allowing marketing staff of any other beer brands to work on their business sites. As compensation, these shops and distributors

¹² Ministry of Industry & Trade (MIT) 2008.

¹³ VietnamNet (04/07/ 2004 & 18/05/2004) and <http://www.cuts-international.org/E-NewsletterVol1.htm>

would receive sums of cash. This strategy reportedly prevented promotional campaigns of this new entrant anywhere in Vietnam and the product could not access retail shops, distribution agencies and bars. However, the court rejected the complaint by the new entrant, and concluded that the exclusive contracts were binding. The company subsequently exited the market. If a competition law had existed at the time, such exclusive agreements and the possible associated abuse of dominance might have been considered unlawful, and quite a different outcome – and probably a more competitive one - could have been reached.

In another episode, in August 2006, we were told that a foreign entrant to the beer market sold their factories in Vietnam to another foreign brewery, after an unsuccessful market entry. Although the companies' exit was partly for other reasons, it was suggested that exclusive agreements between other foreign firms and restaurants may also have hindered the company. Beer in Vietnam (particularly the more expensive foreign beers) are often consumed through restaurants. When the company tried to enter the market, they reportedly found that most of the restaurants had already committed exclusively with other foreign or joint venture beer producers.

A competition law and authority should be able to investigate and rectify such exclusive agreements which could serve to limit competition. We understand that while exclusive dealing is now no longer practiced, and dealers are now allowed to sell different types of beers, marketing / promotion deals reportedly remain strongly exclusive i.e. if a dealer signs a marketing / promotion contract with a beer company, it commits itself not to enter into a similar arrangement with another company, although it is still free to sell other beers¹⁴. This could also serve to hinder competition to a degree, especially given that beer is a market in which branding and marketing are so important. So this is an area where further investigation by VCAD may be warranted.

The Study team were told that VCAD has recently conducted a study into the beer market. It found that in Vietnam, 70% of beer consumption takes place in restaurants, and only 30% of beer is purchased to take home. The VCAD study found that a large number of these restaurants have exclusive contracts with specific brands, which limits competition quite significantly. Although no directives have been issued by VCAD to rectify this situation, this is evidence that the Competition Authority is bringing such anticompetitive practices to light.

Overall however, the beer market in Vietnam appears to be quite competitive, and the potential for future growth of the beer industry in Vietnam seems to be very strong. The Government approved a new Masterplan for the beer industry in 2009, and the projected growth for the industry is shown in table 3.

Table 3: Future growth of the beer industry, 2006-2025 (annual growth rate projection)

	2006-10	2011-15	2016-20	2021-25
All industry	12.9	9.9	6.5	3.2
Bottle beer	13.0	13.5	8.0	4.0
Canned beer	13.5	10.0	6.0	3.0
Draught beer	2.9	4.0	6.0	7.0

Source: Institute for Industry Policy and Strategy (IIPS), 2008

¹⁴ <http://www.thesaigontimes.vn/Home/doanhnghiep/chuyenlaman/2616/>

With strong economic growth, demand for beer has increased rapidly, yet per capita consumption is still below the world average, so there is room for further growth in consumption. Income growth has led to consumers demanding more mid and high range beer, and has thus resulted in more differentiation of customers which has further segmented the beer market in terms of quality and price.

However, in responding to public health concerns, the government has imposed a special consumption tax on beer and alcoholic drinks, and is developing a national policy to deal with the effect of excessive alcohol consumption, which has a proposed goal to reduce production of alcoholic drinks by 50% by 2015. This could, if adopted and implemented successfully, offset to some extent the growth in domestic demand for beer. However exports have also grown fast, reflecting Vietnam's competitive market structure, and may continue to do so, so prospects remain bright. Growth in the beer industry will contribute to broader economic growth and job creation going forward.

5. The cement market

The Vietnamese cement industry consists of around 90 companies. Of these, 33 fall under the state owned cement industry ‘umbrella’ company. There are 5 joint venture (JV) companies where large multinational cement manufacturers are involved. The remaining 50 or so smaller firms are mainly owned by provincial governments. The SOE ‘umbrella’ company holds the largest share in the domestic cement market with more than 40 per cent of total production. JVs hold 30% and small enterprises hold 30%.

The cement sector is one that is often highly concentrated, and thus suffers from limited competition and has been a source of concern for competition authorities in many countries across the world. However, the five countries in our study have very different market structures, as shown in Table 4 below, which facilitates some interesting comparisons:

Table 4: Cement market structure across the 5 case study countries, 2008

Country	No. of firms 2008	State Ownership	Estimated market shares of leading firm	Head of population (millions) per cement company ¹⁵
Kenya	3, but with joint ownership	1 SOE	65%	13.6
Zambia	2	No	85%	4.42
Ghana	2	No	64%	12.2
Vietnam	90	33 SOEs	40%	0.99
Bangladesh	34	1 SOE	12%	4.8

Source: ODI, United Nations Population Division

Vietnam is the least concentrated market, at least in terms of the overall number of players, reflecting the country’s distinctive approach to regional state led development, and a desire to have cement production capabilities (as well as many other product markets) in each province of the country. If the domestic market was divided equally between the cement companies, the market size would be very small compared to all other case study countries, as shown in the final column of Table 4. Of course, the scale of production varies considerably between the companies, but nonetheless the high number of production facilities suggests that economies of scale cannot be fully exploited, and there are many cement firms in Vietnam that appear to be operating at well below the minimum efficient scale.

Minimum efficient scale is the smallest amount of production a company can achieve while still taking full advantage of economies of scale with regard to costs and supplies. In the cement industry, the minimum efficient scale is quite large due to the high ratio of fixed costs to variable costs. According to one source the minimum efficient scale for a

¹⁵ Population data from United Nations Population Division: <http://esa.un.org/unpp/index.asp>

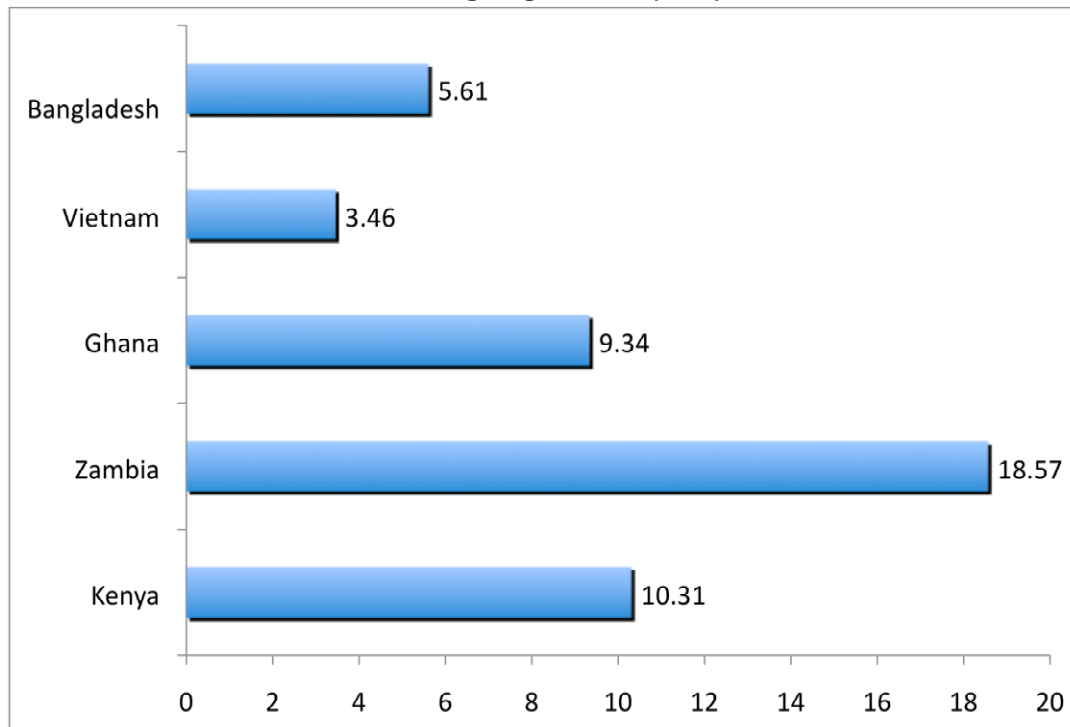
cement plant is around 1 million tons of production a year¹⁶. However, there are 90 firms in the industry and less than twenty of them are operating at or above this size. In some provinces there are several factories operating, and there is even one small village which has 4 cement factories.

However, the competitive radius of a typical cement plant extends no more than 300 kilometers given the high costs of transporting cement which is bulky and heavy. This is especially true where the cost of transportation is high – as it is in Vietnam, where there is a distance of over 1,500km from the North to the South), and which has poor overland infrastructure. Thus to avoid the high cost of transportation, cement is imported from other countries into the South as an alternative source of supply. This may partly explain why there are so many cement firms in Vietnam. Another reason could be that many provincial governments have simply decided to set up inefficient sized mills for reasons of job creation or other social objectives, as discussed above.

Despite these costs, such a low degree of concentration may bode well for competition between producers. The retail cement price across the five countries is shown in Chart 4 below. While other country-specific factors will also of course affect prices, such as input costs, and the overall costs of doing business, (and this is taken into account to some degree through the use of a purchasing power parity adjustment), it is interesting that prices are highest in the most concentrated markets, and lowest in the least concentrated markets – as was the case in the beer industry. Zambia - which has a near monopoly with 85% market share held by the leading firm as shown in Table 6 - has the highest price, while Vietnam, with its 90 cement producers, has the lowest price.

¹⁶ www.philippelasserre.net/contenu/.../Global_Cement_industry.pdf

Chart 4: Retail Cement Price Per 50kg Bag 2007/08 (USD)



Source: ODI research

However, these low prices may not simply reflect a competitive market, as prices may be controlled to some extent by Government regulation. We were told that the Government ensures that prices remain stable, within a band of +/- 20%, to minimise the risk of price overheating and prevent speculation. Market players told us that this could be evaded however, through the use of creative price promotions, so it was unclear how effective such price stabilisation was. In the past, cement was included in the list of 14 goods and services which are subject to Government price controls. All cement enterprises were required to register the selling price to the Price Control Department (Ministry of Finance) seven days before introducing this price level. The Price Control Department examined this price level and based on agreement, the enterprise could sell at this price; otherwise, the enterprise was required to adjust the price. Although today there is no price control of this form in the cement industry, there is still a government price control on coal, a key input for the production of cement.

Although government price controls can prevent over-heating of prices which may otherwise constrain construction activity, price controls have a number of inherent problems. Price controls distort the allocation of resources. Price ceilings, which prevent prices from exceeding a certain maximum, cause shortages. Price floors, which prohibit prices below a certain minimum, cause surpluses, at least for a time. Because controls prevent the price system from rationing the available supply, some other mechanism must take its place. This could be queuing, rationing, and black markets for example. Each of these generate other problems.

Queuing incurs the cost of time which is not accounted for in the price, and in business, time means money. Rationing also comes at a cost. The government must undertake the difficult job of adjusting rations to reflect fluctuating supplies and demands and the needs

of individual consumers/ construction projects. When there is a shortage, producers have an incentive to raise prices, and consumers also have an incentive to pay them. The result may be a full-fledged black market in which goods are bought and sold clandestinely. Prices in black markets may be above not only the official price but even the price that would prevail in a free market, because the buyers are particularly desperate and because sellers face penalties if their transactions are detected, and this risk is reflected in the price.

Overall, this kind of price control is not consistent with a free market economy, and undermines the competitiveness of the economy as a whole. An example of the negative impact of price intervention was provided in May 2008¹⁷. Cement makers had been facing a rising price for clinker, an important material in cement production. However, they were unable to pass this cost increase on to consumers due to a freeze on wholesale prices imposed by the government in an attempt to tackle price inflation. Thus some smaller cement companies had chosen to temporarily close, to avoid making losses, in the hope that the price ceiling would be removed in due course. This left only the four major cement firms still operating, and reduced the supply of cement on the market. Higher than expected increases in demand, exacerbated partly by speculative behaviour in expectation of future price rises (which sometimes causes distributors to hoard supplies in the hope of obtaining a higher price in future) generated large increases in the retail price in Ho Chi Minh City. Cement producers were unable to expand production fast enough to meet demand, nor could they respond by increasing wholesale prices, so cement had to be rationed; this led to many orders being rejected, and some wholesalers imposed sale quotas on retailers. While this episode may have benefited distributors who were able to cash in on the supply shortage, it would likely have resulted in considerable costs for both cement producers and consumers.

Another competition concern relates to the lack of competitive neutrality between state and private players. The state owned umbrella company for cement in Vietnam has a dominant market share and benefits from some specific advantages that other companies do not. The SOE umbrella company is the decision making body on the clinker import quota for other producers, which are also its competitors, suggesting a conflict of interests. The SOE umbrella company also controls almost all domestic resource exploitation - only SOEs are allowed to excavate mines or extract raw materials, while others have to sign contracts through SOEs. Control of inputs by the SOE umbrella company may act to some degree as a barrier to entry in the market.

In addition, since all companies under the SOE umbrella company combined have a dominant market share, the umbrella company seems able to act as a price setter in the market, through managing the price at which cement is sold by its members. For example, in 1995, a cement price crisis was caused by the decision by the SOE umbrella company to double the price from US \$46 US / ton of cement to US \$90 / ton due reportedly to increasing input costs. We were told that this price increase was the result of a joint lobby effort between the members of the SOE umbrella company, and the Ministry of Construction, to encourage the Price Control Division of the Ministry of Finance to permit an increase in the price of cement. Apparently all the other firms in the industry followed suit.

¹⁷ <http://www.vnbusinessnews.com/2008/05/southern-metro-hit-by-cement-price.html>

Domestic demand for cement has continuously exceeded domestic supply in Vietnam over the past decade and extra cement has been imported. However, production has been increasing fast in recent years – indeed, more than 13 cement factories with a combined capacity of about 11.7 million tonnes are expected to become operational in 2010, raising total production in Vietnam to approximately 70 million tonnes, according to the Ministry of Construction¹⁸. Over the next decade, it is expected that Vietnam's products in the cement industry will become increasingly competitive in terms of price, there will be fewer price fluctuations, and that the cement industry will increase exports, especially to markets such as Bangladesh, the Middle East and Africa. The imported volume of clinker and cement is estimated to be small (only about one per cent of demand)¹⁹. Reduced government intervention into pricing in this market and may be expected to facilitate improved competitiveness and growth in the market.

The structure of the cement industry, and dominant role played by the state owned umbrella company could also be examined, to ensure there are no barriers to the development of the market. The cement industry in many countries is concentrated, and vulnerable to anti-competitive practices, so while the industry is relatively unconcentrated in Vietnam, it is possible that further liberalisation and consolidation will facilitate an increase in market dominance going forward. The existence of VCAD and prospect of monitoring and investigation should help to minimise the risks of this occurring however.

¹⁸ <http://www.vnbusinessnews.com/2010/02/vietnams-new-cement-plants-to-bolster.html>

¹⁹ Source: Decision no. 108-2005/QD-TTg

6. The mobile telephony market

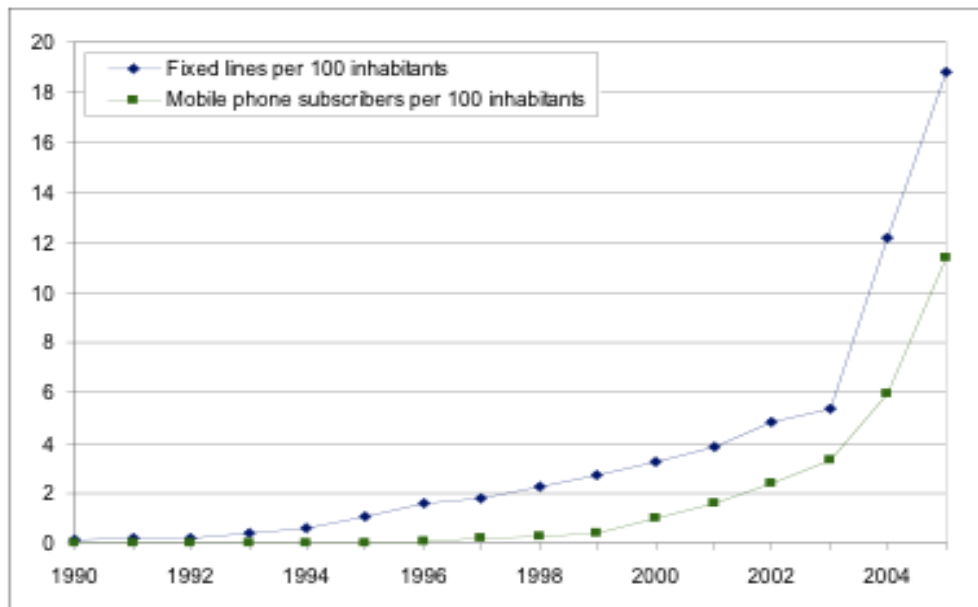
The mobiles market is one where liberalisation and the introduction of competition have had clear benefits in terms of falling prices and increasing coverage over time across the world. Vietnam is no exception; the introduction of new entrants has coincided with falling prices and rising mobile penetration. However, the market is somewhat different to the market in the other countries we studied.

Telecommunications is one of several sectors in Vietnam reserved for largely state ownership on “strategic” and “security” grounds, which has prompted a gradual and cautious approach to liberalisation. In recognition that telecommunications is a key component of the infrastructure required for national economic development, the government has made substantial investment in the sector and gradually eased control, to expand and upgrade capacity. In 1990, the sector operated under strict state control, with effectively only one service provider, which was state-owned. Since then, however, foreign companies have been allowed to establish operations to produce telecommunications equipment and material or to assist domestic local operators in the provision of services.

Since 1995, new domestic companies have been allowed to provide telecommunications services in competition with the state-owned monopoly and new services have been introduced. Since the late 1990s, service providers have been allowed greater flexibility in setting prices, authorities have sought to make regulations more transparent and streamlined, and a number of state-owned telecommunications companies have sought to increase the role of the private sector in providing capital for further investment in the industry. In areas where there is strong competition, operators are authorised to set tariffs and service charges, whilst the state-owned provider retains control over tariffs and service charges in monopoly areas, but aims to reduce service charges until they reach the regional level.

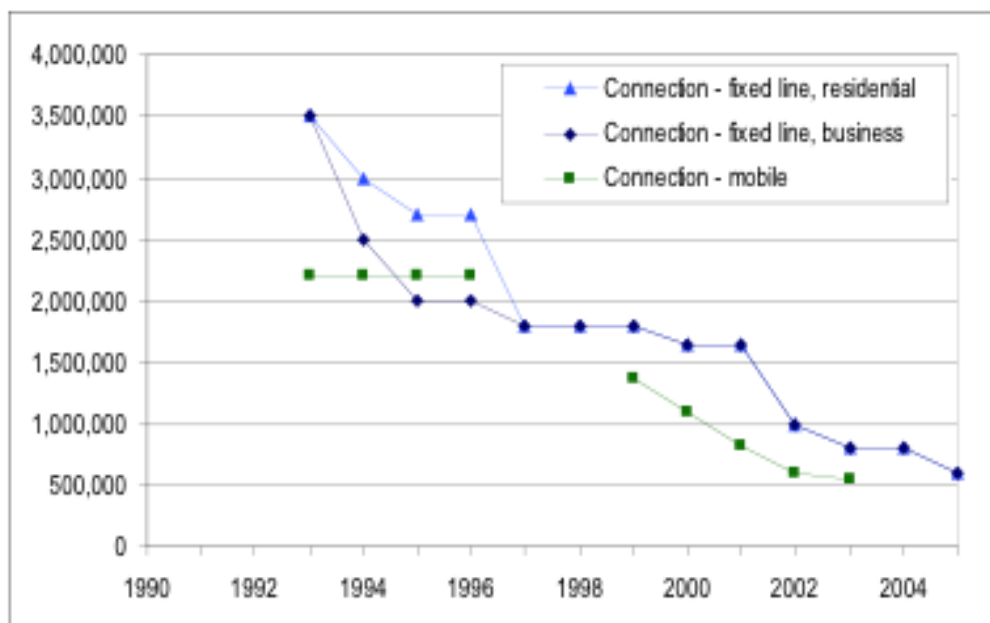
Obtaining reliable data on the number of mobile subscribers served has been difficult, and the telecommunications regulator was not forthcoming with data. For this reason, data has been compiled from secondary sources. However, what can be said with certainty is that the changes outlined above have brought about rapid growth in fixed lines and mobile phones, as well as a marked widening in the geographical and socioeconomic coverage of the expanding and multiplying networks. The Vietnamese telecommunications sector has been growing at a rate of around 25 per cent per year, double the average for the Asia region and triple the world average.

Chart 5: Vietnamese telephone services – penetration



Source: NZIER

Chart 6: Connection charge (Vietnamese dong)



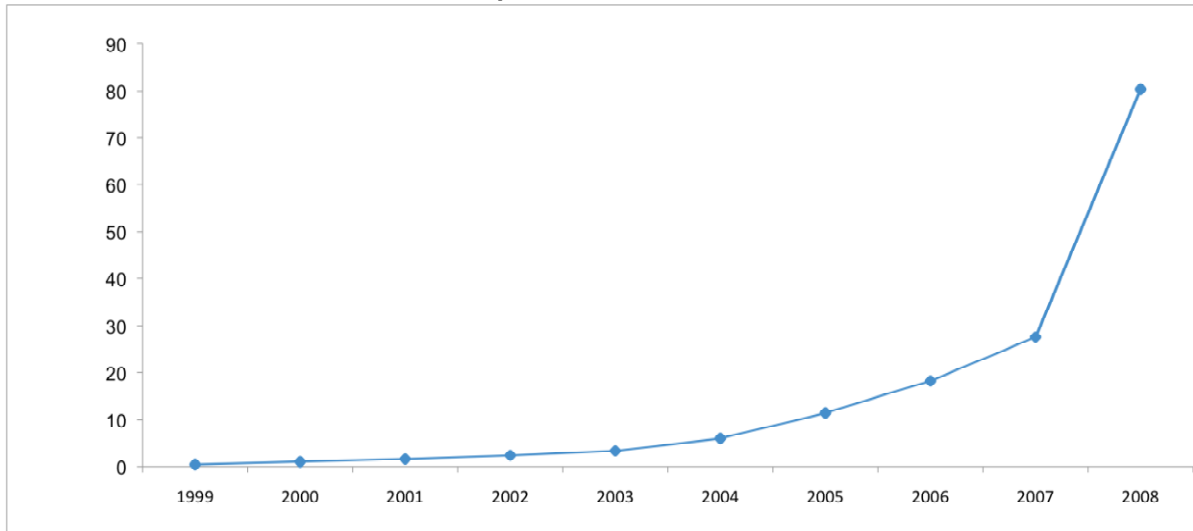
Source: NZIER

As Chart 5 above shows, in 1990 Vietnam had only 100,000 telephone subscribers, equating to 0.14 fixed lines for every 100 people, one of the lowest rates in the world. By 2000, it was approaching three million fixed lines, the equivalent of 4 for every 100 people²⁰. Whilst we have been unable to obtain time series tariff data, chart 6 shows that cost of connection for the mobiles sector has been falling dramatically between 1992 and 2004.

²⁰ New Zealand Institute of Economic Research (NZIER) (2008)

Chart 7 shows the rapid expansion in mobile penetration that Vietnam has experienced between 2006 and 2008. According to ITU data, Vietnam had 27.56 mobile subscribers per 100 inhabitants in 2007 which increased to 80.37 in 2008. This is due to the expanding coverage and intense competition between the seven market players.

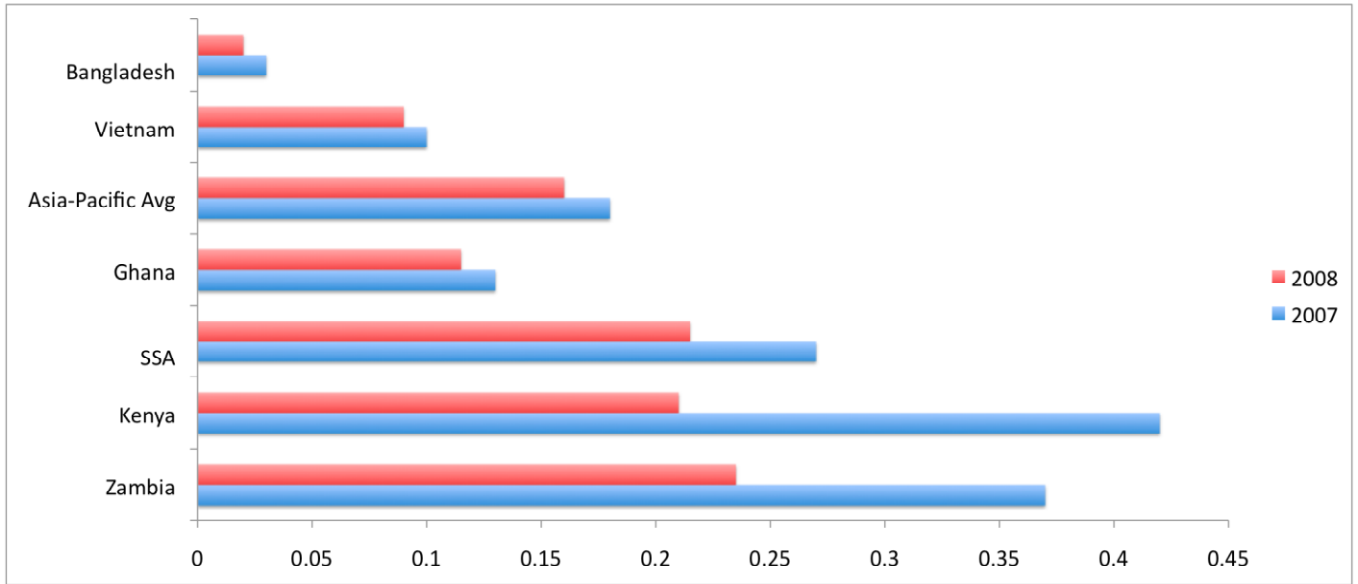
Chart 7: Vietnam – mobile subscribers per 100 inhabitants



Source: ITU data

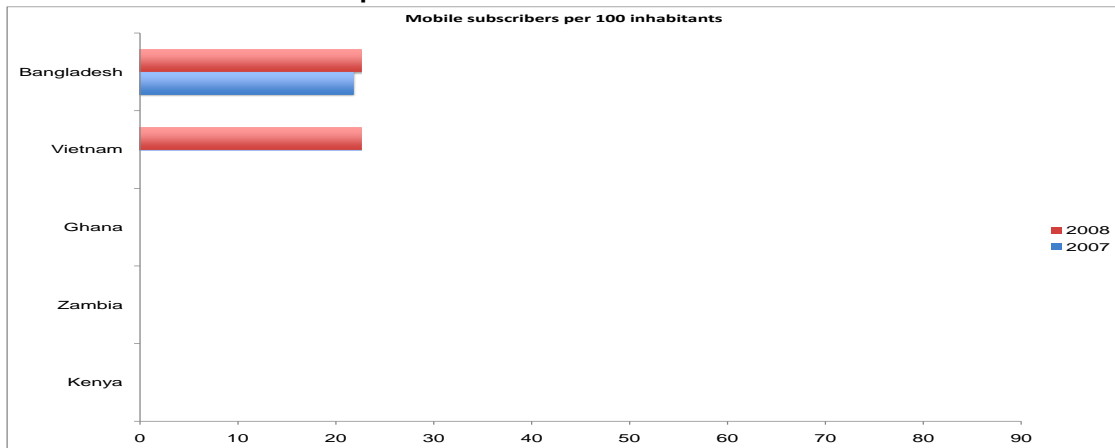
The charts below show the average per minute mobile tariffs and mobile subscribers per 100 inhabitants respectively, across the five countries studied during this research project. It shows the huge gains in terms of mobile penetration that have been achieved in Vietnam recently.

Chart 8: Average per minute mobile tariff (USD)



Source: ITU data, ODI Analysis

Chart 9: Mobile subscribers per 100 inhabitants



Source: ITU data, ODI Analysis

It is understood that even though the telecommunications sector has been seen by the Government as a strategic sector and closed to foreign ownership, the sector was partially opened to foreign companies in the form of Business Cooperation Contracts (BCCs), primarily as suppliers of equipment and finance for constructing network infrastructure for operation by Vietnamese companies. BCCs have fuelled network growth for all the SOE mobile companies and have brought large external investments at important junctures in the development of the Vietnamese telecommunications market. However, some sources have said that BCCs have brought in only limited private capital and expertise due to limited management control, and foreign investment has been focussed on short term investment for quick return. If joint ventures had been permitted,

these sources argue, more network growth and expansion could have occurred. Though it must be noted that the Vietnamese mobiles sector has actually performed fairly well when compared to the other countries in this study, at least in terms of price. In any case, with accession to the World Trade Organization, limitations on foreign companies providing telecommunications services will be relaxed, potentially bringing in further entry and more investment going forward²¹.

Until mid-2003, Vietnam's mobile market was a duopoly in which both firms in the industry were 100% owned by the State telecommunications company. By 2008 there were 6 operators in the market, all of which are majority owned by various arms of the State. However, a high degree of competition was observed between the six companies with many innovative marketing and promotional campaigns which may explain the relatively low tariffs in the country. The mobile operator owned by the Ministry of Defence has become the market leader despite having to compete against two entrenched incumbent firms owned by the dominant state monopoly operator. We were told this was because the military operator has been able to use its existing military telecommunications infrastructure and personnel to roll out services across the country – more widely than the other operators.

Table 5: Market Structure and Regulatory information about the 5 markets

Country	Number of operators 2008	Est. Market share of leading operator (%)	When mobile service provision started	Telco regulator operationally independent?	Telco regulator financially independent?	USO fund exists?	USO fund active?
Kenya	2	77	1992	Yes	Yes	No, maybe coming up	No
Zambia	3	80	1995	No	Yes	Yes	No
Ghana	4	50	1993	Yes	Yes	Yes	Yes
Vietnam	6	30	1996	No	No	Yes	No
Bangladesh	6	46	1992	Yes	No	No	No

Source: ODI, various sources

Table 5 shows how the Vietnamese mobile sector compares with the other four countries structurally. A key difference with all the other countries is that Vietnam does not have a separate telecommunications regulator. The industry is regulated by the Ministry of Post and Telecommunications (MPT), which is also responsible for telecommunications policy, and also owns two of the largest operators. This clearly generates scope for conflicts of interest, which could undermine effective regulation in this market.

International best practice in relation to the mobile telephony sector is widely perceived to require the establishment of a regulator that financially and operationally independent from the government. The former refers to its ability to finance its activities independently from government allocations (e.g. via licence fees). The latter refers to its ability to

²¹ New Zealand Institute of Economic Research (NZIER) (2008)

undertake regulatory activities independent of political interference, which may undermine the development of the sector.

We understand there have been several regulatory problems in the market. For example, interconnection has been a problem for new entrants in Vietnam, where there is evidence that the incumbent operator has delayed interconnection with new entrants, citing lack of network capacity as a reason for denying interconnection (amongst other reasons). This can effectively limit competition, as most subscribers will likely be making regular calls to subscribers on the largest network, so if the costs of doing that are very high, they will subscribe to the dominant provider, rather than to a small player or new entrant.

We were told that recently one of the large operators in the country requested the regulator to impose a floor price with respect to tariffs, presumably because the operator did not want continued competition and continually falling prices to eat into its profits. The regulator has not so far granted this request. The regulation of tariffs is quite unusual by international standards. International best practice suggests that retail tariffs should not be regulated, and that market forces should be allowed to determine the prevailing retail tariff, in order to allow the full benefits of competition to be realised (in terms of low prices, greater choice of providers, and incentives to improve services and increase coverage). Imposing tariff regulation would risk distorting the market and weakening the performance of the sector.

Large parts of the country remain unserved by a mobile phone network. Vietnam has a Universal Access Fund (UAF) which is paid for by telecommunications companies, but it was not operational at the time of the research mission. We have subsequently been told that the UAF is now operating in Vietnam, but no further information seems to be available. UAFs can help to subsidise the roll out of telecommunications services in remote and unprofitable areas, and thus could help to improve penetration with significant economic benefits in these areas.

One example of this from our case study countries is the Ghana Investment Fund for Telecommunication development (GIFTEL), which has been running since 2005, and has the aim of improving access to ICT services in non-served and under-served parts of the country. One percent of net earnings of all mobile operators go towards the GIFTEL fund. Funds are used by GIFTEL to construct common telecommunication facilities in underserved areas. GIFTEL pays for full construction of the mast, including site acquisition and fencing. We were told that in the past four years GIFTEL has completed a total of thirty-nine Common Telecom Facilities and enabled telecoms operators to extend their services to about 273 communities. The scheme is becoming increasingly popular with the operators, so this policy appears to be working well in Ghana, which has the best penetration of all the countries we studied.

However, this would also need to be implemented carefully to avoid distortions, with the state inadvertently subsidising service roll-out in what could be commercially profitable areas. It can be difficult to identify the threshold where service will be unprofitable without additional incentives or subsidy. Research carried out for the World Bank in 24 Sub-Saharan African nations, found that only a very small proportion of the population would likely remain unserved by 2015 given likely market investments over the next few

years²². Over-regulation, or the imposition of a levy can itself reduce commercial incentives for roll-out. So Governments must be careful to avoid undermining the market solution, which has delivered significant benefits in many countries so far.

There is strong evidence from across the world of the various development benefits associated with mobile phone services including significant reductions in the cost of doing business, and improvements in connectivity which make it easier for businesses to link up with suppliers, existing customers, and potential new customers. This improves the investment climate, catalyses private sector development, and stimulates growth. Thus a well-performing and competitive mobiles sector can have significant knock-on benefits for the economy as a whole. While the Vietnamese mobiles market is unusual in that it is so heavily dominated by state owned enterprises, it is still performing fairly well. Nonetheless further liberalisation may allow an influx of new investment into the sector which would help to expand mobile services considerably, and help to underpin growth and development more broadly.

²² World Bank (2007)

7. Conclusion

Being a transition economy which is still classed as a non market economy by WTO, the policy framework in Vietnam is very different to the other four countries in this study. A one party government sets the policy for the economy, regulates the market and owns most of the business activity in the country. State owned enterprises are often conglomerates with investments in various different sectors and many hitherto non-commercial arms of government are also now engaged in commercial activities (e.g. the military own the leading mobile operator). Despite the very different economic structure when compared to the other countries in this study, market outcomes seem to be relatively good, when compared with the other countries studied. This is likely to reflect to some degree the high rate of growth Vietnam has enjoyed in recent years - an average annual real GDP growth rate of greater than 6% each year between 2003 and 2009, and above 8% in 2006 and 2007²³).

In the past, foreign companies and private companies in general may have been deterred due to strong government regulations limiting foreign direct ownership and ownership of resources. Liberalisation is however, underway. In many sectors, foreign companies can now have 100% ownership although joint ventures tend still to be the most frequent mode of entry for foreign private companies. Even the telecommunications sector which has been seen as strategic and closed to foreign ownership is now being liberalised.

All the industries in this study have been structurally determined to a great extent by central government plans. Provincial governments have also played an important role. This is particularly true in the cement and beer sectors where there has been a proliferation of plants across the country in order to create rural livelihoods. This has prevented economies of scale in these industries, but there seems to be industry consolidation going on as a result of market forces, which should permit greater scale efficiencies – though may also jeopardise competition in the longer run if allowed to continue unchecked.

The introduction of a competition policy is an important component in the set of pro-market reforms that the Vietnamese Government has initiated. However, due to the heritage of central planning and past government policy interventions, the VCAD (and VCC) will face a number of challenges moving forward. The dominance of state owned enterprises, and large, diversified state owned conglomerates, has the potential to distort competition considerably. Private sector firms allege that these enterprises enjoy many advantages, such as preferential access to capital, land and other resources, access to subsidies, some degree of regulatory power etc. which creates an unlevel playing field for competing private sector firms. The extent to which this may be the case will need to be gauged by VCAD in assessing the impact on competition in specific cases. Such cases could provide a window for rectifying a more systemic policy which allegedly discriminates between public and private sector enterprises.

In fact there does seem to be a reasonable degree of competition taking place between such firms, and the loss of efficiency and competitive edge that are often observed in

²³ http://www.indexmundi.com/vietnam/gdp_real_growth_rate.html

state owned enterprises in other countries does not seem to be evident here. Indeed, as already noted, the market outcomes generated are sometimes relatively good compared with sectors dominated by private firms in some other countries. Nonetheless it seems likely that as liberalisation and the development of the market economy continues, the role and dominance of these large state owned enterprises will need to be examined and addressed, and VCAD could play an important role in that.

Another issue that VCAD may face is a relatively undeveloped 'culture of competition' amongst the policy and business community i.e. a limited understanding of competition principles and competition law given that it is very new to Vietnam, and quite different from previous concepts of economic organisation. Thus far, it is through a series of conferences, workshops, meetings with industry and trade organizations and various other forms of information dissemination, that the VCAD has sought to encourage compliance with the law. This coupled with a strategy of competition advocacy is appropriate in a country implementing its first competition law. Litigation is costly for both business and government. Moreover, enterprises require a reasonable amount of time to become familiar with new government policies impacting on the business environment in which they operate. However, the competition authority needs to balance compliance with enforcement of the law, especially if the law is to deter illegal, anticompetitive business practices.

In the sugar sector, Government controls over investment and the potential for these to be politically manipulated have had a big influence on the number, size, location, technology, operational performance and growth of mills. Similarly, the government's role in supporting troubled mills affects the structure, conduct and performance of mills. All these measures affect the competition between mills, their efficiency and international competitiveness. Natural market consolidation and industrial restructuring should be allowed to occur, and FDI encouraged in order to move the sugar industry onto a stronger growth path, and facilitated improved international competitiveness.

Although the beer sector seems to be competitive and prices are relatively cheap, there do seem to be some exclusive agreements which have gone uncorrected in the past, and it is hoped that as VCAD's capacity improves, it will be able to investigate such competition concerns.

Price stabilisation in the cement sector, and price leadership by the state owned cement umbrella company, alongside the control of various raw materials that company enjoys, are likely to result in major distortions to competition. These matters could be examined by VCAD. In the medium term, many smaller and less efficient firms will likely close down and there will be some natural consolidation of the market. There will be fewer, larger and more efficient firms, operating at minimum efficient size. This will be beneficial for the industry and the wider economy but will also require ongoing monitoring to ensure new competition problems – which are so common in the cement sector internationally – do not arise.

The mobile telecommunications market is performing quite well, and seems to enjoy a reasonable degree of competition, despite its dominance by state owned enterprises, and the constraints placed on foreign ownership. However, further liberalisation, new entry and the establishment of an independent regulator to oversee the market are all likely to facilitate increased investment and to improve market performance, especially in

relation to market penetration and geographic coverage, with significant knock-on benefits to the economy as a whole.

In general terms, a high degree of state involvement in the provision of goods and services, and direct or indirect state involvement in pricing, may serve to undermine incentives for private investment in the market, and / or may result in inefficient production, thus generating an ongoing need for government subsidization and bail-outs, which must be drawn from a resource constrained state budget. In the longer term, this seems unlikely to be a sustainable model for economic development in a market economy, and may undermine Vietnam's growth performance.

Thus a process of ongoing liberalisation, removal of price controls, the gradual exit of the state from involvement in production, perhaps facilitated through increasing management control being given to the private players within joint venture companies, is likely to be needed to maximise Vietnam's growth prospects going forward. The removal of price controls could be achieved through the kind of "managed liberalisation" process that has been observed in China, whereby price reform is undertaken slowly to give domestic industries the chance to adjust to the world market²⁴. This could be one way in which SOEs which have become accustomed to government support and price controls in Vietnam could be introduced to market forces more gradually.

²⁴ <http://news.bbc.co.uk/1/hi/business/1466496.stm>

Bibliography

Business Monitor International (2008) "Vietnam Telecommunications Report Q3 2008"
Centre for International Economics (2001) "Vietnam Sugar Program – where next," prepared for the World Bank

Ellis & Singh (2010), "Measuring the Economic Impact of Competition", ODI Research Report.

New Zealand Institute of Economic Research (NZIER) (2008) " Competition policy in ASEAN - Case studies." Report to the Economic Research Institute for ASEAN and East Asia

Subhes C. Bhattacharyya and Dang Ngoc Quoc Thang (2004) "The Cogeneration Potential of the Sugar Industry in Vietnam." OPEC Review, 2004, vol. 28, issue 1, pages 63-80

World Bank (2007) 'Costing ICT Infrastructure Investment Needs for Africa'. Study by Winrock International and Pyramid Research, October

Vietnam Government Decision no. 108-2005/QD-TTg

<http://dddn.com.vn>

<http://esa.un.org/unpp/index.asp>

<http://ia.ita.gov>

<http://www.fco.gov.uk/en/travel-and-living-abroad/travel-advice-by-country/country-profile/asia-oceania/vietnam?profile=economy>

http://www.indexmundi.com/vietnam/gdp_real_growth_rate.html

www.philippelasserre.net/contenu/.../Global_Cement_industry.pdf

<http://www.vnbusinessnews.com/2008/05/southern-metro-hit-by-cement-price.html>

<http://vitinfo.com.vn>

<http://worldfacts.us/Vietnam.htm>

<http://xttmnew.agroviet.gov.vn/en/stories/TinTiengAnh/SugarReport.asp>