

Comment on
“Intensity of Competition in Emerging Markets
and in Advanced Economies”

By Hiroyuki Odagiri*

I very much agree with the authors' view that competition or, probably more accurately, contestability is an important mechanism for corporate governance. In other words, a behavioral approach may be more fruitful than a structural approach to discuss the mechanism with which corporate managers are disciplined. With this viewpoint, the authors' application of persistence-of-profits (POP) methodology is quite welcome.

In the POP literature, persistence in terms of long-run profits and the persistence of short-term excess profits are usually separated. The authors discuss only the latter in this paper and I wish to encourage them to discuss the former as well.

It is good to know that the persistence coefficient, which is a coefficient to measure persistence in the latter sense, is rather lower in developing countries than in Japan, the US and European nations. We also know that in these developing countries big conglomerate firms, like Korea's chaebols, are common. In view of the recent difficulties with chaebols, one may suspect that such big conglomerates may have failed to achieve persistently supra-normal profits despite their market and political power because of diseconomies of scale and X-inefficiencies.

In view of the pre-war experience in Japan in which zaibatsu played a major role (Odagiri, Goto, 1996), such conglomerates may have been necessary in the course of economic development, but the diseconomies may now outweigh the economies. Also, their presence may impede entry by new start-up firms. Yet, unlike the post-war zaibatsu dissolution of Japan which was forced by the occupation army, it is difficult in most countries, politically or otherwise, to force the conglomerates to dissolve and divest. Here seems to lie a difficulty in the present developing countries, such as in Korea.

Reference

Odagiri, Hiroyuki, Akira Goto (1996): Technology and Industrial Development in Japan: Building Capabilities by Learning, Innovation, and Public Policy, Oxford.

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