CUTS International

Competition Distortions Dossier

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1. Grab ordered to pay compensation to Vietnamese taxi firm

The Ho Chi Minh City People's Court recently ordered ride-hailing app Grab to pay a cab company more than US$200,000 (equivalent to 4.8 billion Vietnamese dongs) for losses incurred due to competition - a judgment blasted by the firm as 'a giant step backwards' for the country's tech community.

The Singapore-based app, which was launched in Vietnam in 2013, has been embroiled in a lawsuit with Vinasun, a major taxi provider in the south of the country, since May 2017.

Vinasun blamed profit losses amounting to US$1.8mn on Grab's entry into the market.

www.reuters.com/article/us-grab-vinasun-trial/grab-ordered-to-pay-compensation-to-vietnamese-taxi-firm-idUSKCN1OR0I9

Food for Thought

The 18-month-long legal battle between the two firms marks a rare instance of a taxi firm suing a ride-hailing rival over lost revenue, not just in the Vietnam market, but also elsewhere in the world.

Vietnam Sun Corp, better known as Vinasun, had sought 41.2 billion dong in compensation for what it said were Grab's unfair business practices. Singapore-headquartered Grab plans to appeal the court's decision, as well as launch a defamation lawsuit against Vinasun, as the company said in a statement published after the hearing.

In its verdict the HCM Court found Grab to have violated Vietnamese regulations because it operates as a taxi company, and not just as a technology firm. The judge presiding over the case also said there was a link between the operations of Grab and Vinasun's lost revenue, but said Grab was not the only factor behind those losses. Grab, in its statement, countered that this was an unfair lawsuit with "many lingering uncertainties, flaws and questions left unanswered", lacking "legal basis and evidence"; and that Vinasun needed to evolve and transform its business, instead of discouraging the entry of innovative companies by "anti-competitive tactics" and attempting to stifle competition.

Meanwhile, several experts in Vietnam have voiced their concerns that the court's decision went against the interest of Vietnamese consumers and

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contradicted the Vietnamese government's pursuits of Industry 4.0 to build a vibrant digital economy.

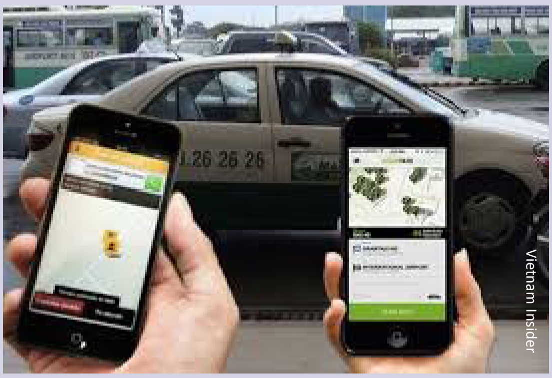
Grab's ambitious ascent in the ride-hailing market in Southeast Asia (which is expected to be worth US$20bn by 2025, according to research by Google and Singapore investment vehicle Temasek) has not been without issues. Earlier in 2018, the Competition and Consumer Commission of Singapore (CCCS) fined Grab and fellow ride-hailing app Uber a total of US$9.5mn for merging - a move it said to have substantially reduced competition in Singapore. Similarly, in October 2018, the Philippine Competition Commission (PCC) imposed a fine of $16 million peso on Grab and Uber for violations on interim measures, such as maintaining separate business operations and deferment of the merger during the antitrust body's review of the transaction. In addition, Grab is being imposed a penalty of $8mn peso by the PCC for its failure to maintain pre-merger conditions such as pricing policies, rider promotions, driver incentives and service quality during the review.

In Vietnam, investigations by the Vietnam Competition Authority (VCA) recently showed that the merger between Grab and Uber falls under the category of "prohibited economic concentration cases" according to Competition Law 2004 of Vietnam. A case-handling council set up by the Vietnam Competition Council (VCC), however, has since then returned the file to the VCA for supplementary investigations, due to the emergence of new details and evidence.

2. An alliance of 17 domestic taxi companies makes debut

An alliance of 17 domestic taxi companies with 12,000 vehicles was recently launched, aiming to compete with ride-hailing services company Grab.

The alliance's members now operate in 40 provinces and cities in Vietnam and hope to expand to all 63 provinces and cities in 2019.



The alliance will operate on the platform EMDDI, an app which could be downloaded from Play Store and App Store, developed by the Vietnam National University. The alliance is also promoting online payment through deals with Viettel, Momo and VNPay.

In Hanoi, six taxi companies joined the alliance, namely Thanh Nga, Van Xuan, Thang Long, Sao Mai, Long Bien and Que Lua. Taxi firms Open99 and Vic are expected to join soon to bring the alliance's total number of taxis in Hanoi to 4,000 cars.

https://vietnamnews.vn/economy/481761/an-alliance-of-17-domestic-taxi-companies-makes-debut.html#S86I8FaUMhy33wvM.97

Food for Thought

For Vietnamese taxi companies to form alliances to fence off 'new' competitor is nothing new. In August 2018, three taxi companies in Hanoi also started their own cooperative scheme with the establishment of a G7 taxi group operating under one brand and management system. Particularly, in Ho Chi Minh City, Vinasun and Mai Linh have also launched their smartphone apps for booking taxis and motorbikes to compete directly with ride-hailing services provided by Grab.

Unfortunately, the sad fact is that neither the G7 group nor the new 17-company alliance could win back the competition so far. Because it is not a competitive race between a fleet of 20.000 or 30.000 vehicles against Grab, it is the traditional way of doing business and old mindset versus innovation and a new business model.

Traditional taxi companies have spent hundreds of millions, or even billions of Vietnamese dongs on building softwares for getting rides, but the nature and quality of their services remains the same while the fares are still high, ranging from $11,000 to $16,000 Vietnamese dongs per one km. During rush hours, the traditional taxi companies' apps usually notify customers that all cars are busy, and in some cases, the connection is faulty, making it even more inconvenient for users to get a ride electronically than simply hailing one on the street.

The Grab apps or those of other 'digital taxi companies', on the other hand, use Global Positioning System (GPS) technologies to identify the cars' and the customers' locations, choose the best route (fastest and shortest) between them, and then use computer algorithms to pre-calculate the associated fare for each trip. This allows riders to know exactly how much they need to pay and drivers know how much they are going to earn, prior to or at the beginning of each trip, including in case of surge pricing. If there are large discrepancies later on, the riders could complain through the app, and if their complaints are verified as valid, riders get a refund.

Grab's surge pricing system, even though still opaque for consumers, does help to restore a balance between supply and demand. It helps in providing consumers a steady service, even in case of scarcity by incentivising drivers to reach out to areas with low supply, which may be in cases of unfavourable weather conditions and congested areas. Traditional taxi services, on the contrary, lack on these fronts, since they do not have an effective system (enabled by advanced digital *technologies such as pricing algorithms and heat maps) to regulate supply optimally.*

Furthermore, there is a built-in grievance redressal mechanism in the Grab apps, which allows customers to lodge their complaints (including inter alia drivers' failure to pick-up, rude behaviours by drivers, circuitous route, wrong fare, etc.) and have these complaints heard and addressed in real time. An SOS button in the app also allows customers to call for help, in case of accidents or physically attacks. In the case of traditional taxi companies, customers' complaints could only be received via the call centres and are rarely addressed.

The positive impacts of the digital economy, in this case a new business model and more efficient use of information and communications technologies (ICT), are quite evident. Unless and until traditional taxi companies could change their mindset and embrace technologies as well as new ways of doing business, the chance for them to win the competition is dim, alliance or no.

3. Vietnam Railways to dump its cargo

The Ministry of Transport (MoT) is now in the final stages of assessing Vietnam Railways' (VNR) restructuring and divestment plan for 2017-2020, before submitting its report to the government for approval. One of the highlights of the plan, proposed by VNR itself, is the merger of Hanoi Railway Transport JSC and Saigon Railway Transport JSC into one joint stock company (JSC). This JSC will be then separated into two entities, with one specialising in passengers, in which VNR will hold a controlling stake, and the other focussing on cargo transport, with VNR to possibly divest the entire State-own stake.

Currently, Hanoi Railway Transport JSC and Saigon Railway Transport JSC are the biggest operators of cargo transport in the industry. If approved, they could call on private investors to join and promote the development of cargo transportation, thus enabling it to compete with other transport segments, including aviation and road.

The move comes after years of low operational efficiency at the two railway transport units.

www.vir.com.vn/vietnam-railways-to-dump-its-cargo-61959.html

Food for Thought

A well-functioning railway system is like a backbone to a national economy. Yet, while the whole economy of Vietnam, and especially its road and air transportation industries have made great headways, the railway industry in general and the Vietnam Railway Corporation in particular are steadily falling into crisis and have been faced with many difficulties, such as increasing prices of input and fuel, and extreme weather conditions, etc. To make matters worse, the infrastructure, including railroads and railcars, are outdated; the current business model (of being State-owned monopoly) is old; funding sources are diminishing; while the conditions for cargo transportation as well as safety violations of railway corridors are becoming more and more complicated. During summer vacations and Tet holidays, the railway system is always overloaded. Meanwhile, the service attitude of employees is extremely bad, disrespectful to passengers and the quality of service has not been improved for many years.

Being prioritised by the Government of Vietnam (GoV) as an important part (with high potentials) of the infrastructure system, as well as the main type of transportation for large-volume cargo transportation (on both long and medium routes), long-distance and interprovincial passenger transportation, the railway industry is currently the weakest and most uncompetitive industry in the whole socio-economic development system of Vietnam and obviously cannot compare with other countries. In recent years, the proportion of passengers using railway transportation only accounts for a negligible part in the road – airline – railway transportation balance. Although the railway industry has made several efforts and achieved some initial results, their investment strategy remains still flawed, and is considered by many as 'simply turning the State monopoly into a private monopoly'; while railway transportation companies have not really been able to operate independently yet.

VNR is a government-owned monopoly, which owns and provides infrastructural services, while also participating in the transportation market as one player, and playing some managerial role at the same time. Such is not a healthy competitive environment, which could guarantee no discrimination is being waged against other enterprises participating in the railway business. Moreover, in the current railway development policy, the connection with the road and seaport networks, as well as manufacturing facilities and factories has been overlooked. Hence, it is necessary to continue restructuring the Vietnam Railway Corporation; establishing an independent agency to manage railway infrastructure; devising a mechanism to ensure fair use and connection to the railway infrastructure network; and ensuring that new players could compete effectively in the railway transportation business. The transformation from State monopoly into private *monopoly must be avoided at all cost during such restructuring process; and the connection with other transport systems such as by road, by sea, by waterways and by air, as well as manufacturing hubs and commercial centres cannot be forgotten. If the railway industry of Vietnam does not redefine its position, there will be no way to promote its inherent advantages.*

4. VIETTRADE unveils deal with Amazon Global Selling

The Vietnam Trade Promotion Agency (VIETTRADE) announced its plans for collaboration with the Amazon Global Selling programme.

According to their deal, VIETTRADE and Amazon Global Selling have agreed to support Vietnamese businesses, particularly small and medium-sized enterprises (SMEs), in accessing the global market on the website amazon.com. Their assistance will also include the promotion of Vietnamese brands and products, including handicrafts, apparel, leather products, and footwear, among others. The two sides have also planned e-commercial training courses for Vietnamese SMEs.

Vietnam Economic News

In 2019, they will organise a series of support programmes to equip SMEs with information on export opportunities, as well as provide skills to begin their business on Amazon's online retail system and to complete their products and export procedures.

The programme launched the Vietnamese version of its official website *(https://services.amazon.vn)* and an associated official Facebook page *(https://facebook.com/banhangamazon)*.

http://en.nhandan.com.vn/business/item/7058002-viettrade-unveils-deal-with-amazon-global-selling.html

Food for Thought

This is considered as the latest step, formalizing Amazon's – the American e-commerce giant's entry into Vietnam market. Before Amazon, Alibaba Group also entered into Vietnam market through acquiring Lazada.com Vietnam is quickly becoming an attractive market for e-commerce companies from all over the world.

It is easy to see that the approach and movement to enter the Southeast Asian market, in general, and Vietnam market, in particular, of the two global e-commerce companies, Alibaba and Amazon, are quite similar. Both their first steps were to create a bridge for Vietnamese enterprises to supply and sell goods through their platforms; organize training course on business and sales methods on e-commerce platforms; and then provide official sales service through e-commerce platforms. The only difference is that the official sale of goods into Vietnam by Alibaba is through Lazada, the e-commerce platform they had to spend billions of US dollars to acquire. And until now, Lazada is still the number one e-commerce platform in Vietnam. Although Amazon has been clearly slower than Alibaba in the Southeast Asia market, they still have a large number of loyal customers. While on Alibaba's platform, consumers can find everything with unbelievably cheap prices, Amazon ensures consumer loyalty through the quality of goods and services, creating much more credibility than their competitors.

Currently, it is unclear whether Amazon will provide full service in Vietnam through their partners or by themselves, but the inevitable path to sell goods to Vietnam is the same way they have applied in Singapore from June 2017. And from now until Amazon officially provides full service in Vietnam, there is still enough time for current platforms, such as Lazada, Tiki, Adayroi, Shopee, Sendo… to rectify, improve and upgrade their services. The service from an e-commerce platform according to the US quality standard is always much stricter and that will be the crucial factor of Amazon's competitive advantage. Competition in the retail and e-commerce markets of Vietnam will inevitably become much more dynamic and those who cannot reform and catch up in time would be ousted in time.

Your views and comments are welcome at: *hanoi@cuts.org*

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