

Referee report on “Evolution of competition in Vietnam industries over the recent economic transition”

This paper considers two competition measures, profit elasticity (PE) and price cost margin (PCM), for a number of Vietnamese industries over the period 2000-2009. This is an interesting period in Vietnam due to ongoing reforms aimed at liberalizing the economy.

At the end of section 4, PE is defined as β_j and hence should be negative (profits fall as costs go up). The more negative PE is, the more competitive the industry. Hence a fall in PE is here associated with an increase in competition. As is standard in the literature, lower PCM also signals more intense competition.

Figures 1 and 2 suggest that (roughly speaking) both measures fall over time and hence the Vietnamese economy has become more competitive over time (presumably because of the reforms). This point should be made more clear. E.g. when regressing PCM and PE on a time trend (using industry fixed effects), are indeed PE and PCM falling over time?

Then the paper moves to comparing PE and PCM. Figures 3 and 4 are not very informative and should be deleted. Although the shapes look similar, the ordering of industries on the horizontal axes may be completely different. To understand the correlation between PE and PCM, a scatter plot is more informative. Figure 5 gives such a scatter plot, but only for the years 2000 and 2001. Why? I would prefer a scatter plot for all data points.

This is the part of the paper where most work is needed. The relation between PE and PCM is clearly interesting, but should be documented carefully. In first instance, I would like to see a panel regression (of PE on PCM) with industry fixed effects and industry specific slope variables. Such correlations give a better idea of what is going on in the data than figure 5.

Further, as PE in the specification here ought to be negative (profits fall with costs per unit of output), observations with positive PE should be considered carefully. Are these values significant? One option is to do the panel regression only for significant values of PE. Hence this part of the analysis needs to be supplemented with robustness analyses.

If for some industries this correlation turns out to be negative and one would like to argue that this is due to the reallocation effect (as the author currently does), it would be more convincing if some evidence was cited in favour of this explanation. For instance, are these industries concentrated?

The data appendix needs to be expanded. For instance, were there observations with missing data? Was the data cleaned from observations that seem unlikely (say, revenue being multiplied by 5 from one year to the next)? How was PE estimated for firms with negative profits? Now the appendix

talks about capital costs and depreciation. Why is this relevant?

The paper can be streamlined considerably (also adding page numbers would help). I would delete section 3.2 as it repeats previous research. Section 3.2.2 on relative profits starts with a discussion on PCM that should be moved to 3.2.1. Figure 1 (2) and Table 1 (2) contain the same information. Either give the figures or the tables, but not both. Below figure 1 you explain again what PE measures. This can be deleted.

Other points:

- section 2: the increase in the number of firms from 42,000 to 240,000. Is this in the data or in reality? If it is in the data, it may be partly caused by a decision to sample more firms. Similarly, at the start of section 4: does the VEC sample all firms? What is the response rate?
- section 3.2.1 equation (1): delete the sum over i
- section 3.2.2 claims that an increase in competition can lead to a fall in output of firms. Although this is possible it is a bit unusual (more competition is usually associated with higher output levels). Also it is not necessary for the argument here. The only thing that is needed is that market shares of inefficient firms can fall. Hence their output may actually increase but less so than the output of competitors.
- equation (3) presents a relative profits (RP) measure (not relative profits differences)
- at the end of section 3.2.2: usually one defines the "relevant market", not the "irrelevant market"
- section 4: why repeat the equation for PCM?
- at the end of section 4: why use the approximate-sign (\approx); do you have a non-linear cost function in mind?