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**Working Group on the Interaction
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COMMUNICATION FROM VENEZUELA

The following communication has been received from the Permanent Mission of the Republic of Venezuela with the request that it be circulated to Members.

Effects of the merger of multinationals in developing countries' markets

The globalization process is having an impact on corporate strategy and in particular on multinationals hoping to benefit from the realignment of their resources and the synergies of the merger process.

However, it may be inferred that these synergies are mainly directed at strengthening or increasing their rate of return on capital through market position, with the potential in some cases for establishing or increasing market dominance in developing countries where they have subsidiaries.

Evidence suggests that there is a relationship between market size and the number of competitors, with a strong likelihood that the smaller the market the greater will be the degree of concentration, which is especially often - though not exclusively - the case in developing countries. Accordingly, a situation may arise where the merger of two or more parent firms does not produce structures which restrict competition in their countries of origin, for example owing to their relatively small share in those bigger markets, and yet would create such structures in the context of their subsidiary companies or affiliates in developing or small countries where they operate, owing to the new market dominance they may have acquired in those countries as a result of the merger in the countries of origin.

The problem lies in the fact that even a refusal to authorize a merger of subsidiary companies in the developing country does not prevent the merger in the country of origin. This situation gives rise to strategies of commercial collusion among firms in the developing country as a result of decisions taken by the parent firm.

A situation of the type described may have a distorting effect on trade flows in the market concerned, particularly through the creation of barriers to the entry of new suppliers.