Interaction Between Joint Ventures and the Antitrust Authority

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Abstract

In order to maintain the stability and fairness of global economy, most of the authorities around the world have been fighting to cut down cartels by implementing an Antitrust/Competition Law. Nevertheless, the aforementioned measures may fail to eliminate illegal cartel activity, and even stifle the creativity and innovation of industries. Therefore, the authorities have to provide a sound environment for commercial economy while firmly traking control of industries and, moreover, the incentive schemes such as tax incentives can be introduced to encourage businesses to engage in innovative development in the form of R&D.

This article begins with a basic model, which discusses the interaction between joint ventures and antitrust authorities in an initial case of the economic environment. We then divide the economic environment into two different conditions: one consists of legal joint ventures without misjudging their status such as through legal or illegal cooperation agreements, and the other is related to the government which provides tax incentives for innovative industries. The aims of the two conditions are to reduce the probability of illegal cartel activity. More specifically, the former can create positive and healthy competition in the business environment and the latter implies a mechanism for encouraging innovation such as R&D or technical progress. From our research, no matter how changeable the economic environment will be, as profit maximization takes priority in the decision-making process of firms, the firm will then decide whether to form a joint

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venture or whether the cooperation is going to be legal or illegal.

Finally, we compare the efficiency of all equilibria among the three conditions of the economic environment. It provides a reference for implementing policy in the future.

Keywords: Antitrust, Cartel, Joint Venture, Tax Incentives, Innovative Development, R&D, Information Asymmetry.