Promoting competition: Making markets work

OECD – Southeast Asia Regional Forum
Bangkok
27-28 April 2009

Hilary Jennings
Head of Competition Outreach
Main points

• Benefits of competition law and policy

• The right mix of conditions and ingredients for competition law

• Role of competition in promoting economic growth – especially in times of economic crisis

• Role of competition in structural reform: the OECD competition assessment toolkit
Why have a competition law and policy?
Arguments by the sceptics

- Trade liberalisation is enough: foreign entry
- Domestic de-regulation is enough: local entry
- Higher priorities or clash with other policies
- Nice on paper but... concerns over mis-enforcement
Responses to the sceptics

- Trade and liberalisation is not enough (Singapore, Hong Kong)
- Competition policy strengthens and polices liberalising markets
- Once you have a market, you need a referee
- Mis-enforcement unlikely if law implemented properly
Benefits outweigh costs

• Catalyst for market reforms and increasing consumer welfare

• Counterweight to entrenched business and regulatory interests

• Preserves benefits of privatisation

• Better than the alternative: direct regulation
The right mix: conditions and ingredients
When is the right time to introduce competition law?

- Increasing economic development and industrialization: growing economy
- Stronger reliance on market forces; less state-dominated economic activity; less state aid; fewer subsidies
- Increasing openness to trade and dependence on FDI
- Engagement with international organisations
- Increased membership in regional trade agreements

Competition law can provide order to legal landscape and market:
  - making overlapping laws coherent and efficient
  - preventing predation, abuse of dominance, cartels
What to focus on?

• Facilitate sound business practices – not impede them

• 3 key areas related to supervision of companies:
  – Anti-competitive agreements, especially cartels
  – Single firm conduct: abuse of dominance/monopolisation
  – Anti-competitive mergers and acquisitions

• Government activities which affect competition and consumers
  – Especially where state regulation or behaviour restricts or distorts competition
Competition law and policy: even in a crisis?
Impact of economic crisis on competition policy

**Competition policy works well when**

- markets are given time to evolve and drive efficiency
- there are low barriers to entry and exit
- consumers are able to cope with variability in price and quality

**But crisis could undermine these conditions**

- policy more focused on short-run survival
- may be pressure to support ‘failing firms’
- consumers may value stability over improved aggregate outcomes

**Reduced support for competition?**
Restricting competition will worsen the crisis

- Competition restrictions can take many forms:
  - Protectionism
  - Anti-competitive mergers
  - Cartel conduct

- Competition restrictions raise prices:
  - Higher prices \(\rightarrow\) reduced consumption
  - Reduced consumption \(\rightarrow\) reduced output
  - Reduced output \(\rightarrow\) reduced employment and investment
  - Reduced output, employment and investment will worsen the crisis
Competition is part of the solution

- Competition law enforcement must not be set aside but recognise the change in context

- Recoveries from past financial crises were delayed when competition enforcement was relaxed (USA: 1930s; Japan: 1990s)

- Role of competition in exiting the crisis – including the design of future regulation

- Avoid new regulations that unnecessarily restricts competition....

- .... and in doing so, promote pro-competitive reforms that favour stronger market competition and growth
Competition and structural reform: a winning formula
An OECD model
How competition reform promotes productivity

Recent OECD papers explain how reforms to stimulate stronger market competition affect growth by:

- Spurring efficiency and productivity growth by 4-10%
- Increasing investment by removing barriers
- Reinforcing incentives for innovation
- Increasing employment – employment rate up to 2.5-5.0% higher where in-depth reforms have been adopted
Australia’s experience – use competition to promote growth

OECD 2003:

• Australia’s National Competition Policy reviewed about 1,800 laws and regulations for unnecessary restraints on competition

• The implementation of Australia’s ambitious and comprehensive National Competition Policy over the past seven years has undoubtedly made a substantial contribution to the recent improvement in labour and multifactor productivity and economic growth. The Productivity Commission estimates that Australian households’ annual incomes are on average around A$7,000 higher as a result of competition policy.
Australia’s experience (2)

OECD 2006:
• Domestic product (GDP) growth since the millennium has averaged above 3% per annum
• Growth in real gross domestic income averaged over 4%, with terms of trade gains, among the best of OECD countries
• Unemployment rate has fallen to around 5%, its lowest level since the 1970s;
• Inflation within the target range
• A long stretch of fiscal surpluses, general government net debt eliminated.
• Living standards steadily improved since the beginning of the 1990s, now surpass all G7 countries except the United States.
• Wide-ranging reforms, particularly to promote competition, were instrumental.
A new method to promote competition reform

• Based on Australia’s experience, OECD has developed a methodology to promote pro-competitive reform

• Methodology is already being implemented

• Ambitious project launched in Mexico
OECD Competition Assessment Toolkit

• Designed to help evaluate whether a law or regulation unduly restricts competition.

• The goal is to identify ways to achieve the objectives of laws and regulations with the least harm to competition.

• Can be used in a process to streamline large numbers of existing laws and regulations, review proposed new ones.

• Can be used at national, regional and local levels
OECD Competition Assessment Toolkit (2)

- Competition checklist to filter policy proposals, laws and regulations

- Three questions:
  - Are there restrictions on entry by new businesses?
  - Do the regulations affect the ability of businesses to compete?
  - Do the regulations reduce the incentive of businesses to compete vigorously?

- Revise the policies that unduly restrict competition
Summary

• System of open market economies is most effective in creating consumer welfare, efficiencies and growth

• Clear evidence that competition contributes positively to productivity, growth and competitiveness

• Approx 100 countries now have competition law – not insignificant!

• Competition law and policy provide a framework which promotes market-based policies and economic development ...

• ... a key to ASEAN’s regional integration efforts