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UN ESCWA
Economic Development and Integration Division
Economic Governance and Planning Section

Expert group meeting
Supporting the 2030 Agenda: Enforcing Competition Policy in the Arab Region

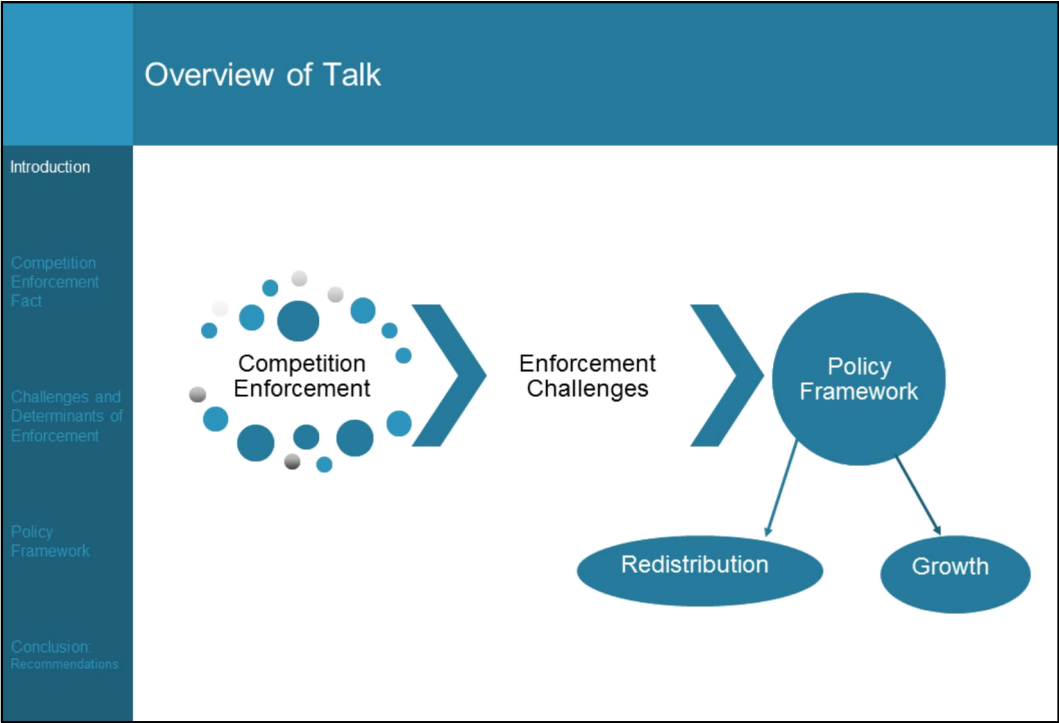
Session 3: Legal Enforcement of Competition Policy

October 25th 2016

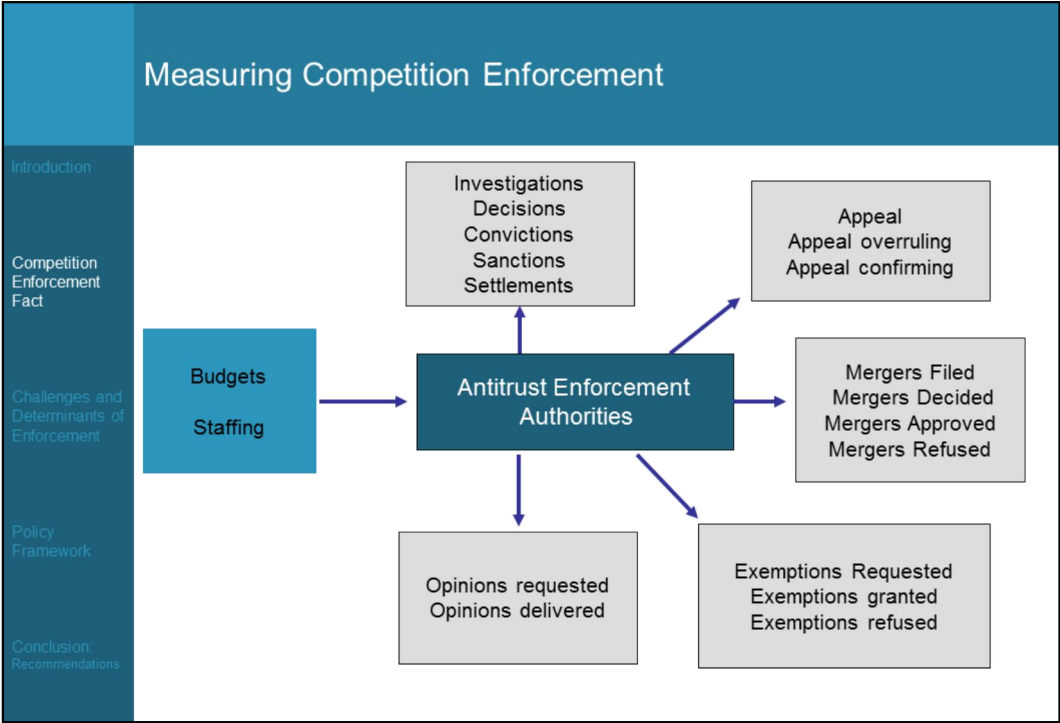


Setting the stage	
Introduction	
Competition Enforcement Fact	<ul style="list-style-type: none"> • Competition Law Enforcement in the Arab region <ul style="list-style-type: none"> – Competition Enforcement Facts – Enforcement Challenges – Determinants of Enforcement
Challenges and Determinants of Enforcement	<ul style="list-style-type: none"> • Competition Policy <ul style="list-style-type: none"> – Using competition regulations as part of a development agenda – Competition policy tailored to achieve growth, redistribution – Necessity of putting innovation & industrialization in the mix
Policy Framework	<ul style="list-style-type: none"> • Rethink market structure requirements to achieve goals
Conclusion. Recommendations	

Not challenging the laws themselves given the reality that I will introduce next, also given the belief that these laws come with aid and conditionality that can be used in the favor of developing countries



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Competition Enforcement

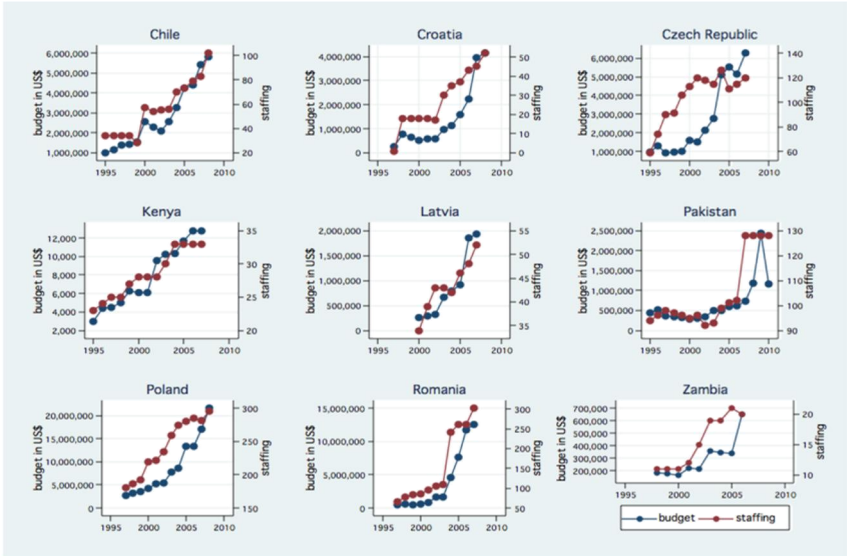
Introduction

Competition Enforcement Fact

Challenges and Determinants of Enforcement

Policy Framework

Conclusion. Recommendations



Competition Enforcement

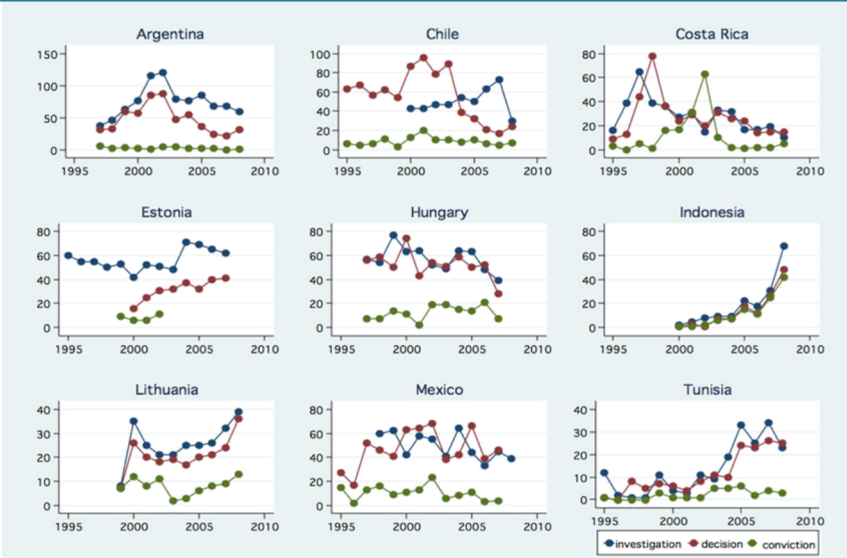
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Competition Enforcement

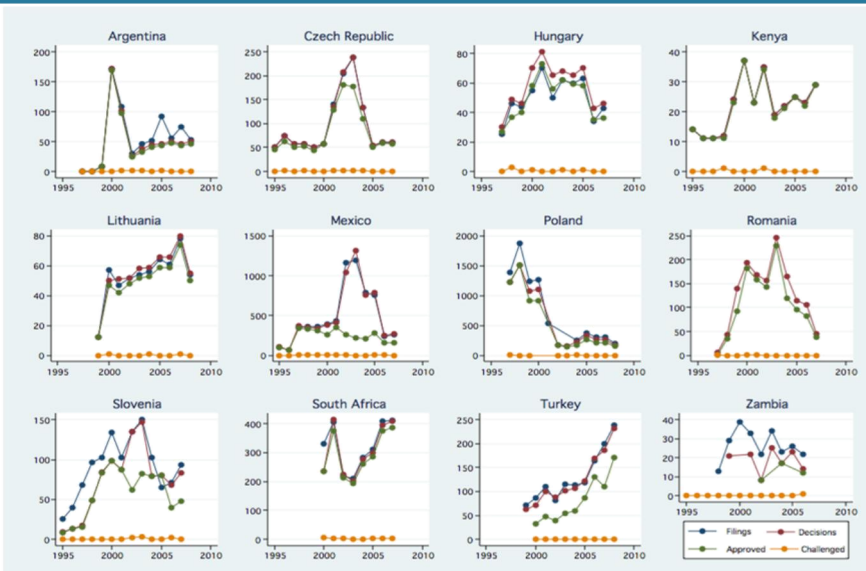
Introduction

Competition Enforcement Fact

Challenges and Determinants of Enforcement

Policy Framework

Conclusion, Recommendations



Effect of Enforcement on Market Competition	
Introduction	
Competition Enforcement Fact	<ul style="list-style-type: none"> • No significant relationship is found between furthering competition and any of the antitrust variables, except for imposing sanctions
Challenges and Determinants of Enforcement	<ul style="list-style-type: none"> • Empirical Methodology: $PCM_{jit} = \alpha + \beta ATV_{jit-1} + I_j + I_i + I_t + \varepsilon_{jit}$ • Only imposing finest and sanctions sends a clear message that antitrust is being enforced
Policy Framework	<ul style="list-style-type: none"> • Only this activity is efficient in increasing competition
Conclusion Recommendations	<ul style="list-style-type: none"> • Reaffirms a need to change enforcement policy goals as current enforcement fails to achieve desired outcome

Want beta to be negative – antitrust variables promote competition

Competition Enforcement Challenges in the Arab Region

Introduction

Competition
Enforcement
Fact

Challenges and
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Framework

Conclusion.
Recommendations

- **The Competition Law**

- Adopting Competition Laws
 - Western pressure and trade conditionality
- Legislative Design
 - Western modeled
 - Complexity; lack of clarity; missing important aspects e.g. leniency programs, private enforcement, merger review

- **Surrounding Environment**

- Development Concerns, nascent industry
- Corruption
- FDI's
- Dominance
- Public Awareness

- **The Competition Authority**

- Independence
- Funding
- Defining relationship with sectoral regulators

Empirical Methodology	
Introduction	<ul style="list-style-type: none"> Discrete variables - Poisson regression <ul style="list-style-type: none"> To account for over-dispersion in data Use extension of the Poisson: Negative Binomial Model with country random effects $E(y_i \mathbf{X}_i) = e^{(x_i \beta)} \quad (1)$ <ul style="list-style-type: none"> Continuous variables - Random effects generalized least squares model (GLS) $y_{it}^j = \alpha^j + \sum_k \mathbf{X}_{it-1}^{kj} \beta^{kj} + u_{it}^j \quad (2)$ $u_{it}^j = \lambda_t^j + \mu_i^j + \varepsilon_{it}^j \quad (3)$
Competition Enforcement Fact	
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Effects of Surrounding Environment on Intensity of Enforcement		
Introduction	<div> <div>Expected Results</div> <ul style="list-style-type: none"> • Economic development & size of economy positively related to enforcement intensity • High corruption leads to low enforcement • Agency independence & RTA membership positive impact on enforcement intensity • Industrialization is contrary to competition enforcement </div> <div> <div>Myth Busters</div> <ul style="list-style-type: none"> • Trade found to be a compliment to enforcement • Net exporters found to spent more on enforcement • Countries with higher concentration levels spend more on enforcement • Comprehensiveness of competition law not significantly related to any enforcement variables </div>	
Competition Enforcement Fact		
Challenges and Determinants of Enforcement		
Policy Framework		
Conclusion, Recommendations		

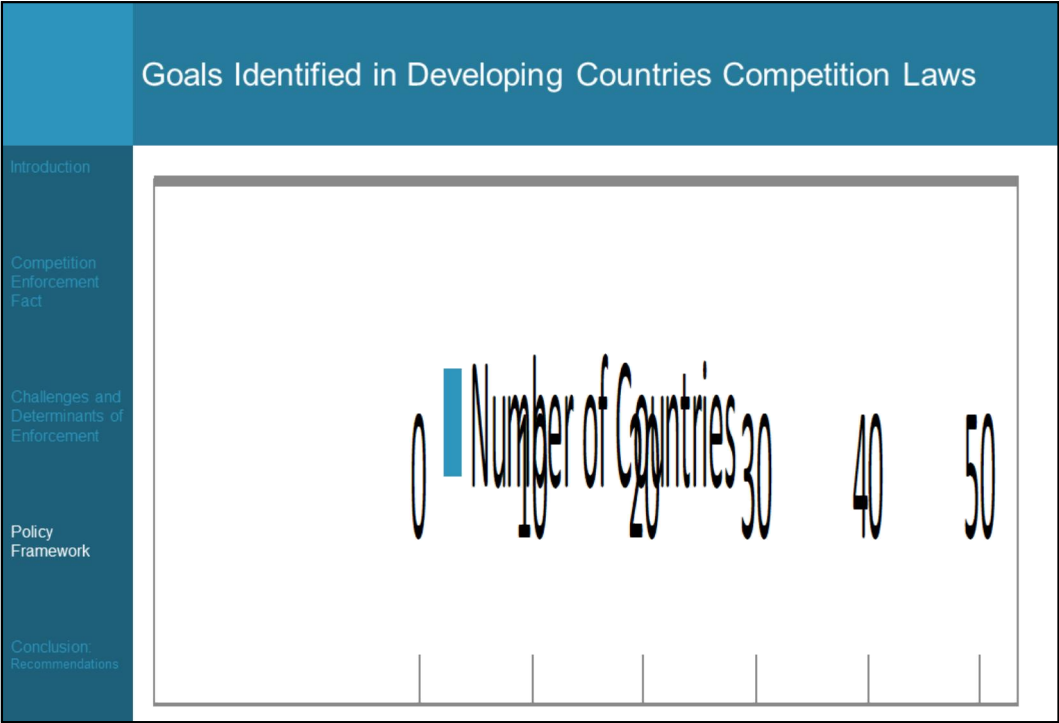
	Suitable Competition Policy
Introduction	
Competition Enforcement Fact	<ul style="list-style-type: none"> • Change framework → incorporate it with a development agenda • Unify a framework
Challenges and Determinants of Enforcement	<ul style="list-style-type: none"> • Set clear priorities • Look at the West before development or countries at similar development statuses • Development, growth and eradication of poverty through redistributive policies
Policy Framework	<ul style="list-style-type: none"> • Using competition laws as a ladder for mobility • Take seriously balance with industrialization
Conclusion Recommendations	

Possible Goals of Antitrust Enforcement	
Introduction	<ul style="list-style-type: none"> • Efficiency-based goals <ul style="list-style-type: none"> – Allocative efficiency (Consumer welfare) – Producer efficiency (Producer welfare) – Economic efficiency (Total welfare) – Dynamic efficiency (Innovation / Growth) • Non-efficiency-based goals <ul style="list-style-type: none"> – Protecting small businesses – International competitiveness / national champions – Reducing Poverty – Fairness, Equality & Justice
Competition Enforcement Fact	
Challenges and Determinants of Enforcement	
Policy Framework	
Conclusion Recommendations	

These are the alternative choices that developing countries can choose from

2 groups

Western world used to follow non-efficiency based goals in the past, but today are only pursuing allocative efficiency or economic efficiency with their antitrust enforcement



Most countries have more than one objective – often contradictory
50 developing countries studied 12 main objectives

Goals Identified in Selected Arab Countries Competition Laws		
Introduction	Country	Competition Enforcement Goals
Competition Enforcement Fact	Tunisia	<ul style="list-style-type: none"> • Freedom of prices • Free competition • Prevent anti-competitive practices
	Egypt	<ul style="list-style-type: none"> • Protection of competition • Prohibition of monopolistic practices
	Morocco	<ul style="list-style-type: none"> • Freedom of prices • Free competition • Economic efficiency
Challenges and Determinants of Enforcement	Saudi Arabia	<ul style="list-style-type: none"> • Fair competition • Combat anti-competitive monopolistic practices
Policy Framework	Syria	<ul style="list-style-type: none"> • Freedom of competition • Prevent anticompetitive practices • Eliminate monopolistic practices • Regulate economic concentration
	United Arab Emirates	<ul style="list-style-type: none"> • Promotion of competition • Elimination of anticompetitive behavior, • Economic efficiency • Consumer welfare • Sustainable development • Prohibit restrictive practices • Control of economic concentration
Conclusion, Recommendations		

Most countries have more than one objective – often contradictory
 50 developing countries studied 12 main objectives



Others argue for developing countries: small business protection and international competition – I argue outdated, lead to higher prices internally, entrench incumbent elite often friends of the government further, lead to lower quality of goods produced; Japan and Korea always maintained local oligopolistic rivalry.

How to encourage innovation & growth: Competition or Concentration?	
Introduction	<ul style="list-style-type: none"> • Question at the center of much theoretical and empirical work • Leading industrial organization and growth theory models in early 1990s predicted a negative relationship <ul style="list-style-type: none"> – Followed Joseph Schumpeter's theory • Contrasted with studies showing that competition encourages innovation & growth <ul style="list-style-type: none"> – Darwinian competition arguments
Competition Enforcement Fact	
Challenges and Determinants of Enforcement	
Policy Framework	
Conclusion Recommendations	

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graph TD
    GROWTH --> INNOVATION
    INNOVATION --> SCHUMPETERIAN["SCHUMPETERIAN MODEL:  
Concentration"]
    INNOVATION --> DARWINIAN["DARWINIAN MODEL:  
Competition"]
  
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1st welfare theorem: holding that perfect competition generates optimal allocation of resources

Schumpeter claims: (1) only large businesses are able to bear risk of investing in R&D; (2) monopoly rents are ideal source of funding for R&D; (3) monopoly position is a security that makes investment in R&D worthwhile and desirable.

	Effect of Competition on Growth
Introduction	
Competition Enforcement Fact	<ul style="list-style-type: none"> Measuring Competition: $PCM = \frac{ValueAdded - TotalWages}{Output}$ (proxy of Lerner Index, measure of surplus value or rents)
Challenges and Determinants of Enforcement	<ul style="list-style-type: none"> Measuring Growth: $\Delta LP_{growth} = \ln\left(\frac{ValueAdded}{Employees}\right)_t - \ln\left(\frac{ValueAdded}{Employees}\right)_{t-1}$
Policy Framework	<ul style="list-style-type: none"> Data to calculate competition and growth: <ul style="list-style-type: none"> – UNIDO's INDSTAT4 2011 ISIC Rev.3 database containing 3-digit time series data for the period 1990 to 2008 for 127 countries and 24 industries - collected for 69 developing countries and for 20 developed countries – UNIDO's INDSTAT3 2006 Rev.2 dataset containing 3-digit level data for the period 1963-2006 for 180 countries and 28 industries -collected for 47 developing countries
Conclusion Recommendations	

Growth following scherer: labor productivity growth aka technological progress

Effect of Competition on Growth

Introduction

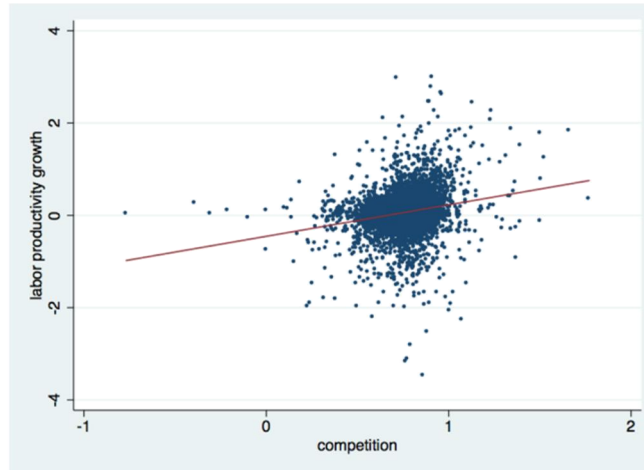
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Two-way Interaction between Competition (1-Markup (PCM)) & Labor Productivity Growth in 69 Developing Countries Manufacturing Industries (1990-2008) [UNIDO INDSTAT4 2011]



Testing for a linear relationship I found that competition has a positive impact on growth in the Arab and developing countries studied

This relationship was affirmed with using fixed effects panel data estimation techniques

Effect of Competition on Growth	
Introduction	<ul style="list-style-type: none"> Empirical methodology to test the effect of competition on growth: $LPgrowth_{jit} = \alpha + \beta PCM_{jit-1} + I_j + I_i + I_t + \varepsilon_{jit}$ <ul style="list-style-type: none"> To test for inverted U-shaped graph add a quadratic term (the square of PCM) to the right hand side of the equation Use country, industry and time fixed effects to control for unobserved factors that may be correlated with growth To partially address endogeneity problem lag PCM by one year Use robust errors, errors clustered at the country and then at country <i>and</i> industry - this is robust to heteroskedasticity Results might suffer from reverse causality - Aghion found using instruments the growth is affected by the margins to a large extent and not the other way round If competition spurs innovation and growth, the β coefficients should be negative
Competition Enforcement Fact	
Challenges and Determinants of Enforcement	
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Do the regular test and adjustment to make sure results are shielded from any disturbances.

Margins and Growth in 69 Developing Countries testing for Non-Linear Relationships (UNIDO's INDSTAT4 2011, 1990-2008)

Introduction

Dependent Variable: Labor Productivity Growth					
	[1]	[2]	[3]	[4]	
Competition Enforcement Fact	Price Cost Margin $t-1$	-1.120 (0.189)***	-1.145 (0.189)***	-1.310 (0.213)***	-1.310 (0.248)***
	(Price Cost Margin $t-1$) ²	0.484 (0.227)**	0.517 (0.226)**	0.523 (0.256)**	0.523 (0.299)*
Challenges and Determinants of Enforcement	Constant	0.075*** [0.006]	0.114*** [0.018]	0.245*** [0.044]	0.244*** [0.046]
	Country fixed effects	Yes	Yes	Yes	Yes
Policy Framework	Year fixed effects	No	Yes	Yes	Yes
	Industry fixed effects	No	No	Yes	Yes
	Observations	6,799	6,799	6,799	6,799
	R-squared	0.11	0.15	0.16	0.16

Conclusion Recommendations

Notes: Significance levels: * $p<0.1$; ** $p<0.05$; *** $p<0.01$.
Errors in brackets are clustered at the country level, except for column [4] where the errors are clustered at both the country and industry levels.

Effect of Competition on Growth

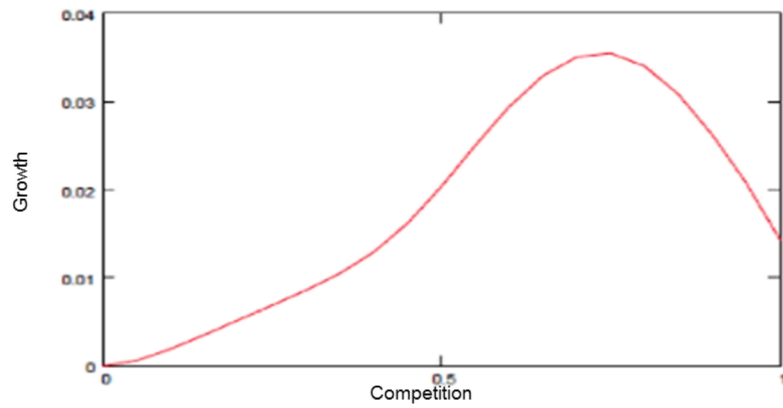
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Through **state-guided dynamic growth** instead of mainstream static efficiency of the free market approach

	Conclusion: Policy Recommendations
Introduction	Policy Framework <ul style="list-style-type: none"> • Using competition law to aim for growth and development instead of static goals • Competition important for growth, but not in absolute terms • Some sectors need higher levels of concentration • Tailor enforcement towards these ends • Recognize the importance of sanctions • Political decision to appropriate law for economic development ends
Competition Enforcement Fact	
Challenges and Determinants of Enforcement	
Policy Framework	
Conclusion: Recommendations	

	Conclusion: Policy Recommendations
Introduction	Enforcement Challenges <ul style="list-style-type: none"> • Importance of lowering corruption, cronyism & nepotism • Increase Resources: Budgets and staffing • Increase agency independence • Tailor market structure to sectorial needs for development • Much to gain from regional cooperation: <ul style="list-style-type: none"> – UNCTAD competition & consumer protection program – GCC initiative to develop "Standard GCC Competition & Anti-Monopoly Law" – IMF & OECD include laundry list of recommendations • Amendments and reforms should incorporate policy framework
Competition Enforcement Fact	
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Conclusion: Recommendations	

