Does Competition bring more Investment and Growth?

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Trade and Competitiveness Global Practice – Competition Policy Team





How does Competition Policy open markets to private sector investment?



Through Technical Assistance, Lending Projects and Global Though Leadership on Competition Policy, the World Bank Group (WBG) expands market opportunities



Three pillars of Competition Policy

Pro-competition market regulation and sector policy

Opening specific markets to competition and reducing regulation/government interventions that may shelter less efficient firms, protect incumbents, facilitate collusion Effective antitrust rules and competition enforcement

Reforming the competition framework and its implementation to tackle cartels, prevent anticompetitive mergers, deter anticompetitive behavior, and work effectively across government agencies

Example of a procompetition intervention An energy regulator determines the thirdparty access conditions for electricity generators to the transmission line The competition authority tackles cartels among shipping lines or stops abuse by dominant firms that foreclose markets

State aid, SOEs and competitive neutrality

Designing mechanisms that minimize the distortive effects of incentives and state aid support and promote competitive neutrality among market players

The government ensures that private firms receive the same tax exemptions as the SOEs in a particular market



A. How has competition policy work in T&C expanded market opportunities to allow private sector to enter and invest?



Barriers to competition	Competition Policy Intervention	How markets were opened and created	
Rules that reinforce dominance or limit entry	Remove statutory monopoly rights on pyrethrum in Kenya	New private investors take opportunities to develop pyrethrum export crop – input for organic pesticide – and recover Kenya's global market share (2 licensees)	Investment
Rules that are conducive to	Competition authority advocated for telecommunication spectrum policy that allows for market entrants in Colombia	2 new operators , +22% mobile internet users, up to \$56m in savings	
collusive outcomes or increase costs to compete in the market	Remove minimum distance restrictions/opening hour restrictions/other retail commerce restrictions in Mexico and Honduras	Enable investment into new commercial business models (national retail chains of pharmacies, 24-hour- convenience stores)	Jobs
Rules that discriminate and protect certain interests	Remove veto rights of incumbent factories over issuance of a license to new tea factories in Kenya	New tea variety/production process (incl. exports to China, EU); 36-280% farmgate price for specialty tea	Access to goods and services for consumers



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government interventions

of

Examples

markets

B. How has competition policy work in T&C expanded market opportunities to allow private firms to compete effectively?



	Barriers to competition	Competition Policy Intervention	How were private firms able to compete?
interventions in	Rules that reinforce dominance or limit entry	Remove right of existing operators to preempt entry of new shipping liners (Philippines)	Not only did expected investment in this segment increase by 40%, but all exporters dependent on inter- island shipping will face an estimated 5% lower shipping costs , increasing their ability to compete abroad .
government i markets		Advice on regulatory decision to allocate spectrum for 4G (Kenya)	Two smaller players with capacity to compete offering 4G, with spillover effects for users
Examples of gover m	Rules that are conducive to collusive outcomes or increase costs to compete in the market	Ensuring that new agribusiness input providers can register their products as timely as incumbents (Honduras)	Not only is new private investment no longer at a disadvantage with respect to incumbents but agribusiness investors benefit from 7.8% lower costs of fertilizers , increasing their ability to compete on international markets .



Investment

Jobs

Access to

goods and

services for consumers

C. How has competition policy work in T&C expanded market opportunities to allow private firms to thrive on a level playing field?



Examples of government interventions

markets

Links to other policies: How does Competition Policy complement other PSD areas to expand market opportunities?

Many countries have o up to trade and sin business regulation:	· · · · · · · · · · · · · · · · · · ·	etition policy interventions	Embedding competition
Adm.	Sector-specific regulations		principles in broader public policies is key to open
simplification Starting a Business	Law established monopolist for purchase and processing of pyrethrum banning all private investors in this high-potential crop (Kenya)	No private investment in this sector possible (de jure).	Three types of government
Trade	Trade Association		interventions in markets are of particular importance:
Trade Policy and Trade Facilitation	Through a business association and a stability fund, 13 sugar mills colluded to obstruct sugar imports into Colombia (and buy up excess production in LAC)	No private investment in this import business possible (de facto).	$\overline{\mathbf{V}}$
Sectoral	Rules that protect incumbents		Rules that reinforce dominance or limit entr
Logistics Hubs/SEZs	Law establishes veto-power for existing trucking companies towards new road freight operators in Jamaica	Investments in industries within the SEZs will be less profitable if logistics costs make outputs less	Rules that are conducive to collusive outcomes or increase costs to compete in the market
Investment	Professional services licensing	competitive	Rules that discriminate and protect vested interests
FDI	Even though 60% national equity rule has been lifted , Philippine Contractors Accreditation Board established special, more burdensome, licensing category for foreign contractors that has resulted in absence of entry since 2013.	Limited investment possibilities in the construction sector (de facto).	

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Links to other policies: Example – trade, competition and investment

	firms need to have	This requires adequate implementation of Trade, Competition and Investment Policy instruments at the national and subnational level	generating the following effects on market and productivity dynamics	and boosting shared prosperity.	
	Opportunities to enter and/or invest as a domestic or foreign firm into a new domestic market Favorable labor and capital markets and innovation infrastructure Access to efficient input markets through competitively priced inputs and services of good quality and variety Ability to compete on a level playing field through nondiscriminatory access to essential facilities and	Investor Entry Regimes Incentive Regimes Investment Promotion Policies and Capacity Market access to domestic markets (import outputtariffs and NTMs) Custom procedures/border management Merger control policies Exclusive rights/monopolies Exclusive rights/monopolies Conducive environment for linkages with local suppliers Import input tariffs and NTMs Competitive neutrality Market regulation in key sectors (access, nondiscrimination) Antitrust enforcement	(Focus on manufacturing sectors) Knowledge spillovers from FDI (especially vertical, through backward and forward linkages) Reduced exercise of market power Reallocation of market shares toward higher- productivity firms → intra- and inter-industry reallocation of resources (between-firm/sector productivity improvements)	Consumer welfare: More product variety Better jobs: With international standards and potential for knowledge transfer from FDI Consumer welfare: Better deals and more variety for essential consumer products in domestic markets, too (with distributional effects)	
ORLD BANK GRO	to essential facilities and undistorted market conditions Capacity to thrive in global markets	Investment protection Investment grievance management Investment aftercare (retention, expansion, and diversification) Export taxes and border management Merger control policies	incentives to invest in new technologies, cut managerial slack, adopt new management practices, change input variety, improve production processes, change the output mix, and diversify → intra-firm productivity improvements	Better Jobs: More productive jobs (learning by exporting, deepening linkages with local suppliers)	
		Antitrust enforcement (cartels and abuse of dominance)			Source: WBG (2017

Links to other rules and regulations: Interplay Between Antitrust Merger Review and Foreign Investment Review . Merger Control



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Links to other rules and regulations: Interplay Between Antitrust Merger Review and Foreign Investment Review . FDI Review



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Case studies and examples of reforms where WBG has helped to open opportunities for private sector investment

- Philippines
- Mexico
- Honduras
- Kenya



1. Case Study: Philippines



The Philippines: A close look to the initial situation in the domestic shipping market

(1) High shipping costs...

Table 1. Cost of shipping between two domestic

points and two domestic points via an international point

Cost (in USD) of domestic	shipping vs. Foreign transhipment	
Manila-Cagayan de Oro	Manila-Hong Kong- Cagayan de Oro	Difference
1120	644	476
1860	1144	716
Manila-Cagayan de Oro	Manila-Kaohsiung-Cagayan de Oro	Difference
1120	519	601
1860	1044	816
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Source: Data gathered by Royal Cargo as of October 2010 as cited in the Joint Foreign Chambers of the Philippines Note: The difference is equal to cost savings from using foreign transhipment routes instead of a single domestic shipping a good from Manila to Cagayan de Oro.

(2) ... reflected in significant share of the total logistics costs

Table 2. Average shares to total logistic costs and Philippine prices... (%)

	/		
	Logistics	Wholesale	Retail
	cost	price	price
Shipping	27.2	6	2.8
Ports	6.9	2.4	2.1
Shipping and ports	34.1	8.4	4.9

Sources: Arnold and Villaceal (2002), JBIC (2002), JICA and MARINA (2005), BAS (2011a), BAS (2011b), and University of the Philippines Mindanao (2013)

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(3) ... and quality of services lagging behind

Figure 3. Deterioration of shipping connectivity in the last decade



(4) ... with most routes served by 1 or 2 operators



The Philippines: Successful competition policy intervention before enactment of Competition Law

Situation before the intervention

- Agribusiness value chains are affected by high domestic shipping costs
- High shipping costs, few vessels, burdensome registration procedure
- Most routes controlled by one or two firms
- Existing shipping operators in a route can delay/ prevent entry of competitors and usage of foreign vessels can be restricted by domestic players, via "Certificate of Public Convenience" (CPC).

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The intervention

 Simplify CPC issuance + reduce ability for existing operators to delay/prevent entry

Impact

Additional \$18million Investment Generated





Follow-on intervention: Can any trucker pick up cargo from any port? [WBG-APEC CPLG collaboration]

2. Case Studies: Mexico



Mexico: Leveraging Competition Policy and Better Regulation Framework to strengthen competition dynamics



State of Tabasco (MX): Removing monopoly rights in the cargo transport sector for becoming a logistic hub

1) State of Tabasco is looking to diversify its economy (high dependent from oil) and reaching its geographical potential to become a logistic hub



Fuente: INEGI (2016)

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2) With this aim, the state required to have an efficient transport cargo system not also for construction materials, but also for final goods

- 3) However state regulation grants monopoly rights to local transport associations to provide cargo transport services in each municipality.
- Construction firms are even prohibited to transport their materials on own account.
- Lack of incentives and capacity for local transport associations to invest in new infrastructure



 These inefficiencies raise the cost of constructions overall by 30% and increase the cost of public road works by 15%.

Result of WBG intervention : It was agreed to implement a gradual opening of the market:

- (i) expediting the issuance of "self-/private service" permits,
- (ii) ensuring price-competition among individual concessionholders in each jurisdiction,
- (iii) In the medium term, allowing for additional competitors across the state.

State of Oaxaca (MX): Lifting opening hour restrictions for boosting the tourism sector

1) State of Oaxaca (third poorest State in Mexico) shows specialization in the tourism sector



2) However, the main municipality limited opening hours for commercial shops until 10pm, significantly limiting the ability of business to create commercial offerings to attract tourists.

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Results of the WBG intervention:

- The opening hour restriction was lifted and commercial stores can operate until 3am
- As an immediate outcome of this reform, important national chains (pharmacies and convenience stores) installed their operation in the State
- Using data on municipal retail shopping hour regulations, the WBG has examined the effect of relaxing retail trading hour restrictions on real retail sales growth in Mexico.
- It is expected that this reform would lead to about a 6.8 percent increase in the annual average rate of real retail sales growth.



State of Mexico (MX): Limiting discretionary procedures for enhancing industrial potential

1) Mexico State shows great potential to develop industrial activities, which could have positive spillover effects on the developing of the commercial and services sectors



2) However, the State has one of the most contentious and burdensome administrative processes as prerequisite for **granting building permits**. Every municipality applies the rules in a different way with no apparent consistent technical criteria

- 3) The disperse application of this procedure does not only unduly raise the cost for establishing a new retail outlet, it deterred market entry significantly:
- In municipalities that applied this procedure more restrictively, there were fewer competing supermarket chains per inhabitant.

Results of WBG intervention:

In a major step towards reducing discretional application of regulation for new market players in the retail sector, the State has implemented fundamental changes to the administrative process.

It is expected that major national commercial chains such as Walmart announce significant investments in Mexico State as a result of this reform



Mexico: How a subnational pilot initiative led to a national competition policy program and reforms on the ground





3. Case Studies: Honduras



How competition policy reforms help address challenges in lower income countries: Honduras

- 1. Technical assistance to level the playing field among fertilizer suppliers
 - **Reform:** Shortened time and improved consistency in registering new fertilizers
 - **Result:** 3 times as many fertilizers registered per year and up to 9% lower prices (7.8% on average), benefitting 35,000+ farmers
- 2. Technical assistance to improve merger control framework
 - Reform: Fully implemented minimum threshold for merger notification requirements
 - **Result:** 75% fewer merger operations reviewed that are unlikely to cause harm to competition
- 3. Technical assistance and policy operation to strengthen anti-cartel program
 - **Reform:** Introduced a leniency program
 - Expected results: Up to 60% more price-fixing cartels detected and additional ones deterred
- 4. Technical assistance to improve compliance by business associations with competition law
 - Change: Issued business associations guidelines and engaged with associations
 - **Results:** Advocacy in pharmaceutical markets removed minimum distances established by associations (up to \$30m expected annual savings on medicine)

4. Case Studies: Kenya



Creating market opportunities: Purple tea in Kenya

- Restrictive licensing requirements prevented processors of new tea varieties to enter the market although purple tea prices can be between 4-40 times the price of black tea.
- Consent of incumbent factories for the regulator to issue licenses to new factories is required.
- This led to concentration in black tea, low margins for farmers, lack of product variety and low trade volumes



Source: WBG, Markets and Competition Policy Team, estimates based on Tea Development Board



by incumbents.

Political economy:

advocate for reform

Solution

 YES, competition policy and investment policy have important synergies

 Both aim at attracting/facilitating efficient private investment that can help achieve development goals

 Both (1) pro-competition rules in sector and economy-wide policies and (2) antitrust enforcement can help unlock investment opportunities



WBG Tools and Publications



Competition Policy Tools at WBG that can help identify opportunities to open markets (I)



• Empirical analysis, for example:

- Estimations of effects of lack on competition on (labor) productivity
- Estimation of harm to consumer welfare and poverty from cartel agreements
- Sector-specific or Economy-wide
- Ex-post assessment of Competition Policy Intervention (e.g. Anti-cartel)
- Regulatory/Legal analysis
- Evaluation of product market regulations
- Antitrust and State Aid assessment
- · Can include: Assessment of anticompetitive subnational regulations in key sectors (retail, transport) and specific topics (incentives)

Sectoral competition assessments (SCA)

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- Economic and legal analysis focused on specific sector or industry (typically in cooperation with other WBG teams)
- e.g. payment systems, agribusiness, retail, air transport, telecommunications

Economic analysis of anticartel program & sector analysis in South Africa



Competition Policy Assessment in Tunisia & **Empirical Evaluation of** Impact on Productivity



Full-blown sectoral MCPAT in Kenya



Market Dynamics Assessment of key sectors and supply chains in Africa



Economic analysis of food retail markets in Haiti



Haiti—Let's Talk Competition A Brief Review of Market Conditions





Competition Policy Tools at WBG that can help identify opportunities to open markets (II)





Databases to inform policies and research

← WBG Anti-cartel enforcement database (300 cartel cases)

WBG-OECD Product Market Regulation Database (23 developing economies) →

Competition Policy Checklist (approx. 40 countries) →



Tailor-made Impact and Advocacy reports

Lit Reviews on Impact Competition & Productivity, Poverty, Trade

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WBG-OECD joint Flagship -CP and Shared Prosperity



2 Advocacy Compendium with Impact Assessments



Implementation & Impact

- 60 reforms on the ground in 4 years
- Advisory to 40+ countries and 15+ operations with competition components leveraging \$2.6bn +
- 2 impact evaluation studies, impact papers on reforms