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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
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.

### Setting the stage

<table>
<thead>
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<th>Introduction</th>
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- **Competition Law Enforcement in the Arab region**
  - Competition Enforcement Facts
  - Enforcement Challenges
  - Determinants of Enforcement

- **Competition Policy**
  - Using competition regulations as part of a development agenda
  - Competition policy tailored to achieve growth, redistribution
  - Necessity of putting innovation & industrialization in the mix

- **Rethink market structure** requirements to achieve goals

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The table outlines the key components of the presentation, focusing on competition law enforcement and policy aspects relevant to the Arab region.
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.
Measuring Competition Enforcement

- Budgets
- Staffing

Antitrust Enforcement Authorities

- Investigations
  - Decisions
  - Convictions
  - Sanctions
  - Settlements

- Appeal
  - Appeal overruling
  - Appeal confirming

- Mergers Filed
  - Mergers Decided
  - Mergers Approved
  - Mergers Refused

- Opinions requested
  - Opinions delivered

- Exemptions Requested
  - Exemptions granted
  - Exemptions refused
Effect of Enforcement on Market Competition

- **No significant relationship** is found between furthering competition and any of the antitrust variables, except for **imposing sanctions**

- Empirical Methodology: $PCM_{jit} = \alpha + \beta ATV_{jit-1} + I_j + I_i + I_t + \varepsilon_{jit}$

- Only imposing **fines and sanctions** sends a **clear message** that antitrust is being enforced

- **Only this activity is efficient** in increasing competition

- 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**

- **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

- **The Competition Authority**
  - Independence
  - Funding
  - Defining relationship with sectoral regulators

- **Surrounding Environment**
  - Development Concerns, nascent industry
  - Corruption
  - FDIs
  - Dominance
  - Public Awareness
Empirical Methodology

- Discrete variables - Poisson regression
  - To account for over-dispersion in data
  - Use extension of the Poisson: Negative Binomial Model with country random effects

\[
E(y_i | X_i) = e^{(x_i \beta)} \tag{1}
\]

- Continuous variables - Random effects generalized least squares model (GLS)

\[
y_{it} = \alpha_i + \sum_k X_{it,k} \beta_k + u_{it} \tag{2}
\]

\[
u_{it} = \lambda_{t} + \mu_i + \epsilon_{it} \tag{3}
\]
Effects of Surrounding Environment on Intensity of Enforcement

### Expected Results
- 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

### Myth Busters
- 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
Suitable Competition Policy

- **Change framework** → incorporate it with a development agenda
- **Unify** a framework
- Set **clear priorities**
- Look at the West **before** development or countries at **similar development** statuses
- Development, growth and eradication of poverty through **redistributive policies**
- **Using** competition laws as a ladder for mobility
- Take seriously balance with **industrialization**
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
Most countries have more than one objective – often contradictory
50 developing countries studied 12 main objectives

<table>
<thead>
<tr>
<th>Country</th>
<th>Competition Enforcement Goals</th>
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<tbody>
<tr>
<td>Tunisia</td>
<td>Freedom of prices • Free competition • Prevent anti-competitive practices</td>
</tr>
<tr>
<td>Egypt</td>
<td>Freedom of prices • Free competition • Prohibition of monopolistic practices</td>
</tr>
<tr>
<td>Morocco</td>
<td>Freedom of prices • Free competition • Economic efficiency</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Fair competition • Combat anti-competitive monopolistic practices</td>
</tr>
<tr>
<td>Syria</td>
<td>Freedom of competition • Prevent anticompetitive practices • Eliminate monopolistic practices • Regulate economic concentration</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>Promotion of competition • Elimination of anticompetitive behavior, • Economic efficiency • Consumer welfare • Sustainable development • Prohibit restrictive practices • Control of economic concentration</td>
</tr>
</tbody>
</table>
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.
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

- Measuring Competition: $PCM = \frac{Value\text{Added} - Total\text{Wages}}{Output}$ (proxy of Lerner index, measure of surplus value or rents)

- Measuring Growth: $\Delta LP_{growth} = \ln\left(\frac{Value\text{Added}}{Employees}\right)_t - \ln\left(\frac{Value\text{Added}}{Employees}\right)_{t-1}$

- Data to calculate competition and growth:
  - UNIDO’s INDSTAT4: 2011 ISIC Rev.3 database containing 3-digit time series data for the period 1990 to 2006 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

Growth following Scherer: labor productivity growth aka technological progress
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

- Empirical methodology to test the effect of competition on growth:

\[ LP_{growth_{jit}} = \alpha + \beta PCM_{jit-1} + I_j + I_i + I_t + \varepsilon_{jit} \]

- 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 and 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 \( \beta \) coefficients should be negative

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)

<table>
<thead>
<tr>
<th>Dependent Variable: Labor Productivity Growth</th>
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<tbody>
<tr>
<td></td>
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<tr>
<td>Price Cost Margin I-1</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>(Price Cost Margin I-1)^2</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Constant</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Country fixed effects</td>
</tr>
<tr>
<td>Year fixed effects</td>
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<td>Industry fixed effects</td>
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<tr>
<td>Observations</td>
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</tbody>
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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

Through state-guided dynamic growth instead of mainstream static efficiency of the free market approach
Conclusion: Policy Recommendations

Policy Framework

- 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
Conclusion: Policy Recommendations

Enforcement Challenges

- 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:
  - 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
Thank You!