Does Competition bring more Investment and Growth?

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Markets and Competition Policy Team

Expert Group Meeting, ESCWA
Competition as a mean for private sector development
November 22, 2017
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.

A. Opportunity to enter and invest
B. Ability to compete
C. Thrive on a level playing field
## Three pillars of Competition Policy

<table>
<thead>
<tr>
<th>Pro-competition market regulation and sector policy</th>
<th>Effective antitrust rules and competition enforcement</th>
<th>State aid, SOEs and competitive neutrality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening specific markets to competition and reducing regulation/government interventions that may shelter less efficient firms, protect incumbents, facilitate collusion</td>
<td>Reforming the competition framework and its implementation to tackle cartels, prevent anticompetitive mergers, deter anticompetitive behavior, and work effectively across government agencies</td>
<td>Designing mechanisms that minimize the distortive effects of incentives and state aid support and promote competitive neutrality among market players</td>
</tr>
</tbody>
</table>

**Example of a pro-competition intervention**

- An energy regulator determines the third-party 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**

**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?

<table>
<thead>
<tr>
<th>Barriers to competition</th>
<th>Competition Policy Intervention</th>
<th>How markets were opened and created</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rules that reinforce dominance or limit entry</td>
<td>Remove statutory monopoly rights on <em>pyrethrum</em> in Kenya</td>
<td>New <em>private investors</em> take opportunities to develop pyrethrum export crop – input for organic pesticide – and recover Kenya’s global market share (2 licensees)</td>
</tr>
<tr>
<td>Rules that are conducive to collusive outcomes or increase costs to compete in the market</td>
<td><em>Competition authority</em> advocated for <em>telecommunication</em> spectrum policy that allows for market entrants in Colombia</td>
<td>2 new operators, +22% mobile internet users, up to $56m in savings</td>
</tr>
<tr>
<td>Rules that discriminate and protect certain interests</td>
<td>Remove minimum distance restrictions/opening hour restrictions/other <em>retail commerce</em> restrictions in Mexico and Honduras</td>
<td>Enable investment into <em>new commercial business models</em> (national retail chains of pharmacies, 24-hour-convenience stores)</td>
</tr>
<tr>
<td></td>
<td>Remove veto rights of incumbent factories over issuance of a license to new <em>tea factories</em> in Kenya</td>
<td>New <em>tea variety/production process</em> (incl. exports to China, EU); 36-280% farmgate price for specialty tea</td>
</tr>
</tbody>
</table>
B. How has competition policy work in T&C expanded market opportunities to allow private firms to compete effectively?

### Barriers to competition

- Rules that reinforce dominance or limit entry
- Rules that are conducive to collusive outcomes or increase costs to compete in the market

### Competition Policy Intervention

- Remove right of existing operators to preempt entry of new shipping liners (Philippines)
- Advice on regulatory decision to allocate spectrum for 4G (Kenya)
- Ensuring that new agribusiness input providers can register their products as timely as incumbents (Honduras)

### How were private firms able to compete?

- 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.
- Two smaller players with capacity to compete offering 4G, with spillover effects for users
- 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.
C. How has competition policy work in T&C expanded market opportunities to allow private firms to thrive on a level playing field?

<table>
<thead>
<tr>
<th>Barriers to competition</th>
<th>Competition Policy Intervention</th>
<th>How were private firms able to compete?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rules that discriminate and protect certain interests</td>
<td>Implement new aviation policy in Armenia that allows for competition with national flag carrier</td>
<td>Opportunities for private investors to compete on a level playing field with national flag carrier/incumbent – contributing to an increase of welfare equivalent to 1.4% of GDP, increased number of frequencies and capacity, and lower prices for consumers</td>
</tr>
<tr>
<td></td>
<td>Review and remove unfair competitive advantage that SEZ tenants in Moldova were receiving by benefiting from 50% income tax exemptions while not only exporting but also selling 20% of their goods on domestic markets.</td>
<td>Investors outside SEZ are able to thrive on a level playing field facing the same income tax obligations and compete on equal grounds for domestic consumers.</td>
</tr>
<tr>
<td></td>
<td>Increase predictability and transparency of investment incentives regime in Haiti (where tax exemptions amount to 4% of GDP) so that incentives are granted under objective and consistent criteria.</td>
<td>Investors face greater predictability regarding their own incentives and obligations, as well as their competitors’, are not exposed to discretionary treatment, and are therefore able to make solid and well-informed business decisions to thrive.</td>
</tr>
</tbody>
</table>

Examples of government interventions in markets: Investment, Jobs, Access to goods and services for consumers.
Links to other policies: How does Competition Policy complement other PSD areas to expand market opportunities?

- Introducing complementary competition policy interventions expands market opportunities.

<table>
<thead>
<tr>
<th>Sector-specific regulations</th>
<th>Trade Association</th>
<th>Rules that protect incumbents</th>
<th>Professional services licensing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Law established monopolist for purchase and processing of pyrethrum banning all private investors in this high-potential crop (Kenya)</td>
<td>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)</td>
<td>Law establishes veto-power for existing trucking companies towards new road freight operators in Jamaica</td>
<td>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.</td>
</tr>
<tr>
<td>No private investment in this sector possible (de jure).</td>
<td>No private investment in this import business possible (de facto).</td>
<td>Investments in industries within the SEZs will be less profitable if logistics costs make outputs less competitive</td>
<td>Limited investment possibilities in the construction sector (de facto).</td>
</tr>
</tbody>
</table>

Embedding competition principles in broader public policies is key to open markets.

Three types of government interventions in markets are of particular importance:

- Rules that reinforce dominance or limit entry
- Rules that are conducive to collusive outcomes or increase costs to compete in the market
- Rules that discriminate and protect vested interests
For Argentina to become more competitive in the global economy, opportunities to enter and/or invest as a domestic or foreign firm into a new domestic market... generating the following effects on market and productivity dynamics... and boosting shared prosperity.

This requires adequate implementation of Trade, Competition and Investment Policy instruments at the national and subnational level...

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Opportunities to enter and/or invest as a domestic or foreign firm into a new domestic market

Investor Entry Regimes
Incentive Regimes
Investment Promotion Policies and Capacity
Market access to domestic markets (import output tariffs and NTMs)
Custom procedures/border management
Merger control policies
Exclusive rights/monopolies

Type of Good Input

Investment protection
Investment grievance management
Investment aftercare (retention, expansion, and diversification)
Export taxes and border management
Merger control policies
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

Average of 44 Countries

- **Mandatory Notification?**
  - 86% of the sample has Merger Control
  - 3% Both
  - 87% Only Mandatory

- **What type of institutional mandate?**
  - 14% Only specific sectors
  - 46% General + specific rules for specific sectors
  - 46% Only general

- **Ex-ante or Ex-post?**
  - 31% Both
  - 3% Ex-post
  - 67% Ex-post

Average by Region

- **Latin America**
  - 67% Both
  - 3% Only Optional
  - 31% Only Mandatory

- **Asia Pacific**
  - 87% Both
  - 3% Only Optional
  - 3% Only Mandatory

- **Africa**
  - 87% Both
  - 3% Only Optional
  - 3% Only Mandatory

- **MENA**
  - 87% Both
  - 3% Only Optional
  - 3% Only Mandatory

- **ECA**
  - 87% Both
  - 3% Only Optional
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Latin America: Brazil; Mexico; Colombia; Argentina; Peru; Venezuela; Chile; Ecuador; Guatemala; Bolivia; Panama; Costa Rica; Paraguay. Asia Pacific: China; South Korea; Indonesia; Philippines; Vietnam; Thailand; Malaysia; Cambodia. Africa: Rwanda; Tanzania; Zambia; Ethiopia; South Africa; Kenya; Namibia; Mali; Senegal; Ghana; Uganda. MENA: Egypt; Tunisia; Morocco; Algeria; Kuwait; Saudi Arabia; Jordan. ECA: Romania; Serbia; Kazakhstan; Ukraine; Russia.
### What Type of Institutional Mandate?

- **Specific mandate, sector and general**: 31%
- **Specific mandate, only sectoral regulator**: 38%
- **Specific mandate, only general regulator**: 28%
- **No specific mandate**: 3%

### Are there quotas, nationality or absolute limitations?

- **Yes**: 89%
- **No**: 11%

### General or sector specific Frameworks?

- **Both General and Sectoral**: 29%
- **Only Sector specific Framework**: 39%
- **Only General Framework**: 32%

### Average of 44 Countries

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### Average by Region

#### Latin America
- **Specific mandate, sector and general**
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- **Specific mandate, only general regulator**
- **No specific mandate**

#### Asia Pacific
- **Specific mandate, sector and general**
- **Specific mandate, only sectoral regulator**
- **Specific mandate, only general regulator**
- **No specific mandate**

#### Africa
- **Specific mandate, sector and general**
- **Specific mandate, only sectoral regulator**
- **Specific mandate, only general regulator**
- **No specific mandate**

#### MENA
- **Specific mandate, sector and general**
- **Specific mandate, only sectoral regulator**
- **Specific mandate, only general regulator**
- **No specific mandate**

#### ECA
- **Specific mandate, sector and general**
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#### General or sector specific Frameworks?

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- **Only General Framework**: 32%
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

<table>
<thead>
<tr>
<th>Type of shipping container</th>
<th>Manila-Cagayan de Oro</th>
<th>Manila-Hong Kong-Cagayan de Oro</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 Footer</td>
<td>1120</td>
<td>644</td>
<td>476</td>
</tr>
<tr>
<td>40 Footer</td>
<td>1860</td>
<td>1144</td>
<td>716</td>
</tr>
<tr>
<td>20 Footer</td>
<td>1120</td>
<td>Manila-Kaohsiung-Cagayan de Oro</td>
<td>601</td>
</tr>
<tr>
<td>40 Footer</td>
<td>1860</td>
<td>1044</td>
<td>816</td>
</tr>
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</table>

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... (%)

<table>
<thead>
<tr>
<th>Logistics cost</th>
<th>Wholesale price</th>
<th>Retail price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shipping</td>
<td>27.2</td>
<td>6</td>
</tr>
<tr>
<td>Ports</td>
<td>6.9</td>
<td>2.4</td>
</tr>
<tr>
<td>Shipping and ports</td>
<td>34.1</td>
<td>8.4</td>
</tr>
</tbody>
</table>


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

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

Figure 3. Deterioration of shipping connectivity in the last decade

Liner shipping connectivity index (maximum value in 2004 = 100)

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

<table>
<thead>
<tr>
<th>Situation before the intervention</th>
<th>The intervention</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Agribusiness value chains are affected by high domestic shipping costs</td>
<td>▪ Simplify CPC issuance + reduce ability for existing operators to delay/prevent entry</td>
</tr>
<tr>
<td>▪ High shipping costs, few vessels, burdensome registration procedure</td>
<td></td>
</tr>
<tr>
<td>▪ Most routes controlled by one or two firms</td>
<td></td>
</tr>
<tr>
<td>▪ 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).</td>
<td></td>
</tr>
</tbody>
</table>

### Impact

- Additional $18 million 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

1) Total factor productivity growth has been stagnant

2) Key sectors are performing weakly

3) Market Power is particularly harmful to the poorer population in the South of Mexico...

4) ... where subnational regulations are also limiting competition (e.g. transport in Tabasco)
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.

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 concession-holders 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

![Graph showing tourism agencies and hotel numbers](image)

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.

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.

![Graph showing urbanized area (Ha) and number of parks for different states](image)

<table>
<thead>
<tr>
<th>Superficie urbanizada total (Ha)</th>
<th>Número de parques</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estado 1</td>
<td>1700</td>
</tr>
<tr>
<td>Estado 2</td>
<td>1100</td>
</tr>
<tr>
<td>Estado A</td>
<td>1300</td>
</tr>
<tr>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>25</td>
<td>30</td>
</tr>
</tbody>
</table>

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 discrecional 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

Findings at the macro and the micro level:

- **Lack of competition** still costs its economy 1% of GDP growth each year.

- 51 of 78 municipalities allow incumbents in the tortilla market to veto entry, have minimum distances or rules in place that allow for coordination.

- 6 cartel agreements detected in the tortilla markets since 2005.

Pilot to prioritize feasible and impactful reform at the local level:

- **Subnational Competition Assessment in Oaxaca (2013-2014)**

Replication and building widely applicable methodology:

- **Joint implementation in 2 additional states with COFEMER (2014-2015)**

Nation-wide implementation under high-priority initiative for central government:

- **Ministry of Economy** Decree adopted WBG methodology to identify regulatory impact on competition and improve regulations (2015)

- Knowledge transfer to COFEMER to integrate approach in their standard program with 32 states and become advocates for competition reforms (2016-2017)

Reforms already achieved

- Impact on jobs and investment
  - Oaxaca: 6% higher retail sales, 20 new outlets
  - State of Mexico: retail, construction (2016)
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.

<table>
<thead>
<tr>
<th>Solution</th>
<th>Impact Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on a complaint of an investor interested in purple tea production, the Competition Authority of Kenya (CAK) worked with the Tea Board (TBK) to eliminate mandatory consent by incumbents.</td>
<td>Farmers received +70% higher prices per kilo of purple tea</td>
</tr>
<tr>
<td></td>
<td>Investment: up to $10 million by 2022*</td>
</tr>
<tr>
<td></td>
<td>+2000 new jobs directly created</td>
</tr>
<tr>
<td></td>
<td>Diversification for producers who now produce black and purple tea</td>
</tr>
<tr>
<td></td>
<td>More consumer choice</td>
</tr>
</tbody>
</table>

Political economy:
- TBK welcomed CAK’s advice to mitigate incumbents’ pressure
- Quantification of benefits helped advocate for reform

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

- 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
**Trade and Competitiveness Global Practice – Competition Policy Team**

**Market and Competition Policy Assessment Tool (MCPAT)**

- **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)**

- 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

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

- Economic analysis of anti-cartel 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
Competition Policy Tools at WBG that can help identify opportunities to open markets (II)

Institutional Effectiveness Review

Databases to inform policies and research

Tailor-made Impact and Advocacy reports

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