

A stylized graphic of a globe, composed of several overlapping, curved lines in shades of blue and light blue, positioned in the lower-left corner of the slide.

Does Competition bring more Investment and Growth?

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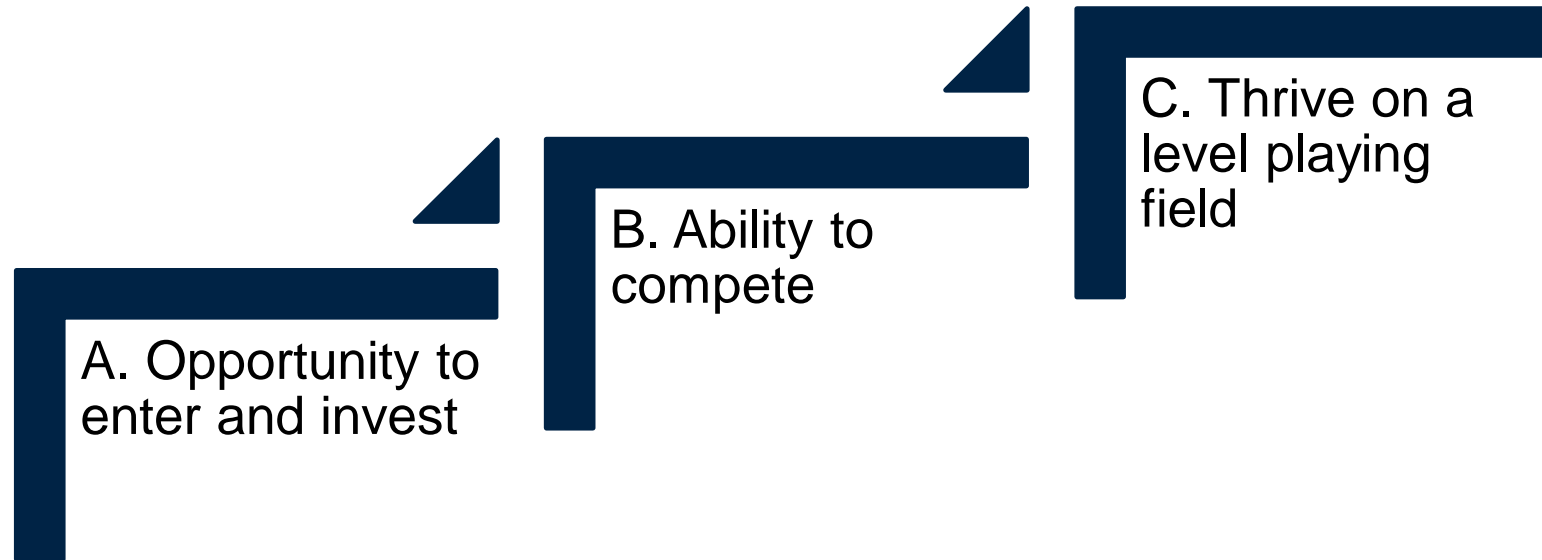
Markets and Competition Policy Team

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 Thought 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

Example of a pro-competition intervention

An energy regulator determines the third-party access conditions for electricity generators to the transmission line

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

The competition authority tackles cartels among shipping lines or stops abuse by dominant firms that foreclose markets

State aid, SOEs and competitive neutrality

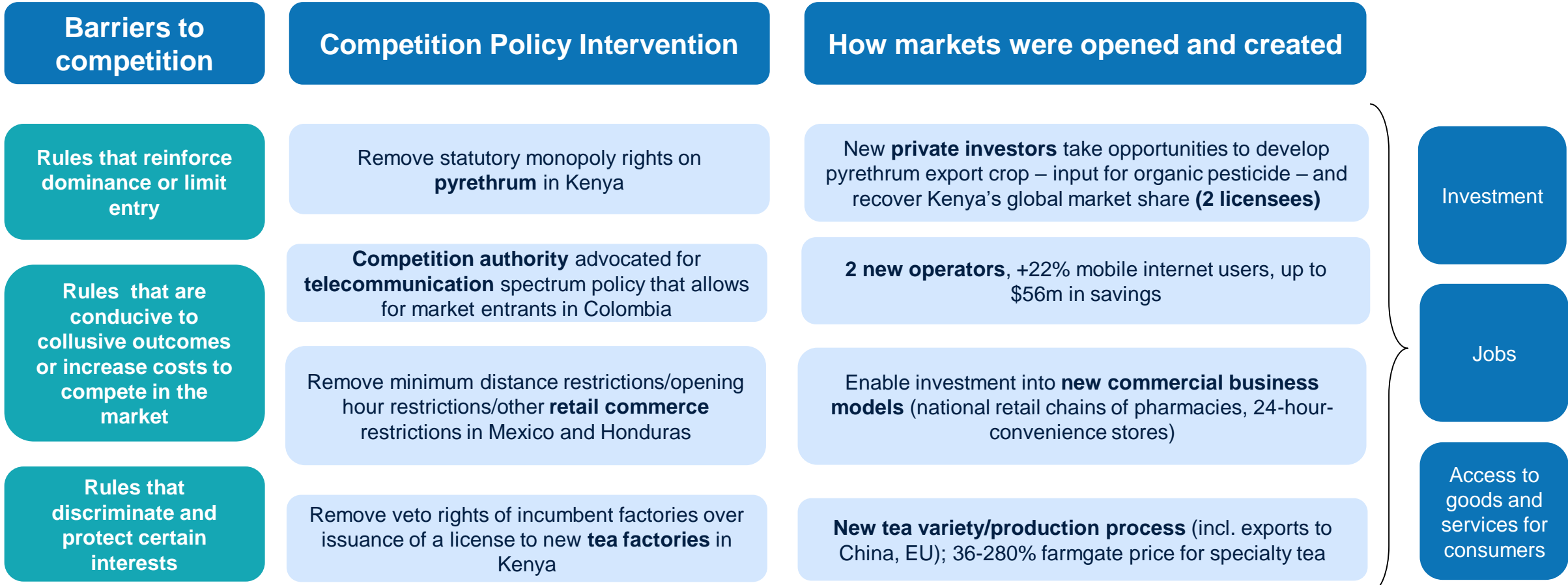
Designing mechanisms that minimize the distortive effects of incentives and state aid support and promote competitive neutrality among market players

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?



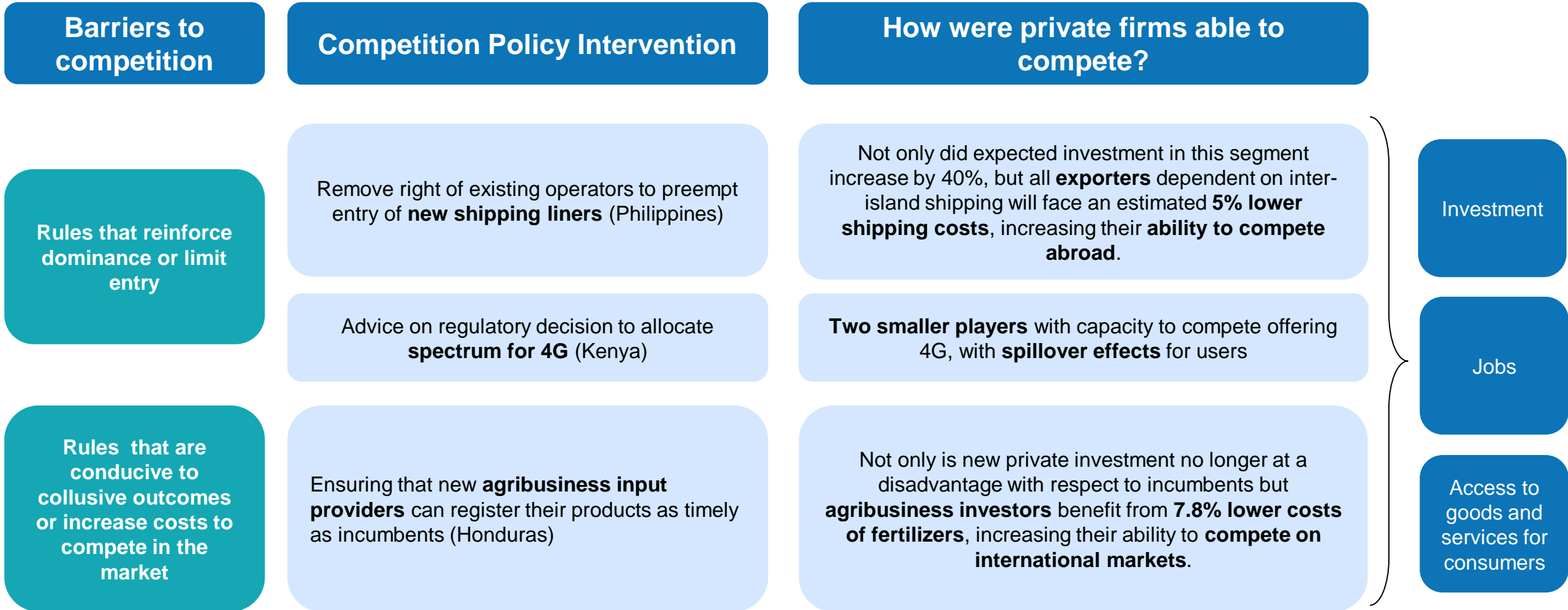
Examples of government interventions in markets



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



Examples of government interventions in markets



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 in markets

Barriers to competition

Competition Policy Intervention

How were private firms able to compete?

Rules that discriminate and protect certain interests

Implement **new aviation policy in Armenia** that allows for competition with **national flag carrier**

Review and remove unfair competitive advantage that **SEZ tenants in Moldova** were receiving by benefitting from **50% income tax exemptions** while not only exporting but also **selling 20% of their goods on domestic markets.**

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.

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

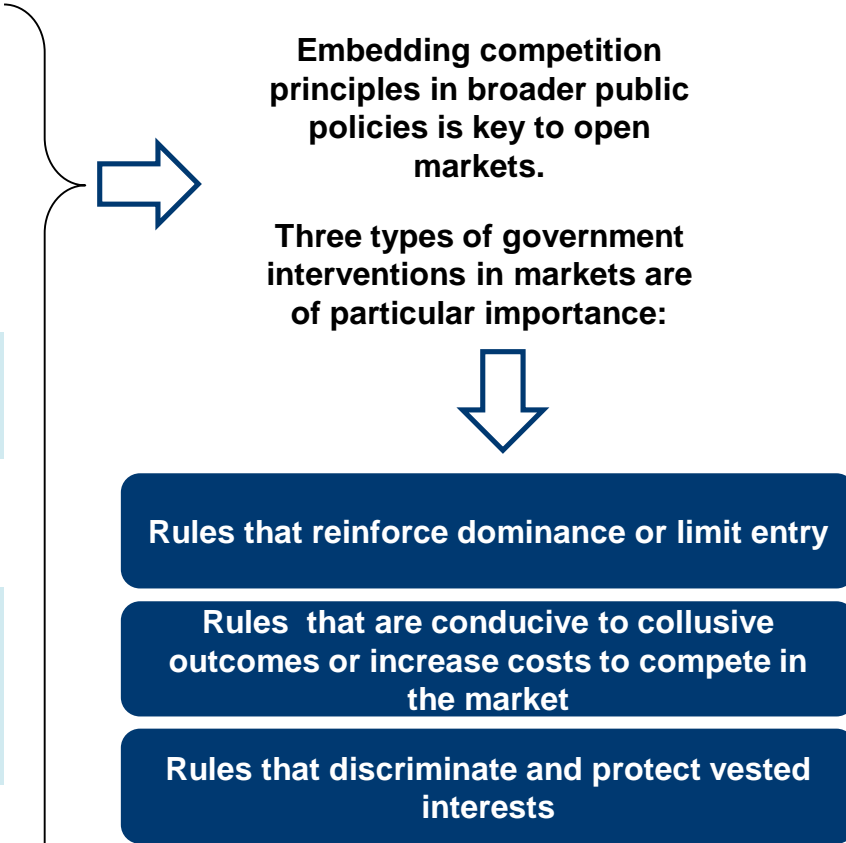
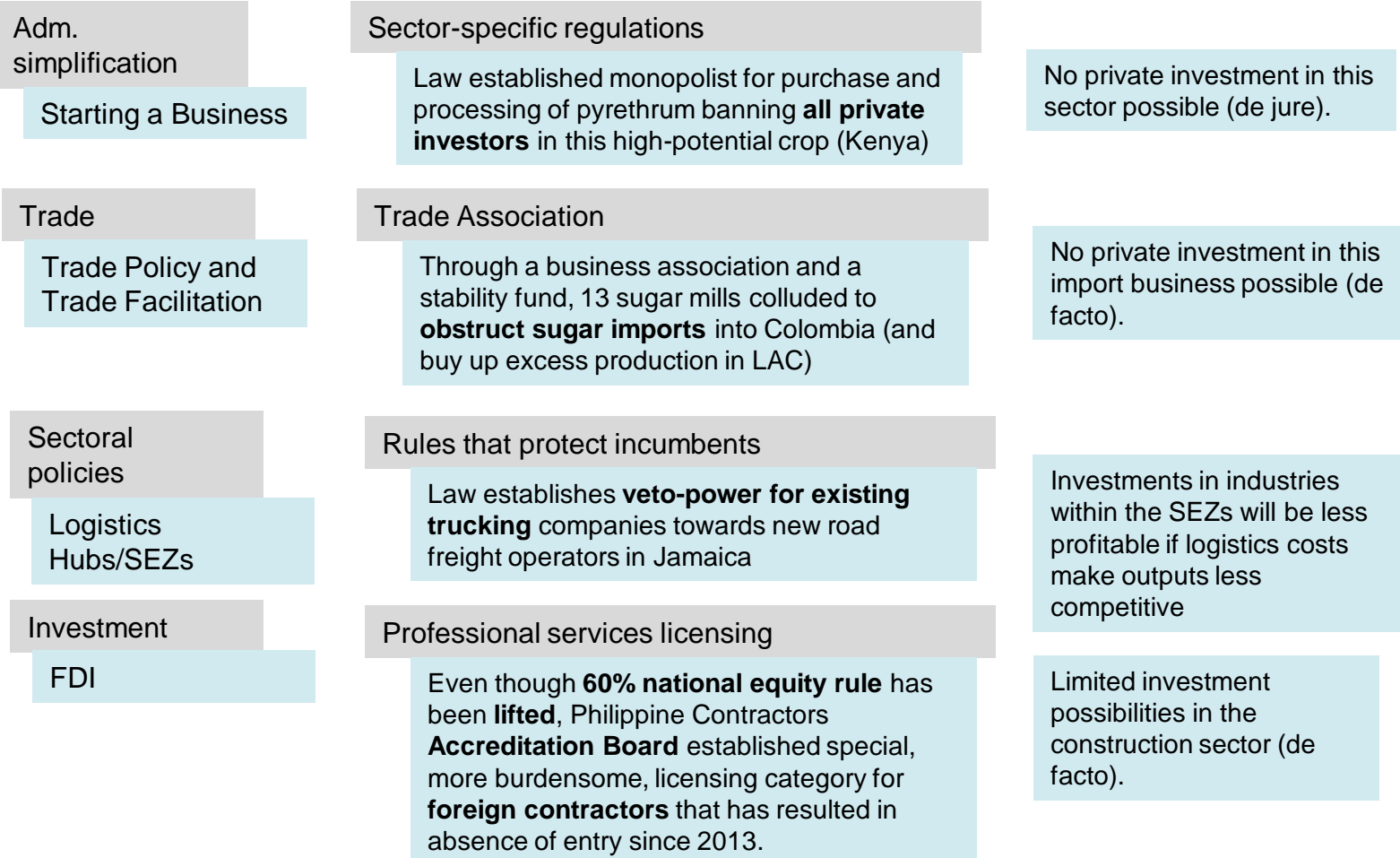
Investors outside SEZ are able to thrive on a level playing field facing the **same income tax obligations** and **compete on equal grounds** for domestic consumers.

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.**

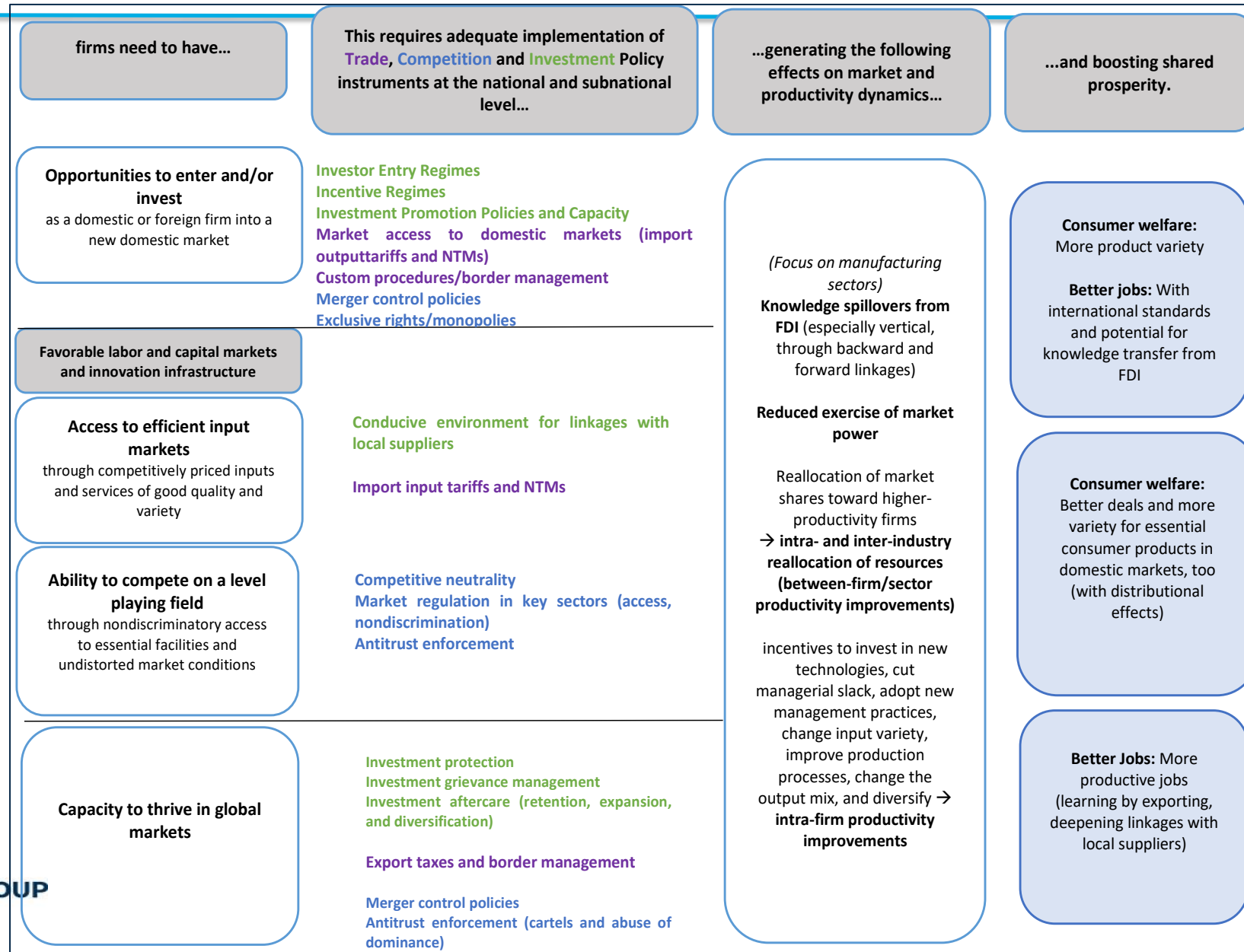
- Investment
- Jobs
- Access to goods and services for consumers

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

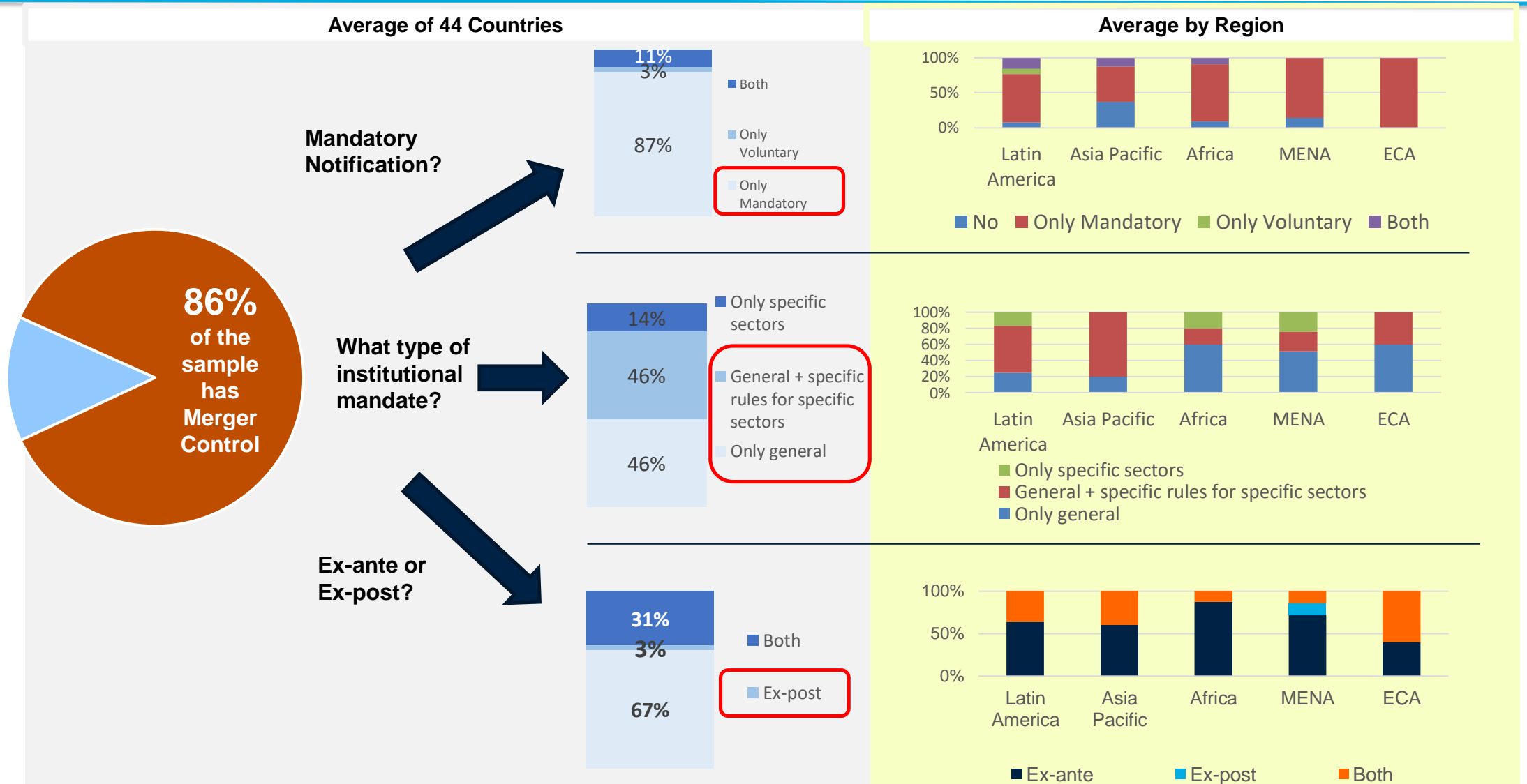
- Many countries have opened up to trade and simplified business regulation:
- Introducing complementary competition policy interventions expands market opportunities.



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



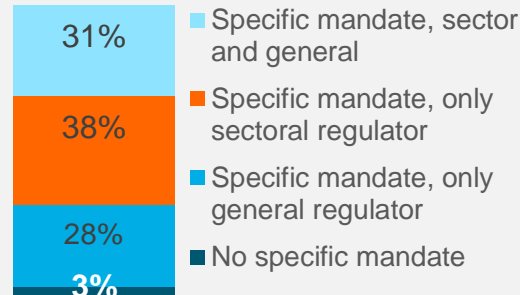
Links to other rules and regulations: Interplay Between Antitrust Merger Review and Foreign Investment Review . Merger Control



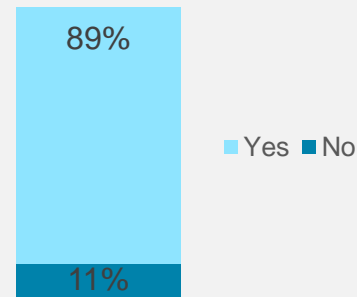
Links to other rules and regulations: Interplay Between Antitrust Merger Review and Foreign Investment Review . FDI Review

Average of 44 Countries

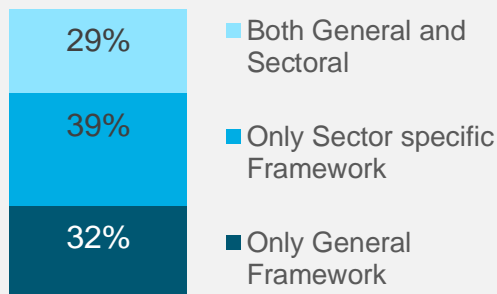
What Type of institutional Mandate?



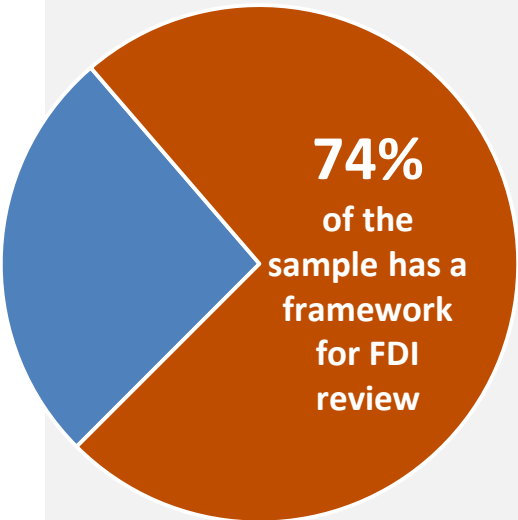
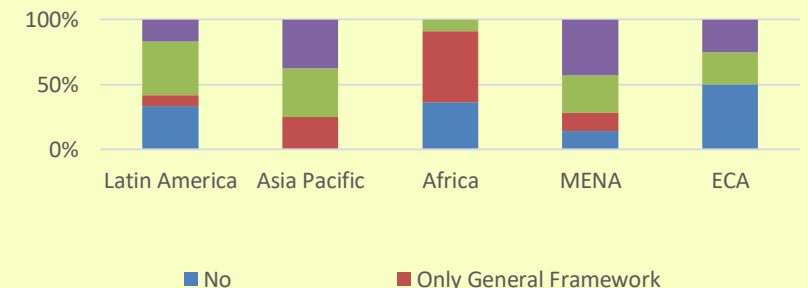
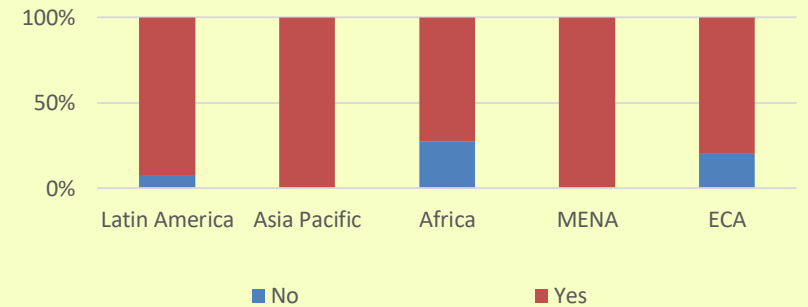
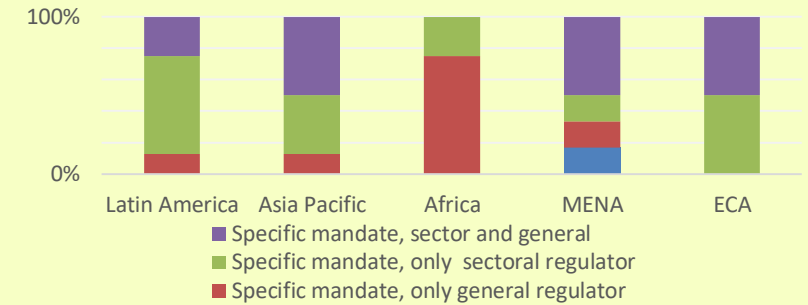
Are there quotas, nationality or absolute limitations?



General or sector specific Frameworks?



Average by Region



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 transshipment			
Type of shipping			Difference
container	Manila-Cagayan de Oro	Manila-Hong Kong- Cagayan de Oro	
	20 Footer	644	476
40 Footer	1120	1144	716
	Manila-Cagayan de Oro	Manila-Kaohsiung-Cagayan de Oro	
	20 Footer	519	601
40 Footer	1860	1044	816

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 transshipment 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

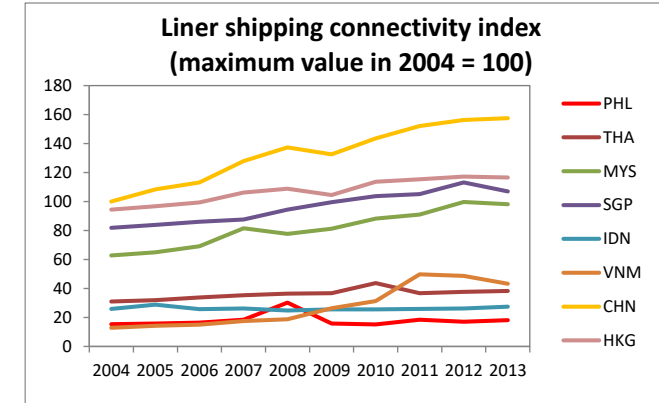
Table 2. Average shares to total logistic costs and Philippine prices... (%)

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

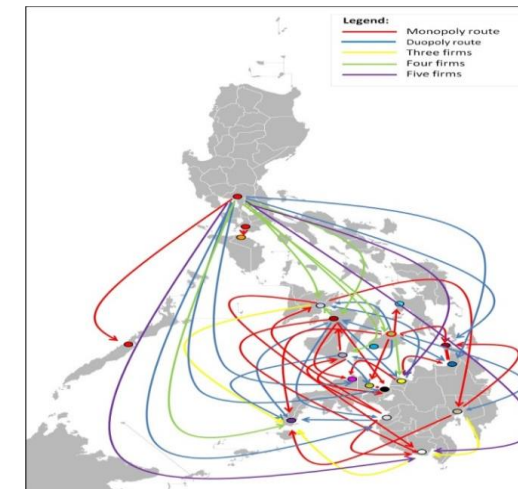
Sources: Arnold and Villareal (2002), JBIC (2002), JICA and MARINA (2005), BAS (2011a), BAS (2011b), and University of the Philippines Mindanao (2013)

(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

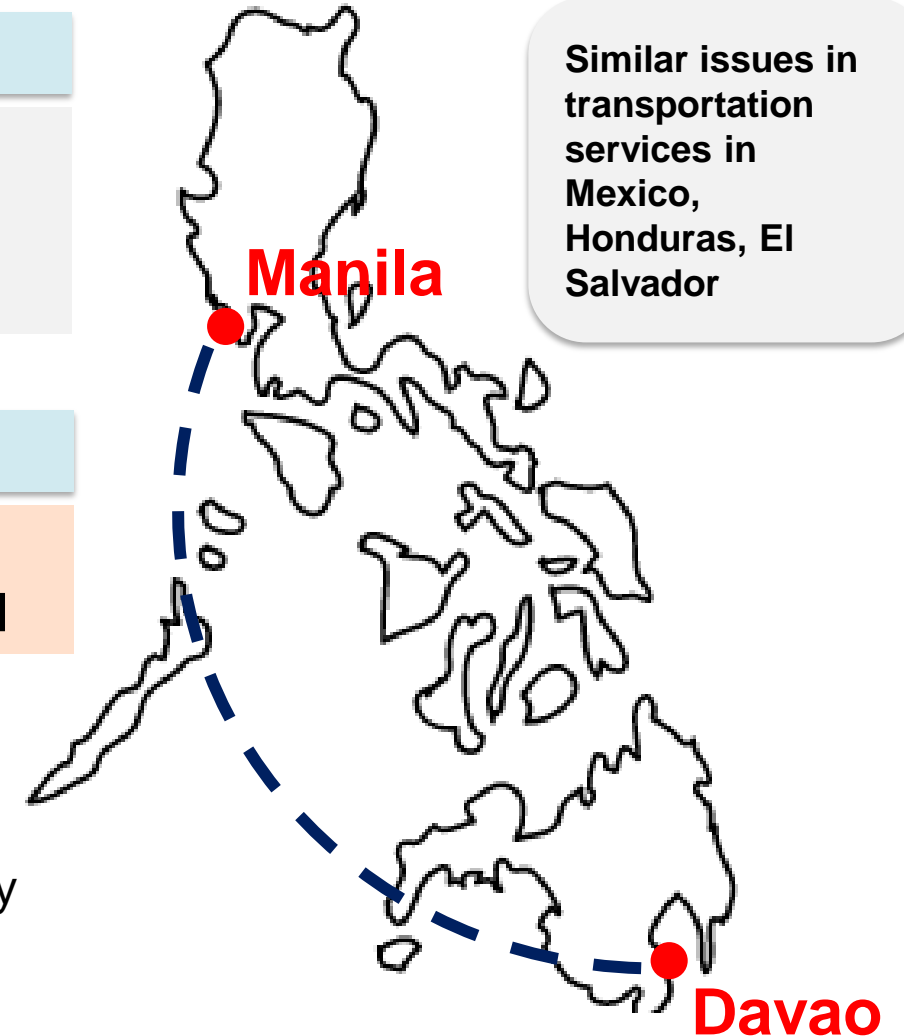
- Agribusiness value chains are affected by high domestic shipping costs
- High shipping costs, few vessels, burdensome registration procedure
- Most routes controlled by one or two firms
- Existing shipping operators in a route can delay/ prevent entry of competitors and usage of foreign vessels can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

The intervention

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

Impact

Additional \$18million Investment Generated

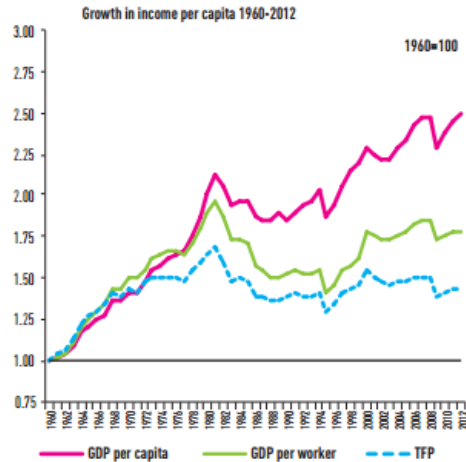


Follow-on intervention: Can any trucker pick up cargo from any port? [WBG-APEC CPLG collaboration]

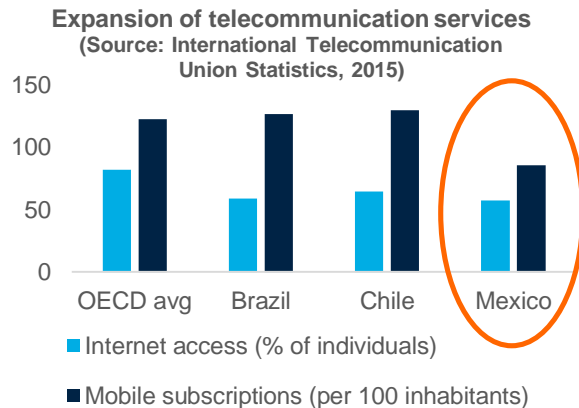
2. Case Studies: Mexico

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

1) Total factor productivity growth has been stagnant



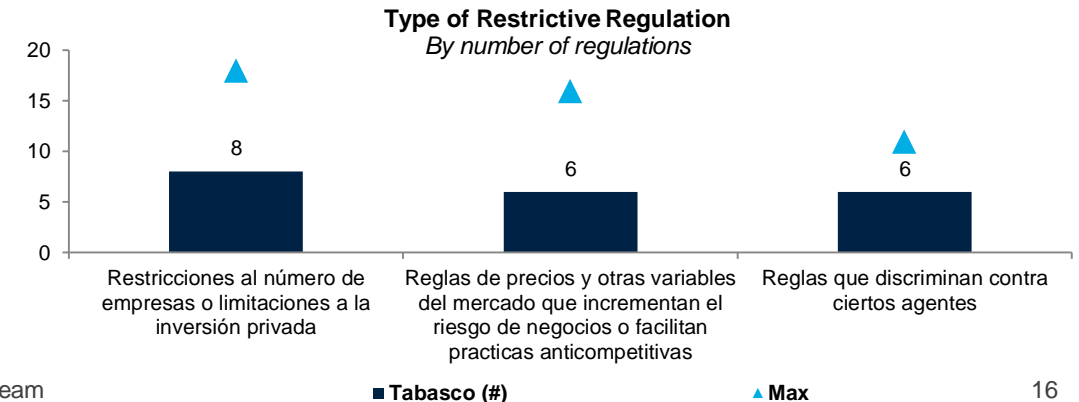
2) Key sectors are performing weakly



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

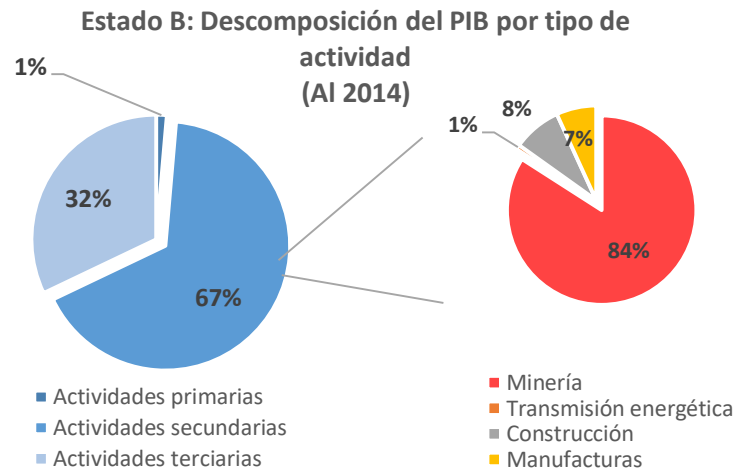


4) ... where subnational regulations are also limiting competition (e.g. transport in Tabasco)



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



Fuente: INEGI (2016)

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%.

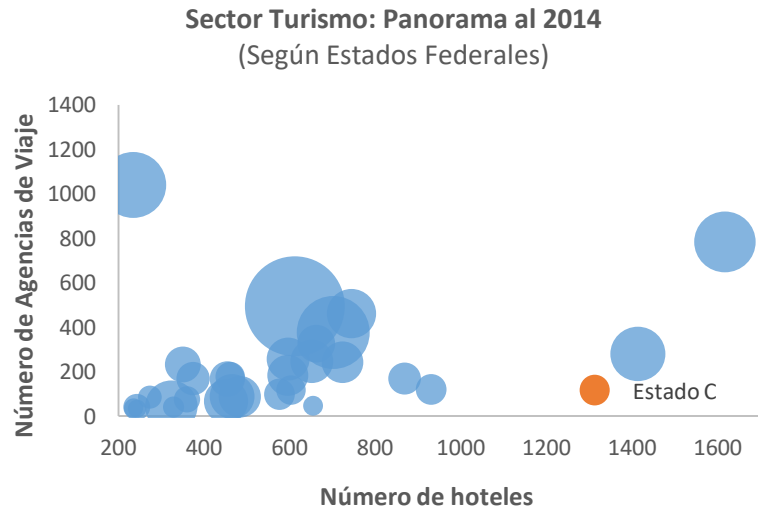


Result of WBG intervention : It was agreed to implement a gradual opening of the market:

- expediting the issuance of “self-/private service” permits,
- ensuring price-competition among individual concession-holders in each jurisdiction,
- 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.

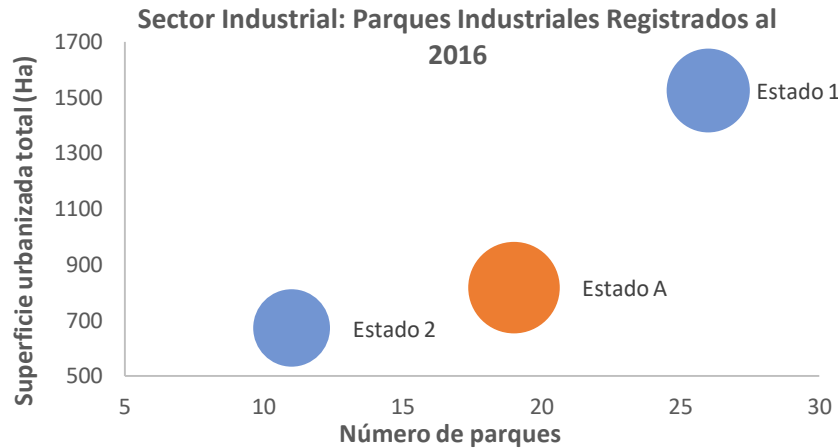
Results of the WBG intervention:

- 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:

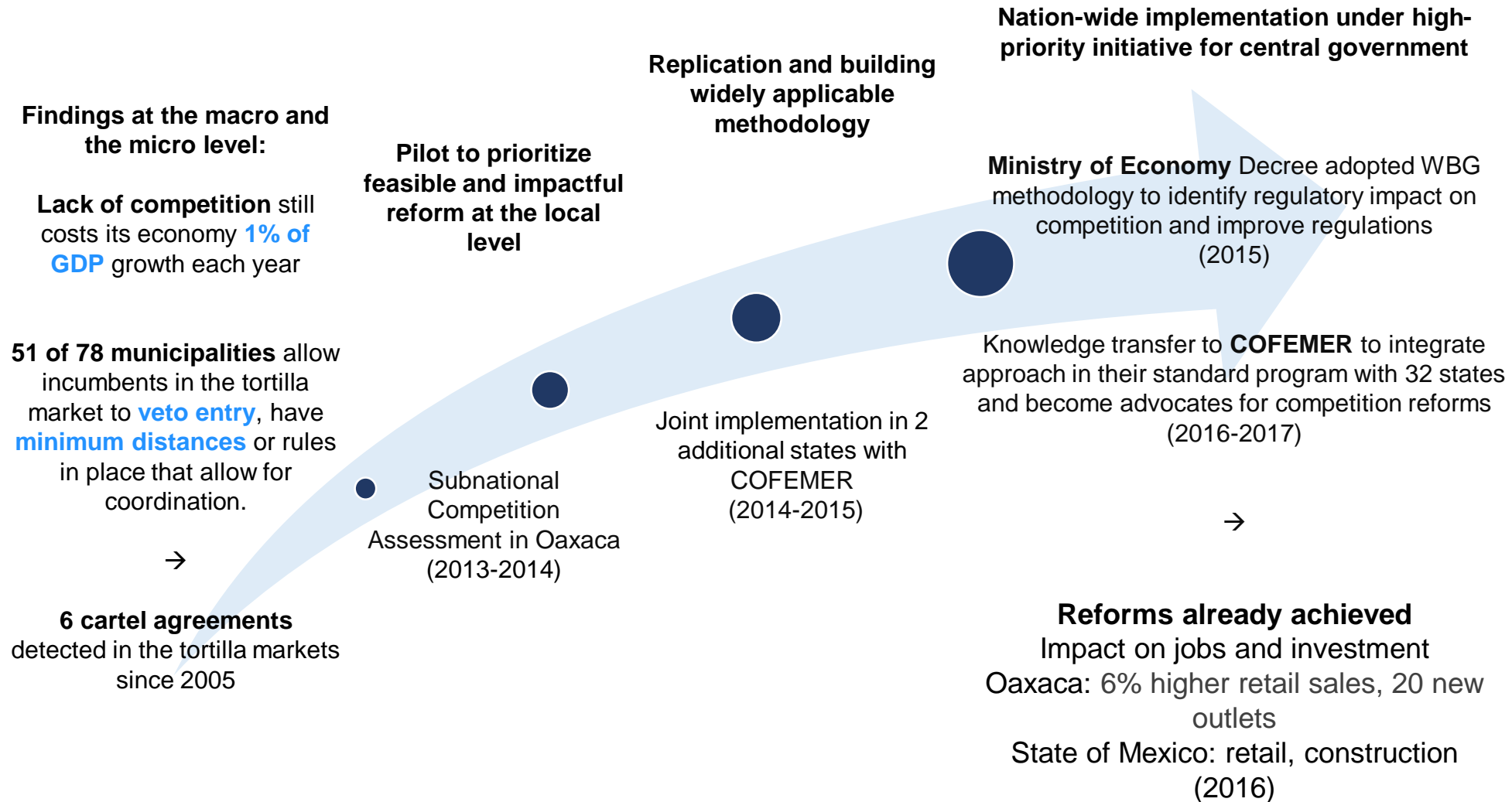
➤ In municipalities that applied this procedure more restrictively, there were **fewer competing supermarket chains per inhabitant**.

Results of WBG intervention:

In a major step towards reducing discretionary 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**

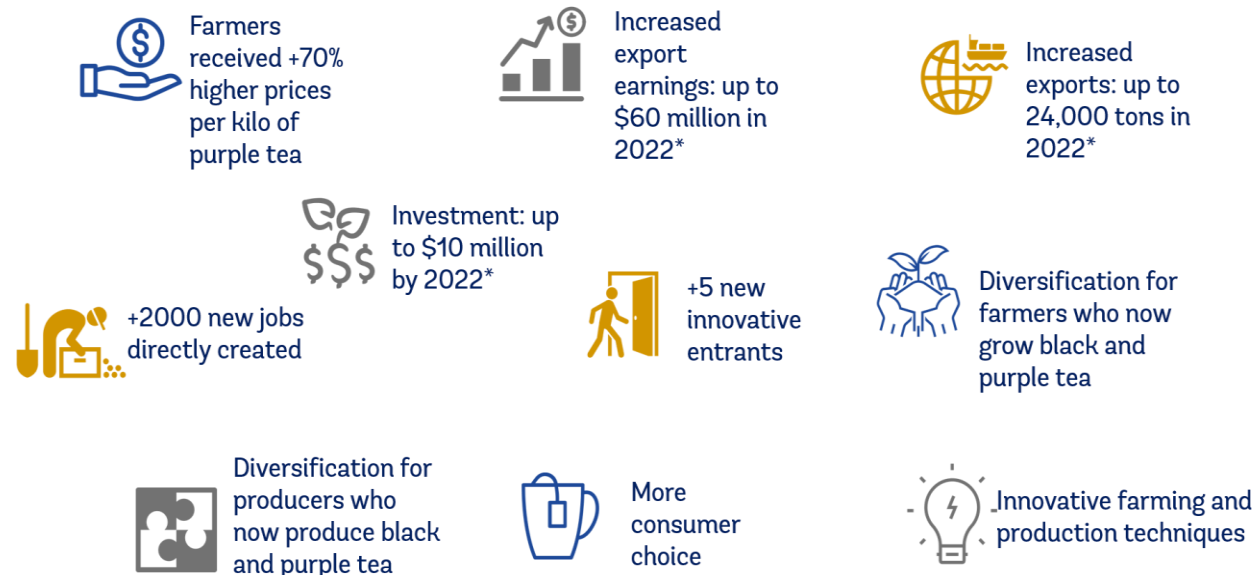
Solution

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.

Political economy:

- TBK welcomed CAK's advice to mitigate incumbents' pressure
- Quantification of benefits helped advocate for reform

Impact Achieved



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

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

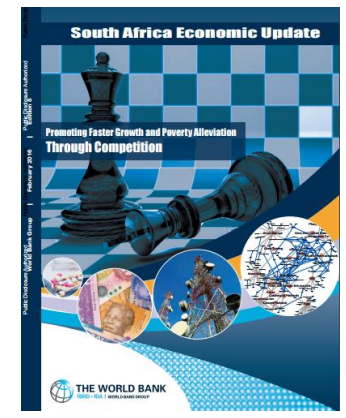
Market and Competition Policy Assessment Tool (MCPAT)

- **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

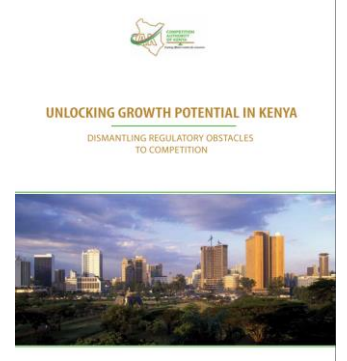
Economic analysis of anti-cartel program & sector analysis in South Africa



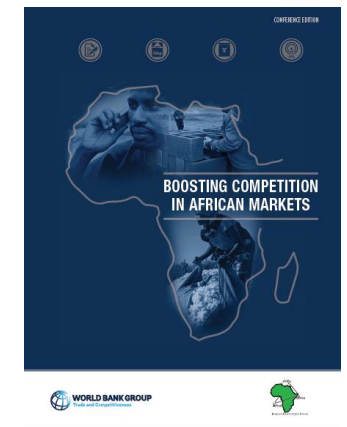
Competition Policy Assessment in Tunisia & Empirical Evaluation of Impact on Productivity



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

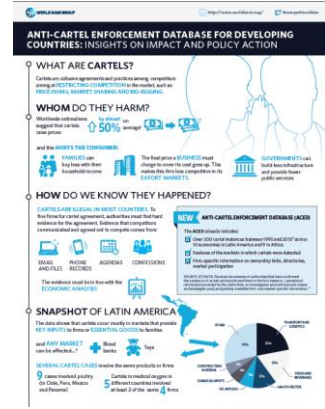


Competition Policy Tools at WBG that can help identify opportunities to open markets (II)

Institutional Effectiveness Review



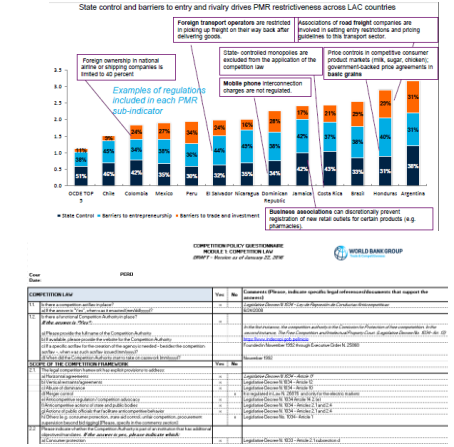
Databases to inform policies and research



← 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

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

