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**BESPOKE COMPETITION  
POLICY FOR DEVELOPING  
COUNTRIES:  
WHAT INTENSITY OF COMPETITION IS  
BEST FOR DEVELOPMENT?**

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The views expressed are those of the authors and do not necessarily reflect the views of UNCTAD



# AIM OF RESEARCH

- It is clear that market competition dynamics have large effect on countries' development.
- Developing countries are substantially different than developed countries with respect to their economic environments.
- Developing countries themselves are a very heterogeneous group.
- It is not clear what kind of competition would best suit developing countries.
- It is also unclear what kind of policy tools would be optimal for different stages of economic development.

# AIM OF RESEARCH

- In order to develop competition policy in developing countries, we must first consider the optimal level of competition needed in particular groups of countries.
- The goal of this research is to identify a transmission mechanism:

**Competition Policy → Competition → Development**

# BACKGROUND

- **Competition benefits consumers:**
  - **Consumer surplus**
  - **Efficient allocation of resources**
  - **Employment**
  - **Damages of anticompetitive behavior are often exacerbated in developing countries**
- **Competitions long term effects are ambiguous:**
  - **Effect on innovation**
  - **Effect on investment**
  - **Effect on other developmental objectives**

# BACKGROUND

- There is consensus that innovation is one of the most important determinants of economic growth and its benefits to society outweigh its benefits to firms.
- Competition incentivizes firms to make product improvements that are closely related to price.
- There is no consensus on whether competition improves or hampers innovation: the Arrow v Schumpeter debate.
- Empirical evidence is not conclusive and can show negative effects of competition on innovation in developing countries.
- Similar principles apply to investment as well.

# EMPIRICAL STUDIES OF POLICY EFFECTS

	<b>Dutz &amp; Hayri (1999)</b>	<b>Dutz &amp; Vagliasindi (2000)</b>	<b>Deng &amp; Hylton (2006)</b>	<b>Voight (2009)</b>	<b>Ma (2011)</b>	<b>Petersen (2013)</b>
<b>Policy measure</b>	Firm survey data	Firm perception survey data	Index based on scope of antitrust laws	4 policy indicators	Scope and enforcement efficiency indexes	Existence of antitrust law
<b>Performance measure</b>	GDP growth	Firm mobility	Firm perception survey data and PPP exchange rate	TFP	TFP growth	GDP per capita and growth after 10 years
<b>Effect</b>	Positive and significant	Positive and significant	Significant for survey indicator, insignificant for exchange rate proxy	Positive and significant	Insignificant effect of scope, significant effect of enforcement for “rich” countries	Positive and significant

# DEVELOPING COUNTRY CLASSIFICATION

- Considering competition policy a “one fits all approach” is unlikely to be successful.
- A “tailor made” approach is unlikely to be efficient.
- Current classifications are not appropriate to study competition effects in developing countries.
- Factors that influence competition:

Output composition	Spending composition	Entry barriers	Infrastructure
Cultural attitudes and corruption	Human Resources	Type of industry	Gender equality
Trade openness	Capital Markets	Import competition	Informal economy

# RESEARCH

**Stage 1: Identify stages of development, development objectives and a measurement of competition policy.**

- **Developmental objectives for different stages:**
  - **There are many problems that developing countries need to solve, however competition policy is not the best tool to achieve all of them.**
  - **Objectives can depend on the stage of development with respect to poverty levels, industry type, savings rate and others.**
- **What is a scale of sophistication and complexity for competition policy laws and tools?**
  - **It is unclear what policy tools are needed and can be implemented in developing countries.**
  - **We will develop a neutral scale of complexity for competition policy.**

# RESEARCH

**Stage 2: Explain how competition dynamics affect developmental objectives at different stages of development.**

- Describe each stage
- Apply existing economic theory to identify the competitive dynamics with respect to the features of each stage.
- Identify tradeoffs of the effects of competition in each stage.
- Identify the optimal level of competition.

# RESEARCH

## **Stage 3: Developing a framework for competition policy effectiveness**

- **Describe each stage with respect to institutional capabilities.**
- **Identify the appropriate policy assuming ideal institutional conditions.**
- **Identify the optimal level of policy tools for each stage.**
- **Develop a framework for measuring the effectiveness of competition policy relative to other factors affecting competition.**

# CONCLUSION

- **Competition intensity has tradeoffs for different stages of development.**
- **Competition dynamics are different in developing countries.**
- **The plethora of factors that influence competition and those that competition influences make it difficult to see what policy is needed.**
- **This research aims at identifying the most relevant factors, tradeoffs of their relationship with competition and the policy needed to achieve optimal outcomes.**