

**Seventh United Nations Conference to review the
UN Set on Competition Policy**

**Competition Policy and Sustainable and
Inclusive Growth: The Case of Mexico**

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Productivity and Growth

- **Klenow and Rodriguez (2005)** show that high level long term growth is attained by increases in productivity, not by higher rates of investment. The issue is how competition affects innovation, and thus productivity.
- Among theoretical literature, **Arrow (1962)** argues that competition leads to a more favorable environment for innovation than monopolies.
- A monopolist has less incentives to innovate because the monopoly replaces itself.
- The monopolist only considers the additional benefits from innovation, whereas a competitive firm looks for the whole benefit.
- When a monopoly is threatened by entry (with a possibility of ex-post duopoly), the monopoly has more incentives to innovate. “Because competition reduces profits, the monopolist’s incentive to remain a monopolist is greater than the entrant’s incentive to become a duopolist” (**Tirole, 1988**). The so-called efficiency effect.
- Schumpeter vs. Arrow.

Recent Empirical Evidence

- Wolszczak-Derlacz, 2014. **“The Impact of Domestic and Foreign Competition on Sectoral Growth: A Cross-Country Analysis”**
- Analyze the impact of competition on the total factor productivity (TFP) of 21 manufacturing sectors in 18 OECD countries from 1990 to 2006.
- They find that stronger domestic competition is always associated with higher sectoral productivity.
- Lilian T.D. Petit, Ron G.M. Kemp, Jarig van Sinderen, 2014. **“Cartels and Productivity Growth: An Empirical Investigation of the Impact of Cartels on Productivity in the Netherlands”**
- Netherlands allowed cartels until 1998. However, they were required to register.
- The authors estimate the impact of cartel formation on TFP growth.
- They found that cartels constrain productivity growth.

Recent Empirical Evidence

- Philippe Aghion, Stefan Bechtoldy, Lea Cassarz, Holger Herz, 2014. **“The Causal Effects of Competition on Innovation: Experimental Evidence”**

- *“We assume that knowledge spillovers between the two firms in any intermediate industry are such that neither firm can get more than one technological level ahead of the other.*

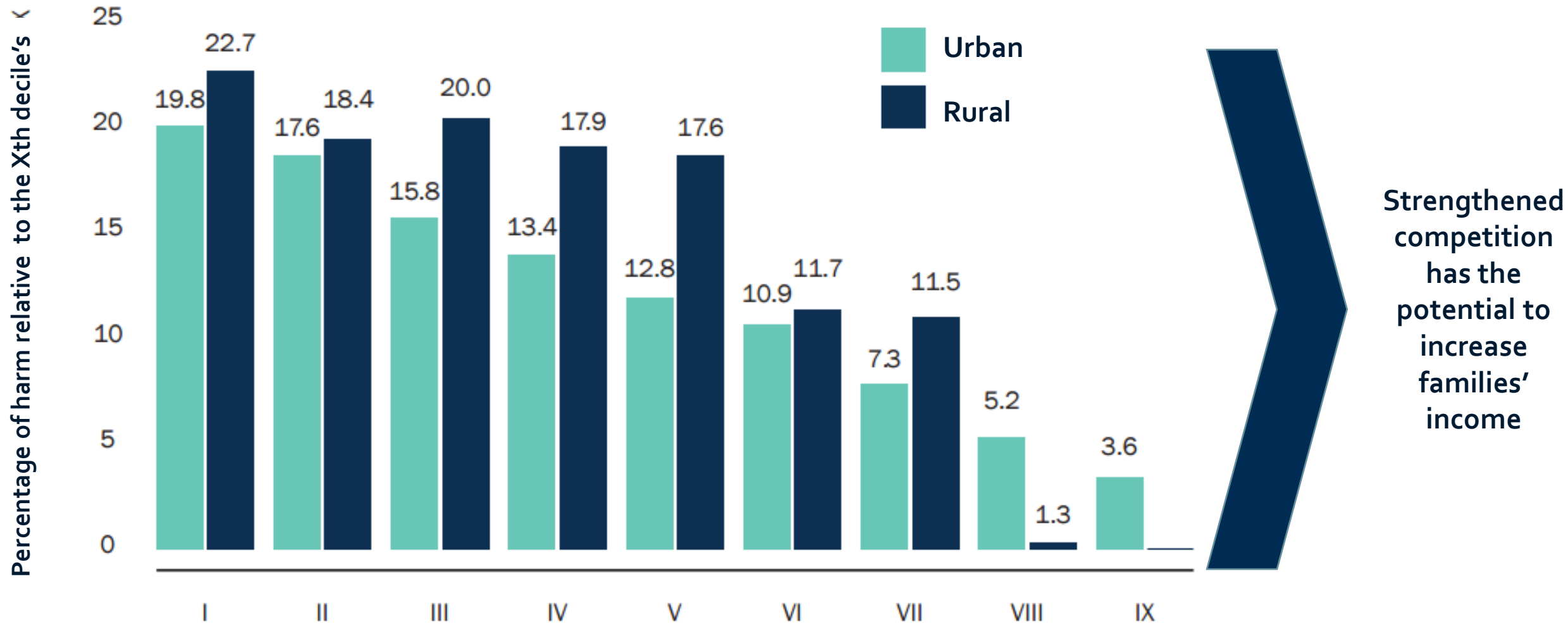
In other words, if a firm already one step ahead innovates, the lagging firm will automatically learn to copy the leader’s previous technology and thereby remain only one step behind” (p. 7).

- Increased competition rises R&D by firms on the same step.
- Increased competition reduces R&D by laggard firms.
- They have results on competition effects on the composition of the industry. However they find that increasing competition increases aggregate innovation.

The Case of Mexico

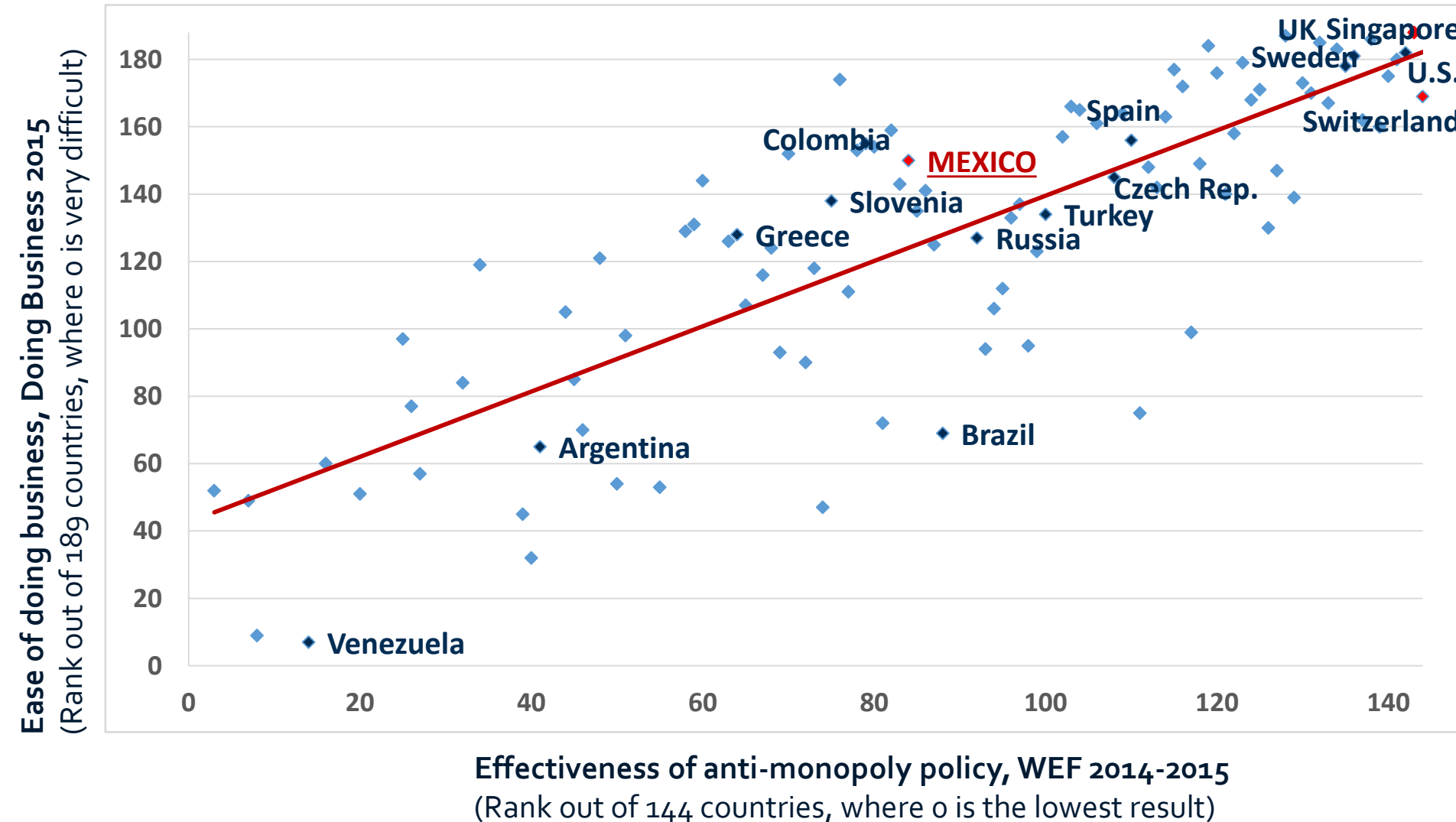
- MacDonald, J. M., 1994. **“Does Import Competition Force Efficient Production”**.
- Import competition increases efficiency.
- For México we have evidence with regards to the impact of trade liberalization (as a competitive pressure).
- However we will discuss the short term effects, since we do not have empirical evidence from the relation between competition and growth, in general terms, for Mexico.
- In the short term, increases in investment and reduction in input costs benefits growth.
- Competition policy is aimed at reducing prices and thus costs and to increase wellbeing of consumers.
- It also facilitates the ease of doing business as it introduces certainty on the rule of law and the conditions under which firms will take decisions on investment.

Loss of consumer wellbeing due to competition problems in 7 markets for: corn tortillas; sodas, juice and water; beer; healthcare; milk; processed meat; chicken, and eggs.



As Antitrust Policy Effectiveness increases, so does the Ease of Doing Business

Correlation = 0.8648



It is expected that markets, which are characterized by effective competition not only deliver the best outcome for consumers in terms of product quality, variety and prices, but also offer fair chances to participate in the economic process to firms.

UNCTAD: MEXICO'S AGRICULTURE DEVELOPMENT: PERSPECTIVES AND OUTLOOK.

Prioritization to make Competition Policy more Efficient

- ▶ **Economic Growth:** Higher contribution to GDP.
- ▶ **Generalized Consumption:** Sectors that produce goods and services in high demand among the population.
- ▶ **Transversal Impact:** Sectors that produce intermediate goods and services used as inputs for final products.
- ▶ **Lower-Income Households:** Sectors that produce goods and services with a high impact on lower-income households' expenditure.
- ▶ **Regulated Sectors:** Sectors in which regulations or government practices may create barriers to competition.
- ▶ **Monopolistic Conduct Risk:** Market regulations or characteristics that may lead to cartel behavior or abuse of dominance.

Constant Activities

COFECE continuously reviews all markets, many with significant impact on consumers' pockets, particularly those that impact lower-income households, through:

- **Merger Review**
- **Competition Advocacy**
- **Investigations**
- **Opinions**

COFECE also keeps surveillance in: ENERGY and PUBLIC PROCUREMENT



Sector Specific Projects

▶ **Market Study on the Financial Services Sector:** Published in 2014, it included over 30 recommendations to public authorities to increase competition in the financial sector markets. These were well received and have been taken into account by the relevant agencies.

▶ **Revision of State Regulatory Frameworks:** Study that will review subnational legal frameworks for five sectors: 1) Farming; 2) Urban Development; 3) Transport; 4) Public Procurement; 5) Health.

The study will give support for future COFECE activities and will provide reliable information to justify and support regulatory reform

Study on the Competition and Free Market Access Conditions in the Agri-Food Sector and its Related Markets

Economic Growth: In 2013, the Agri-food sector contributed to 8% of Mexican GDP.

Generalized Consumption: Mexican households spend approximately 34% of their income on food.

Transversal Impact: The Agri-food industry produces inputs for 74 of the 95 subsectors included in the North American Industry Classification System.

Lower-Income Households: The household expenditure rises to 52% of income for lower-income households.

Regulated Sectors: Highly regulated sector, and high level of interaction from government on private sector activities.



