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The Contribution of Competition to Inclusive Growth Post Covid-19

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Speaking notes

The contribution of competition to inclusive growth post Covid-19

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1) **Developing countries have been hard hit by the Covid-19 pandemic**

Fourteen of the twenty hardest hit countries by the Covid-19 pandemic are developing countries (India Brazil, Peru, Colombia, Mexico , South Africa, Argentina, Chile, Bangladesh, Saudi Arabia, Iraq, Pakistan Turkey)

In terms of cumulative deaths, after the US, the countries most affected are Brazil, India, Mexico and soon after Indonesia

2) **The LDC are particularly vulnerable to the spread of the pandemic**

Covid-19 is overwhelming public health systems even in many developed countries. There are on average only 113 hospital beds per 100,000 inhabitants in LDCs, less than half the number in other developing countries and around 80 per cent below developed countries. Even the most basic public health interventions like frequent handwashing are impossible for many people in LDCs.

3) **Lockdowns has been the main response to limit the spread of the Covid-19 pandemic in LDCs**

The Oxford COVID-19 Government Response Tracker reports as of 29 April restrictive measures in 26 LDCs, with Djibouti and Rwanda scoring at maximum stringency.

These measures save lives but also force economies into recession. The restrictions on economic activity fall more heavily on these economies, which have large informal sectors and a smaller scope for home working.

4) **Economic effect of the Covid-19 crisis on developing countries**

A perfect storm formed by

- domestic restrictions on economic activity imposed by social distancing and lockdown
- an external front with: collapsing exports,
  - dwindling remittances, and
  - tightening international credit conditions.

5) **An example of the combination of supply side and demand side restrictions:**

Manufacturing, of garments, has been a main development driver for LDCs such as Bangladesh, Cambodia, or Myanmar.

These countries benefit not only from low production costs and effective domestic policies supporting the sector, but also from trade preferences in most developed and major developing markets.

Covid-19 has caused a demand shock through a massive cancelation of orders as fashion retail in developed countries collapsed.

At the same time, the garment sector is undergoing a domestic supply shock caused by mandated factory closures.

Already at the end of March 2020, a quarter of the 4 million mostly female Bangladeshi garment workers had been fired or furloughed.

In the first half of April 2020, garments exports from Bangladesh declined by more than 80 per cent on a year-to-year basis

Another Example of demand and supply shock in the tourism industry

Tourism is the main export of many LDCs, particularly small island developing States (SIDS).

Travel restrictions and advisories by authorities in foreign tourist markets, as well as the income loss of consumers in these markets, have reduced demand, sometimes almost completely.

As in the case of garments, the demand collapse is paralleled by the collapse in domestic supply caused by travel restrictions imposed by recipient countries limiting tourist inflows.

6) **The lockdowns throughout the world and the ensuing collapse of demand have contributed to declining prices for some commodities**

Ex Petroleum -26% on a yearly basis as of October 9
Wool -33%
Coal -15,5%
Lead - 17,4% etc…..

7) **The collapse in the demand for commodities has hurt significantly the economy of a number of developing countries Example oil exporters**

In March of this year, the IEA estimated that key oil producing countries, including Iraq, Nigeria and Angola, would likely see a drop in their net income for 2020 of 50%-85% compared with 2019.

8) **Reduced demand for migrant workers and travel bans imposed by receiving or sending countries will drastically reduce remittances, which are essential in many LDCs**

Before the pandemic around 270 million people lived outside their country of birth and sent nearly $700 billion in remittances to their home countries.

According to the World Bank, as of mid-May, the 20 countries with the most cases of COVID19 host 55 percent of the world's migrants who send home 54 percent of the world's remittances.

Even though so far remittances have held up fairly well, according to the IMF remittance from the USA which represent about 14% of all remittances are expected to decline by 15% in 2020, Remittances from Europe which represent 19% of remittances are expected to decline by 19%, remittances from the Gulf region which account for 18% of al remittances are expected to decline by 13%

9) <u>Reduced flow of FDI to developing countries.</u>

As a result of Covid-19, overall FDI inflows are estimated to shrink by 25–40% in Africa,
up to 45% in Asia,
about 50% in Latin America
and about 38% in transition economies of south-east Europe,
the Commonwealth of Independent States (CIS) and Georgia.

These flows will not recover before 2022, according to UNCTAD's WIR.

10) Current OECD projections suggest that net inflows of external private investment and remittances could drop by almost USD 700 billion in 2020 compared to the previous year, exceeding the impact following the 2008 global financial crisis by 60%.

11) <u>The impact of the pandemic on poverty</u>

The COVID-19 pandemic is estimated to push an additional 88 million to 115 million people into extreme poverty this year, with the total rising to as many as 150 million by 2021, depending on the severity of the economic contraction.

12) **<u>Vulnerable and disadvantaged groups will be impacted more severely and therefore require particular attention in the policy response</u>**.

Vulnerable groups are not limited to those in poor physical health: those in precarious employment or financial conditions, those living in poor quality housing, the socially isolated and those already struggling with low subjective well-being or mental health conditions are at particular risk.

13) <u>The Impact of the pandemic on inequality</u>

Existing economic, gender and social inequalities will be exacerbated by the pandemic.

Combined with a loss of household income, millions of women are confined with their abusers, with limited options for help and support.

The unequal distribution of unpaid care and domestic work increases because women and girls spend even more time than men and boys performing these care activities—a significant barrier to gender equality and women's economic empowerment.

Extended school closures could have more drastic effects on human capital, particular for girls and young women, and therefore future economic growth due to the impossibility of remote schooling.

14) Policy responses 1): Stimulus and support measures

A number of countries have implemented economic stimulus measures in order to alleviate the negative impact caused by the crisis and tackle the general economic slowdown; these measures are directed to give relief to both companies and individuals in terms of their access to finance and ability to comply with payments during this crisis, such as of taxes or utilities.

They include

- State aid for distressed industries (for example air transport)
- targeted policies to support vulnerable SMEs, including specific financing lines, low-cost or zero interest loans, payment of salaries through public funds, postponement of various tax payments and social security contributions, and postponement of loan payments.
- measures to lighten the financial and procedural burden of personal tax, public utility, credit card, loan and mortgage payments

One of the main weaknesses of these responses lies in the fact that are tailored toward the formal sector. The informal employment is an important source of employment the main source of employment in Africa, accounting for 85.8% of all employment

15) Policy responses to Covid 19: 2) Export restrictions

80 countries have introduced (mostly temporary) export bans or restrictions as a result of COVID-19; 40 countries have implemented outright bans on the export of certain drugs, pharmaceutical ingredients, or medical equipments; 17 countries have focused restrictions on food exports.

For example, in March 2020, India banned the export of 26 pharmaceutical ingredients as well as formulations that are used in the making of generic drugs, such as paracetamol and antibiotics. The regulation was imposed supposedly to tackle possible domestic shortages of medicines as Covid-19 infection cases continue to rise in India. While India removed export restrictions on 24 of the APIs and formulations in April, outbound shipments of paracetamol and its formulations remain restricted or require a licence from the government.

Egypt, Kenya, e-Swatini, Libya, Madagascar and Zimbabwe have imposed export restrictions and export licensing requirements on certain products, including medical supplies, masks, ventilators and hand sanitisers

Kazakhstan and Russian Federation – two of the largest wheat and wheat flour exporters – banned exports of that product along with others, such as carrots, sugar, and potatoes.

Viet Nam temporarily suspended new rice export contracts and Serbia stopped its sunflower oil flow.

There were also a number of import-liberalizing measures

16) Policy responses: 3) Disruptions to cross-border trade; the example of East Africa

Due to concerns that truck drivers will spread Covid-19, East African Community (EAC) partner states have introduced an array of new measures at borders that have disrupted trade and led to days-long queues and protests.

Stand-offs between truck drivers and border control officials brought about by mandatory Covid-19 testing have been worsened by truck drivers boycotting work to protest against perceived mistreatment (EAGC, 2020).

Strict testing and disinfectant regimes in Uganda have seen truck drivers stuck in long queues at borders, sometimes for up to four days. A union representing Kenyan long-distance truck drivers suspended the movement of trucks to Uganda until it was assured of the drivers' safety, citing Covid-19-related harassment in Uganda (EAGC, 2020).

Rwanda has introduced a relay system at the border whereby incoming trucks are offloaded and sanitised before being handed over to Rwandan truck drivers. These rules have caused frustration among neighbouring countries, which argue Rwanda must trust the way they are handling Covid-19. For example, Tanzanian drivers recently protested at the Rusumo border post, blocking colleagues from Rwanda from entering the country (AFP, 2020).

17) Policy responses : 4) reconsidering supply chains

The Covid-19 crisis has pointed to the need to reconsider how supply chains operate. This may involve both the shortening and the regionalisation of supply chains as well as changes in how supply chains are managed.

For example, on the African continent, Covid-19 has strengthened the case for developing intra- African regional VCs and unlocking the continent's business potential.

Given Africa's underdeveloped supply chains and minimal value addition, the continent has suffered a significant blow as a result of the Covid-19- induced disruption to GVCs.

For example, in South Africa, U-Mask has redirected its production from protective masks for mining and agricultural companies to medical respirator masks. The National Agency for Science and Engineering Infrastructure has produced the first made-in-Nigeria ventilators. Senegal, in collaboration with the UK and France, is prototyping a pocket-sized testing kit that will cost less than $1, and in Ghana a diagnostic firm in cooperation with a local university has developed a test that delivers results in 20 minutes (Primi et al., 2020

18) Policy responses: 5) exemptions from competition law; the example of South Africa

The Covid-19 Block Exemption for the Healthcare Sector, exempts from the application of sections 4 and 5 of the Act (prohibiting anticompetitive horizontal and vertical agreements) agreements undertaken at the request of, and in coordination with, the Department of Health for the sole purpose of responding to the Covid-19 pandemic national disaster.
Two other block exemptions were granted : The Banking Block Exemption allows cooperation between banks in the context of the Banking Association of South Africa (BASA); The retail

property sector, 2020 (the Retail Block Exemption) seeks to assist the provision of relief to retail tenants whose businesses fall within the following designated trading line.

19) Perspective for recovery: regulatory reform

A small silver lining in the aftermath of COVID-19 is the possibility for governments to implement regulatory reform that eases the burden on businesses.

Simeon Djankov, Dorina Georgieva and Hibret Maemir, Regulatory reforms after COVID-19 find some evidence to that effect from previous crisis periods, especially in countries whose neighbours also reform. The post-COVID-19 period will challenge politicians to choose among difficult options on how to revive the economy. Regulatory reform is among these options.

20) Challenges for competition authorities in the aftermath of the crisis

-No possibility of direct action on Demand or Supply (in the short run) but ability to facilitate reallocation of resources by eliminating the erection of strategic barriers to entry.

- Experiences from past crisis (in particular the Great Depression in the US): restricting competition may be a temptation for policy makers in the short run but it actually delays the recovery. As Carl Shapiro said « The primary lesson to be drawn from this experience is that keeping markets competitive is no less important during times of economic hardship than during normal economic times";

-General weakening of competition (many bankruptcies with increase in concentration in some sectors, state aid may lead to unfair competition, suspension of international commercial and cargo flights, transnational commercial chains disrupted hence less vibrant international competition, possibility of protectionist measures following national recovery plans)

-Serious risk that sectors exempted from competition law during the crisis will see their exemption continued even when it not justified anymore

-Strong push toward a more activist use of industrial policy measures and some push toward protectionist measures.

-Increase in poverty and inequality

-Low level of confidence in many countries that competition policy and law enforcement can play a useful role in the aftermath of an economic shock.

21) <u>OECD recommendations for the post crisis competition policy</u>

<u>Governments should:</u>

•Request and be receptive to competition agency advice when planning market interventions to ascertain that support is necessary and proportionate to address a market failure identified in a particular market as a result of the crisis. They should ensure that any support measures adopted is transparent and temporary and that positive effects from state measures are not outweighed by the negative ones deriving from the distortion of competition.

•Carefully design any measures targeted at specific companies during this critical period, narrowly tailor support measures to solve the issue identified and on a temporary basis with monitoring. Avoid selective aid to firms that were failing or had significant structural issues before the crisis.

•Exit investments as soon as conditions permit and in a manner that promotes competition and rely on the advice of competition authorities when designing such exit strategies already in planning phase of the measures to be taken.

•Appropriately and transparently reimburse firms in cases where the crisis reveals the need to impose on firms new public service obligations.

Competition Authorities should:

•Help governments implement the state support measures by providing inputs and advice, or where have powers to approve such measures to prioritise such cases.

•Issue opinions/guidance to governments on how to ensure a level playing field and avoid market distortions by providing clear, general and objective rules applicable to all firms in the economy, sector or region.

•Step up advocacy with government explaining the competition principles that should be respected to ensure markets remain competitive following the crisis, which will be crucial for an economic recovery. They should advocate for industrial policies that focus on pro-competitive alternatives to any planned government interventions that may risk long-term harm to markets.

•Co-operate with other jurisdictions to ensure a degree of international agreement in the approach that is taken to ensure a level playing field also amongst countries and continue to advocate against protectionist measures.

22) Additional recommendations for competition authorities in developing countries

- Target price gouging by firms with market power for necessities

- Target bid rigging on public procurement to allow a more efficient use of scarce public resources

- Target local price cartels particularly in retail and in transportation (trucking) which affect people with limited mobility

- Target anticompetitive practices for goods and services which are disproportionately consumed by the poor, by SMEs and by farmers

- Eliminate unjustified obstacles to the development of the digital supply of services.

23) Final thought: the complementarity between competition policy and consumer protection policy is particularly important in times of economic distress when the number of vulnerable consumers increases

The two policies share a common goal: the enhancement of consumer welfare. In this way they are highly complementary.

Competition policy approaches a market from the supply side; its purpose is to ensure that through competition, consumers have the widest possible range of choice of goods and services at the lowest possible prices. Thus, competition policy undertakes to prevent certain types of conduct that interfere with competition, notably restrictive agreements, especially cartels, harmful conduct by a monopolist or dominant firm and anticompetitive mergers.

Consumer policy approaches markets from the demand side: to ensure that consumers are able to exercise intelligently and efficiently the choices that competition provides. Consumer policy addresses, among other things, information asymmetry as between sellers and buyers, false and misleading advertising, and contract terms that are not understandable or disproportionate.

Competition policy and consumer policy reinforce one another. When consumers are able to exercise their choices effectively, they can act as a competitive discipline upon producers. Thus, there is a strong case to be made for the co-ordination of these two policy areas

Thank you very much