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Economic Cooperation**

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Significance of Competition Policy and the Meaning of Establishing Competition Chapter in FTAs/EPAs

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Significance of competition policy and the meaning of establishing competition chapter in FTAs/EPAs

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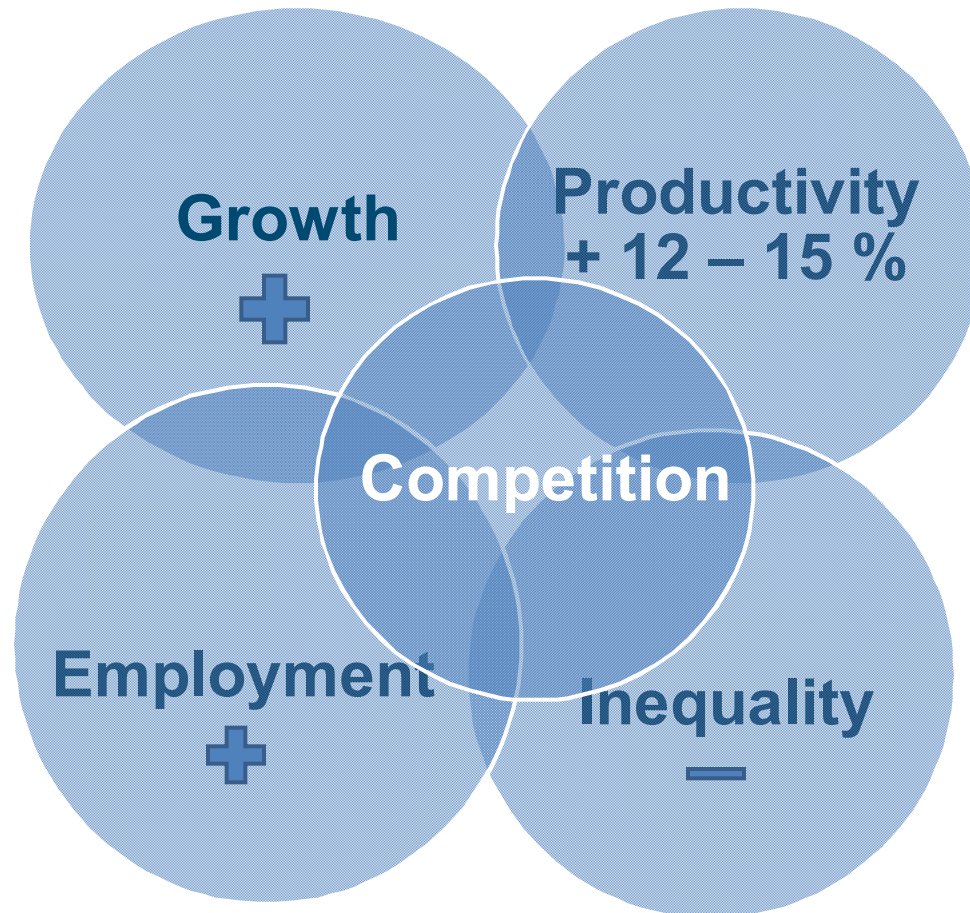


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Why We Care About Competition?



Source: OECD 2014



1. Significance of competition policy

- Aggregate economic benefits:
 - Short-term for consumers, and other buyers including public sector
 - Longer term: innovation and growth
- Distributional benefits
 - Inequality
 - Poverty reduction
 - Employment
- Social benefits
 - Fighting corruption



1. Significance of competition policy

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Consumer benefits

Harm from Cartels

- On average 1990 – 2013, **discovered** international cartels affected US\$750bn commerce per year, overcharge 40% (Connor, 2014)
- Just **one** international cartel on vitamins 1990-1999 resulted in overcharges of US\$2700m

Source: Estimates from Clarke and Evenett (2002)



Surveys of Cartel Overcharges

Reference	Number of Cartels	Mean Overcharge (percent)	Median Overcharge (percent)
Cohen and Scheffman (1989)	5-7	7.7-10.8	7.8-14.0
Werden (2003)	13	21	18
Posner (2001)	12	49	38
Levenstein and Suslow (2002)	22	43	44.5
Griffin (1989)	38	46	44
OECD (2003), excluding peaks	12	15.75	12.75
Weighted average	102-104	36.7	34.6



Consumer benefits

...from reduced regulatory barriers

Issue	Annual Benefit	Number of provisions affected	Value, €m
"Fresh" milk	€33m (consumer benefit/year)	2	33
Levy on flour	€8m-11m (value of levy/year)	1	8
Sunday trading	€2.5bn (annual expenditure), plus 30,000 new jobs	3	2 500
Sales and discounts	€740m (annual turnover)	9	740
Over the Counter pharmaceuticals	€102m (consumer benefit/year)	23	102
Marinas	€2.3m (annual turnover)	10	2
Cruise business	€65m (annual turnover)	4	65
Advertising	€1.8b (consumer benefit/year)	14	1 800
<i>Everything else</i>	???	263	???

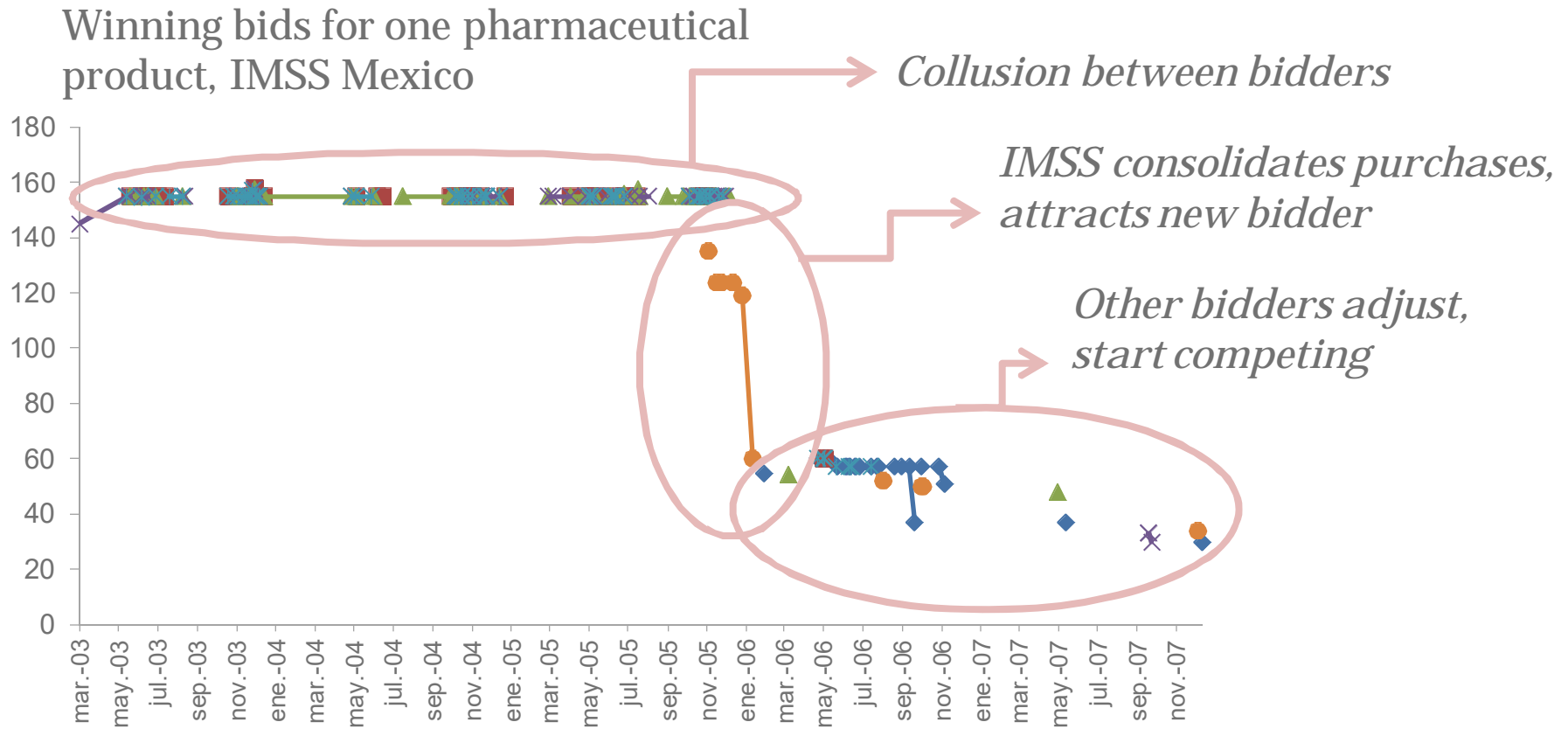
OECD review of 4 sectors in Greece

Total: €5.2bn + ???



Economic benefits

Cheaper public procurement



This single change (following OECD recommendations) saved an estimated EUR 250m.

Overall, IMSS estimated savings at EUR 700m/year



Significance of competition policy

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Productivity and growth

Mechanisms





Productivity and growth

Economic studies: UK, South Africa

- “The most competitive firms experienced productivity growth rates 3.8 - 4.6 percentage points higher than the least competitive.”

Nickell, Quarterly Journal of Economics, 1996

- More competition could increase productivity growth in South Africa by 2 – 2.5 percentage points per year

Aghion, Review of Economics and Statistics, 2009

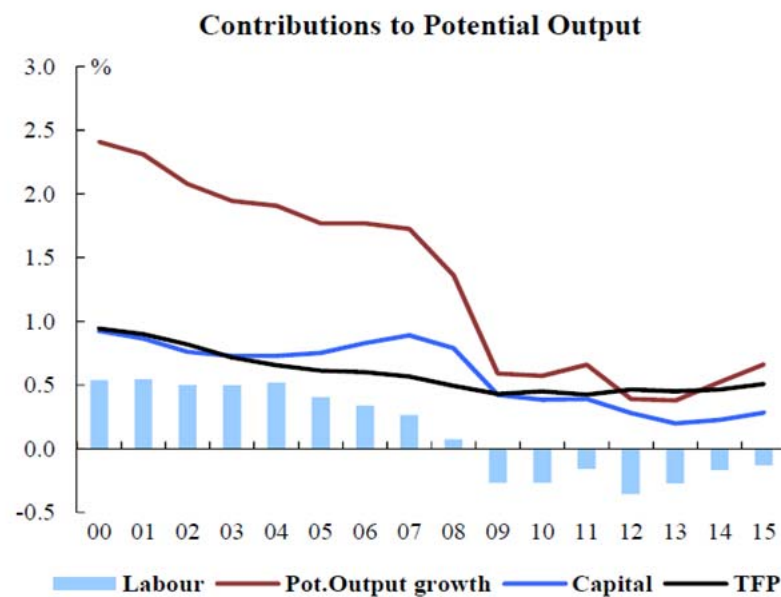
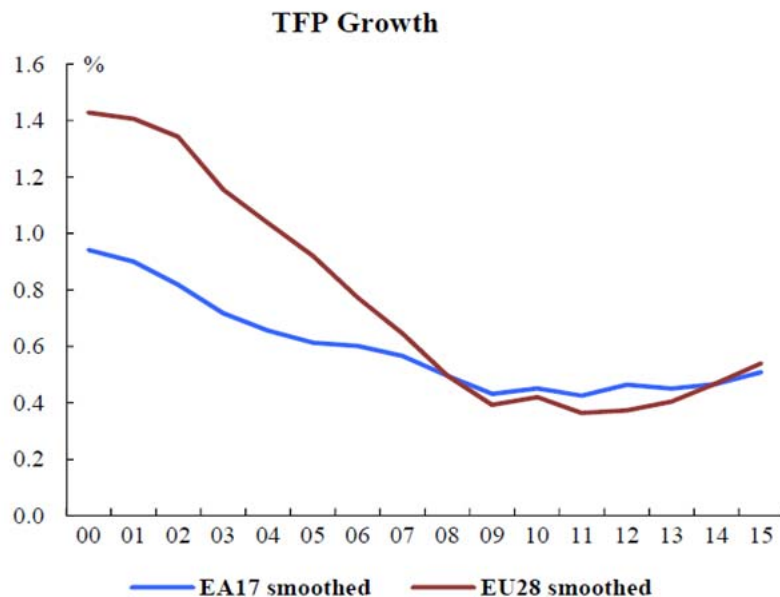


Productivity and growth

Economic studies: European Union

- “[E]ven a relatively small increase in the effectiveness of competition policy enforcement would give a significant boost to productivity...[O]ver the last decade TFP [total factor productivity] growth has had an impact on total GDP as important as increases in labour and capital, and it has become the most important factor during the last five years.”

European Commission (2017), Commission Staff Working Document; Impact Assessment (SWD (2017) 114 final)





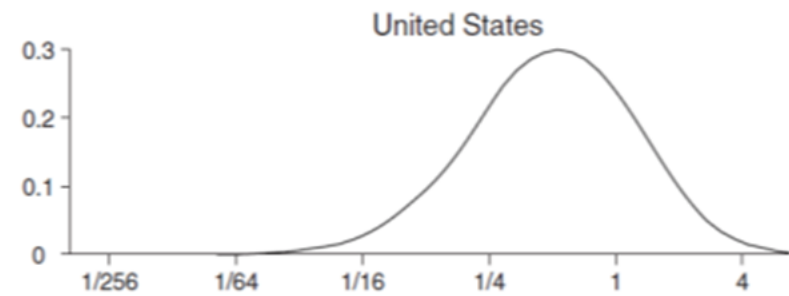
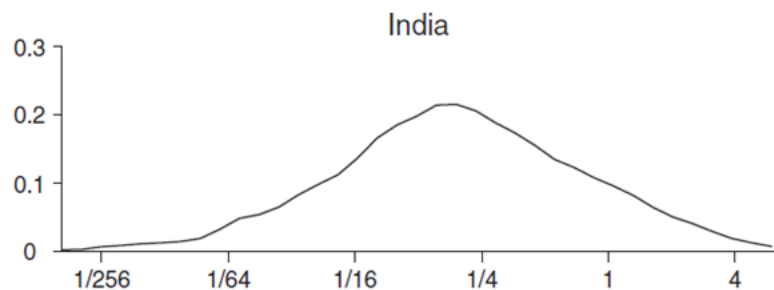
Productivity and growth

Economic studies: Asia

- **Japan:** Over a 50-year period, cartels almost never found in successful exporting industries, even though they were prevalent in the rest of the economy.

Porter, Takeuchi, and Sakakibara (2000)

- **India** can rapidly increase productivity by putting pressure on its long 'tail' of inefficient firms



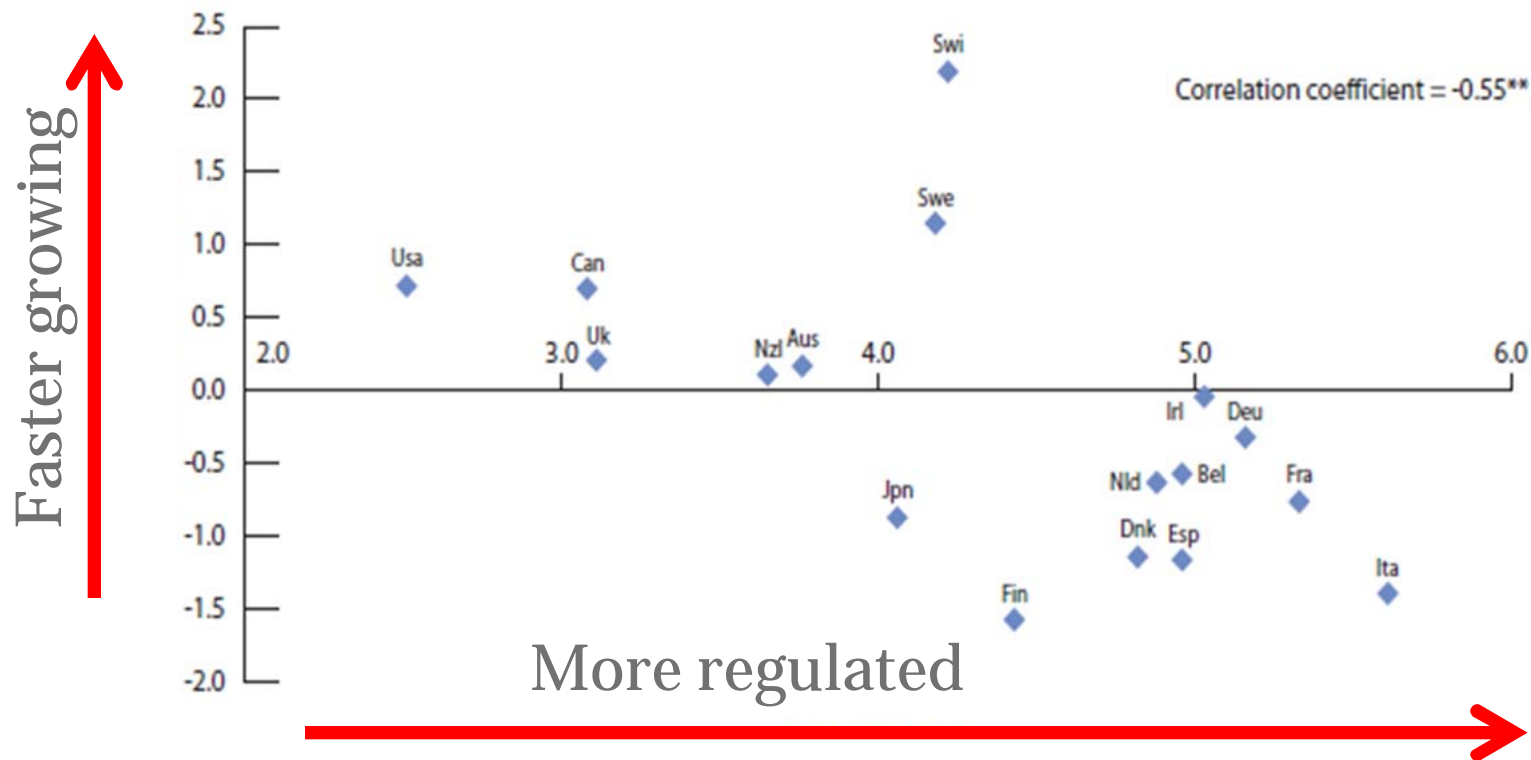
Source: Hsieh and Klenow (2009)



Productivity and growth

Regulatory barriers hold back growth

Increase in multi-factor productivity compared to regulatory stance



Source - Arnold, J., Nicoletti, G. and Scarpetta, S. (2011). "Does anti-competitive regulation matter for productivity? Evidence from European firms". IZA Discussion Paper No. 5511.

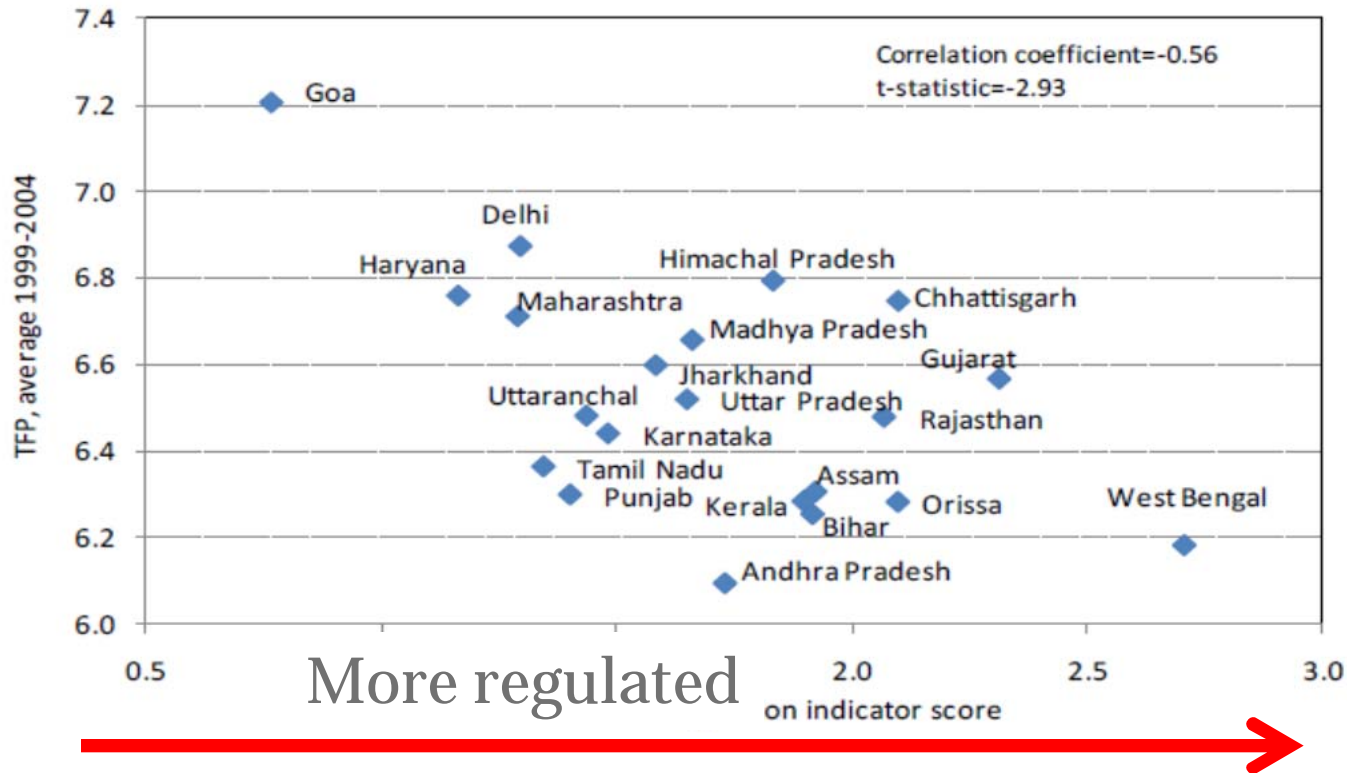


Productivity and growth

...in developing countries too

Increase in multi-factor productivity compared to regulatory stance

Faster growing



Source: OECD, using Indian National Accounts statistics



Significance of competition policy

- Aggregate economic benefits:
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- **Distributional benefits**
 - **Inequality**
 - **Poverty reduction**
 - **Employment**
- Social benefits
 - Fighting corruption

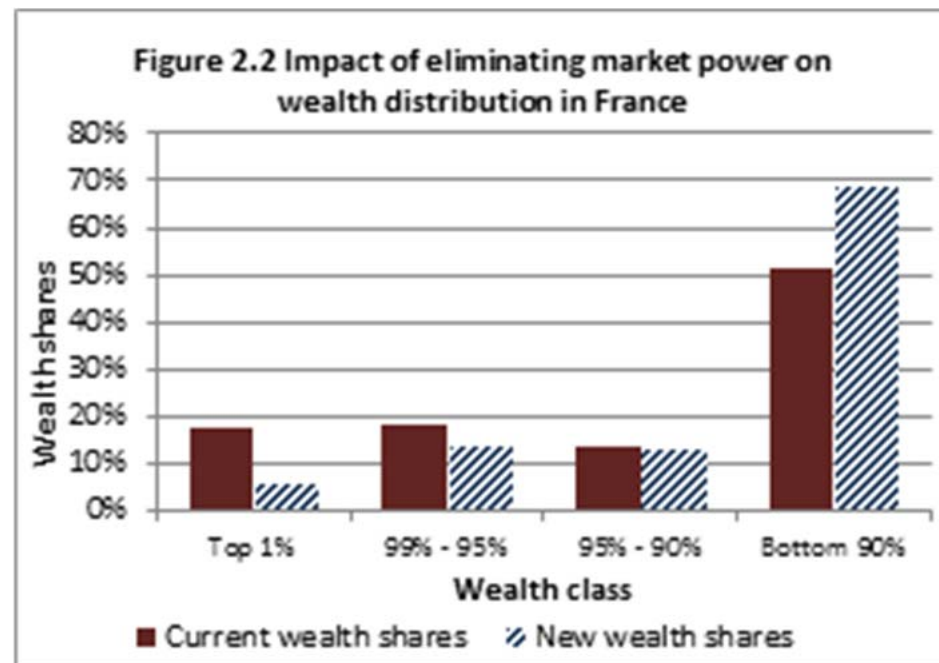


Distributional outcomes: inequality

Monopolies and cartels create inequality

- Monopolies and cartels:
 - Raise prices for everyone; and
 - Increase income for holders of financial wealth

OECD researchers are analysing data to quantify this effect





Distributional outcomes: inequality

Monopolies create inequality

- Data from eight OECD jurisdictions (Canada, France, Germany, Korea, Japan, Spain, the UK and the US)
 - On average in the sample, market power *increases the wealth of the richest 10% by between 12% and 21%*, while it *reduces the income of the poorest 20% by between 14% and 19%*

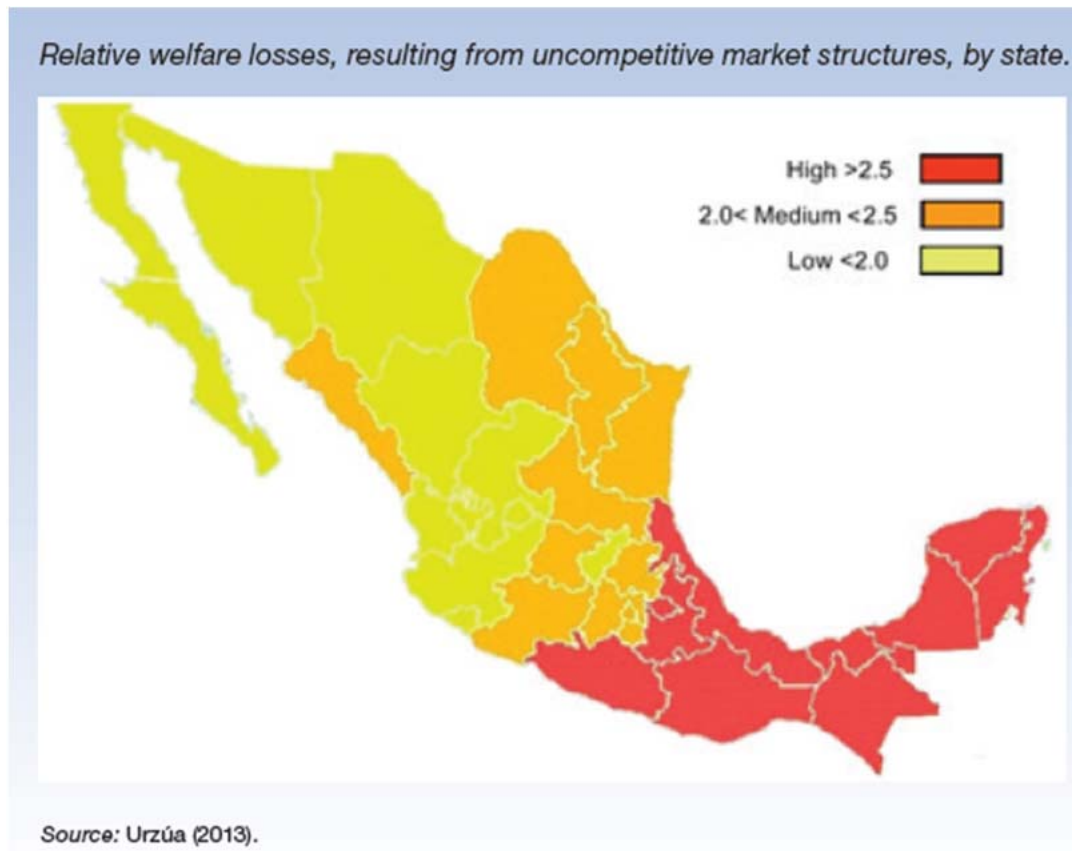
Source: OECD 2017



Distributional outcomes: inequality

Monopolies create inequality

Example Mexico:



Source: OECD 2015a

Impact of market power on household spending on staple products like tortillas, chicken and milk.
→ Harm caused by monopoly power is greatest among the poorest 10 % of households. In urban areas they suffer a welfare loss that is 20 % higher than for the wealthiest 10 %, even more pronounced in rural areas.



Distributional outcomes: poverty reduction

The poor suffer most from price-fixing





Distributional outcomes: employment

Competitive markets create jobs

- Long term: more competitive economies are more dynamic, creating more jobs (OECD 2015b)
- Liberalisation can create jobs:
 - More competition from European Single Market reduces profits by 3%, reduce unemployment by 0.5%. *Griffith et al Economic Journal 2007:*
 - Regulatory restrictions reduced retail employment in France by 10% (*NBER Working Paper No. 8211*)
- There can also be short-term job losses as inefficient businesses close, but increased competition will lead to a steady growth of employment after two-three years (OECD 2015b)



Significance of competition policy

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...and it's not just economic outcomes

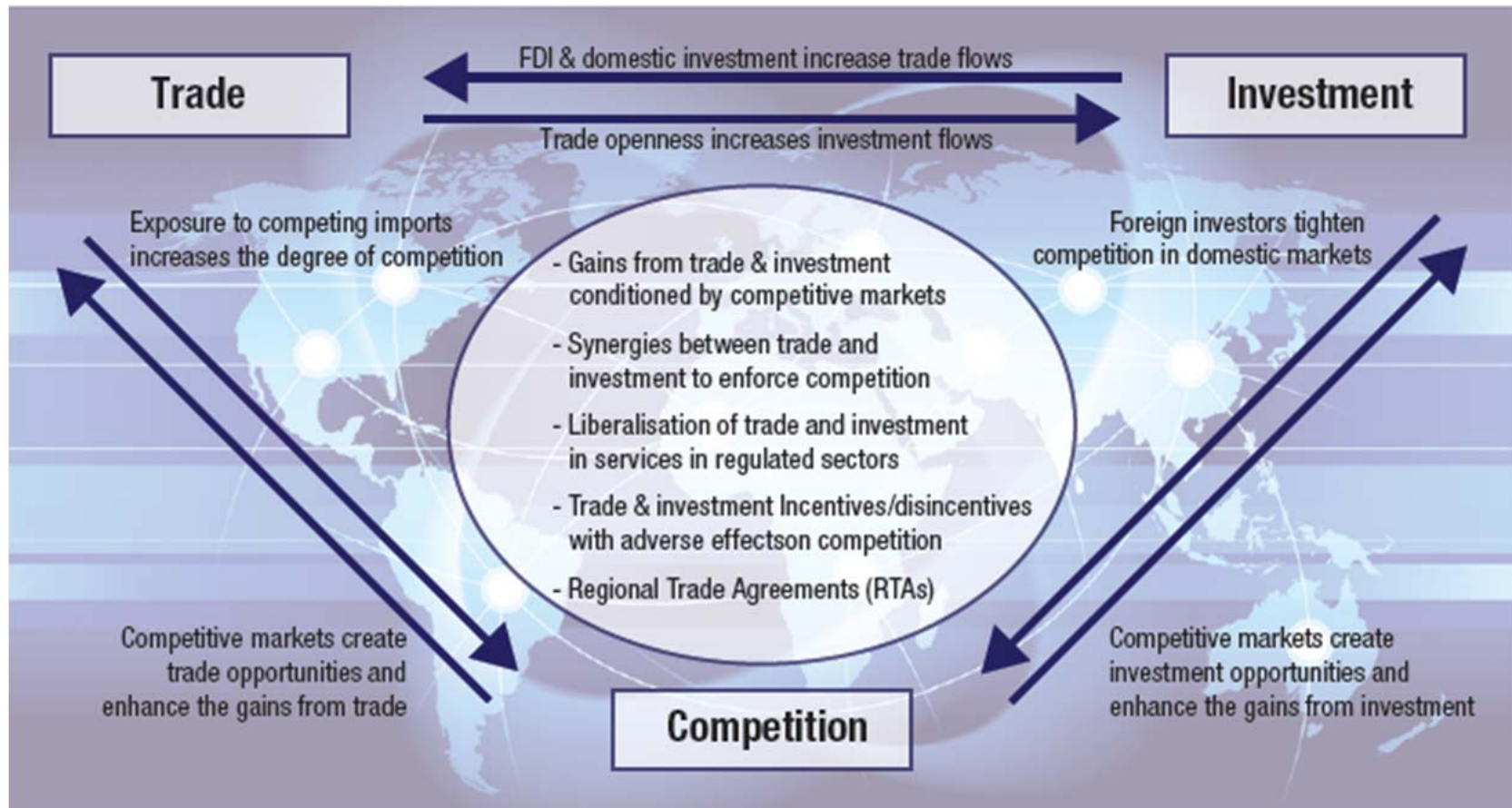
Monopolies corrupt the political process





Relationships between trade, investment and competition policies

The relationships between outward-oriented trade, investment and competition policies



Source: OECD 2007



The meaning of establishing competition chapter in FTAs/EPAs (i)

- Preserving benefits from FTAs/EPAs
 - Negative impacts of anticompetitive conduct on effective market economy and trade
- Competition policy as an important element in FTAs/EPAs:
 - Both underpin market economy and free trade
- Announcing adoption of fair market economy, effective competition policy and transparent competition law enforcement:
 - Demonstrating strong commitment for foreign investors and business community



The meaning of establishing competition chapter in FTAs/EPAs (ii)

- Promoting common understanding and mutual trust between signatories of FTAs/EPAs
 - Basis for effective international co-operation
- Establishing formal framework for international co-operation and co-ordination on competition law enforcement
 - Globalisation and increase of anticompetitive practices beyond national borders
- Convergence of competition laws
 - Leading to enhanced co-operation and allowing for global business with less costs



The international dimension of competition laws across the globe



Source: The George Washington University Competition Law Center
<http://www.gwclc.com/World-competition-database.html>

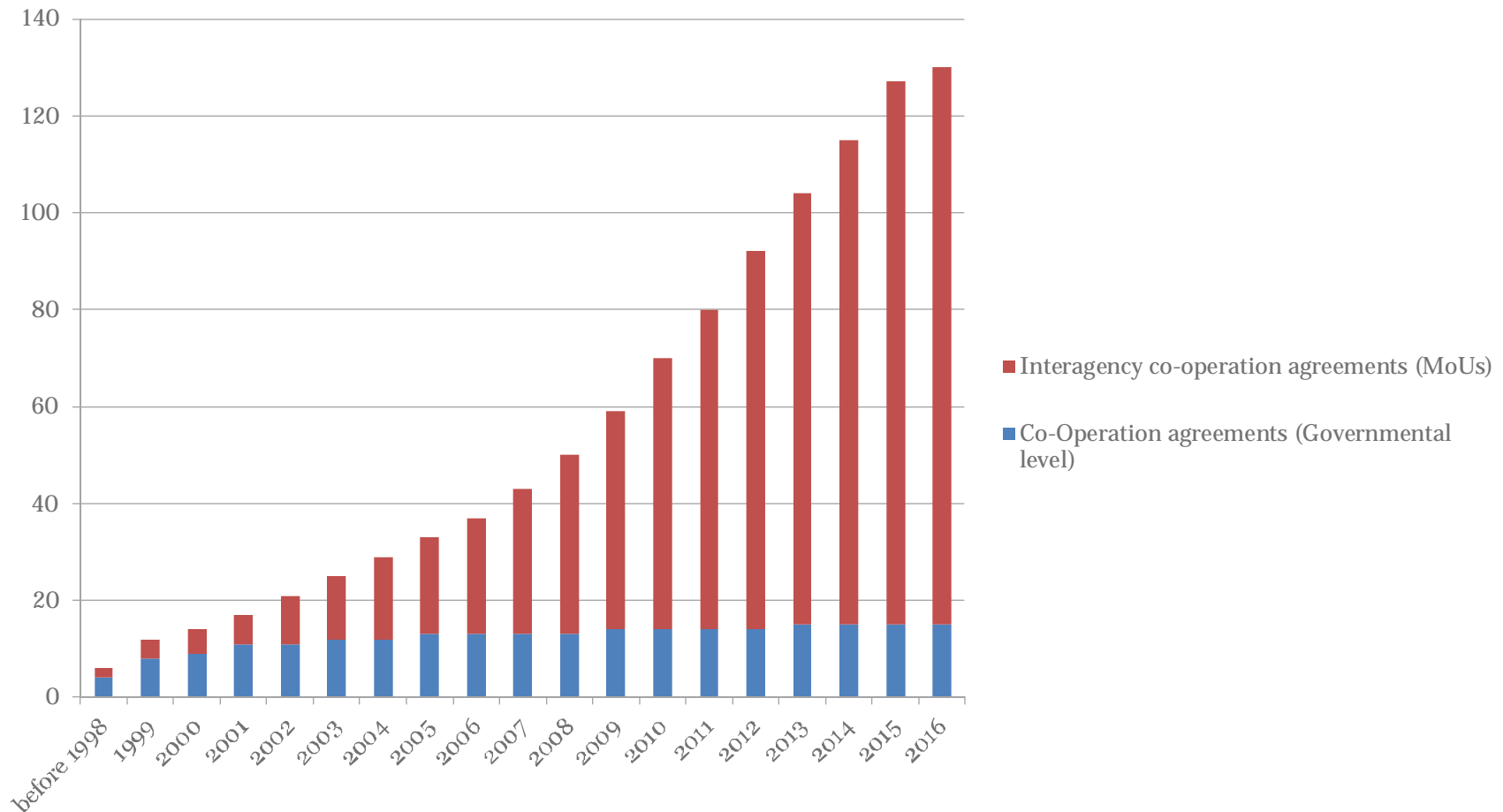


Development of co-operation agreements among competition authorities

- There are increasing number of co-operation agreements, arrangements or Memorandum of Understanding (MoUs) among competition authorities, not among governments:
 - More practical and detailed in terms of international co-operation
 - Easy to conclude and amend, based on developments and experience each other



Development of co-operation agreements among competition authorities



Source: OECD (2016)



The meaning of establishing competition chapter in FTAs/EPAs (iii)

- “Formal” framework for inter-agency co-operation MoUs
- Some provisions well-placed in FTAs/EPAs than inter-agency MoUs
 - E.g., State-owned enterprises, competition neutrality, subsidies
- Effect on enactment or amendment to domestic competition laws
 - Working as a momentum to amend competition law
 - E.g., introduction of commitment procedure because of the TPP
 - Resulting in more convergence
- Show strong commitment to fair competition, effective and transparent enforcement of competition laws and market economy



The meaning of establishing competition chapter in FTAs/EPAs - Conclusion

- Now as never before, it is important to include competition provisions in FTAs/EPAs:
 - In this globalised economy
 - Need for enhanced international co-operation to fight against anti-competitive conduct beyond national boarder
 - Convergence, which is beneficial for competition authorities and business community and investment



OECD materials:

- OECD (2017) INEQUALITY: A HIDDEN COST OF MARKET POWER;
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Thank you for your attention!