

BEING CONCERNED OVER COMPETITION

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The idea of competition is deeply ingrained in the minds of all students of economics. Early in their education they learn that perfect competition implies product homogeneity, a large number of small buyers and sellers, freedom of entry and exit, and perfect information on the part of buyers and sellers.

Although as a theoretical notion competition is pervasive, it seems less compelling as a policy option. There still is some resistance to competition because it entails competition laws and the founding of a competition authority. Some would argue that competition policy and laws would diminish the role of the government.

It is reasoned that some sections and sectors of the economy require the support of the government. They would claim that efficiency is not all that needs to be achieved.

It is further argued that industries and communities need the advantage of the government's helping hand if they are to escape from the disadvantages that history has imposed upon them.

Countries that were at some point less than developed have propelled their industries to the forefront of global markets because of government encouragement. This meant that the state in those countries supported and protected monopolies.

Competition can be espoused while taking into account the fears of those who wish to delay the advent of competition policy and law. It is possible to have a competition policy framework that does make provision for an economy's current state of development.

Part of the fear of competition perhaps arises from the idea of competition as it is taught in textbooks. That may be an oversimplified picture of the world. For more practical purposes, the idea of 'workable competition' is advanced. Workable competition implies that producers and consumers are limited in the economic power they can exercise over other economic agents.

Thus, it follows that agents cannot exploit each other, neither can they abuse their dominance. Consumers, on their part, will have access to a range of products and services and can make price and product choices.

Again, monopolies may not always be bad. The argument from natural monopolies suggests that, due to economies of scale, it would be advantageous for an industry to have a single firm. In cases where very high investments are called for, it would be to the advantage of society not to see too many firms in the industry.

This would also be the case when the size of the market does not tolerate too many firms. If the market were to have more than a specified number of firms, it would lead to the collapse of those firms which do not have sufficiently low cost conditions.

Firms which invest in and adopt costly high technology methods of production would be able to keep their costs low, if they have the benefit of economies of scale and scope. This would translate into low marginal and average costs which would result in lower prices to consumers.

In such cases, it would, again, be to the benefit of consumers to permit these monopolies. The gains to society through the welfare loss enjoyed by consumers would compensate for any loss in welfare experienced by producers, leading to a situation of overall welfare gain.

In the interests of competition, and because of the benefits it brings to consumers, it is useful to encourage competition in an economy. Competition will encourage the proliferation of firms, offer wider product choices to consumers, make products and services available at lower prices, and increase social welfare.

Competition will mean that the government will take on the role of founding a mechanism that will be rule-based and that will act against firms which seek to restrict fair trade and competition in an economy.

Rather than to argue in favour of a declining role for the government so as to promote competition it would be more meaningful to propose that the government has a positive

role to play in promoting competition. This is a more defensible position in the context of Malaysia's current stage of development.

This implies that the tasks for the government would include setting the stage for debate on competition, instituting a competition policy and appropriate laws, as well as founding a competition authority. Perhaps the most important role for the government will consist in preparing the ground for a credible competition framework.

Essential to any competition policy and law will be the need to curtail monopolistic and oligopolistic market structures; to prohibit the abuse of dominance; and to restrict mergers and acquisitions that will result in constrained competition.

There should also be prohibitions against unfair trade practices such as refusal to deal, activities that deter entry and attempt to eliminate competition, as well as misleading advertising.

A distinction could be made between vertical and horizontal arrangements. In practice, horizontal arrangements have a greater negative impact on competition than vertical arrangements. Some countries, accordingly, take a stricter view on horizontal agreements.

The issue of exemptions is a difficult one. Small and medium scale enterprises are a candidate for exemption, and are recognised as a worthy candidate by some countries. Other areas that are considered worthy of exemption include collaborative agreements for research and development, and measures to overcome economic crises.

Natural monopolies are exempt from competition law in some countries. The exemptions are stretched to cover depressed industries and agricultural cooperatives. The question of national interest is often central to the decision as what to include in any list of exemptions.

Thus, we see that a well-defined notion of exemptions and exceptions helps to alleviate anxieties regarding the support that small and medium scale enterprises require in order to survive the onslaught of competition.

Another reason for resisting competition policy is due to the suspicion that the initiative actually comes from the World Trade Organisation (WTO). Of course, there is pressure from some developed countries, such as the European Union and Japan, for a multilateral competition policy to be included under the ambit of the WTO. But agreement has yet to be reached on this matter.

It is argued that a multilateral competition policy is necessary since a domestic competition regime cannot address the anti-competitive practices of multinational firms. It is claimed that cooperation is a useful tool for dealing with cross-border competition issues. A multilateral arrangement of competition could possibly address international cartels and mergers and acquisitions with international spillovers.

While there are persuasive reasons for an international multilateral framework on competition, it is not clear if the WTO is a suitable forum for such an agreement. First, the WTO deals with countries rather than firms and corporate activities. Second, it is claimed that WTO's dispute settlement mechanism does not have the capacity to undertake investigations and analysis. Thirdly, there is a fear that a multilateral policy would eventually necessitate the harmonisation of national competition laws.

But the question of a multilateral agreement on competition is a separate question. A possible multilateral arrangement on competition must not be confused with a domestic competition policy. There are many developing countries with competition laws which vehemently oppose a multilateral agreement.

Whether or not Malaysia should be part of a multilateral arrangement on competition is a question that has to be considered separately. The decision to be part of a multilateral arrangement under the WTO requires careful thinking, because, once an agreement is reached, it may not be possible to extricate oneself from the commitments made.

Competition is necessary to enhance domestic trade. One of the issues that needs attention is the introduction of competition law and a corresponding authority. Domestic interests and exigencies should set the pace for determining when and how competition law should be introduced. The first step towards this is to lay the foundation for a competition regime that is fair, unbiased and independent. The institutional elements that can guarantee such a regime must form the basis for a phased approach.

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