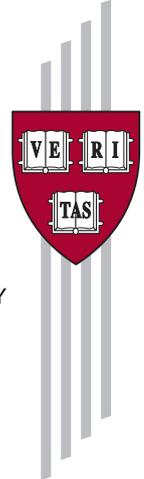


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G-24 Discussion Paper Series

Competition and Competition Policy in Emerging Markets: International and Developmental Dimensions

Ajit Singh

No. 18, September 2002

**UNITED NATIONS CONFERENCE ON
TRADE AND DEVELOPMENT**

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G-24 Discussion Paper Series

**Research papers for the Intergovernmental Group of Twenty-Four
on International Monetary Affairs**



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PREFACE

The *G-24 Discussion Paper Series* is a collection of research papers prepared under the UNCTAD Project of Technical Support to the Intergovernmental Group of Twenty-Four on International Monetary Affairs (G-24). The G-24 was established in 1971 with a view to increasing the analytical capacity and the negotiating strength of the developing countries in discussions and negotiations in the international financial institutions. The G-24 is the only formal developing-country grouping within the IMF and the World Bank. Its meetings are open to all developing countries.

The G-24 Project, which is administered by UNCTAD's Macroeconomic and Development Policies Branch, aims at enhancing the understanding of policy makers in developing countries of the complex issues in the international monetary and financial system, and at raising awareness outside developing countries of the need to introduce a development dimension into the discussion of international financial and institutional reform.

The research carried out under the project is coordinated by Professor Dani Rodrik, John F. Kennedy School of Government, Harvard University. The research papers are discussed among experts and policy makers at the meetings of the G-24 Technical Group, and provide inputs to the meetings of the G-24 Ministers and Deputies in their preparations for negotiations and discussions in the framework of the IMF's International Monetary and Financial Committee (formerly Interim Committee) and the Joint IMF/IBRD Development Committee, as well as in other forums. Previously, the research papers for the G-24 were published by UNCTAD in the collection *International Monetary and Financial Issues for the 1990s*. Between 1992 and 1999 more than 80 papers were published in 11 volumes of this collection, covering a wide range of monetary and financial issues of major interest to developing countries. Since the beginning of 2000 the studies are published jointly by UNCTAD and the Center for International Development at Harvard University in the *G-24 Discussion Paper Series*.

The Project of Technical Support to the G-24 receives generous financial support from the International Development Research Centre of Canada and the Government of Denmark, as well as contributions from the countries participating in the meetings of the G-24.

COMPETITION AND COMPETITION POLICY IN EMERGING MARKETS: INTERNATIONAL AND DEVELOPMENTAL DIMENSIONS

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Abstract

This paper examines the role of competition policy in emerging markets from a developmental and international perspective. The main issues addressed include the following:

- *The state of competition and competition policy in developing countries;*
- *The relationship between competition, competition policy and economic development;*
- *The implications of the recent new advances in the theory of industrial organization for competition policy;*
- *The current international merger wave and its impact on developing countries;*
- *Multilateral competition policy and the establishment of an International Competition Authority (ICA).*

The paper's main conclusions include the following:

- *Contrary to conventional wisdom, many different kinds of evidence suggest that the intensity of competition in leading emerging markets is certainly no less, if not greater, than that observed in advanced countries.*
- *Analysis and evidence indicates that maximum competition is not necessarily optimal, in terms of dynamic efficiency, i.e. maximization of an economy's long-term productivity growth.*
- *Even if it was not required in the past, developing countries need a competition policy today, because of the huge international merger movement as well as privatization and deregulation in these economies themselves.*
- *There is little evidence to indicate that the current international merger wave will enhance global economic efficiency. Giant cross-border mergers, as well as those occurring between large firms within advanced countries, could, however, adversely affect competition and contestability in developing countries and the world economy. Even with competition policies, developing countries may not be able to restrain anti-competitive behaviour by large multinationals.*
- *The current competition policies in the United States and the European Union are unsuitable for developing countries. Countries at different levels of development and governance capacities require different types of competition policies. A good model for many emerging countries with effective governance structures is that of the Japanese competition policy during 1950–1973. The Japanese used both competition and cooperation to promote rapid industrialization.*

The paper presents a proposal for a development-oriented international competition authority to control anti-competitive conduct and growth by mergers of large multinationals. It is argued here that the current discourse on the development dimension of competition policy at the WTO is unsatisfactory; its terms and language need to be radically changed. The ultimate aim of the WTO should not be to promote free trade for its own sake, but to achieve economic development.

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COMPETITION AND COMPETITION POLICY IN EMERGING MARKETS: INTERNATIONAL AND DEVELOPMENTAL DIMENSIONS

Ajit Singh*

I. Introduction: competition policy and developing countries – the international context

Developing countries are today faced with a range of new issues related to the microeconomic behaviour of economic agents – individuals, households and corporations – in these societies. In the past such behaviour, and a country's institutional arrangements which supported it, have been the prerogatives of sovereign nation states. However, with liberalization and globalization these matters are today regarded as legitimate objects of attention by the international community. Hence, under the new International Financial Architecture which is being constructed following the Asian crisis, emerging countries are being asked to reform their systems of

that not only do developing countries require a competition policy, but a multilateral one would be greatly to their advantage.

The main purpose of this paper is to brief developing countries on the complexities of this issue as well as its important policy implications for economic development. The paper will examine the virtues and limitations of both national and international competition policies.

Contrary to the wishes of developing countries, the so-called "Singapore issues" were included in the WTO's November 2001 Doha Declaration of Ministers: these are investment, competition policy, trade facilitation and government procurement. Competition policy was put on the agenda at the Singapore Ministerial meeting in 1996 as part of a

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