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# Objectives Of Competition Capacity Building



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\*The views expressed are those of the speaker and not of the Commission or an individual Commissioner

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# Three Questions

1. What are the FTC's objectives in providing technical assistance to build competition capacity?
  2. What are the broader U.S. objectives?
  3. How successful are we in meeting those objectives?
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# The FTC's TA Objectives Until 2008

- Immediate objective is convergence towards best practices in application of competition law. This is the objective that the FTC and DOJ are most qualified to pursue.
  - But, it has other objectives. To find out, follow the money – the sources of FTC TA funds.
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# Relative Size of US Donors' Contributions To FTC and DOJ

- Until 2008:
    - USAID was source of the vast majority of the funds that the USFTC and the USDOJ, Antitrust Division used
    - Small amount came from USTDA
    - Very little from FTC's and DOJ's own funds.
  - Significant Change, Beginning in 2008:
    - The FTC went from spending almost none of its own funds to being the source of more than half of what it spent on competition capacity building, surpassing the combined expenditures of USAID and USTDA funds.
    - For the first time ever U.S. Congress appropriated funds to FTC to do international technical assistance competition and consumer protection capacity building.
    - More importantly, Congress encouraged FTC to make international TA part of its mission.
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# USAID's Primary Goal Is Economic Growth and Poverty Reduction by:

- Improving recipients' competitiveness: “Few roles of government are more important to the upgrading of an economy than ensuring vigorous domestic rivalry. Rivalry at home is not only uniquely important to fostering innovation, but benefits the national industry . . . Firms that do not have to compete at home rarely succeed abroad.” **Michael Porter, *The Competitive Advantage of Nations* (1990)**
  - Promoting growth of domestic markets and industries in recipient countries is highest priority because international competitiveness contributes to improved standards of living only in proportion to the percentage of the GNP attributable to exports. “[T]he growth rate of living standards essentially equals the growth rate of domestic productivity. Even though world trade is larger than ever before, national living standards are overwhelmingly determined by domestic factors rather than by some competition for world markets.” **Klugman, Paul, “Competitiveness: A Dangerous Obsession” in Pop Internationalism, p. 9**
  - Modernizing commercial laws, including competition law, in order to promote domestic and foreign investment
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# USTDA's, and US Congress' Objectives

- USTDA's primary goal is trade development
    - Growth in foreign demand for U.S. goods
    - Commercial environment in foreign markets so that U.S. corporations can operate efficiently and competitively. Convergent & transparent competition laws provide assurance that commercial transactions in one country will be subject to the same standards as in other countries.
    - Commercial law reform generally promotes the expansion of trade by making commercial transactions speedier and more certain.
  
  - U.S. Congress began directly funding FTC to do competition capacity building technical assistance because of recommendations from the U.S. Chamber of Commerce and the Antitrust Modernization Commissions. Chamber's & AMC's primary goal is convergence towards best practices
    - Convergent set of competition rules and application reduces risks and makes planning easier for U.S. companies doing business in foreign jurisdictions because commercial transactions in one country will be subject to the same standards as in other countries.
    - Application of rules based on principled sound economics prevents discriminatory application.
    - Appreciation of a culture of competition will spur greater domestic entrepreneurship and willingness to permit U.S. companies access to business opportunities.
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# Change In Source of Funding Changes Where FTC Does TA

- USAID remains a very significant source of funding for FTC's and DOJ's work in USAID eligible countries
  - FTC is now significant source of funding for countries not eligible for USAID's economic growth funds (e.g., Turkey, China) and countries where competition capacity building is not a USAID priority at this time (e.g., Mexico, Brazil, Colombia)
  - Funding for China is also from USTDA
  - Funding for ASEAN and less developed members (e.g. Cambodia and Vietnam) is from USAID
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# Change In Sources of Funding Does Not Change What FTC Does

- Different primary goals of the different sources are complimentary, compatible and for the most part overlapping.
  - The U.S. provides TA to help build the capacity of competition and consumer protection law/policy institutions because we believe
    1. *Effective* application, in turn, contributes measurably to creating and maintaining a competitive marketplace; and
    2. A competitive marketplace, in turn, contributes measurably to growth and development; and
    3. TA contributes to *effective* application – i.e., application of international best practices
  - What evidence supports these beliefs?
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# 1a. Empirical Evidence Shows Law's Positive Impact on Competitive Environment

- The World Economic Forum's *The Global Competitiveness Report 2006-2007* finds a positive impact – the more effective the law, (1) the less that dominant firms influence markets; (2) the higher the ranking on the Business Competitiveness Index; and (3) the greater the intensity competition in local markets  
**R.S. Kehmani. 2007. “Competition Policy & Promotion of Investment, Economic Growth and Poverty Alleviation in Least Developed Countries”, World Bank Occasional Paper No. 19.**
  - Lee & Hoekman find insignificant direct effect, but indirect effect on equilibrium mark ups by promoting larger number of domestic firms. **H. Lee & B. Hoekman. 2003. “Imports, Entry & Competition Law As Market Disciplines”, World Bank Policy Research Working Paper 3031.**
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# 1b. Empirical Evidence Does Not Show Law Has Positive Impact on Competitive Environment

- Rodriguez finds no positive impact on prices in transitional economies of Eastern Europe and CIS countries. **A. Rodriguez. 2006. “An Empirical Examination of Competition Policy Performance”, Boletin Latinoamericano de Competencia No. 22. (<http://europa.eu.int/comm/competition/international>**
  - Evenett finds no positive impact on FDI. **S. Evenett. 2003. “Links Between Development and Competition Law In Developing Countries”, U.K. Dept. of International Development: Case Studies for the World Development Report 2005: Investment Climate, Growth and Poverty.**
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## 2a. Empirical Evidence Shows Positive Impact Of Policy On Firm Growth

- Carlin, et al., found in Eastern Europe and CIS countries: “Firms Facing between one and three competitors had sales growth of nearly 11% over the three years to 1999, while monopolists saw real sales decline by over 1% and firms facing more than three competitors had sales growth of under 2%.” **W. Carlin, M. Shaffer, P. Seabright. 2004. “A Minimum of Rivalry: Evidence From Transition Economies On The Importance Of Competition For Innovation and Growth”, The Davidson Institute Working Paper Series, No. 670.**
- Yun found: In Korea, low barriers to entry and exit permitting competition *for* markets contributed to productivity growth, more so than competition *in* markets. Monopoly rents were negatively correlated with productivity growth. **M.Yun. 2004. “Competition & Productivity Growth From Korean Firms”, In L. Cernat, P. Holmes, ed.. Competition, Competitiveness & Development: Lessons From Developing Countries. UNCTAD, Geneva, Switzerland, pp. 251-262.**
- Kahyarara found in Tanzania: “[Firm-level productivity in the post-competition policy era is about 50% higher than the productivity effect in the pre-competition policy period. . . We find that the existence of at least 5 competitors is associated with a 24% increase in productivity.” **G. Kahyarara. 2004, “Competition Policy, Manufacturing Exports, Investment and Productivity: Firm Level Evidence From Tanzania Manufacturing Enterprises”, In L. Cernat, P. Holmes, ed.. Competition, Competitiveness & Development: Lessons From Developing Countries. UNCTAD, Geneva, Switzerland, pp. 285, 289.**

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## 2b. Empirical Evidence Shows Positive Impact Of Policy On Prosperity

- In 1991, McKinsey Global Institute studied 13 countries for 12 years. It asked:  
What makes some countries rich and other poor?  
Answer: Productivity
  - The study examined labor, capital formation, corporate governance, education, competition, etc. And concluded that the single most important factor in driving productivity is competition.  
Reported in: **William Lewis, The Power of Productivity: Wealth, Poverty, and the Threat to Global Stability (2004)**
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## 2c. Empirical Evidence in the Developed World Shows Positive Impact From Policy of Injecting Competition

- Deregulating and injecting competition into the airline sector in the U.S. saves consumers \$12.4 billion annually
  - Deregulating and injecting competition into the telecommunications sector in the U.S. lowered prices by 50% between 1984 and 1994
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## 3. TA's Contribution To Effective Competition Law/Policy

- TA contributes noticeably to the capacity to apply law effectively; actual application of lessons learned depends on recipients' domestic policy and political decisions.
  - Bang for buck from TA varies enormously depending on the abilities of TA deliverer and recipients and more emphasis should be put on institutional capacity of the competition authority to influence competition policy than has been in the past.
  - Ten years needed in most developing countries to achieve adequate capacity to apply law effectively because:
    - Generally, a competition authority starts with manpower having little expertise – few Ph.D or even M.A. level of economic expertise and huge staff turnover
    - Opportunities to put TA lessons learned into practice
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# Conclusion

- The empirical evidence shows that competition policy supports growth and development, but is ambiguous about the isolated impact of competition law enforcement. Therefore, in developing countries it is wise to place great effort on building the capacity of the competition authority to influence policy through advocacy.
  - While it often can take a decade to build a competition authority's capacity to be an effective instrument for protecting and promoting the intense competitive environment that contributes to growth and development, it is worth the effort.
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