## Competition and Economic Development

Many developing and emerging market economies are preparing, if not implementing, new competition laws or modernizing their existing statutes. UNCTAD and the World Bank estimate that there are now more than 90 countries covering 86 per cent of world trade with some kind of competition or anti-trust statute. This is a quantum leap from less than 40 countries some 15 years ago. There is no competition policy in place in Malaysia, although the introduction of fair trade practices legislation was one of the objectives of the 2001-2005 Eighth Malaysia Plan.

Many of the developing countries that have started implementation of a new competition law or are drafting a new statute recognize the important interactions between competition, competitiveness and economic development. These interactions are associated with the fundamental economic concepts of optimal resource allocation and static efficiencies.

There is growing statistical evidence that competitive domestic markets and effective competition policies and laws support higher economic growth and the achievement of higher levels of economic development and that competition law is needed regardless of the country's stage in the development process. At the same time, there is growing recognition that competition policy and law should be tailored to the needs and stage of development of each developing country.

The objectives of competition laws in industrialized countries typically focus on consumer welfare and consumer sovereignty, total economic efficiency, and in the case of the European Union, market integration and promotion of the common market. A competition law in a developing economy could perhaps contain a broader set of objectives associated with its current stage of development and economic, social and institutional maturity. In addition to consumer welfare and economic efficiency, these objectives could relate to, among others, promoting fair and efficient markets, building stronger market institutions and establishing a common market within the country, supporting regulatory reform, encouraging good corporate governance, promoting greater equality, participation and empowerment among disadvantaged groups within the economy and society, improved regional balance in terms of employment and business opportunities, private sector and small business development, building a more advanced knowledge-based economy through innovation and technological change, and enhanced export performance and global competitiveness.

Virtually all developing countries including those at a relatively early stage of development can benefit from a modern competition policy and law. However, the objectives and design of the competition policy, law and agency as well as the enforcement practices adopted by the competition agency will be substantively different in developing countries and countries in transition compared to more developed countries. Moreover, competition policy and law need to be tailored to the socioeconomic needs and the stage of economic, legal and institutional maturity of each developing country, while remaining broadly in line with international norms and best practices in the more experienced competition law jurisdictions as summarized in the growing literature produced by international agencies and research institutes.

So, is competition policy a better option for Malaysia than price control then? The current high oil prices are beginning taking their toll on the economy. Save for the price controls of basic food items for four months effective mid-October, prices of other items have generally been on the uptrend in the second half of 2005. Simply, this means that price control on food items can no longer be regarded by consumers as a safety net in times of trouble or uncertainty. While controlled prices for essential goods are premised on the rationale of affordability, particularly for the low-income group, price increases are, more often than not, dictated by market forces. So, have price controls outlived its purpose of providing consumers with reasonably priced goods, while curbing inflation at the same time? Or can a competition policy ensure that all parties benefit and consumer welfare be taken care of in the event that price controls are lifted for essential goods?

Usually, high prices will encourage more players to enter the market, lowering prices eventually. Should prices be kept artificially low by regulation, there will be less incentive for new players to venture into these areas and existing firms providing sub-standard goods will not be compelled to leave the industry either. Another way of looking at this is that, if prices are kept artificially low, producers will lower cost by supplying sub-standard goods or services in order to maintain a certain price and/or profit margin. Consumers are shortchanged by getting inferior goods or services at supposedly "lower" costs. But if price control is lifted and more new entrants are encouraged to enter the market, the result is more competition. 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 also 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.

But rather than to argue in favour of a declining role for the government so as to promote competition it would, perhaps, 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. 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. With a competition policy, uncompetitive firms will price themselves out of the markets, and firms that want to remain in the market will have to minimize costs and adopt best practice standards as they are kept in check through the market. Consumer welfare is maximized through being able to purchase goods and services of good quality and at reasonable prices. Not only will consumer welfare be enhanced, there will also be more equitable income distribution, and small businesses will be encouraged to enter the market.

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