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Levelling the playing field

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"People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some instances to raise prices," wrote Adam Smith in 1776 in The Wealth of Nations.

As indicated by Adam Smith, a leading proponent of market forces and their merits, markets can be manipulated to the extent that a few economic agents can acquire sufficient power to dominate the market in a way that has the potential to distort competition and impair efficiency. The absence of an adequate regulatory framework increases the likelihood of market manipulation, especially in countries like Egypt which are witnessing the state's withdrawal -- however gradual -- from the role of sole or major producer and distributor. It is argued that such a withdrawal necessitates the establishment of a competent regulatory framework. By fettering or prohibiting anti-competitive practices, such a framework aims to promote economic efficiency, ensure fair competition and prevent the exploitation of consumers.

For the purposes of this article, competition in a free market economy is defined as a condition in which buyers are free to choose the best suppliers. Thus, freedom of choice is the market's disciplinary mechanism.

Indeed, if the world that we live in functions in accordance with the perfect competition paradigm, there would not be a need for competition policy or other regulatory efforts. Since there is widespread diversion from the ideal paradigm, corrective intervention by the government is necessary. This intervention can take two forms: First, imposing taxes on certain activities and specific products to influence economic behaviour through the mechanism of price incentives. Second, as an alternative to taxes, the government can take explicit action to control economic behaviour directly, by attempting to prevent anti-competitive practices through an effective code.

In terms of the scope of competition policy, this has changed over time. Nowadays, it goes beyond the "traditional" concerns regarding monopoly, which became less pressing thanks to, among other things, the pressure of foreign competition in an increasingly globalised business environment. Being big in the market is not necessarily undesirable or inimical to competition. Similarly, being small does not rule out the possibility of engaging in anti-competitive practices. Thus, the focus of competition policy has shifted from monopolies to issues such as mergers, acquisitions and financial transactions such as leveraged buyouts, which can restructure firms in a way that influence market behaviour. In this way, conduct, not size, is decisive.

In Egypt, there was a delay in implementing competition policy. This was due to significant state intervention in the economy through state-owned enterprises (SOEs), and the state's control of economic activities.

With the presence of stringent finance regulations, price controls, subsidies, import bans, import quotas and control over the exchange rate, the Egyptian government was a cause of monopoly and committed anti-competitive practices. In this environment one cannot expect that a government, any government, would adopt a competition policy to discipline its activities. Moreover, competition was seen as a social burden and a political liability, having the potential to bring about the closure of uncompetitive firms and the consequent possibility of increasing unemployment.

Although this state-led, inward-looking strategy was adopted for decades, it failed to achieve its targets. Towards the end of the 1980s, the structural weaknesses and distortions became manifest in the economy. Such distortions did not develop suddenly; they had long been present but were hidden by the remarkable increase in the inflow of resources and capital from abroad. These enabled the government to increase its expenditures, finance investment programmes and fund increasing imports. With the sudden severe shortage of external resources in 1986, it became harder to mask these distortions. At this stage a critical need for stabilisation measures and adjustment efforts became apparent.

Thus a comprehensive Economic Reform and Structural Adjustment Programme (ERSAP) has been in place since 1991. This reform programme is supported by a stand-by loan arrangement from the World Bank, in addition to the bilateral debt forgiveness by the Paris Club. The primary objective of ERSAP was summarised by the International Monetary Fund in 1991 as being "to create, over the medium term, a decentralised, market-based, outward-oriented economy where private sector activity will be encouraged by a free, competitive, and stable environment with autonomy from government intervention."

Thus, in Egypt, as in many other less developed countries (LDCs) undertaking economic reform, the market is gradually supplanting the state as the major producer and distributor. In this context it has become apparent that the market can be manipulated by a few powerful economic agents in a way that distorts competition and impairs efficiency.

Resistance to the promulgation of a law regulating competition has thus not been on the part of the public sector, but by the private sector. The latter's concerns regarding this law are manifold. These include the fear that it will be misused, that it will allow the government to intervene under the guise of protecting competition or that firms might use it to improve their position by falsely charging their competitors with unfair trade practices. There is also scepticism that the law would be applied universally and that only registered firms would be subject to it, while informal activities and smuggling remain untouched. Another concern regarding the application of the law is that those responsible for implementing it might not have sufficient knowledge of the idiosyncrasies and uniqueness of particular segments of the market, and that fair implementation of the law might be hampered by corruption and profiteering.

While some of these concerns may be justified, the absence of an adequate regulatory framework would make the manipulation of the market more likely, and thus would result in greater loss of welfare compared with the status quo.

Effective competition policy involves the restructuring of the economic environment in Egypt in a way that restricts firms' capacity to control the market and promotes the allocation of resources in a way that maximises their efficient use. This requires, among other things, effective enforcement of competition law and the establishment of an independent competition "authority" that functions proactively against anti-competitive practices.

To conclude, we have argued in this paper that competition policy, effectively designed and enforced, is an integral part of reform policy and cannot be substituted by other policies such as trade policy, which serves different objectives. However, we emphasise that much more than unfettered competition is required to get the market in Egypt to function effectively. The viability of competition requires other measures such as the awareness of the public, disclosure of information, enforceability of contracts, implementation of bankruptcy laws, and equally, if not more importantly, the commitment of the government itself and its agents to competition and to refraining from creating artificial barriers.

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