

Understanding competition and regional integration as part of an inclusive growth agenda for Africa: key issues, insights and a research agenda

Paper submitted for Competition Commission and Tribunal Annual Conference

Simon Roberts, Thando Vilakazi (CCRED, UJ)

and

Witness Simbanegavi (African Economic Research Consortium)

26 August 2014

ROUGH DRAFT – NOT FOR CIRCULATION

This paper reviews literature on competition, trade and regional integration and assesses the key findings from recent studies on competition in markets across countries in Southern and Eastern Africa. The paper considers the state of knowledge and identifies the key analytical questions for research. It assesses the implications of recent cross-country research, including the African Competition Forum research project on cement, sugar and poultry, as well as competition cases from different countries including South African cases over the past fifteen years. This highlights the regional scope of firms' operations and provides insight into the prevalence of anti-competitive arrangements. The paper considers the linkages with the implementation of competition policy in Africa and contributes to developing a regional research agenda which explores issues of regional economic integration and the dynamics of cross-border competitive rivalry.

1. Introduction: Regional integration and inclusive growth – does competition matter?

In recent years there has been increased attention once more on regional integration and its potential contribution to African economic development. However, there are very different emphases and perspectives. On one hand, regional integration is essentially viewed as being about removing tariff and non-tariff barriers to trade, in essence a second best to unilateral liberalisation. It is also advocated as part of 'de-fragmenting Africa' – overcoming the legacy of colonial borders – adding the reduction (or even removal) of border controls to tariff liberalisation. Other perspectives emphasise the constructive measures required for more meaningful and deeper integration, ranging from investments in improved transport infrastructure to the development of effective institutional arrangements. This can include what is required for collaboration on a regional industrial policy, to build capabilities and regional value chains.

A key aspect in the different perspectives is the extent to which natural markets and the behaviour of firms is understood as regional in scope. As firms are internationalised –

including through ownership relations, strategic partnerships and distribution arrangements – a regional perspective to firm decision-making such as regarding investment and location of production is necessary. Given scale economies and relatively small national markets, firms make decisions across countries. However, when trade barriers are raised, firms can protect their market power within countries, which would otherwise be undermined by competition at a regional level.

It is evident that the market power of large firms, whether exerted unilaterally or through coordination with each other, harms economic development and low income groups. Such power means higher prices for goods and services and distorts the development path of economies where it relates to the pricing of important inputs (such as the effect of fertilizer on farmers). The nature of competitive rivalry, and the power and interests of large firms and their owners, is thus at the heart of how countries develop.¹ The decisions of large firms shape the economy as these firms can make the investments required in productive capacity, provide the upstream inputs and services required by smaller businesses and, in many areas, are also the main routes to market. In crude terms, it is critical whether these firms extract rents through market power, or whether the returns reward effort, creativity and entrepreneurship.

Anti-competitive arrangements can have a regional and international scope. For example, cartels have operated across southern Africa in cement, concrete products and fertilizer.² There is thus a close relationship between more competitive outcomes and regional integration. Firms seeking to increase their market power, whether through collusion or abuse of monopoly power, are likely to be better able to do so in smaller national markets.

This points to a critical insight, namely, that the gains from regional integration are much greater when the implications of imperfect competition are taken into account. The gains from trade in models which assume perfect competition are the effects of specialisation and exchange – and there are thus smaller gains from trade between countries which have similar endowments and productive structure. However, with imperfect competition there are potentially very substantial gains from integration of similar economies. Under scale economies a wider market implies lower costs of production as larger-scale production is possible together with more competition (if the market is big enough to support several producers and assuming firms do not collude, or if the market is highly contestable). With differentiated products, integration will mean intra-industry trade and greater variety. There are also dynamic gains from regional trade and competitive rivalry between firms which stimulates improved products and services and greater management effort.

Harm from low levels of competition (more likely in protected national economies) and the sustained earning of supra-competitive margins also includes the exclusion of rivals – typically smaller firms and entrants who are attracted by the margins to be made but whose

¹ See, for example, Acemoglu and Robinson, 2012; North et al., 2009.

² See, for example, Makhaya et al., 2012; Roberts, 2014.

increased participation would undermine the anti-competitive arrangements. Anti-competitive arrangements thus typically involve entrenched ‘insiders’ protecting their position. This has the effect of undermining participation in the economy and stifling the dynamism which comes with it, which goes far beyond simple effects on prices. Active rivalry means improved service, product offerings, and on-going improvements in the capabilities required to deliver these. In other words, effort and ingenuity is rewarded rather than incumbency. This can also be described as the difference between ‘performance competition’ and ‘handicap competition’ (seeking to handicap rivals) (Gerber, 2010).

Competition, properly located, therefore means considering the dynamic process of rivalry which has positive dimensions in the form of the ability to develop productive capabilities (such as, accessing finance and key infrastructure, investing in skills), as well as the typically considered negative dimensions such as barriers due to exclusionary conduct by large firms or regulatory barriers. The importance of building and expanding capabilities has been highlighted as being at the centre of a country’s economic development (Hausmann et al, 2007; Page, 2012; Sutton, 2004; Rodrik, 2007). Inclusive growth therefore has a competition dimension and, for this to be properly understood, it needs to be viewed from the perspective of regional integration. The links between the fields of competition, trade and regional integration, and inclusive growth have, however, not generally been well-developed in the literature.³ In terms of policy, there are critical insights as it implies choices about competition enforcement across countries relating to the competition regime and the institutional framework.

The paper is structured as follows: section two reviews the available literature on the linkages between competition, regional integration and inclusive growth. Section three considers recent empirical evidence on the regional dynamics of competition in the context of southern and East Africa. Section four provides conclusions and makes recommendations on the key elements of a new research agenda which incorporates competition and regional integration as part of an inclusive growth agenda.

2. Competition, regional integration and inclusive growth

We focus here on three main areas where there is an interface between competition, inclusive growth and regional integration. We start by briefly sketching recent developments in competition economics and reflecting on the implications for economic development in African economies, as a foundation for our discussion of questions of inclusive growth and regional integration. The second area considers the relationships between competition and inclusive growth, particularly focusing on the ways in which different interests influence the

³ For example, North et al. highlight the importance of competition in moving to what they characterize as ‘open access orders’ as opposed to ‘limited access orders’, but do not analyse the key factors in competitive or uncompetitive outcomes in oligopolistic markets, implicitly assuming that in the absence of artificial barriers to entry markets will approach perfect competition.

economic policy agenda and shape the nature of economic outcomes. This points to the important role that research can play in identifying the costs of anti-competitive arrangements, protected by political influence, and those groups within society who bear the costs.

The third area is the consideration of regional integration, regional trade and the nature of rivalry – especially dynamic rivalry where firms’ strategies seek to shape markets and the impact that this has on investments in productive capabilities. Much of the theoretical literature focuses on the static effects of competition, yet competition evidently relates to the ability of actual and potential market participants to bring improved products and services to market and whether effort and creativity are rewarded, or whether rewards largely reflect incumbency. Exporting more sophisticated and diversified higher-value products has been highlighted in the trade literature as being a central driver of economic growth. Through drawing on the existing literature, we examine the ways in which the development of capabilities depends on the stimulus of competitive rivalry in the domestic or regional market.

2.1 Developments in competition economics and implications for African economies

Empirical studies have shown that a fall in concentration leads to a fall in prices and in price cost margins (see Schmalensee, 1989). The results with regard to profits, taking into account returns on initial investments made, are much weaker, however. Cross-industry regressions find scale economies is a strong explanatory factor for concentration (Sutton, 2006). Smaller markets relative to the minimum efficient scale of production in an industry means, other things equal, that concentration will be higher. Most empirical studies have focused on manufacturing.

Other characteristics put forward to explain concentration include the intensity of advertising and R&D, although R&D has typically been found to be uncorrelated with concentration (Sutton, 2006). In addition, these are not exogenous but are part of firms’ strategies. Imperfect information and consumer brand loyalty can underpin marketing strategies linked with (exogenous) distribution scale economies to raise the costs of entrants, even where the minimum efficient scale of the actual manufacture of the product is not very large.

With regard to services, network effects have been found to be very important, depending on the industry in question. Where the value to a consumer of a network service depends on how many others are part of the same network then there are substantial first-mover advantages. The impact of these effects also depends on whether there are regulatory interventions to mandate inter-operability and inter-connection.

The features of an industry, together with market imperfections associated with imperfect information, is now recognized to provide scope for strategic behavior (Vickers, 2005).⁴ Dominant firms can lock-in advantages through a range of different strategies (Rey and

⁴ This is the ‘post Chicago’ synthesis.

Tirole, 2006; Whinston, 2006). Models can explain possible anti-competitive exclusion with either scale economies or imperfect information (although, in real world markets both may well be present). In addition, a dominant firm does not necessarily engage in a single strategy but can adopt multiple and mutually reinforcing strategies. Of course there are also possible efficiency rationales for conduct such as exclusive dealing, which means a case-by-case analysis is necessary. Whether there should be presumptions depending on considerations such as market conditions, the extent and durability of dominance and whether the position was the result of innovation is an important question to which we return below.

It is now also increasingly recognized that strategies which appear different on the surface may be equivalent.⁵ For example, targeted, individualized loyalty rebates can amount to *de facto* exclusive dealing. A vertically-integrated firm with a monopoly in an indispensable input which engages in a margin squeeze over its non-integrated rival through a higher input price is effectively refusing to supply. In the latter, the downstream firm may well lodge an accusation of predation if it perceives the downstream price to be below its costs. This has implications for attempting to ‘pigeon-hole’ conduct, as the South African Competition Act does.

The Chicago critique asked why a dominant firm would have the incentive to foreclose, even where they may have the ability to do so. An upstream monopolist, vertically integrated into the downstream market, can earn the one monopoly profit through its upstream pricing and does not need to foreclose downstream rivals. However, this ignores the fact that an entrant upstream – to undermine its monopoly position – may be much more likely if allied with a downstream firm which understands the product and consumer characteristics. Similarly, there may be an anti-competitive rationale for tying and bundling where entrants are likely from adjacent markets.

These theories of exclusionary conduct can explain why dominant firms may be able to protect their position. This is different from concentration, as such. Persisting dominance of the incumbent suggests that effort and creativity are not being rewarded but the legacy position. As Geroski and Jacquemin (1984: 22) caution: ‘when, however, small asymmetries can be solidified into dominant positions that persist, the inequities they create become institutionalized, creating long-term problems in the performance of the economic system which cry out for policy attention’.

The likelihood of entrenched dominant firms depends on the country conditions and history. This implies a different balance in enforcement from country to country, as has been reflected in comparisons between the appropriate priorities and standards in North America and Europe, as well as comparisons with some Asian countries such as Japan and South Korea (Evans, 2009; Vickers, 2007; Fox, 2003 & 2002; Hur, 2004).

⁵ Massimo Motta, lectures.

What are the implications for developing economies and African countries, in particular? There are reasons why the durability of dominance is greater. Scale economies are more significant given the smaller size of markets, information is likely to be poorer, and the costs of building brand awareness, advertising, distribution & marketing may be higher relative to sales. The first movers in many countries are likely to have gained their position either through state-support and ownership (even if now privatized) or by being a subsidiary of a multinational corporation that established its footprint under colonial rule. However, while the effect of scale economies is well established, we should be cautious about generalisations in other areas – instead seeing these issues as important ones for future research. There is a growing field of work on the appropriate competition policy for developing countries but relatively little regarding African economies (on developing countries see: Gal, 2003 & 2009; Brusick and Evenett, 2008; Dabbah, 2010).

While greenfield entry by a new investor appears less likely, the learning from models and cases suggests that entry may also be more likely from adjacent geographic markets if the market conditions are similar, and the firm can leverage its existing capabilities. This has implications for regional integration. In addition, there are links with development policies. As we highlight in section 2.3 below, Hausmann and collaborators find productive capabilities migrate – a firm which has developed capabilities in one product such as cutting machinery for forestry (in the case of Finland) can more readily develop capabilities in cutting machinery for other materials. This suggests that regional and country level that we need to consider how the ‘optimal level of competition’ can be fostered, which links to capabilities development (Amsden and Singh, 1994; Singh, 2004).

2.2 Competition, political economy and inclusive growth⁶

Competition is a key component of inclusive growth (in the formulation of Acemoglu and Robinson, 2012) or ‘open access orders’ (in North, Wallis and Weingast, NWW, 2009). Competitive markets as an existing state means markets with many participants, low barriers to entry and returns which just reward the investment made and cover the costs of production. But, a country does not arrive at this state by magic. Indeed, it seems obvious that market power, imperfect competition and market failures which can reinforce positions of market power are intrinsic features of economic life. We therefore need to understand how the *process* of evolving competitive rivalry is related to the nature of economic opportunity and outcomes.

At the heart of the assessment of NWW is the combined importance of competition in both the economic and political spheres. Indeed, they argue (2009: 129) that ‘[b]y studying democracy in isolation of markets, political scientists have missed these forces [competitive markets] of political stability.’ By this NWW mean that competitive markets generate long-

⁶ This draws from Makhaya and Roberts, (2014).

term prosperity and allow for dynamism in terms of different social groups and interests, which feeds into politics. Conversely, according to NWW, distortions such as from rent-seeking impact on relative prices which, in an economy with competitive markets, generate a response from forces in society which recognise the economic costs that are imposed. But, why and how will such competitive markets arise?

NWW believe that progress towards an open access order (OAO) involves competition eroding rents, and that this involves liberalisation and independent institutions. However, this fails to recognise the important role that industrial policies and tariffs have played in countries industrialising and does not take us forward in understanding how interests are aligned with the policy frameworks that are adopted (see, for example, Khan, 2006). The construction of markets and the main participants reflect a country's economic history. How does competition law and policy then relate to moving towards meaningful increased access?

It has been argued that the vigorous promotion of competition law for developing countries disregards political and institutional realities – in simple terms, because institutions are weak and concentrated business interests are too strong (Rodriguez and Menon, 2010). The strength of those behind anti-competitive arrangements such as cartels will simply mean that they subvert the competition regime where enforcement is attempted (Mateus, 2010). But, a competition agenda has been supported in different countries and we need to understand where competition fits with the changing influence of different interests.

It is evident that, while economic regulations are meant to correct for market failures and natural monopolies (entrenched dominant firms), they also respond to lobbying. The balance of power between different interests in a country thus determines the regulatory arrangements which are part of the wider 'political settlement' (Khan, 2006). In evaluating the regulatory regime, including as it relates to competition, we can distinguish between where rents are conditional on productive investment (an implicit quid pro quo) and where short-term rents are maximized and protected. In the former situation, the elite interests have taken a longer-term view in that they recognize need for sharing returns and for the growth of public infrastructure and capabilities as this underpins the long-term sustainability of the economy and hence the value of their stake in it. An evolution towards a more rules-based and less personalized system for allocating access is part of such a trajectory. By comparison, an orientation towards extraction of maximum short-term rents means allowing the unfettered exercise of market power, not disciplined either through regulation or promoting competition, and even while it is evident that there is long-term harm to the economy.

It is perhaps more appropriate to understand these as tendencies, whose weight depends on many factors. For example, if a business can relocate with ease, then there is less need to consider the long-term effects. Similarly if elite interests are able to take rents out of the country without fear that a future regime can take action to recover them, then they will have less of a stake in the future. This is likely where personal relationships can be used by incumbents to block rivals (for example, through regulations, licence permissions, arbitrary

judgments). On the other hand where buyers are important and organized interests then they will push for discipline on market power. In the case of the antitrust law in the USA a key constituency promoting its adoption was farmers who were being subject to high input and transport costs due to the power of the trusts. Urban consumers can also be an important pressure group. New entrants are also possible sources of support. Research can also play an important role in demonstrating the harm caused by concentrated interests which have been able to undermine competition.⁷

In assessing the evolution of arrangements governing competition, we are considering competition policy and the competition regime to extend beyond the law and mandate of any competition authorities. It includes the links with the regulatory provisions as well as the host of other laws and actions that impact on entry and effective competitive rivalry (Das Nair et al., 2012). Indeed, it is unlikely that competition enforcement by a young competition authority will succeed in disciplining powerful interests. Instead, regional integration which means greater rivalry from neighbouring countries might be more effective. Entrants may come from firms in adjacent markets or in an upstream or downstream relationship. Industrial policies may support such entrants. This is where the contribution of the case studies in section three is important. Changing the structure of the economy requires a competition policy which actively opens up participation including through the enforcement of competition law but also through a wider set of interventions in terms of the regulatory framework, the provision of economic infrastructure, development finance and industrial policy.

2.3 Dynamic rivalry and regional integration

As argued above, regional integration can potentially increase both trade and competition, thus enhancing welfare of the community's citizens. Regional integration brings with it both static and dynamic gains. Static gains from trade under orthodox models, which assume perfect competition, are generally small - with gains from trade creation balanced with gains from trade diversion (Schiff and Winters, 2003; Robinson and Thierfelder, 1999).⁸ Generally, a regional integration agreement (RIA) allows free trade among partners to the agreement. That is, import tariffs are reduced to zero for products produced by partner countries.⁹ A regional integration agreement is said to "create" trade when the reduction/elimination of import tariffs among RIA partners allows low cost producers from a partner country to replace production by a high cost producer within the RIA (Schiff and Winters, 2003). In other words, trade is created when production is reallocated from a high to a low cost producer

⁷ See, for example, Makhaya and Roberts, (2013).

⁸ In perfect competition models, trade is primarily driven by comparative advantage (CA); i.e., differences in productivity and /or factor endowments. This trade is also known as inter-industry trade. Orthodox models of regional integration assume perfect competition and homogenous products, hence there is no rivalry among firms.

⁹ We abstract here from issues such as "rules of origin", etc., that may result in tariffs on goods partially produced within the integrated market.

within the RIA, thus allowing for efficiency gains. On the other hand, trade is "diverted" if reduction/elimination of import tariffs among RIA members allows high cost producers within the RIA to steal market share from more efficient third party suppliers who continue to face import tariffs. In this case, trade is diverted from a "third party" supplier to a producer within the RIA by virtue of membership of the RIA, and not superior efficiencies.

In practice however, firms typically possess market power, owing to product differentiation and/or scale economies, etc. In this case, the question is whether and how regional integration affects rivalry among firms in the RIA, and how this ultimately impacts welfare. As mentioned above, models of trade factoring in imperfect competition have much larger gains from trade, especially between similar economies. Trade between similar economies often takes the form of trade within the same industries – so called intra-industry trade. In this case, firms derive market power from the fact that consumers perceive their products to be different (i.e., non-homogenous), implying that each firm faces a downward sloping demand curve. The question however for most RIAs in Africa, e.g., SADC, COMESA, WAEMU, etc., is whether this channel (product differentiation) will yield large enough gains from integration. If countries within the RIA trade according to comparative advantage (typical of developing countries), then product differentiation will have a smaller contribution to gains from integration.¹⁰

Regional integration can potentially overcome a number of factors negatively affecting the competitiveness of small economies, among them, a small domestic market size,¹¹ and high concentration.

Firstly, small domestic market size can potentially limit the expansion of domestic firms to reach the minimum efficient scale (MES) of production, resulting in failure to realise scale economies. By opening up the regional market to domestic firms, integration potentially relaxes the market size constraint, allowing producers to move down their cost curves, and thus enhance competitiveness.

Secondly, small domestic market sizes tend to limit the number of firms that can profitably/optimally operate in the domestic market - and thus tends to cultivate monopolies/oligopolies. High industry concentration reduces the firms' incentives to enhance efficiencies, to the detriment of consumers and broader national welfare, particularly when these monopolies operate under tariff and other protectionist measures.¹² Similarly, a small domestic market may limit incumbent firms' incentives to escalate competition by incurring high fixed/sunk

¹⁰ Peridy and Ghoneim, (2009), in their study of the effects of the Greater Arab Free Trade Area (GAFTA), find small effects from imperfect competition, owing to the fact that most intra-GAFTA trade involves inter-industry trade, with little intra-industry trade. Berthelon (2004), in his study of the growth effects of regional integration agreements, concludes that North-North agreements yield unambiguous and significant positive growth effects while South-South agreements yield ambiguous growth effects, where North is a mnemonic for developed country and South is a mnemonic for developing country.

¹¹ It should be noted however that a globally competitive industry could develop notwithstanding the small domestic market size. An example is the experience of Nokia in Finland.

¹² It is worth pointing out however that monopolisation per se is not the evil, but rather the 'lack of contestability'. Lack of competition has negative implications for growth, as it affects incentives to invest, innovate, etc. Indeed, high concentration (monopolisation) could be an endogenous outcome of competition itself (see, for example, Sutton, 1991).

costs owing to the small potential returns from such investment (Sutton, 1991; Sutton, 2006). A RIA can mitigate the inefficiencies associated with monopolisation of domestic markets by opening up the domestic markets to competition, at least from within the enlarged market. For example, consider 3 adjacent countries, each with a "monopoly" producer of cement, and applying tariffs to protect their domestic markets. With integration, the tariffs will fall away and the enlarged market will now feature rivalry between three firms – likely resulting in improved x-efficiency and allocative efficiency.^{13,14} Thus integration potentially reduces the exercise of monopoly power, promotes competition and enhances welfare.¹⁵ As a corollary therefore, integration also enhances competitiveness vis-a-vis third party producers, thus generating long-term gains for the community.

While a RIA will in all likelihood increase competition, the effects on market structure are ambiguous. Market enlargement due to integration could lead to new entry, and thus reduction in concentration, provided fixed and/ or sunk costs are exogenous. If however fixed and/ or sunk costs are endogenous, concentration may actually increase (Sutton, 1991). It is quite plausible that as competition intensifies due to the enlarged market, and especially where products are differentiated, incumbent firms will invest in either quality enhancement, brand image, cost reduction, etc., to not only increase their market shares but to also deter entry (Sutton, 1991; Tirole, 1988). If these strategies are successful, a larger market could result in higher industry concentration (but not necessarily less competition).

Realization of the potential gains from integration however is dependent on a number of factors. Critical factors include (i) geography, (ii) transport costs, and (iii) exertion of market power – unilateral and/or coordinated. Geography has an important influence on trade. If the population in the RIA is dispersed over a large geographic area, then the natural tendency is to create market regionalization through small and isolated local markets within the RIA, which favours concentration of industry (Gal, 2001). This will naturally militate against the realization of the gains from integration. The effects of geography will be exacerbated by weak transport infrastructure and non-competitive logistics sectors. Transport infrastructure and transport costs are important for trade facilitation. Transport costs can consume away the benefits of tariff reduction, resulting in integration failing to significantly affect trade flows. This suggests that economic and trade infrastructure, particularly transport infrastructure and costs, should be viewed as part and parcel of regional integration discussions.

¹³ We say "likely" for at least two reasons. First, because firms could potentially collude and divide the market amongst themselves - thereby defeating the objective of intensifying competition within the RIA. Second, integration must be completely embraced by the parties and fully implemented. Half-hearted implementation of the RIA provisions may not significantly enhance competition. For example, as argued elsewhere in this paper, there is little regional trade in input and final goods markets (e.g., cement, sugar, etc.) within the SADC and COMESA RIAs, due at least in part, to regulatory barriers and inconsistencies in the support for and enforcement of competition law frameworks.

¹⁴ In addition, the enlarged market will now feature differentiated cement products, giving consumers a choice. Consumers will then vote with their purses, forcing a reallocation of production among the three firms (productive efficiency) within the RIA.

¹⁵ Integration thus potentially solves one of the major challenges facing competition authorities in small economies - balancing the need to ensure firms are large enough and integrated so as to enjoy economies of scale and ensuring robust rivalry between/ among the firms to ensure allocative and productive efficiency (Gal, 2001).

As pointed out above, exertion of market power can negate the potential gains from integration. Competition can produce both static gains (allocative efficiency and productive efficiency) and also dynamic gains (investment and innovation). Because competition can produce winners and losers, incumbent firms can lobby their governments for protectionist measures, e.g., regulatory barriers, to defeat competition arising from integration. Domestic distortions, e.g., subsidies, regulations, etc., can distort resource allocations within the RIA, thereby negatively affecting trade creation. It is therefore imperative that government industrial policies within the common market area are harmonised, and non-tariff barriers to trade are done away with (Peridy and Ghoneim, 2009). National industrial policies can support local entrants, for example by removing regulatory and other entry barriers, and increase competition in the region, but not through undermining integration.

Equally important, governments within the RIA need to harmonise their competition policies, and competition authorities need to standardize their applications of competition policy in order to create a conducive environment for fair competition. Countries with effective competition policies tend to grow faster than those without, because they produce companies that can compete in the local and international markets (Porter, 2002). Recognising the potential dynamic gains through productivity improvements, the objective of competition policy should go beyond the narrow standard of short-term consumer welfare (low prices).

Regional integration, by creating a larger common market, will not only benefit incumbent firms within the RIA. A larger market will create opportunities for new entry from within the RIA, and also will likely attract foreign direct investment. Large third party suppliers will stand to gain from locating production in the RIA and avoiding import tariffs than supplying the enlarged market subject to tariffs. There are at least two benefits that come with new entry.

First, new entry will intensify competition within the RIA and thus promote allocative and productive efficiency, including through its impact on innovation and dynamic effects (the so-called creative destruction) (e.g., Porter, 2002).¹⁶ However, there is also an optimal level of competition, which partly depends on market size (Amsden and Singh, 1994). Many studies have investigated the relationship between competition and innovation, among these are Aghion et al., (2005); Peneder and Woerter (2013); Aghion et al., (2008a); Blundell et al., (1999). These studies find an inverted U relationship between competition and innovation. Vives (2008) provides a theoretical foundation for this relationship. In particular, monopoly/low competition is associated with low innovation, while on the other extreme "high" competition is associated with low innovation. This points to the fact that some market power is necessary to induce competitive rivalry, and thus innovation.

Second, and even more important, new entry will bring with it employment opportunities, thus contributing to inclusive growth in the region. Even in models where concentration

¹⁶ A number of studies find positive growth effects of RIAs. Henrekson et al. (1997) test the growth effects of European integration, namely the European Community (EC) and the European Free Trade Agreement (EFTA). They find that EC/EFTA membership increases growth by about 0.6-0.8 percentage points. Similarly, Berthelon (2004) finds that RIAs largely have positive growth effects.

increases with market enlargement, it turns out that output (and its quality), and thus employment (and its quality), increases with size of the market.

To realise these gains however, a RIA should do more than just liberalising trade. In particular, infrastructure and trade logistics need to be enhanced, and regulatory and other non-tariff barriers done away with. Countries need to coordinate such investments to ensure maximum economic impact. For example, having a good road network on one side of the border and poor infrastructure on the other side will do little to realise the benefits of trade liberalization within the RIA. In essence, there is need for broader economic and political cooperation (i.e., deeper integration) in order to fully exploit the benefits of regional integration.

3. Assessing the record on regional competitive dynamics? Insights from work on southern and East Africa

3.1 Overview and insights from cartels uncovered in South Africa

The regional economic communities (RECs) incorporating countries in southern and eastern Africa each recognise competition as an important part of creating more dynamic regional markets and include competition in their articles. In 2009, SADC member states signed the Declaration on Regional Cooperation in Competition and Consumer Policies which derives from the SADC Protocol on Trade which requires member states to implement measures to constrain unfair business practices and foster competition.¹⁷ Similarly, the promulgation of the East African Community Competition Act in 2006 and the launch of the COMESA Competition Commission in 2013 speak to a growing realisation that the active enforcement of competition law forms part of achieving the broader goals of increased economic participation and development. This also relates to a central theme of this paper – that anti-competitive conduct can have effects which transcend political borders and greater cooperation between countries is needed to address those aspects of firm behaviour which undermine common developmental goals.

The adoption of competition law in most REC member states is an acknowledgement that market structure and disciplining the exercise of market power matters for achieving inclusive economic growth. However, most authorities, although active, are severely under-resourced and their role poorly understood by most decision-making government departments and business and political leaders. At the time of writing, 17 of the 26 countries which form part of COMESA, SADC, SACU and the EAC had active competition law regimes.¹⁸ Despite these challenges, substantial progress has been made across jurisdictions towards greater

¹⁷ <http://www.sadc.int/themes/economic-development/trade/competition-policy/>

¹⁸ See: <http://www.bgafricagroup.com/Competition-Law-Africa/Index.asp> ;
<http://globalcompetitionreview.com/reviews/59/sections/204/chapters/2307/comesa-overview/> ;
<http://www.werksmans.com/keep-informed/our-publications/case-summaries/competition-law/african-developments-mozambique-competition-law/>

enforcement of competition law particularly with regard to abuse of dominance cases. Typically, merger control remains the primary activity of many authorities. Less progress has been made in terms of the prosecution of cartel conduct which is perhaps directly linked to the low adoption of leniency programmes and the resource constraints facing authorities. Even less work has gone into understanding and dealing with anti-competitive conduct which has regional dimensions despite the interdependence of most economies across southern and east Africa.

This last aspect is important. The regional scope of anti-competitive conduct is perhaps best demonstrated through examining the record of cartel prosecution in South Africa. A number of cartels which have been prosecuted by the Competition Commission of South Africa have affected neighbouring SACU countries in particular (either directly or as a secondary market for South African products) (Table 1).

Table 1: Cartels with cross-border effects prosecuted in South Africa

Cartelised product	Main firms	Countries affected
Scrap metal ¹⁹	Cape Town Iron and Steel Works, National Scrap Metal, New Reclamation, SA Metal & Machinery Company	Namibia, South Africa
Construction ²⁰	Aveng Africa, Basil Read, Group Five, Murray & Roberts, Stefanutti, Wade Walker	Botswana, Burkina Faso, Malawi, South Africa, Zimbabwe
Concrete pipes and culverts ²¹	Aveng (Africa) incl. Aveng (Infraset), Rocla, Swazi Fyfe	Botswana, Mozambique, Namibia, Swaziland, Tanzania, Zambia
Cement ²²	Lafarge, AfriSam, PPC	Botswana, Lesotho, Namibia, South Africa, Swaziland
Pilings ²³	Grinaker-LTA (Aveng (Africa)), Esorfranki, Rodio Geotechnics, Dura Soltanche Bachy, Geomechanics, Diabor	Lesotho, South Africa, Swaziland
Steel products ²⁴	Trident Steel (Aveng (Africa)), Macsteel, Highveld	Exports to 'Africa Overland Market', South

¹⁹ See Consent Agreement between Competition Commission and National Scrap Metals (Cape Town) (Pty) Ltd, case no. 51/CR/Aug10.

²⁰ See Consent Agreements between Competition Commission and Aveng (Africa) Limited, case no. 2009Feb4279/2009Sep4641, and Competition Commission and Murray & Roberts Limited, case no. 2009May4447, and Competition Commission and Stefanutti Stocks Holdings Limited, case no. 2009Feb4279/2009Sep4641.

²¹ Consent Agreement between Competition Commission and Aveng (Africa) Limited, case no. 2008Mar3595

²² Consent Agreement between Competition Commission and Lafarge Industries South Africa (Pty) Ltd, case no. 23/CR/Mar12.

²³ Competition Commission media release (2 March 2011). Available: <http://www.compcom.co.za/assets/Uploads/AttachedFiles/MyDocuments/FINAL-MEDIA-RELEASEPilings-Cartel.pdf>

²⁴ Consent Agreement between Competition Agreement and Trident Steel (Pty) Ltd, case no. 114/CR/Dec12

		Africa
Industrial gases ²⁵	Air Products South Africa, Sasol Chemical Industries	Southern Africa region

Perhaps the most striking feature of these cartel arrangements is the extent to which they pertained to key industrial products and inputs including for large infrastructure investment projects. The bottom line is that affected governments and private entities, and tax-payers in particular, have overpaid for a number of important projects that have been affected by anti-competitive arrangements. Recent evidence on the extent of cartel overcharge in South Africa, a measure of the profitability of cartel conduct, suggest that cartel mark-ups are consistent with and in some cases higher than international benchmarks of between 15 to 25 per cent (Khumalo et al, 2012). For example, in concrete pipes the overcharge was estimated to fall in the range of 16.5 to 28 per cent in Gauteng, and 51 to 57 per cent in KwaZulu-Natal (Khumalo et al. 2012). In the South African flour cartel which lasted from 1999 to 2007, cartel mark-ups to independent bakeries were estimated to be in the range of 7 to 42 per cent (Mncube, 2013).

It is well understood that cartels form in order to maximise the joint profits of their members. The same applies in cartels that operate across the region in that through allocating geographic areas to one another, and/or agreeing on pricing, they are able to maximise joint profits. To sustain themselves cartels need to block new entrants such as by making it difficult to access key inputs. In the present context, through allocating country markets regional cartels appear to have been able to sustain arrangements to prevent further entry, and share rents.

In most of the cases referred to in Table 1, markets were effectively allocated to different cartelists and prices to be charged were agreed. To our knowledge, there have not been many follow up investigations conducted in these neighbouring countries, nor have there been claims for damages. This suggests a significant gap in the extent of cooperation between competition authorities as well as in the understanding of the adverse impact of these types of arrangements. Indeed, conducting impact assessments on the effects of these regional arrangements and their prosecution would be an important first step in generating support for increased cooperation and allocation of resources towards detecting and prosecuting them. There may be a significant role for RECs in this regard.

A final point to note regarding cartel conduct in the region is that some of these arrangements such as in cement, flour and scrap metal originated from previous interactions between government departments and industry players as part of industry development strategies. For instance, in the scrap metal case the Department of Trade and Industry in South Africa had a role in encouraging downstream beneficiation and value addition, and affecting domestic pricing in the metals sector including facilitating certain interactions between competitors and

²⁵ Competition Commission media release (23 February 2013). Available: <http://www.compcom.co.za/assets/Uploads/AttachedFiles/MyDocuments/Commission-reaches-settlement-with-Air-Products-South-Africa.pdf>

consumers in the scrap metal industry since 1995.²⁶ This speaks to the inter-relation of government policy and strategies with competition policy, which we discuss as one of the main themes which emerge from the recent studies in sugar, cement and poultry industries.

3.2 Review of recent studies on regional competitive dynamics

Recent studies do not directly estimate the damage caused by regional arrangements but provide an indication as to the extent of barriers to greater competitive rivalry within the eastern and southern African region. The studies by the African Competition Forum involved research collaboration between competition authorities in six countries (Botswana, Kenya, Namibia, South Africa, Tanzania and Zambia)²⁷ to understand the regional competitive dynamics in the sugar, cement and poultry sectors. The findings of this pilot research project have highlighted some important cross-cutting themes that affect competition between firms in the region, and patterns of trade and investment. We briefly review the regional structure of each market and draw out the main themes and areas for further research.

i. Highly concentrated and oligopolistic markets with high structural barriers to entry

The regional industries in sugar, cement and poultry are highly concentrated which reflects the need to achieve economies of scale in small domestic markets. This is reflective of the fact that both cement and sugar are high weight and low value products which are costly to transport. In poultry, economies of scale in production are critical at the grandparent stock and processing/abattoir level of the market which is linked, in part, to the high capital outlay required at these levels. This also reflects the pattern of development of the industries in the region with large multinational firms being present at multiple levels of the value chain.

In cement, many of the same large firms operate and hold controlling interests across the different countries in the study and among smaller independent operators. For instance, in three of the countries one producer (or group of historically associated producers) accounts for more than 50% of production capacity. In Zambia and Kenya companies associated with Lafarge through cross-shareholding have accounted for the majority of capacity. In Namibia recent entrant Ohorongo is effectively the only local producer. Historically in South Africa and the SACU region, three cement firms, Lafarge, Holcim/AfriSam and PPC, have controlled most of the production including through cross-border cartel arrangements. In Tanzania the three major firms have been linked to some of the world's largest producers being Heidelberg (Tanzania Portland Cement), Holcim (Tanga Cement Company) and Lafarge (Mbeya Cement) and account for the majority of production. Botswana is largely served by imports from South Africa in addition to small local producers.

In the sugar industry, each of the four countries have highly concentrated markets, with the highest level of concentration by far in Zambia where multinational firm Zambia Sugar

²⁶ Consent Agreement between Competition Commission and New Reclamation Group, case no. 37/CR/Apr08.

²⁷ The cement study included all six countries, the sugar study looked at Kenya, South Africa, Tanzania and Zambia, and the poultry study assessed the industry in Botswana, Namibia, South Africa and Zambia. See Mbongwe et al., 2014; Bagopi et al., 2014; and Chisanga et al., 2014)

(associated with Illovo Sugar from South Africa, and now owned by Associated British Foods) has a share in excess of 90% of production. In Tanzania, two firms account for 70% of domestic production (not including imports) with the largest being Kilombero (55% owned by Illovo), and then Tanganyika Plantation Company (TPC) which is owned by Sukari Investments that has interests in Kenya as well. In South Africa, three companies out of six in the industry (Illovo, TSB and Tongaat-Hulett) account for 80% share of the market. In this context, Illovo is a regional leader in sugar production with operations in other countries including Malawi, Mozambique and Swaziland. In Kenya, the four largest producers account for 78% of domestic sugar production although there are more than ten sugar millers in the industry overall.

Finally, the regional poultry industry also consists of a small number of companies operating across all three countries in the study. The main groupings are Astral/Tiger (in South Africa, Botswana, Zambia), Pioneer/Tydstroom/Bokomo/Brink/Irvines (in South Africa, Botswana, Zambia), Rainbow/Zamchick (in South Africa, Zambia) and Country Bird/Dada/Ross Africa (in South Africa, Botswana, Zambia). Namibia has historically relied on imports however there is Namibia Poultry Industries which is being developed under infant industry protection. In each case, the firms are vertically integrated into various levels of the value chain including animal feed, primary breeding (including exclusive domain over genetic breeds sourced from international firms), parent stock farms, the production of day old chicks, growing broilers and processing or abattoirs. It is therefore difficult for independent firms wishing to enter the market and compete at one level of the value chain to do so given that they often rely on inputs from the vertically integrated multinational firms and significant capital outlay.

ii. Market structure and poor competitive outcomes reflect poor policy choices in terms pro-competitive industry development

In each of the industries under consideration, governments have had a significant role to play in terms of dampening competition in favour of increased investments and infant industry development. While competition policy and industrial policy can be complementary, this requires that the right incentives are given to firms in a manner that encourages effective local entry but stimulates competition as well (Brooks, 2007; Roberts, 2010).

Government policy objectives have been instrumental in shaping the market structure of industries, particularly in cement and sugar. For instance, the cement cartel mentioned above has its roots in industry practices which were condoned by the South African government from as early as the 1940s until 1996. These practices effectively then continued in different forms following the change in legislation regarding these practices. Similarly, the South African sugar industry is widely viewed to operate as a legislated cartel with the Department of Trade and Industry being party to maintaining the regulatory arrangements which dampen competition by protecting the market from import competition. It is expected that large firms will lobby for regulation which suits their needs in the market, and are more likely to be

heard by regulatory and government agencies (Mateus, 2010). While on the one hand these practices can lead to well-developed industries over time, they also have the effect of dampening competition to the detriment of consumers.

There is therefore a trade-off between the short term effects of concentration and low levels of competition which harms consumers, and the development of firms through industrial policy strategies. The unfortunate outcome is that in the long run, once firms are established, it is in their interest to protect their position in the market and as such raise strategic barriers to new entry (Mondliwa and Roberts, 2014). The case of the sugar industry in Zambia is illustrative.

Zambia Sugar has benefited from high levels of investment in capacity in the mid-2000s encouraged by certain government tax and investment incentives, and protection. Perhaps more than any other firm in Zambia, the company has managed to leverage these incentives to establish a position of significant market power. It is widely accepted that private enterprises, particularly in developing countries, require reasonable and stable rates of profit in order to sustain their propensity to invest (Singh, 2002). This has of course been beneficial in terms of the high levels of investment and employment this has introduced (Zambia now produces more than double the requirements of the local market). However, despite being considered one of the more cost-efficient producers in the region due to investments in new technologies, the prices of sugar in Zambia are relatively high which has led to recent investigations into excessive pricing against Zambia Sugar. This position of market power is entrenched by a combination of other trade barriers and restrictions put in place by government which prevent foreign firms and imported sugar from competing away the high returns in this market. This is akin to the effect of the brining restrictions in poultry in Zambia, for example, wherein policies to prevent brined chicken imports mean that import competition is restricted. Due to the scale of investments required in the sugar market, and possibly the high thresholds for firms to qualify for investment incentives, it does not seem that any of the other firms in the market have been able to provide effective competition.

It is clear that the protection of domestic industries is important; indeed it is this same form of protection which has allowed the South African sugar industry to grow over the years. In Kenya, the government has sought to encourage new entry and provide import protection in sugar. The liberal issuing of licenses has led to a market which consists of more than ten millers. However, new entry has not been supported in terms of agricultural policy to develop input markets as well – sugarcane supplies are extremely poor resulting in high input costs for millers and high sugar prices which fall even above those in Zambia for several years (Gathiaka and Vilakazi, 2014). This speaks to a mis-coordination of policy strategies which results in harm to consumers and means that entrants cannot become effective domestic and regional competitors.

This is exacerbated by high trade barriers wherein governments control the influx of cheaper sugar to protect domestic producers. Dynamic gains from trade cannot be realised where

trade policy conflicts with agricultural and industrial policy objectives. The case of the Tanzanian sugar industry has illustrated the fact that managing the price of sugar domestically in the short term is just as important, and can operate alongside, objectives to invest in the domestic industry. Tanzania has made significant investment in sugar milling and sugarcane farming capacity and aims to become a net-exporter in the next few years. However, the country has also allowed imports in a controlled manner into the domestic market to regulate domestic pricing which has seen the sugar price stabilise in recent years.

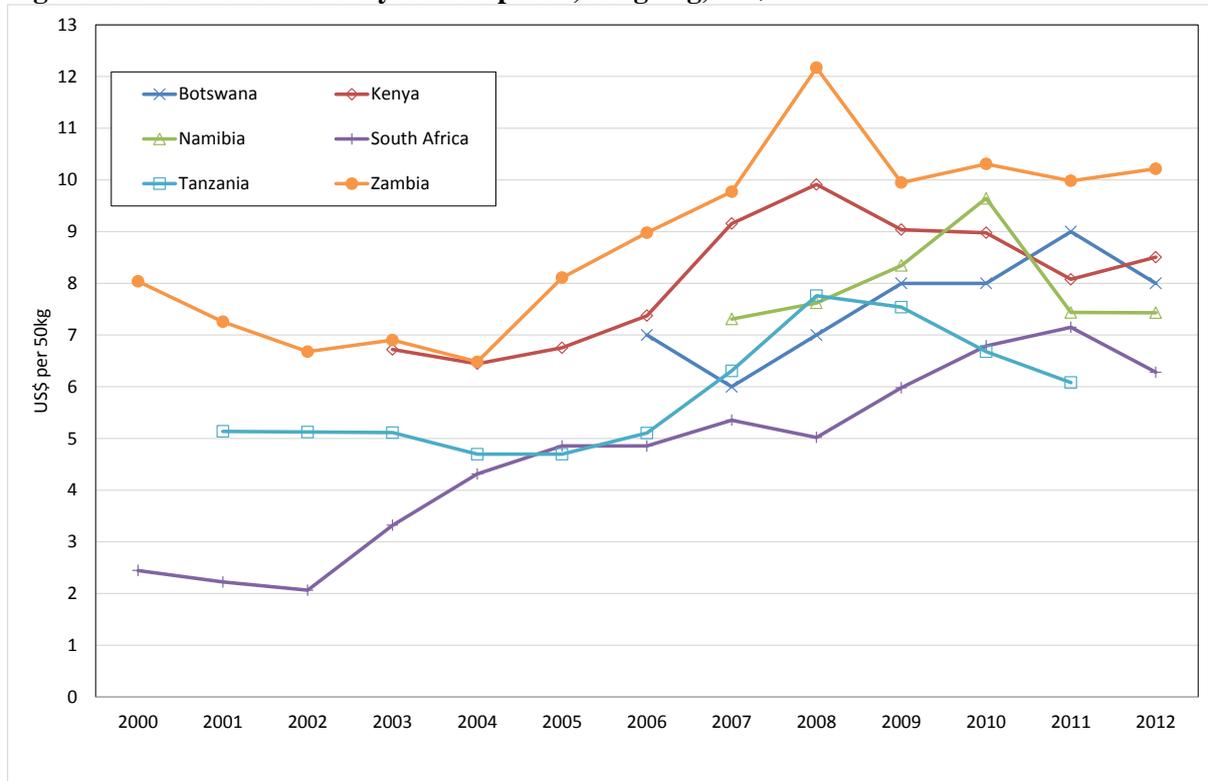
The poultry industries in Namibia, Zambia and Botswana follow a similar path in terms of policy to develop the local industry although each country remains reliant on imports due to limited domestic capacity to produce. There is potential in the industry for firms to gain from cross-border entry and leverage comparative advantages in key inputs. For instance, the Zambian industry has grown on the back of comparative advantage in a key agricultural input, animal feed. This has led, in part, to the entry of Rainbow into the Zambian market through the acquisition of Zamchicks although this may increase patterns of consolidation in the regional market. Similarly, Country Bird has leveraged their access to the Arbor Acres breed to enter South Africa (from their base in Zimbabwe) and compete vigorously. There are therefore gains from trade from firms being able to leverage their advantages in one market into another. Of course, this cannot happen if the same firm is present in each neighbouring market as demonstrated in the cement case study where Lafarge in Zambia has excess capacity however, they do not seem to export to countries where they already have a presence. In sugar, Zambia Sugar has excess capacity however there has been limited exports to other countries in the region in which they have a significant presence. This speaks to the role of firms as critical agents in the process of stimulating or restricting greater trade and competition within the region.

iii. *Prices reflect low levels of competition and entry constrained by structural and strategic barriers to entry*

Competitive outcomes in terms of prices reflect a regional market in which there are clear constraints to greater competition. In each of the sectors, there is evidence of prices which lie above competitive benchmarks. In sugar, although there may be disputes about the factors which constitute costs, prices in both Kenya and Zambia (particularly with a more efficient producer) seem to reflect the constraints imposed by poor choices in terms of industry development policies and policies which have entrenched the market power of incumbent firms, respectively. Estimated ex-factory prices in these countries for 2012 are in the range of 50-100% above world market prices, and 30-70% above those in South Africa which in the context can be considered to be a reasonable competitive benchmark. Given levels of protectionism and limited competition in the South African market, these differences could be even higher at an ex-factory level. It is important to caution however, that world market prices in sugar are depressed prices due largely to a legacy of agricultural subsidies in Europe and other large markets.

Cement prices also indicate concerning differences. Notwithstanding the cartel which operated across the whole of SACU until 2009, prices in Zambia and Kenya have been substantially higher than those in South Africa (Figure 1). This appears to reflect very low levels of competition in these countries, where firms associated with Lafarge have dominated the markets.

Figure 1: Estimated ex-factory cement prices, 50kg bag, US\$



Source: Mbongwe et al, 2014

Levels of effective new entry have remained low in poultry, although there is evidence that where there has been entry, such as by Country Bird in the South African market, there have been benefits in terms of increased competition, as reflected in a significant drop in margins. In the Namibian cement industry, the entry of Ohorongu as a competitor to AfriSam in December 2010 led to a substantial reduction in price in 2011 in nominal currency terms as well as relative to other countries. In Zambia, the entry of Scirocco Enterprises in 2005 and Zambezi Portland Cement in 2009 saw slight reductions in prices in the following years, however the positive effects of entry were muted by the fact that these firms entered at very low levels of production capacity to be able to effectively challenge the incumbent, Lafarge Zambia.

Finally, although unrelated to the ACF studies, there is further evidence of the positive effects of new entry in the Zambian and Tanzanian fertilizer industries. Fertilizer markets in the region are largely oligopolistic and largely dominated by international giants such as Omnia and Yara International. A recent study into competition in the road transportation of fertilizer in Zambia, Malawi and Tanzania shows that new entry in the Zambian fertilizer industry

following the uncovering and prosecution of a fertilizer cartel which lasted from 2007 to 2012, have led to greater price competition. Following the cessation of the cartel, the Export Trading Group which has grown its share of fertilizer markets in several African countries, has brought greater price competition to incumbent cartelists (Nyiombo Investments and Omnia). The growth of the firm in Tanzania has also seen it capture an estimated 20-40% market share, in competition with the dominant incumbent, Yara. Interestingly, in South Africa the same major producers of intermediate fertilizer products, Omnia and Kynoch (then owned by multinational Yara) were found to have engaged in cartel conduct along with Sasol.²⁸

These examples highlight the potential for further research into understanding the effects of regional anti-competitive arrangements as well as the impact of entry on domestic and regional markets. Through benchmarking across countries, it becomes possible to quantify the losses and gains to society from competition, or a lack thereof. Importantly, research of this nature can pave the way for motivating to policy-makers and governments in particular regarding the importance of competition policy as a developmental tool, particularly in so far as these arrangements affect key consumer goods and inputs.

iv. Transport and physical barriers to integration

Trade flows are linked to the production and location decisions of firms and the trade policy environment in the region. As discussed above, regulatory constraints to trade including through trade instruments other than tariffs can sustain the market power of incumbent firms. While the liberalisation of trade through customs unions and the reduction of tariff barriers have increased the scope for greater cross-border trade and competition, there remain a number of constraints such as those relating to rules of origin which require levels of domestic production which underdeveloped countries cannot meet (Edwards and Lawrence, 2010). Furthermore, the experiences in the sugar industry discussed above, and especially in the cases of Kenya, Tanzania and Zambia, reflect the fact that trade policy affects competitive outcomes in the region in terms of prices and entry. Import quotas are a significant restraint to imports in Kenya, and in Tanzania imports are managed by the state.

In poultry, the available evidence suggests that it costs more to import maize (for animal feed) from Lusaka (Zambia) than from Argentina. Similar concerns were raised by importers of sugar in South Africa. This speaks, in part, to constraints in terms of transport infrastructure, the harmonization of regulations in transportation, as well as delays and costs of transit at border posts for instance. For instance, the study on competition in the transportation of fertilizer in the southern and eastern Africa region found that Zambia, as a landlocked state, had improved the levels of competition in its freight sector (and stabilised prices) by improving domestic regulatory measures and increasing efficiency to allow for

²⁸ Competition Commission Media Release (5 July 2010), 'Sasol agrees to divestiture in the fertiliser case', available: <http://www.compcom.co.za/assets/Uploads/AttachedFiles/MyDocuments/Final-Sasol-media-release-050710.pdf>

increased competition in the sector including from cross-border operators from South Africa and Zimbabwe in particular (Ncube et al, 2014).

This example illustrates the significance of transportation as an enabler to greater cross-border rivalry. Cross-border competition relies on customers across the region being able to access substitutes in a timely and feasible manner such as to constrain the exercise of market power in a narrow geographic market often delimited by national borders. To take the example of cement, prices in Tanzania are relatively lower than those in neighbouring markets and while the Mbeya Cement (Lafarge) plant located in Mbeya is in Tanzania, it is situated just on the border with Zambia while other plants in Zambia are located further away, nearer to Lusaka. Other things equal, and absent colonial borders and restrictions, cement produced in this area should serve as a competitive alternative to Zambian cement in this area. However, prices remain vastly different between these areas which may be due to the fact that Lafarge is also present in Zambia, as well as by trade and transport constraints.

These examples illustrate the linkages between trade policy, transportation costs, and the strategic location decisions of firms, and the need for further research in this area. Regional integration cannot be achieved where conflicting trade policies across countries, inefficiencies in transportation, and strategic behaviour of firms undermine rivalry between firms across political borders.

4. Some conclusions and key elements of a research agenda

The competition cases and recent research reviewed above together with literature on competition and regional integration highlights a number of key areas for further research.

Firstly, there is strong evidence that anti-competitive arrangements can have a regional dimension. Indeed, cartel arrangements have operated across several countries in key input sectors, with high overcharges, which is not unique to the region (see, for example, Connor, 2014). There are therefore likely to be significant gains to greater cooperation between competition authorities and further research in detecting these anti-competitive arrangements and to quantifying their regional effects. Particular emphasis could be placed on the market behaviour of large multinational firms, including South African players, and their strategic behaviour throughout the region.

Secondly, the existing research shows that markets in the region are oligopolistic and often dominated by the same large multinational firms operating in small, concentrated markets. These firms have been able to leverage close relationships with governments, their control over the location of their production facilities, and 'favourable' trade and physical barriers such as poor transport networks and regulatory barriers between countries to entrench positions of market power. Thirdly, barriers, both strategic and structural, have resulted in poor competitive outcomes in the respective countries and sectors, and in the region more generally, resulting in low levels of new entry, as well as limited trade flows. There is

therefore scope for new research into the relationships between these different areas of policy and firm conduct towards increasing the potential for greater regional rivalry and integration.

Fourthly, in addition to understanding regional industrial structures, there is a need for more studies on industrial and market structures at country and sectoral levels. While there have been several studies on South Africa for instance, there is still a dearth of studies on the structure and competitiveness of the major industries of most countries in the region, in part because the majority of the competition authorities in these countries are still young. There is a need for studies that document the nature of competition in these sectors and the welfare costs of anti-competitive arrangements at country and sectoral level, not least to demonstrate the importance of competitive rivalry for economic development within countries. Such studies could focus on: (i) growth impacts, (ii) employment impacts, and (iii) consumer welfare impacts of anti-competitive conduct by large firms in the respective countries. Such studies can help to strengthen the hand of competition authorities and policy-makers.

Finally, the wide acceptance and adoption of competition laws in most countries is a good platform. Quantifying the gains from increased regional rivalry and the losses from anti-competitive arrangements can help to build a case for greater resourcing of competition authorities and RECs to deal with these matters, as well as provide motivation for greater coordination between country policy-makers on industrial development and trade policy as they relate to competition. In addition, issues around harmonisation of competition laws and their application across jurisdictions within the RECs is an important area for future research.

References

- Acemoglu, D. and Robinson, J. (2012). *Why Nations Fail*. Random House.
- Aghion P., Bloom, N., Blundell, R., and Howitt, P., (2005). 'Competition and Innovation: An Inverted-U Relationship', *Quarterly Journal of Economics*, 120: 701-728.
- Aghion P., Braun, M. and Fedderke, J. W. (2008a). 'Competition and Productivity Growth in South Africa', *Economics of Transition*, 16(4): 741-768.
- Amsden, A. and Singh, A. 'The optimal degree of competition and dynamic efficiency in Japan and Korea', *Eur. Econ. Rev.*, 38 (1994), 940–951.
- Bagopi, E., Chokwe, E., Halse, P., Hausiku, J., Humavindu, M., Kalapula, W. and Roberts, S. (2013). 'Competition dynamics and regional trade flows in the poultry sector: the case of Botswana, Namibia, South Africa and Zambia'. African Competition Forum.
- Berthelon M. (2004). 'Growth Effects of Regional Integration Agreements', Central Bank of Chile, WP No. 278.
- Blundell, R., Griffith R., and van Reenan, J. (1999). 'Market share, Market Value and Innovation in a Panel of British Manufacturing Firms', *Review of Economic Studies*, 66: 529-554.
- Brooks, D. H. (2007). "Industrial and Competition Policy: Conflict or Complementarity"; Asian Development Bank Institute (ADBI) Research Policy Brief No. 24. Available online: <http://www.adbi.org/files/rpb24.pdf>
- Brusick, P. and Evenett, S. 'Should Developing Countries Worry About Abuse of Dominant Power?' *Wisconsin L.Rev.* 2 (2008), 269-294.
- Chisanga, B., Gathiaka, J., Nguruse, G., Onyanha, S. & Vilakazi, T. (2014). 'Competition in the regional sugar sector: the case of Kenya, South Africa, Tanzania and Zambia'. African Competition Forum.
- Connor, J. M. 'Price-Fixing Overcharges: Revised 3rd Edition' (February 2014).
- Das Nair, R., Mondliwa, P. and Roberts, S. 'The inter-relationships between regulation and competition enforcement: regulating for competition? Remedying anti-competitive behaviour through regulation?' TIPS/NERSA Economic Regulators Conference, Johannesburg, 21 & 22 August 2012.
- Dabbah, M. 'Competition Policy, Abusive Dominance and Economic Development: Some Reflections', presented at 37th Annual Conference on International Antitrust Law and Policy, Fordham Competition Law Institute, New York, 24 September 2010.

- Edwards, L. and Lawrence, R. Z. 'AGOA rules: the intended and unintended consequences of special fabric provisions'. National Bureau of Economic Research (NBER) Working Paper 16623 (December 2010).
- Evans, D. 'Why Different Jurisdictions Do Not (and Should Not) Adopt the Same Antitrust Rules', *Chicago J. Int'l L.* 10 (2009): 1, 161-188.
- Fox, E. (2002). 'What is harm to competition? Exclusionary practices and anticompetitive effect.' *Antitrust Law Journal* 70: 372-411.
- Fox, E. 'We protect competition, you protect competitors', *W.Comp.* 26 (2003): 2, 149-165.
- Gal, M (2001) 'Size Does Matter: The Effects of Market Size on Optimal Competition Policy', *Southern California Law Review*, Vol. 74:1437-1478.
- Gal, M. *Competition policy for small market economies*. (Boston: Harvard University Press, 2003).
- Gal, M. 'Antitrust in a Globalised Economy: The Unique Enforcement Challenges Faced by Small and Developing Jurisdictions', *Fordham International Law Journal*, 33 (2009):1, 1-56.
- Gathiaka, J. and Vilakazi, T. 'Regulation, competition and productivity in agriculture: the case of sugar in Kenya benchmarked against South Africa'. Presented at the 2nd South African Economic Regulators Conference, Johannesburg, March 2014.
- Gerber, D. (2010). *Global Competition: Law, Markets and Globalisation*, Oxford University Press.
- Geroski, P. A. (2004). 'Is Competition Policy Worth It? *Mimeo*.
- Geroski, P. and Jacquemin, A. (1984). 'Dominant firms and their alleged decline', *International Journal of Industrial Organisation*, 1.
- Hausmann, R., Hwang, J. and Rodrik, D. (2007). 'What You Export Matters', *Journal of Economic Growth*, 12 (1): 1-25.
- Helmsing, A.H.J. (2001). 'Externalities, Learning and Governance: New Perspectives on Local Economic Development', *Development and Change*, 32, 277-308.
- Henrekson, M., Torstensson, J., and Torstensson, R. (1997). 'Growth Effects of European Integration'. *European Economic Review* 41, 1537-1557.
- Hur, J. S. 'The evolution of competition policy and its impact on economic development in Korea' in P Brusick, AM Alvarez, L Cernat & P Holmes (Eds) *Competition, competitiveness and development: Lessons from developing countries* (Geneva: United Nations Conference on Trade and Development, 2004).
- Khan, M. (2006). 'Governance and Development', Paper presented at the 'Workshop on Governance and Development' organised by the World Bank and DFID in Dhaka, 11-12 November 2006.

- Khumalo, J., Mashiane, J. and Roberts, S. (2012). 'Harm and Overcharge in the South African Precast Concrete Products Cartel'. *Centre for Competition Economics* (University of Johannesburg) Working Paper 6/2012.
- Lall, S. and Teubal, M. (1998). 'Market-Stimulating Technology Policies in Developing Countries: A Framework with Examples from East Asia', *World Development*. 26(8), 1369-1385.
- Makhaya, G., Mkwanzani, W. and Roberts, S. (2012) 'How should young institutions approach enforcement? Reflections on South Africa's experience', *South African Journal of International Affairs*, 19(1), 43-64.
- Makhaya, G. and Roberts, S. 'Expectations and outcomes – considering competition and corporate power in South Africa under democracy', *Review of African Political Economy*, 2013, 138, 556-571.
- Makhaya, G. and Roberts, S. (2014) 'The changing strategies of large corporations in South Africa under democracy and the role of competition law', Paper for Agence Française de Développement project on rethinking criteria of "good governance" and institutions.
- Mateus, A. 'Competition and Development: Towards an Institutional Foundation for Competition Enforcement', *World Competition*, 33, 2, 2010, pp275-300.
- Mbongwe, T., Nyagol, B.O., Amunkete, T., Humavindu, M., Khumalo, J., Nguruse, G. & Chokwe, E. (2014). 'Understanding competition at the regional level: An assessment of competitive dynamics in the cement industry across Botswana, Kenya, Namibia, South Africa, Tanzania and Zambia'. African Competition Forum.
- Mncube, L. 'The South African wheat flour cartel: overcharges at the mill'. *Journal of Industry, Competition and Trade*, (December, 2013).
- Mondliwa, P. and Roberts, S. (2014). 'Review of economic regulation of liquid fuels and related products'. *Regulatory Entities Capacity Building Project*. Centre for Competition, Regulation and Economic Development. Available: www.competition.org.za
- Ncube, P., Roberts, S. and Vilakazi, T. (forthcoming, 2014). 'Study of competition in the road freight sector in the SADC region: case study of fertilizer transport & trading in Zambia, Tanzania and Malawi'. Centre for Competition, Regulation and Economic Development.
- North, D. C., Wallis, J. J. and Weingast, B. (2009). *Violence and Social Orders*. Cambridge: CUP.
- Page, J. (2012). 'Can Africa Industrialise?' *Journal of African Economies*, 21(2): ii86-ii125.
- Peridy, N. and Ghoneim, A. (2009). 'Regional Integration, Imperfect Competition and Welfare: The Experience of the Greater Arab Free Trade Area', *Economie Appliquée*, 52(4): 131-156.

- Peneder, M. and Woerter, M. (2013). 'Competition, R&D and Innovation: Testing the Inverted-U in a Simultaneous System', *Austrian Institute of Economic Research, WP 488*.
- Porter, M. (2002). 'Competition and Antitrust: A Productivity-Based Approach', *mimeo*.
- Rey, P. and Tirole, J. (2006). 'A Primer on Foreclosure', Chapter 7 in *Handbook of Industrial Organization III*, Armstrong, M and RH Porter, Amsterdam: North-Holland.
- Roberts, S. (2011). 'Competition policy, competitive rivalry and a developmental state in South Africa', Chapter 11 in O. Edigheji ed. *Constructing a Democratic Developmental State in South Africa: Potentials and Challenges*, HSRC Press, Pretoria, 2010.
- Roberts, S. (2013). 'Competition policy, industrial policy and corporate conduct', in Lin, J, J. Stiglitz and E. Patel (eds) *The Industrial Revolution II: Africa in the 21st Century*, Palgrave.
- Robinson S. and Thierfelder K., (2002). 'Trade Liberalization and Regional Integration: The Search for Large Numbers', *The Australian Journal of Agricultural and Resource Economics*, 46:4, pp. 585–604.
- Rodriguez, A. and Menon, A. *The Limits of Competition Policy: Shortcomings of Antitrust in Developing and Reforming Economies*, The Hague: Kluwer Law International, 2010.
- Rodrik, D. (2007). 'Normalizing Industrial Policy', Paper prepared for the Commission on Growth and Development. Cambridge, MA.
- Sakakibara, M. and Porter, M. E. (2001). 'Competing at Home to Win Abroad: Evidence from Japanese Industry', *Review of Economics and Statistics*, 83(2), 310-322.
- Schiff, M. and Winters, A. (2003). 'Regional Integration and Development', The International Bank for Reconstruction and Development / The World Bank.
- Schmalensee, R. (1989). 'Inter-Industry Differences of Structure and Performance', in R. Schmalensee and R. Willig eds. *Handbook of Industrial Organization. Vol. 2*. Amsterdam: North-Holland, pp. 951-1009.
- Singh, A. (2002). 'Competition and Competition Policy in Emerging Markets: International and Developmental Dimensions'; ESRC Centre for Business Research, Working Paper No. 246. University of Cambridge.
- Singh, A. 'Multi-lateral Competition Policy and Economic Development', UNCTAD Series on Issues in Competition Law and Policy, (Geneva: United Nations, 2004).
- Sutton, J. (1991). *Sunk Costs and Market Structure*. Cambridge, MA: MIT Press.
- Sutton, J. (2004). 'Competing in Capabilities: Globalization and Development', Clarendon Lectures in Economics, Oxford, UK: University of Oxford, Department of Economics.
- Sutton, J. (2006). 'Market structure: theory and evidence', *mimeo*.

Teece, D. J. and Pisano, G. (1998) 'The Dynamic Capabilities of Firms: An Introduction', in Dosi, G., D.J. Teece and J. Chytry (eds.) *Technology, Organization, and Competitiveness – Perspectives on Industrial and Corporate Change*, Oxford: Oxford University Press.

Tirole, J. (1988). *The Theory of Industrial Organisation*. MIT Press.

Vickers, J. 'Abuse of market power', *The Economic Journal*, 115 (2005), 244-261.

Vickers, J. 'Competition law and economics: A mid-Atlantic viewpoint', *Eur. Comp. J.*, 3 (2007), 1–15.

Vives, X. (2008). 'Innovation and Competitive Pressure', *Journal of Industrial Economics*, 56: 419-469.

Whinston, M. (2006). *Lectures on Antitrust Economics*. MIT Press.