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Competition, Productive Capabilities and Structural Transformation in SA

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Why do we need a different approach to competition?

- For capability development and structural transformation to occur in SA, need a different approach to competition, because...
- SA experience shows *that openness together with competition law does not substitute for a coordinated industrial policy that focuses on production*
- At the heart of the problem is the orientation of large firms and how they govern the value chain
 - Large incumbents extract profits at the expense of smaller firms → undermining transformation
- SA has prioritized use of competition law to discipline large firms
- Use of competition law to address power over key industrial inputs ineffective and is not a competitive discipline on entrenched incumbents
 - Where firms have used excessive prices, assessment of this has not taken historical state support into account → cost competitiveness of downstream industries have been undermined
 - Penalizing cartel conduct does not create competitors → insider firms can look at other ways to coordinate and extract rents, difficult to detect

Why do we need a different approach to competition?

- Need to engage with power along value chains and orientation of large firms
 - How do we grapple with large companies to govern value chains?
 - Instead of relying on competition law, there are a range of tools – separation of comp law and industrial policy means government ignored these tools
 - Industrial policy incentives, development finance, regulation of mining rights
- Need to move away from reliance on competition law towards a production-centred / “optimal competition” approach
 - Right kind of rivalry → competition which spurs firms to innovate and invest
 - Don’t put the competition cart before capabilities horse
 - How competition and industrial policy tools together can be used to build capabilities and transform the economy
 - Policies that promote upgrading of capabilities, transform the structure, build and strengthen linkages in the production system, facilitate progress towards higher productivity activities

“Optimal competition”, rather than competition for its sake

- SA and other developing countries pursued a market fundamentalist approach → relegates government to addressing market failures
- Alternative conception of government’s role: to spur development of dynamic comparative advantage, help construct competitive assets → pursue “optimal competition”
- Sufficient competitive rivalry to reduce inefficiency within large companies and discipline exercise of market power, while spurring investment and innovation
- Combination of competition and cooperation → related to the stage of industrial development, the world configuration of industries, context of the economy and the role of the state
- Examples: South Korea, Taiwan → balance differs from country to country
 - Korea and Japan allowed for restriction during high growth phases to build capabilities
- So:
 - *Pursue industrial policy goals using appropriate competition policy for the stage of development*
 - *Focus on production rather than exchange*
 - *Consider competitive rivalry across value chains rather than just horizontally*

Bringing production back into competition policy for transformation

Competition as a dynamic process, which can generate positive outcomes with the right rules, and industrial policy support to ensure investment, participation and broad capabilities

In practice, it means:

- Different approach to large firms rather than rely on competition law and international competition to address the market power of dominant firms – litigious; results have not been great
 - Enforcing and monitoring conditionalities on state support
 - Use a range of tools to set out expectations for corporate conduct → sector strategies which regulate conduct using a package of measures including provision of infrastructure, mineral rights, industrial policies and trade
- Competition and cooperation must be balanced to support coordinated investments
 - Policy is critical for incentivizing large firms in the “right” direction
- Competition policy must open-up markets and enable firms to be effective local and international competitors
 - Development finance, clusters, technology policy, etc

