

When CP Met IP: How to Operationalize Special and Differential Treatment?

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How does it sound?

- “Korea’s experience illustrates that it is better to introduce a competition regime at the initial stage of economic growth when monopolies have not yet gained political and economic power”
- Communication from the Republic of Korea, 2001
- Russian example.
- Having reached the top, advocating that the ladder must be removed.
- A Turkish saying

Bygones are bygones, but the question remains....

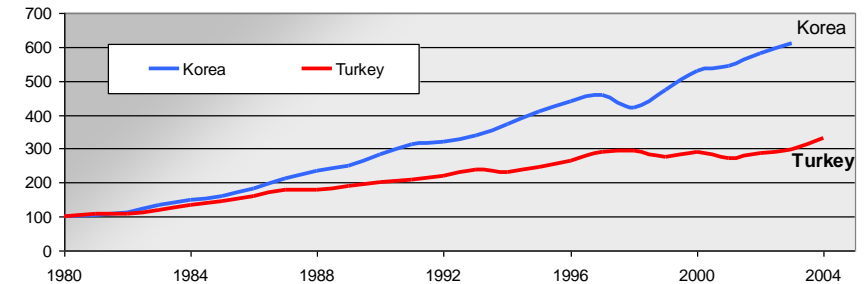
■ Income per capita

- In 1980 income per capita in Turkey was USD 1,910\$ (TR ½ of Korea).
- In 2004, income per capita in Turkey is (USD 3,196\$) Korea's income per capita (USD12,742\$).(TR 1/4 of Korea)

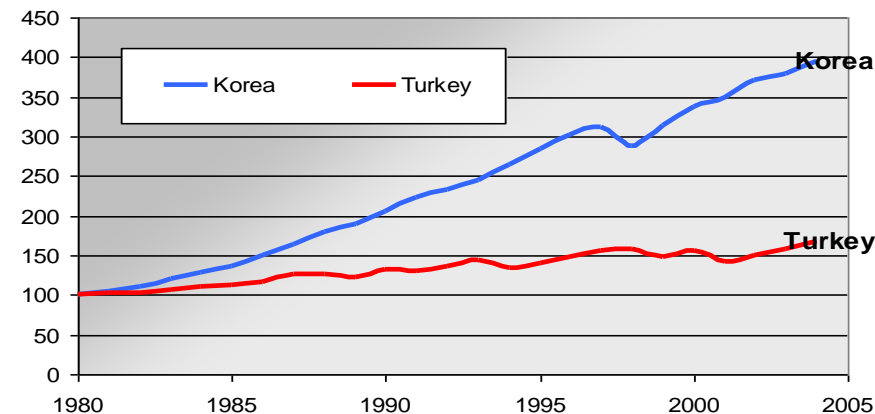
■ Industrial Value Added

- In 1980, industrial value added was USD 15 billion in Turkey and USD 35 billion in Korea. (TR is ~1/2 of Korea)
- In 2003, industrial value added has reached USD 45 billion in Turkey, and USD 215 billion in Korea. (TR is 1/5 of Korea).

GDP per capita Turkey and Korea 1980-2003 (1980 values are indexed to 100 for both countries)



Industrial Value Added Turkey and Korea 1980-2003 (1980 values are indexed to 100 for both two countries)



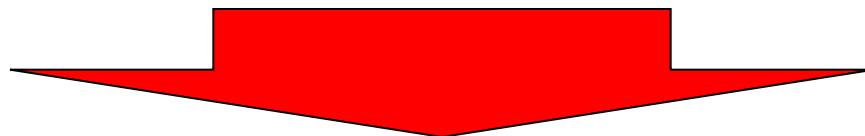
Source: World Bank World Development Indicators

Outline

- Where does the tension come from, when does CP meet IP?
- Turkey: Policy Challenges
 - Sustainability of the growth process: Productivity growth
 - Rising Current Account Deficit
 - Ongoing corporate sector transformation
 - Industrial-Competition policy mix
- Needs
 - Fast integration into the Global Value Chain
 - Moving up the Global Value Chain
 - Productivity growth
- ... but how?
 - Role of Competition Policy to enhance productivity growth
 - Is there room for “Special and Differential Treatment”?

Risks for Emerging Economies (1)

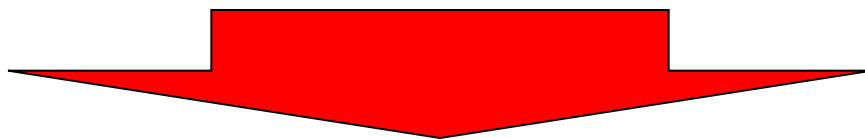
- Production processes are Global
- Accounts are National



- Hence currently vulnerabilities are still national
 - Dependency on intermediate good imports
 - Rising Current Account Deficits
 - The necessity to move up the global value chain

Risks for Emerging Economies (2)

- Production processes are Global
- Competition policy enforcement is national
- Unit of analysis in competition policy enforcement is still too narrow

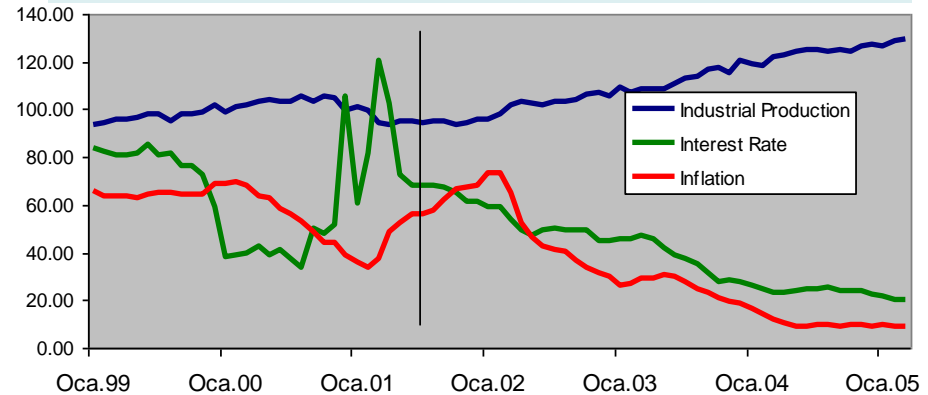


- Coordination of development strategy and competition policy is needed at national level
- Not a one-size-fits-all competition policy recipe
- Coordination of policy enforcement? Export cartels, etc.

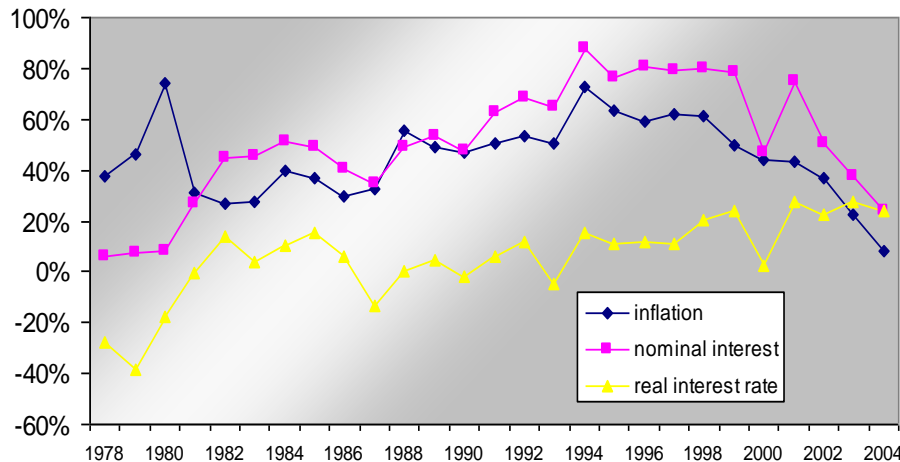
Turkey: a new process following the 2001 crisis?

- Growth without inflation
- Interest rates are falling down
- Productivity is rising
- No net job creation
- Sustainability a problem?

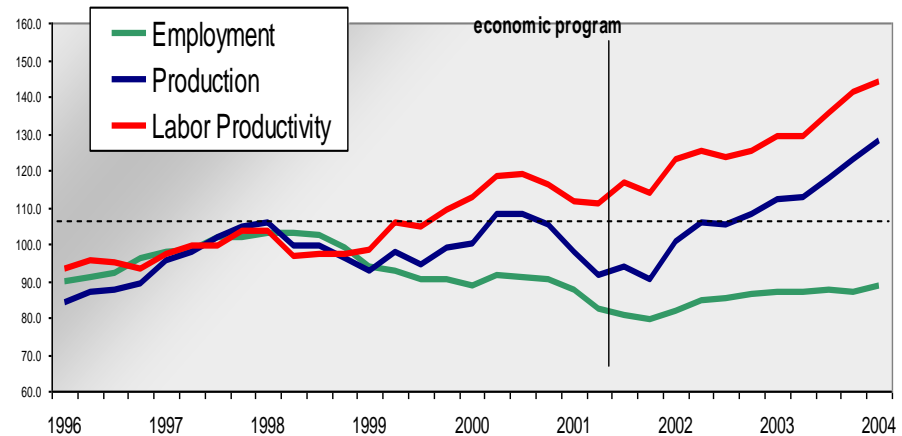
Non-inflationary growth (1999-2005)



Inflation and Interest Rates



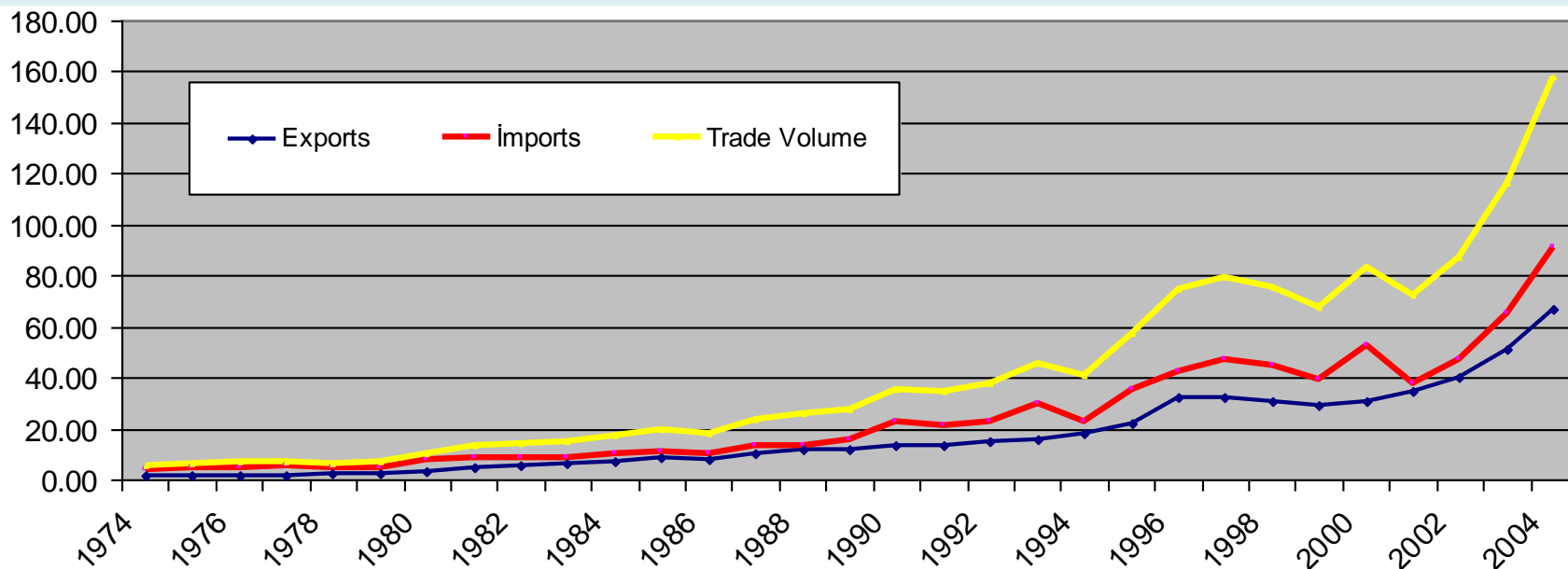
Productivity and Employment Trends



Increasing Global Integration

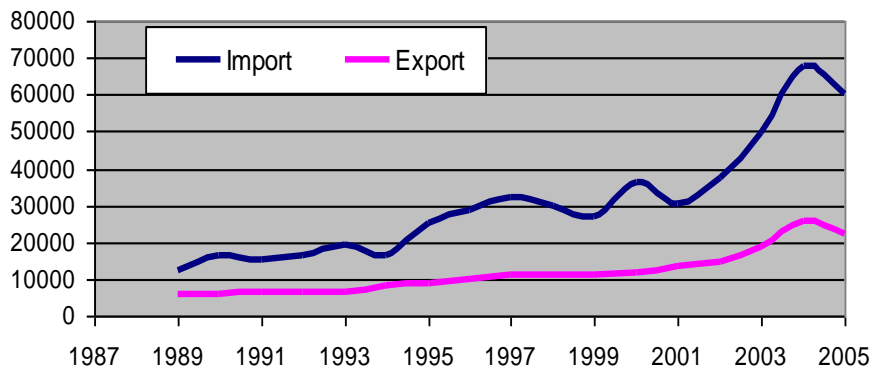
- Turkey's total trade volume has started to rise after the 1980s as a result of the economic liberalization program which involved a transition to export-oriented and a free-market based growth strategy.
- Trade flows have further increased with Turkey's entrance into the customs union agreement with the EU in 1996.
- The final boost to trade came in 2001, when a floating exchange rate regime was put into place.

Turkey's Trade Trends 1974-2004, billion USD

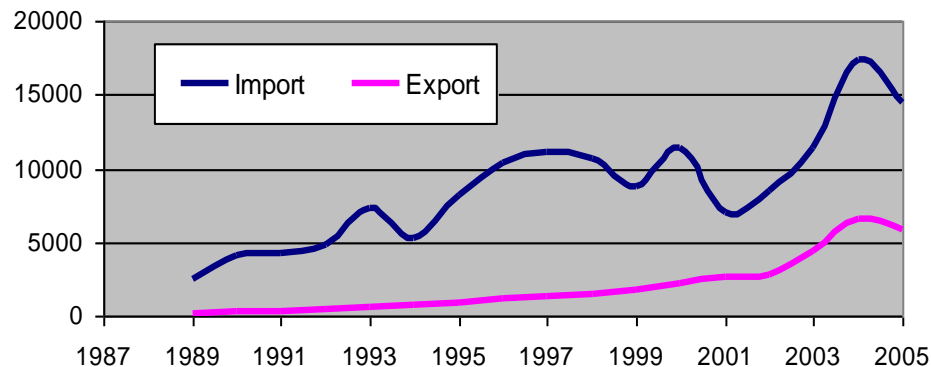


Breakdown of Trade (1987-2005*)

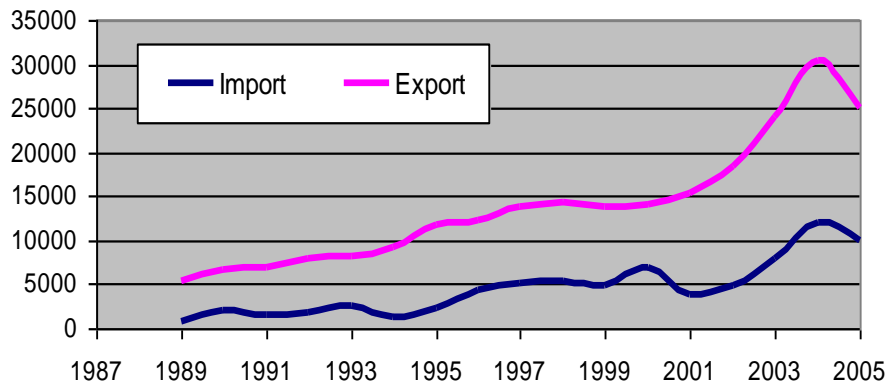
Intermediate Goods (Mln \$)



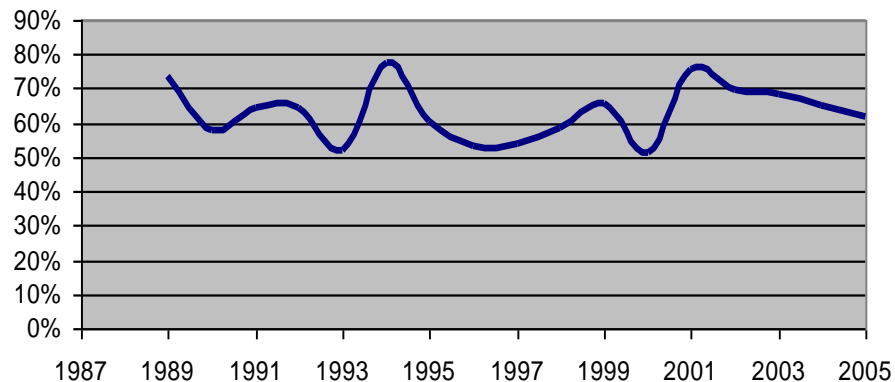
Capital Goods (Mln \$)



Consumer Goods

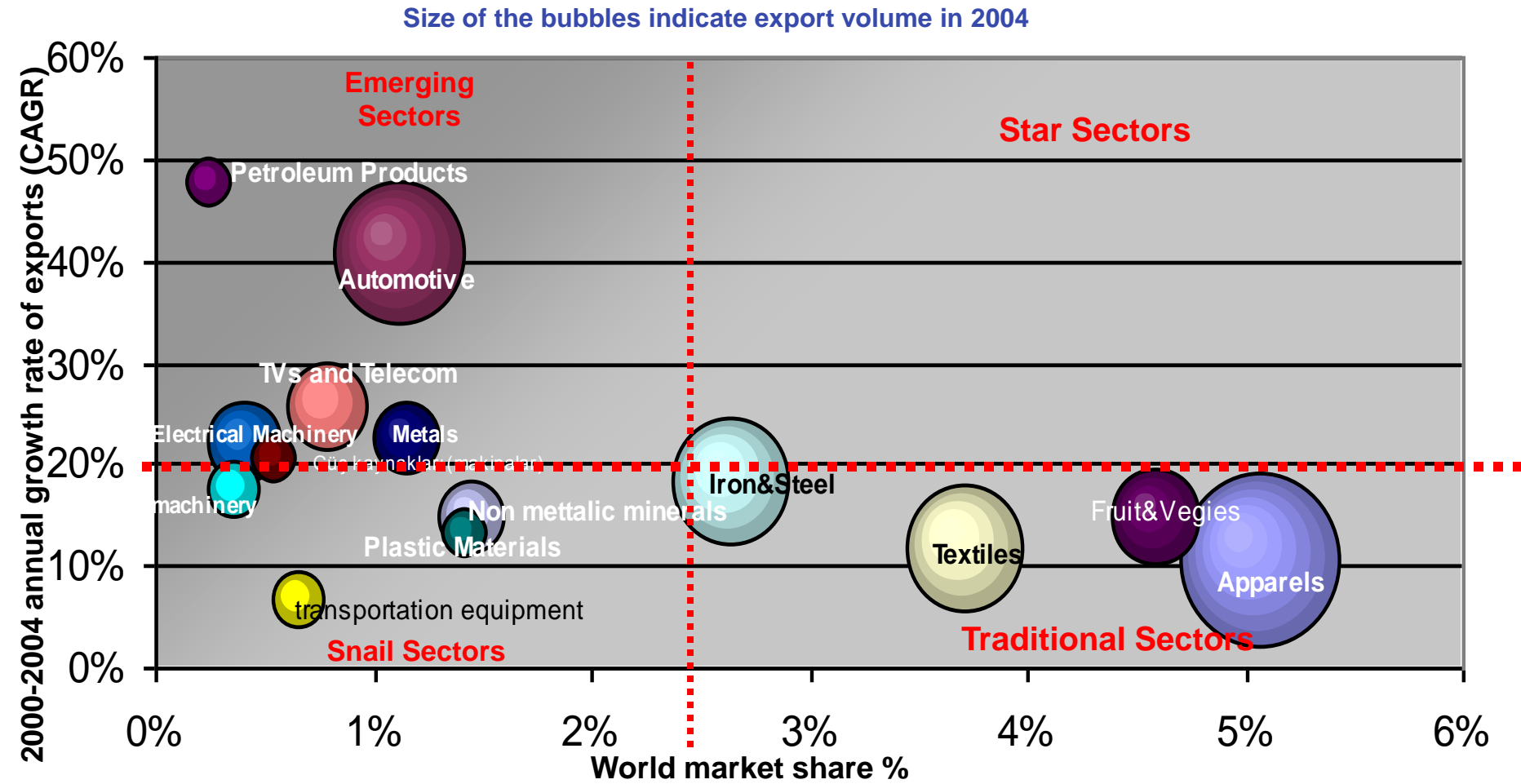


Overall Export / Import Ratio



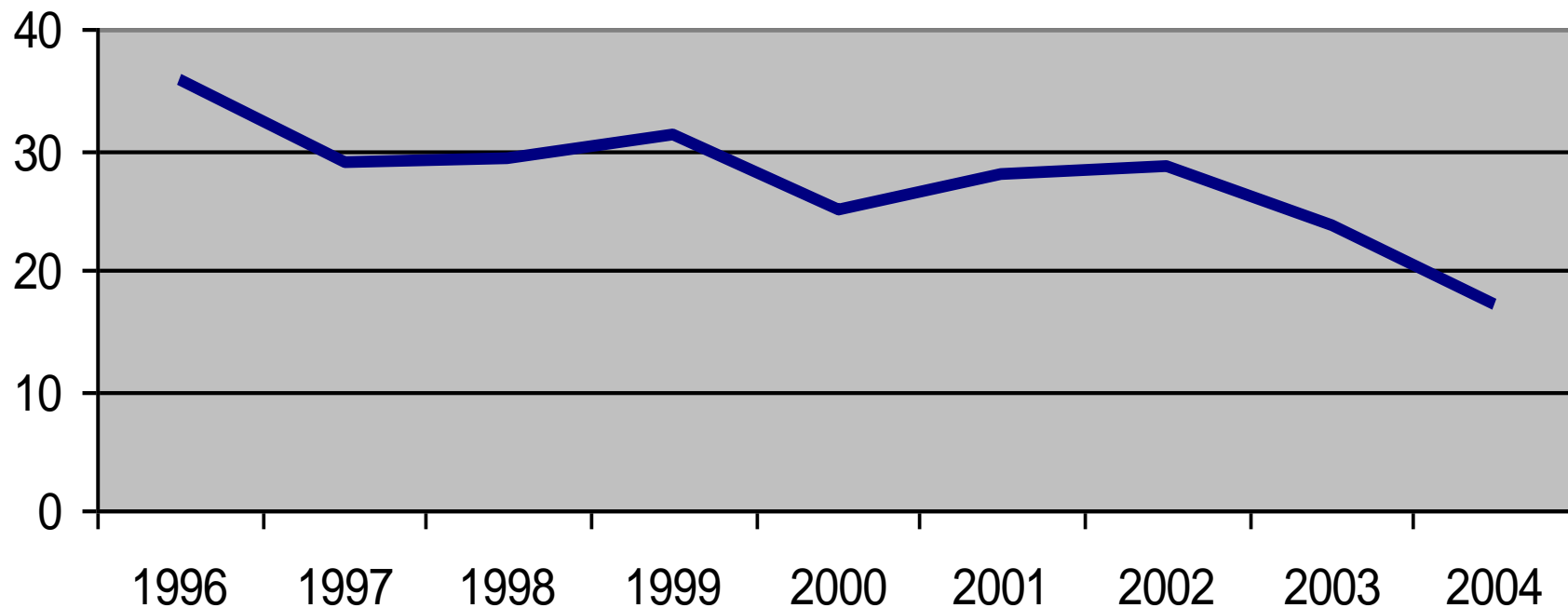
*2005 data ends in June.

Competitiveness of Turkish Industries



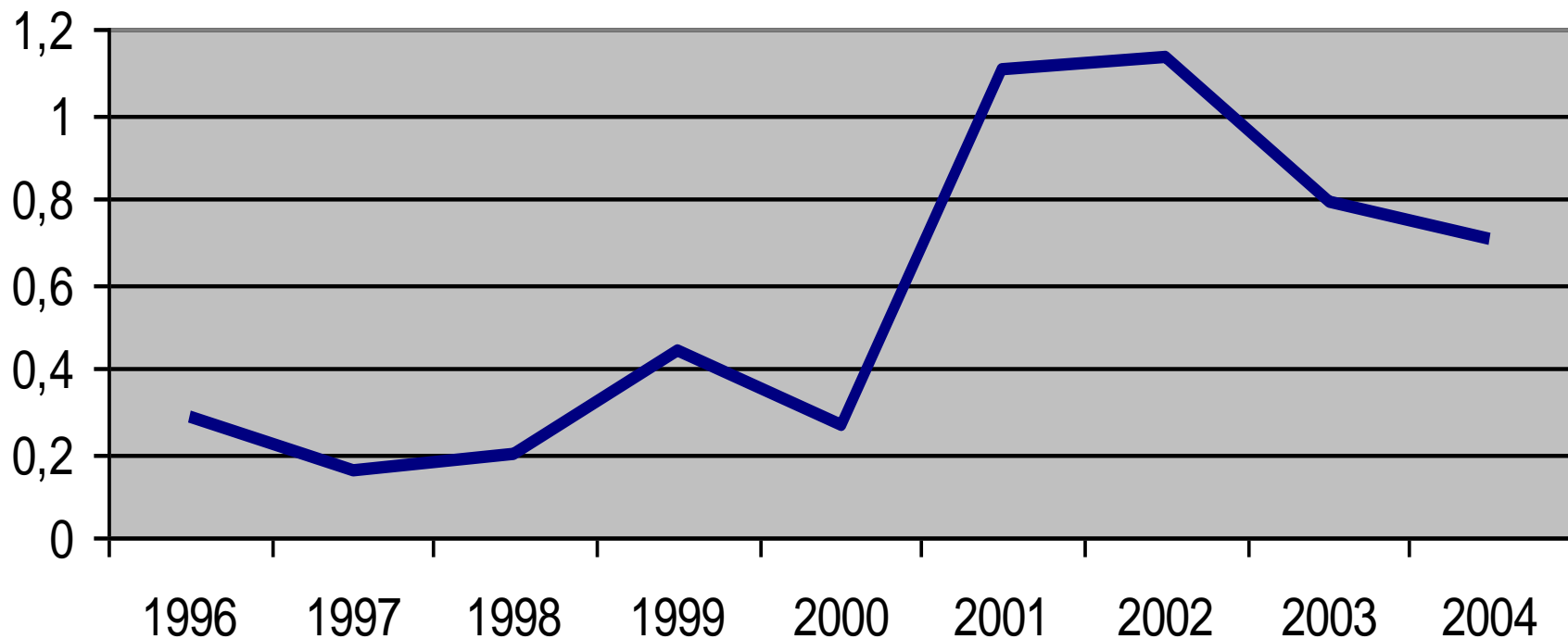
Export / Import Ratio in Traditional Industries

Apparels



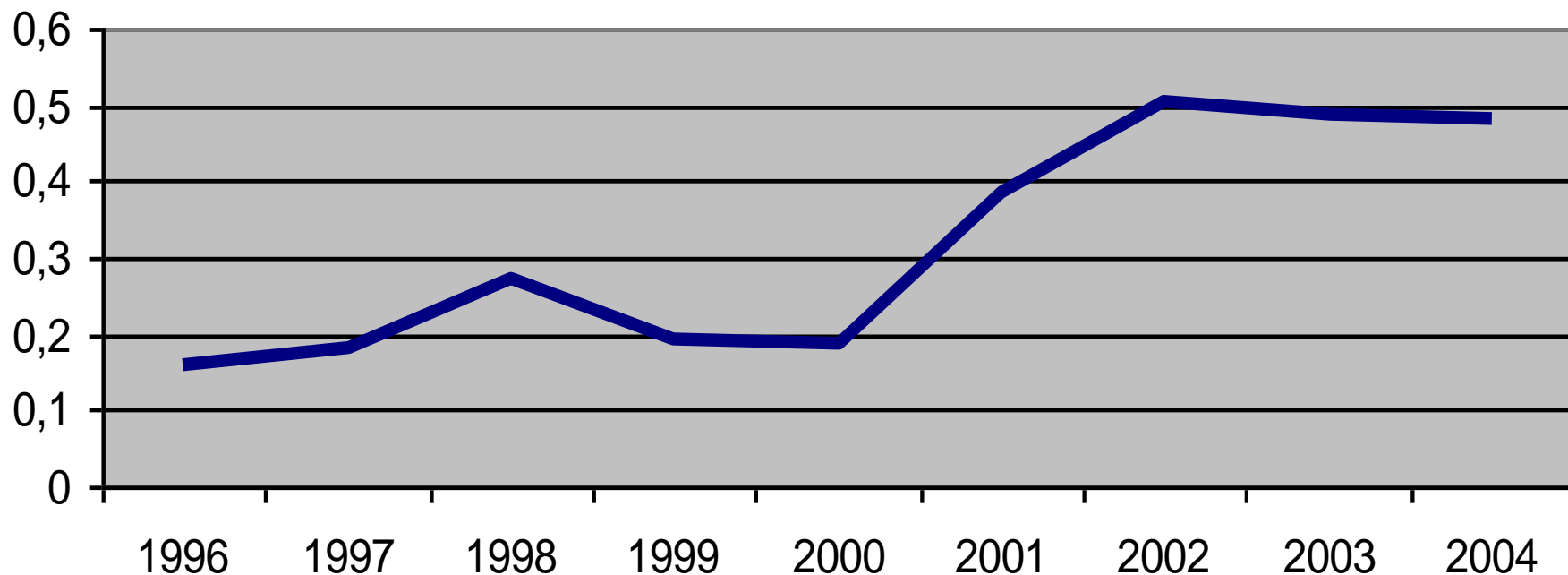
Export / Import Ratio in Emerging Sectors (1)

Automotive



Export / Import Ratio in Emerging Sectors (2)

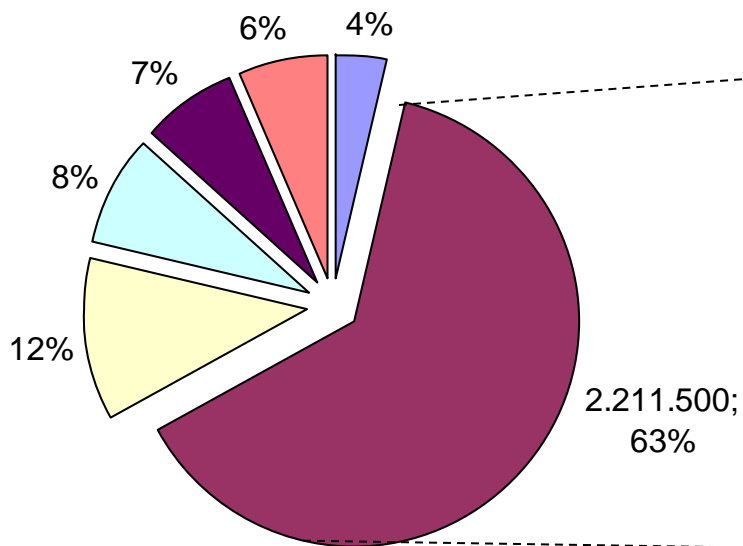
Office and Communication Equipment (mainly TVs)



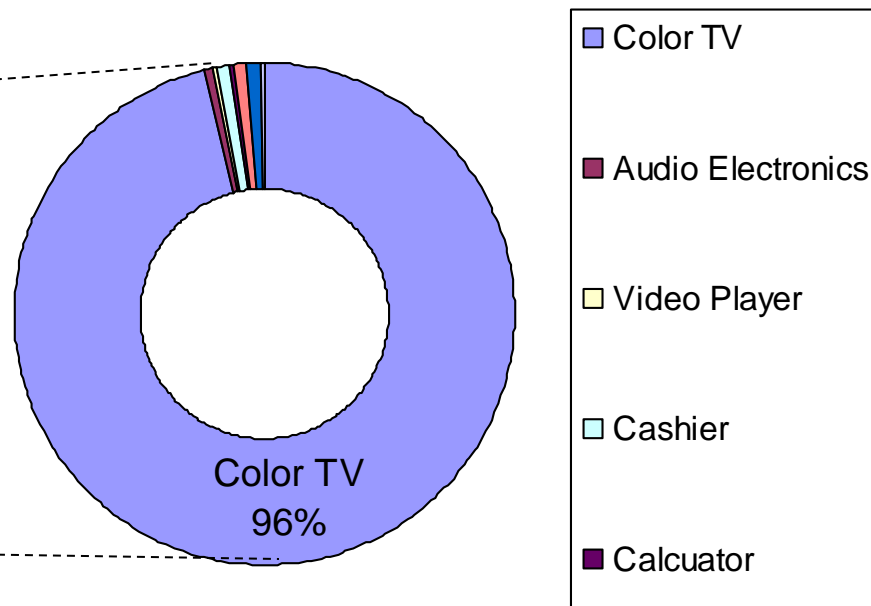
A Closer Look at the Turkish Consumer Electronics Industry

- In 2003, TV production reached a volume of USD 2.2 Billion
- 50% market share in EU
 - ➔ 80 % as OEM (for other brands), 20% as ODM (with own brand)

Turkish Electronics Industry
Production by Subgroup, 2003 (\$000)



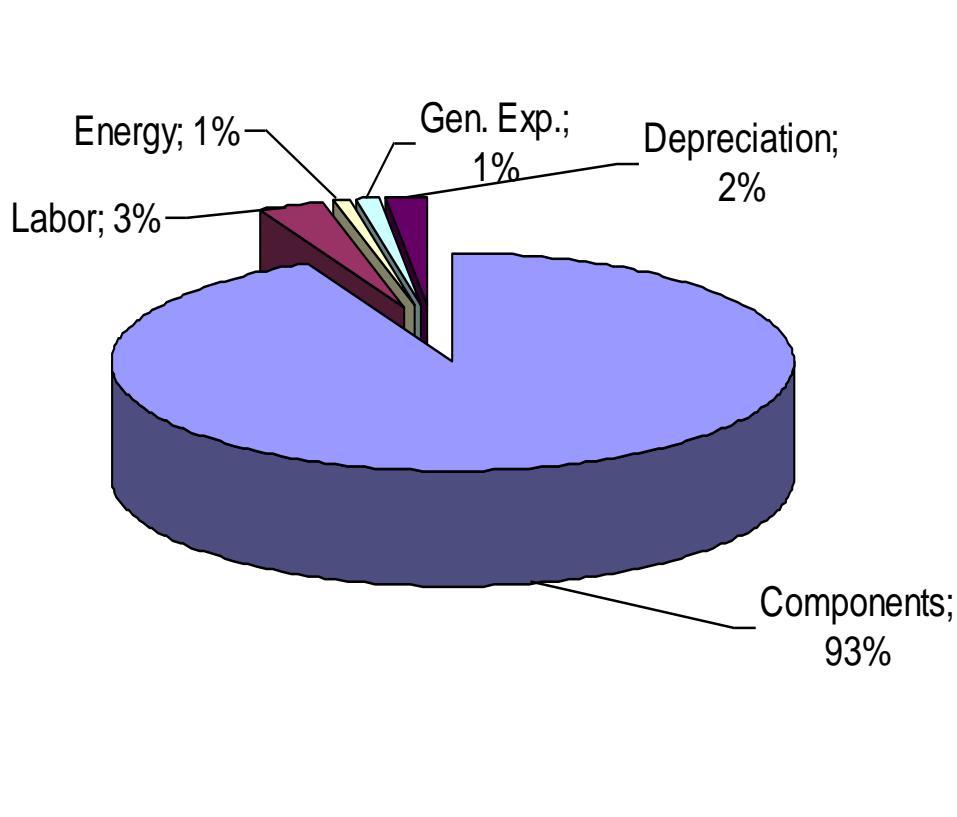
Turkish Consumer Electronics Production, 2003



- Components
- Consumer Electronics
- Telecom electronics
- Other professional industrial
- Military
- Computer electronics

■ For audio and video products, Turkey ranks 16th worldwide in export value

The Turkish TV industry is heavily dependent on imported components

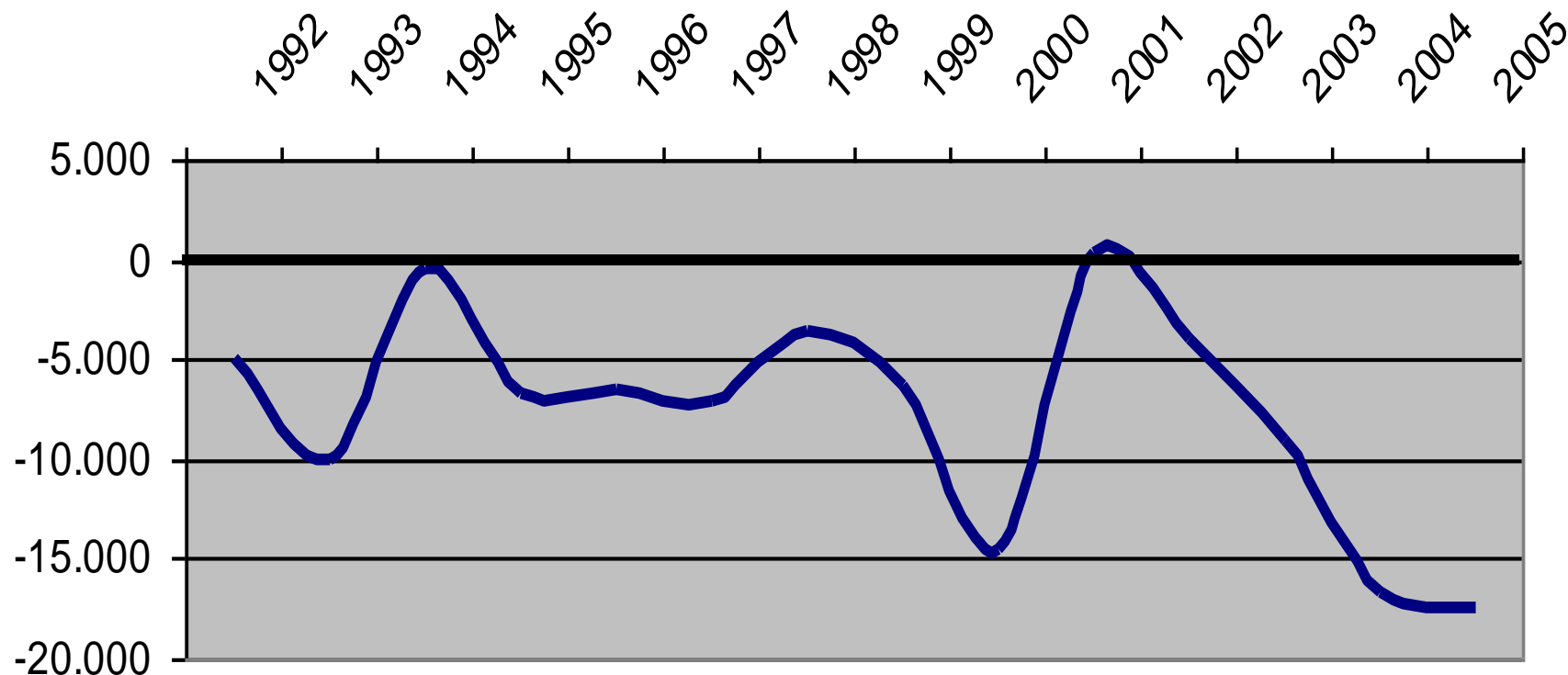


Dependence on imported components

- Turkish consumer electronics industry has recently started importing from East Asia with the lifting of anti-dumping taxes
- Until then most components were imported from the EU

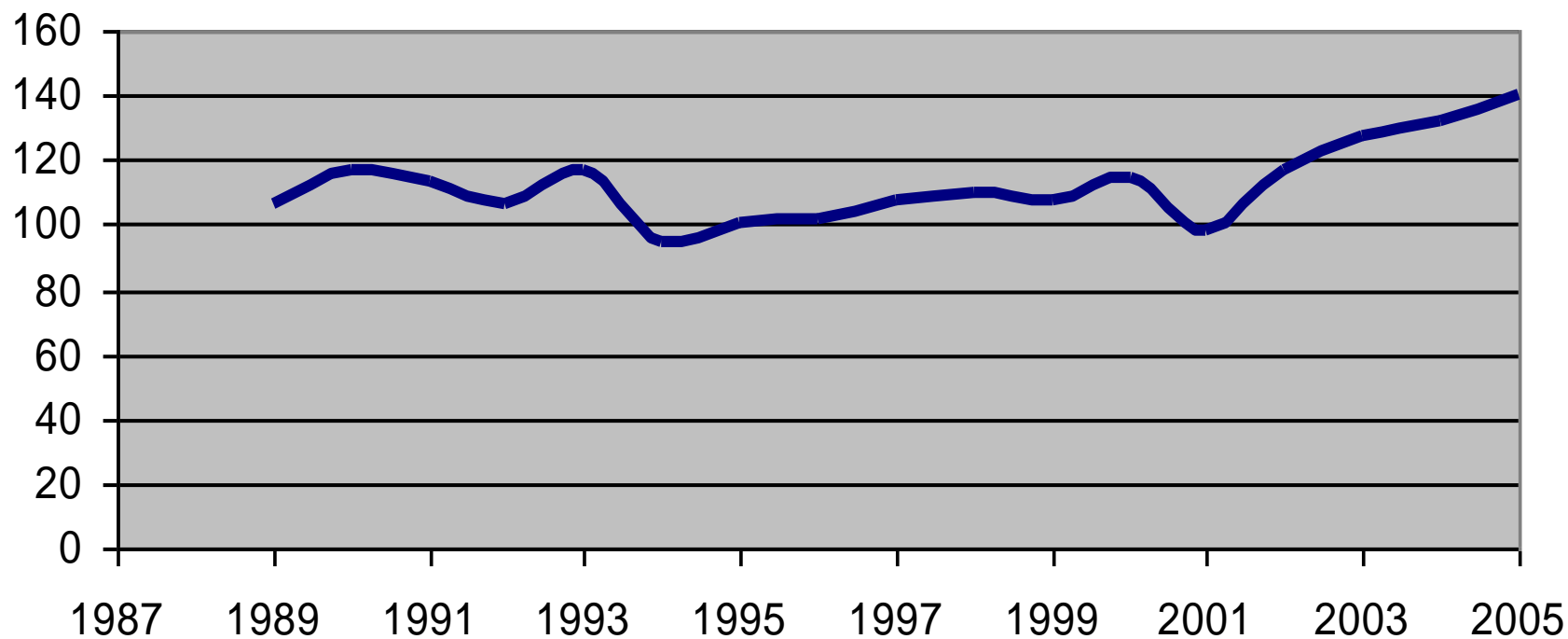
Rising Current Account Deficit

Current Account Balance (Mln \$)



Exchange Rate Trends

Real Exchange Rate (Average)



What do the numbers tell?

- Exports are on the rise; but so are imports (even faster)
- Appreciating exchange rate plays a role
- Structure of the production process has to be considered (Correct even before 2000)
- Going to be all the more important: Mode of integration to the global production process

Can a country choose the mode of integration?

- How can we define integration?: Mode of integration to the global value chain
- Integration into the Global Economy
 - Positioning in the Global Value Chain
 - Traditional exporting sectors (textile and apparels) decline in competitiveness
 - Emerging exporting sectors (automotive, office and telecom equipment) are NOT net exporters
 - In the emerging export sectors, decisions are made GLOBALLY.

In order to reduce vulnerabilities related to global integration:

- Formulate an *industrial policy* to:
 - Move up to more value added activities
 - Build strong clusters for specialized inputs
 - Support (~ protect) the domestic learning process
 - Facilitate skills conversion from traditional to emerging sectors
 - Removal of investment climate constraints
 - Adopt a strategic FDI in line with development goals

A competition policy framework to enhance productivity growth (1)

- Removing entry barriers and leveling playing field for a better investment climate:
 - Removal of exclusive rights and state aids that constitute entry barriers
 - Avoidance of vertical agreements by dominant firms
 - Handling refusals to supply and essential facilities
- Liberalization in infrastructure sectors to lower input prices:
 - A privatization strategy that promotes competition
 - Prudent regulatory frameworks
 - A balance between competition and regulatory authorities

A competition policy framework to enhance productivity growth (2)

- Promote productivity enhancing agreements through exemptions:
 - Exemptions on R&D and technology transfers
 - Vertical agreements: a sector-specific fine-tuning strategy to provide a balance between productivity enhancing agreements and entry barriers
 - De minimis for agreements between SMEs; hence a liberal definition for SMEs. **ENLARGE** the unit of analysis?
 - Special treatment of some sectors: a double-edged sword? **ENLARGE** the unit of analysis.
- Mergers and acquisitions:
 - Sector-specific policy to exploit scale economies in global competition
 - Fine-tuning between prohibitive policies and creating national champions
 - Not only SMEs, need for large corporations in the country.

Enhancing the competition policy space

- We need special and differential treatment of some sectors & agreements in line with industrial policy
- To this end, we need a competition authority:
 - which is independent, to avoid capture by vested interests
 - with a strong institutional capacity and with adequate resources to sustain that capacity
 - which has clear boundaries with regulatory authorities: delegating competitive oversight to competition authority
 - which has close control over state aids. (becomes all the more important when CP met IP)
 - which has a global outlook regarding the analysis

To sum up:

full harmonization vs. room for diversity

- We have to facilitate industrial transformation towards higher value-added activities in a world where accounts are national but activities are global. (sustainability argument)
- To this end: we need a strategic industrial policy of which competition policy is a crucial component
- Harmonization:
 - Independent competition policy enforcement
 - Strong policy-making capacity
- Diversity:
 - Space for strategic policies (exemptions, etc.)

...thank you...