Study calls for industry legislation to build a better future in developing countries

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New research from the University of Portsmouth has called for stronger industry legislation in developing countries to help fight business monopolies reducing competition.

Over recent decades, Governments around the world have introduced a number of regulatory reforms, including the transfer of ownership of state-owned firms from the public to the private sector, with the aim of making these firms more profitable, efficient and productive.

However, the study, published in the journal *Annals of Public and Cooperative Economics*, suggests that these reforms in developing countries, will not bring about the desired policy aim of creating a 'level playing field'.

The researchers argue that to make industry competitive and efficient, what is needed is an effective and authoritative regulatory framework and efficient legal and court procedures, backed by legislation, as well as a reduction of government interventions in investigations of market abuse and the subsequent collection of fines.

They further argue that regulatory bodies should keep a close eye on particular industries with higher costs. Those industries with transportation issues, such as cement due to the bulky nature of the product and exclusionary practices that makes it easy to exercise significant market power and form tacit collusion due to the building of larger production capacities, among other factors, need to be carefully regulated and monitored.

Using the cement industry in Pakistan as an example, the researchers found that industries have established an effective tacit collusion mechanism that has allowed them to increase prices beyond the increase in the cost of production, based on the production of less than competitive output levels. The conspirator firms have been able to maintain this collusion for almost two decades, mainly due to the inefficient and weak regulatory and legal system, the acquisition of small and medium-sized competitor firms, significant capacity additions, exclusionary practices, the formation of a powerful producer association, and strong and interconnected business conglomerates.

Lead author of the study, Dr Yaseen Ghulam, Senior Lecturer in Economics, said: "Due to interconnected conglomerates' tactics, such as exclusionary practices, the acquisition of smaller competitor firms and the addition of significant capacities, the industry has witnessed a stable degree of seller concentration after broader reforms including privatisation.

"Consequently, colluding conglomerate firms have been able to maintain control over supply and prices for two decades in the post-reform period, despite allegations of tacit collusion leading to the imposition of fines and the issuing of warnings by the regulator, which is, however, weak and inefficient."

The observations and findings of this study, from a country with a reputation for inefficient and weak regulatory authorities and interconnected conglomerates, will provide valuable guidance for regulatory and competition authorities in developing countries in general and Pakistan in particular.

More information: Yaseen GHULAM, THE IMPACT OF

REFORMS AND PRIVATIZATION ON FIRMS' CONDUCT IN THE PRESENCE OF INTERCONNECTED CONGLOMERATES AND WEAK AND INEFFICIENT REGULATORY INSTITUTIONS, *Annals of Public and Cooperative Economics* (2018). DOI: 10.1111/apce.12209

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