Special Section: The State of Competition in Pakistan[1]

S1.1 Introduction

Competition, defined as "the pressure exerted in the market by different players in search of market shares and profits",[2] is an important institutional pillar for developing a market economy characterized by efficiency, innovation and wider consumer choices. In such an economy, firms go all out to minimize costs, prioritize innovation and streamline production processes to make them leaner, responsive and profitable. Theoretical literature provides evidence that competition in product markets enhances firms' productivity, increases business opportunities, supports sustainable economic growth and international competitiveness, and benefits consumers through low and stable prices. The latter is particularly important from the point of view of monetary policy, as central banks across the world prioritize targeting price stability as one of their major objectives.

In the line of this argument, policymakers have come to widen the scope of the "enabling environment" objective of the state. Specifically, competition policy is now considered an essential element of this environment, alongside macroeconomic stability, investment in human capital development and a credible governance structure. Within this context, this section intends to: (i) highlight the significance of competition towards economic growth and development; (ii) describe the best practices with regards to competition polices in a cross-country context; (iii) elaborate upon the state of competition in Pakistan's economy; (iv) evaluate the institutional framework with regards to competition policy in the country; and (v) suggest a policy review that is needed to inculcate competitive practices in the economy.

S1.2 Competition, Competition Policy and Economic Development

Competition is crucial for economic development

Competition in the market pushes firms to minimize their costs, reduce redundant operational processes and keep innovating in order to maintain or increase their market share. Coupled with reduced barriers to trade and relatively open policies towards foreign investment, a competitive environment incentivizes businesses to improve their technological expertise and forge linkages with the global and regional value chains. Cumulatively, the progress in terms of productivity,

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[2] "The importance of Coherence between competition Policies and Government Policies", Note by the United Nations Conference on Trade and Development Secretariat, May 2011. TD/B/C.I/CLP/9

innovation, and smooth foreign exchange earnings results in a growth trajectory that is not only robust but also structurally balanced and sustainable.

As Table S1.1 shows, empirical evidence points towards the positive spillovers of competition in an economy. A high level of product market competition is found to lead to lower levels of inflation, an increase in the number of operating firms due to limited barriers to entry, higher labor productivity levels, and significant consumer savings. Encouragingly, the evidence of this is found across all sectors of the economy such as agriculture, industry, transport and retail. It is pertinent to state, however, that it is the enforcement of competition in the form of merger control, cartel identification and regulation, and government policy review exercises – and not just the existence of competition policies – that result in improved economic performance.

Table S1.1: Empirical Collection on Effect of Competition Policy Reforms [1]

Policy Area and Country	**Study**	**Reform**	**Effect/Results**
15 EU Countries*	Przybyla, Marcin; Roma, Moreno 2005		"Higher product market competition reduces average inflation rates for a prolonged period"
Canada**	Amirault, Kwan and Wilkinson, 2006		"Competition not only have a positive impact on price flexibility, it is more likely to place downward pressure on inflation."
Cross-country	Kee and Hoekman 2007	Introduction of competition law; elimination of restrictive government regulations	Increase in domestic firms of 7.2%
Panel	Buccirossi and others forthcoming	Increase in quality of institutional and enforcement policies as measured by a competition policy index	Total factor productivity growth of 1% resulting from 20% increase on index scale—roughly equivalent to moving from level of enforcement in the Czech Republic to that in the United Kingdom
United Kingdom	Symeonidis 2008	Introduction of cartel law (the Restrictive Trade Practices Act) in 1956	With intensification of price competition, closure of a 20–30 percentage point gap in labor productivity growth between cartelized and competitive industries
United States	Werden 2008	Cartel enforcement	Total consumer savings in 2000–07 estimated at about US$1.85 billion
Netherlands	Postema, Goppelsroeder, and Bergeijk 2006	Merger control	Net benefits to society estimated at about €100 million a year
Australia	Australian Productivity Commission 2005	Elimination of anticompetitive regional policies; introduction of competitive neutrality principles	Drop in average real electricity price of 19%, in rail freight rates of 8–42%, and in real port charges of up to 50%; increase in GDP of 2.5%

Vietnam	Kompas and others 2009	Land and market reforms moving from commune-based public ownership and output share contracts to private property and market-driven production and pricing	Large increase in total factor productivity in main rice-growing regions; national average annual increase in rice output of 3.5%
Kenya	Jayne and Argwings-Kodhek 1997	Opening of market and elimination of price controls for maize	Consumer savings of US$10.1 million a year (due to lower milling costs)
Lao PDR	Arnold 2005	Breaking up of Lao PDR trucking cartel and opening of transit to all Thai truckers	Reduction in logistics costs on Bangkok–Vientiane route of 30%
Mexico	Ros 2011	Opening of air transport and routes to low-cost entrants	Reduction in air fares of up to 37% (on routes served by low-cost carriers)
Cross-country panel	Micco and Serebrisky 2004	Improvement in the quality of air transport regulation and Introduction of “open skies” agreements to foster competition	Reduction in transport costs of 8-14%
Italy	Pellizari and Pica 2011	Removal of price floors and advertising ban in the legal profession	More productive lawyers more likely to stay in the profession
Australia	EC 2004	Elimination of the exclusive rights of lawyers	Potential drop in overall legal costs of 12%
Ukraine	Shepotylo and Vakhitov 2012	Liberalization of services	Increase in total factor productivity of 3.6%
United States	Goos 2005	Deregulation of shop opening hours	Increase in employment of 4.4–6.4% and in total revenue of 3.9–10.7% in deregulating industries
United Kingdom	Maher and Wise 2005	Liberalization and pro-competition regulations in gas, water, and electricity	Increase in productivity growth of more than 10%

Data source: * Przybyla, Marcin; Roma, Moreno (2005): Does product market competition reduce inflation? Evidence from EU countries and sectors, ECB Working Paper, No. 453, European Central Bank (ECB), Frankfurt, ** Amirault, D., Kwan, C. and Wilkinson, G. (2006), “Survey of Price-Setting Behavior of Canadian Companies,” Working Papers 06-35, Bank of Canada.
[1] Kitzmuller, Markus; Martinez Licetti, Martha. 2012. Competition policy: encouraging thriving markets for development. Viewpoint; note no. 331. Washington, D.C.: World Bank Group.

Similarly, competition in markets help keep prices low and stable

The level of competition has also been found to be an important determinant of price stability in an economy. For example, Neiss (2001), in a cross-country analysis pertaining to 24 OECD economies, found that product markup rates and inflation were positively related.[3] A similar study by Cavelaars (2003) concluded that product markups helped explain 67 percent of the variation in inflation rates

[3] Neiss, K. S. (2001). The markup and inflation: evidence in OECD countries. Canadian Journal of Economics/Revue canadienne d'économique, 34(2), 570-587.

in the countries examined.[4] This was even after accounting for the commonly analyzed macroeconomic variables such as size of the country, stage of development, level of trade openness, autonomy of central banks, and effectiveness of relevant fiscal policy measures, etc. Importantly, Przybyla and Roma (2005) found that the relationship held across the different sectors of the economies, with higher product competition reducing inflationary pressures in the economy for a prolonged period (i.e. the negative relationship tended to persist beyond the temporary effects).[5]

Presence of an optimal competition policy is important

The existence of competition is not automatic and requires addressing of market distortions. This is where the need for effective competition policies that incentivize competition and credibly discourage market exploitation and monopolistic behavior arises. Historically, competition policies and regulations have been credited for the successful development phases in many advanced and emerging economies.

An optimal competition policy may thus be defined as "the set of policies and laws which ensure that competition in the marketplace is not restricted in such a way as to reduce economic welfare."[6] This brings us to explore the components of such a policy. The priority would be to enhance welfare in the society via promoting market integration, controlling excessive profit-making and ensuring fairness and equity in market dealings and structures, often all concurrently. Absence of such policies would gradually lead towards concentration of wealth and the emergence of cartels, which would distort the market and result in inflationary pressures, and general welfare loss in the society.[7]

Facilitative interventions by state institutions are important

The definition of competition mentioned above grants room for facilitative interventions in the market – the ones that improve the general welfare. Historical contexts are aplenty.[8] What is important to note is that competition policy will not

[4] Cavelaars, P. (2002). Does Competition Enhancement Have Permanent Ination Effects?. DNB staff Reports, (92).

[5] Przybyla, M; Roma, M (2005): Does product market competition reduce inflation? Evidence from EU countries and sectors, ECB Working Paper, No. 453, European Central Bank (ECB).

[6] Motta, M. (2004). *Competition Policy: Theory and Practice.* Cambridge University Press.

[7] The World Bank Markets and Competition Policy Assessment Tool of 2016 identifies common factors leading to cartelization as barriers to entry, high concentration and few firms, barriers to imports, product homogeneity, excess capacity, and lack of buyer power.

[8] It is often argued that the "miracle" growth of East Asian economies was achieved via consistent and well-directed state interventions. In addition to sound macroeconomic management and human capital development policies, this entailed prioritizing direct facilitation of certain industrial sectors

work in the absence of effective and strong public sector institutions. Here, the authorities must invest in costly and risky research and development; provide the physical, digital and collaborative infrastructure to the private sector; actively focus on human capital development and gender equality; improve access to effective and secure financial institutions; and open the economy to foreign competition and technology. This would lead to a market structure with competitive characteristics.

S1.3 Where does Pakistan stand in terms of competition and competitiveness?

Keeping in view the discussion above, it is first important to view the current structure of Pakistan's economy and the competition environment in light of the macroeconomic policies and public sector management. It can be stated that "high protection and import substitution" was laid at the very foundation of industrialization in the country in early 1960s.[9] This protective policy regime, comprising of high tariff and non-tariff barriers, generous fiscal incentives and provision of bank credit at concessional interest rates, is often blamed for inculcating rent-seeking tendencies in domestic businesses. While protection at the start enabled domestic producers and laborers to acquire the necessary skills and address cost disadvantages, by the end of 1960s such support was not needed to the prevalent extent anymore as firms had become able to compete successfully with imports (Kemal, 1979).[10] Furthermore, Soligo and Stern (1965) found that excessive protection provided to the businesses distorted the market, in that it led to too much investment in the consumer goods segment at the expense of gross capital formation activities in the investment goods and intermediate goods industries. In fact, the amount of protection provided to most consumer goods

under the "picking winners" policy. However, it is pertinent to highlight that picking winners did not mean that development of competitive markets was being overlooked, as might be incorrectly inferred in this case. On the contrary, the sectors were chosen based on their past performance and potential of innovation, and the objective of the interventions were confined to minimizing price distortions and encouraging export growth. For this, the government invested in public research on emerging technologies, setting sector-specific export targets, and enhancing collaboration between public and private sectors. Here, "contests" were also organized between firms with rewards in the form of export credit and foreign exchange. All this led the eight East Asian "miracle" economies (Japan, Hong Kong, South Korea, Singapore, Taiwan, Indonesia, Malaysia and Thailand) to become the fastest growing amongst all regions between 1965 and 1990. Source: Birdsall, N.; Campos, J.; Kim, C; Corden, W; MacDonald, L [ed] (1993). The East Asian Miracle: Economic Growth and Public Policy. A World Bank policy research report. Oxford University Press.

[9] Haque, Irfan-ul (2015) "Theory at Odds with Best Practice: The Travails of Industrial Policy". The Lahore Journal of Economics 20 : SE (September 2015): pp. 87–106

[10] Kemal, A. R. (1979) Infant Industry Argument, Protection and Manufacturing Industries of Pakistan. The Pakistan Development Review 1–19.

industries exceeded the contribution to value-added of those industries.[11] In aggregate terms, the average level of protection and subsidy to industries were found to be around two-fifths of value-added, and such trade-restrictive policies also resulted in domestic prices diverging widely from the prices that existed in the international markets (Lewis and Guisinger, 1968).[12]

Then during 1970s, the industrial sector's wholesale nationalization significantly increased government's footprint in nearly every sector of the economy. This further discouraged competition in the domestic market. Following the deregulation, privatization and trade policy reforms starting from late 1980s, the direct role of government reduced considerably, import barriers came down and investment policy was liberalized. However, it is important to highlight that even though the government significantly reduced its direct role in banking, telecommunications and manufacturing, its footprint on crucial sectors, such as transport (aviation, railways and road logistics) and energy (generation, transmission and distribution of natural gas and electric power) remained strong.

Furthermore, protectionist policies continued into the 1990s and 2000s, by which time industries were benefitting from subsidies worth 7 percent of GDP (Kemal 1999).[13] According to Khawaja and Mian (2004), during the period 1996 and 2002, political businesses (one defined so if its director participates in an election) borrowed 40 percent more than other firms, despite having 50 percent higher default rates. Moreover, they estimated that the economy-wide cost of rent-seeking in Pakistan stood between 0.3 percent and 1.9 percent of GDP per annum.[14] The result has been that the government policy with regards to industrial sector has not focused on product and market diversification, technological advancement and distribution of rents via incentives (Rasiah and Nazeer, 2016).[15] To summarize, Pakistan was "ultimately unable to attach performance conditions

[11] Soligo, R. and J. J. Stern (1965) Tariff Protection, Import Substitution and Investment Efficiency. The Pakistan Development Review 5:2, 249–270.
[12] Lewis Jr, S. R. and S. E. Guisinger (1968) Measuring Protection in a Developing Country: The Case of Pakistan. Journal of Political Economy 76:6, 1170–1198.
[13] Kemal, A. R. (1999) Patterns of Growth of Pakistan's Industrial Sector. Fifty Years of Pakistan's Economy. Karachi: Oxford University Press.
[14] Khawaja, A., & Mian, A. (2004). Corruption and Politicians: Rent-seeking in an Emerging Financial Market. Cambridge, United States: Harvard University, Kennedy School of Government. Mimeographed document..
[15] Rasiah, R. and N. Nazeer (2016) Comparing Industrialization in Pakistan and the East Asian Economies. The Lahore Journal of Economics 21:167.

to subsidies and large firms were able to form alliances with powerful political factions to prevent subsidies being reallocated once given."[16]

As things stand, other than transport and energy sectors where the direct *participation* of the government remains strong, manufacturing is another sector where the incidence of public institutions' involvement remained high.[17] For instance, the public sector authorities have retained the responsibility to set the gas allocation quota and feedstock prices for fertilizer units; set drugs prices in the pharmaceutical industry; determine margins for petroleum refineries and oil marketing companies; manage commodity procurement cost for sugar and wheat flour industries; and provide tariff protection to the automobile industry. Moreover, frequent recourse to revenue-centric tariff measures (including imposition of regulatory duties) also create distortions in import-dependent sectors such as steel and electronics. In contrast, the export-oriented sectors are also provided with subsidies in the form of tax refunds and duty drawbacks, and concessional financing. Finally, minimum support prices, fertilizer subsidies and minimal *abiana* charges do not incentivize efficient production practices in agriculture.

Under such an overarching regulatory structure, competitive markets in different sectors of the economy could not develop. Meanwhile, overall investment activity and entry of new players remained limited due to recurring macroeconomic imbalances, inadequate infrastructure, and low domestic savings.[18] Furthermore, it is equally important to acknowledge here that in sectors where businesses operate independently, firms face constraints of serious nature that impede their growth. An issue that merits a discussion in this regard is the limited access to finance for private sector in the country. According to the 2017 World Bank Global Findex database, the proportion of young (15-24 years of age) and older (25 years and above) adults in Pakistan having a bank account stood at only 15

[16] McCartney, M. (2014) The Political Economy of Industrial Policy: A Comparative Study of the Textiles Industry in Pakistan. The Lahore Journal of Economics 19:105.
[17] "Aside from tariffs, sectors are also protected using Statutory Regulatory Orders (SROs). SROs circumvent legislated commercial or trade policy, allowing the government or the commerce ministry to provide protection to sectors that can effectively lobby for it, bringing a high degree of uncertainty and arbitrariness to trade policy implementation. At the same time, export sectors in Pakistan, such as sports goods, garments, and surgical instruments, have always been proponents of enhanced trade and have suffered because of protectionist measures, as tariff escalation and more expensive imported inputs divert resources and investments toward the more inefficient rent-seeking sectors". Source: Deng, F; Illangovan, P; Blanco Armas, E. 2019. *Pakistan at 100: Regional Connectivity*. Washington, D.C.: World Bank Group.
[18] For details, see special chapter on "Factors Constraining Investments in Pakistan: Beyond Macroeconomics", SBP Annual Report for 2018-19 on the State of Pakistan's Economy.

percent and 25 percent, respectively. And the share of adults who accessed formal banking channels to borrow for business inception, conduct or expansion was zero percent for young adults and only 2 percent for older adults. The overall bank credit to GDP in Pakistan is one of the lowest among emerging market economies, with large corporates constituting the largest clientele of bank lending. Small and medium enterprises (SMEs) have a share of only 5.4 percent in banks' lending portfolio (at end December 2019).

Overdependence on own savings (retained earnings or owners' personal funds) and informal channels (which are both expensive and unreliable) makes it difficult for SMEs to expand their operations and compete effectively. Investment activities also stay subdued, as the meagre funds prove adequate enough to cover only the working capital requirements. Furthermore, with the focus predominantly on survival, objectives such as product diversification, innovation and productivity enhancement are not prioritized and firms get stuck with their existing mode of operations.

Potential and existing investors also complain about the legal and regulatory systems. For long, starting a business had entailed cumbersome documentation and approval procedures where multiplicity of steps at federal/provincial levels and a lack of coordination between various public authorities delayed business operations.[19] Furthermore, relatively standard court proceedings take considerable amount of time to conclude. For example, according to a 2017 OICCI survey, more than half of the investors interviewed stated that average dispute settlement period in the country exceeded 5 years. Issues such as these are not only time and cost sensitive, but they also result in anticompetitive practices of businesses potentially going unaddressed for a significant time.

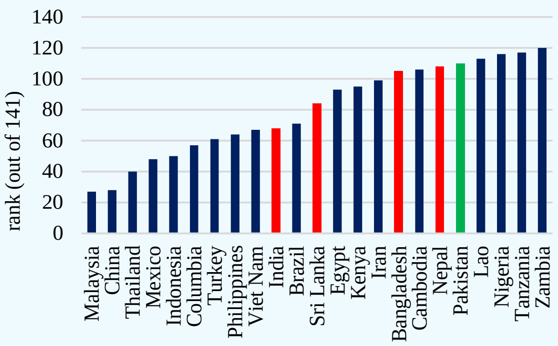
Furthermore, laws and policies related to foreign direct investment are not clear regarding crucial elements, such as the permissible scope of investment activities, nature of sectors open for investment, and local content requirements, etc. This makes foreign investors wary of entering the domestic market and/or expanding their operations. Domestic firms also suffer, because joint ventures with large multinational players have been found to be a major contributor to improved R&D activities, robust product diversification, and productivity and competitiveness enhancement.

[19] Recently, the government has actively focused on simplifying business starting procedures amongst other measures targeting ease of doing business in the country. Resultantly, the country climbed up 28 places in the 2020 World Bank's Doing Business Rankings and featured as one of the ten best reformers.

In this context, it may be useful to examine the insights from the growth diagnostics presented by the Planning Commission. The commission identified two major constraints to economic growth: "(i) inadequate market development, characterized by a lack of competition, along with tax, tariff and policy distortions; entry barriers; government involvement; and poor regulation, etc.; and (ii) lack of efficient public sector management to facilitate markets and investment with informed policy and competent regulations, and promote deepening of physical, human and social infrastructure".[20]

This implies that over the years, state institutions have not been able to perform a facilitative role in the formation of a market economy. This can be envisaged from unfavorable outcomes in terms of institutional infrastructure, competition in non-tradable sectors/services, barriers to trade, and the ease and cost of doing business. Separately, this has undermined competitiveness of Pakistan economy on the whole.

Figure S1.1: World Competitiveness Index Rankings 2019



Note: lower rank signifies higher competitiveness; red bars show other South Asian economies
Data source: World Economic Forum

Currently, Pakistan ranks 110th out of 141 economies in the World Economic Forum's Competitiveness Index 2019- the lowest amongst South Asian and most other developing economies (**Figure S1.1**). Disaggregated data shows that the country ranks below 100 (out of 141 countries) across all the indicators of enabling environment, markets, and human capital; the exceptions are market size (29th), business dynamism (52nd) and innovation capability (79th) (**Table S1.2**). This indicates that the private sector has the capacity to improve its operational practices. However, the shortcomings in the macroeconomic, regulatory and competition environment appears to be holding the country back from gaining a competitive edge over peer economies.

[20] "Final Report: The Framework for Economic Growth" Planning Commission, Government of Pakistan, approved by the National Economic Council in its meeting held on 23rd May 2011.

Table S1.2: South Asian Countries in terms of Competitiveness - Score (and Rank)

	Pakistan	India	Sri Lanka	Bangladesh	Nepal
Overall	**51 (110)**	**61 (68)**	**57 (84)**	**52 (105)**	**52 (108)**
Enabling Environment					
Institutions	48 (107)	57 (59)	52 (79)	46 (109)	48 (103)
Infrastructure	56 (105)	68 (70)	69 (61)	51 (114)	52 (112)
ICT adoption	25 (131)	32 (120)	40 (107)	39 (108)	39 (109)
Macroeconomic stability	69 (116)	90 (43)	68 (118)	73 (95)	74 (90)
Human Capital					
Health	56 (115)	61 (110)	87 (43)	72 (93)	66 (100)
Skills	41 (125)	50 (107)	64 (66)	46 (117)	49 (109)
Markets					
Product Market	45 (126)	50 (101)	43 (131)	47 (119)	43 (132)
Labor Market	51 (120)	54 (103)	52 (118)	51 (121)	49 (128)
Financial System	55 (99)	69 (40)	57 (87)	52 (106)	66 (51)
Market Size	71 (29)	94 (3)	58 (58)	67 (36)	48 (85)
Innovation System					
Business Dynamism	63 (52)	60 (69)	60 (70)	50 (121)	56 (98)
Innovation Capability	36 (79)	51 (36)	35 (84)	31 (105)	29 (112)

Note: score out of 100; rank out of 141
Data source: Global Competitiveness Report 2019; World Economic Forum

The policy mix is also not optimal in terms of global market orientation. Particularly, Pakistan's *relative* position in factors like tariffs and non-tariff barriers, border clearance efficiency and competition in services, still remains challenging (**Table S1.3**). This suggests a low incidence of trade openness relative to other countries. The implications are manifold. According to a recent International Growth Centre (IGC) study,[21] most of Pakistan's non-tariff barriers, though lesser than some regional countries, are concentrated in agriculture, plant and food-related products. The study added that Pakistan's non-tariff measures (NTMs) lock competitors out of the market and are very general, whereas regional countries are effectively using NTMs to create competition in their local markets.

Table S1.3: Pakistan's Ranking in Product Market Indicators (126/141)

Indicator	Rank/141
Domestic competition	**88**
Distortive effect of taxes and subsidies on competition	65
Extent of market dominance	66
Competition in services	126
Trade openness	**138**
Prevalence of non-tariff barriers	115
Trade tariffs	139
Complexity of tariffs	49
Border clearance efficiency	128

Data source: Global Competitiveness Report 2019; World Economic Forum

[21] Shah, S. and Kayani, U. (2014), "Non-Tariff Barriers and Pakistan's Regional Trade", IGC.

A 2018 World Bank report on Pakistan also highlighted that the tariff structure was historically used to both protect certain industries and generate fiscal revenues.[22] Protected sectors thus lost the incentive to target other markets, while export-oriented sectors struggled to keep pace with their competitors due to costlier imported inputs. This protective environment shielded local firms from foreign competition (via imports), and also led to anti-export and anti-innovation biases. Resultantly, as Ali (2011) highlights, multiple industries developed oligopolistic characteristics, which over time led to increased market concentration and higher volatility in prices.[23]

A recent study conducted jointly by the OECD and World Bank on the economic harm caused by cartels in developing countries reveals that in Pakistan, the annual excess profits and the level of mispriced sales due to market power abuse by large firms for the years in which the existence of cartels was identified during 1995-2013, were among the highest in the sample of developing countries.[24] Between the period 2003-2011, sales worth around 1.1 percent of GDP were overcharged due to the presence of cartels, resulting in profits over and above the normal rates amounting to 0.2 percent of GDP (**Table S1.4**). While the profitability and sales estimates may not seem large, the existence of cartels was significant for two main reasons: (i) cartels were found to charge 20-25 percent higher prices relative to non-cartel players; and (ii) the presence of cartels was found to lower production levels by 15 percent. Furthermore, most of the cartels were producing

Table S1.4: Estimates of Economic Harm Caused by Cartelization - A Cross Country Comparison (1995-2013)

Country	Period Analyzed	Average excess profits (cumulative - percent of GDP)	Affected Sales (percent of GDP)
Brazil	1995-2005	0.21	0.89
Chile	2001-2009	0.06	0.92
Colombia	1997-2012	0.001	0.01
Indonesia	2000-2009	0.04	0.50
Korea	1998-2006	0.53	3.00
Mexico	2002-2011	0.01	0.05
Pakistan	**2003-2011**	**0.22**	**1.08**
Peru	1995-2009	0.002	0.01
Russia	2005-2013	0.05	0.24
South Africa	2000-2009	0.49	3.74

Data source: World Bank (2017)

[22] World Bank (2018), "Pakistan - Unlocking Private Sector Growth through Increased Trade and Investment Competitiveness", Washington, D.C.
[23] Ali, S. O. (2011). : Power, Profits and Inflation: A Study of Inflation and Influence in Pakistan. SBP Research Bulletin, 7, 11-41.
[24] Licetti, M., Pop, G., Nyman, S., & Begazo Gomez, T. P. (Eds.). (2017). *A Step Ahead: Competition Policy for Shared Prosperity and Inclusive Growth*. Washington, DC: World Bank.

intermediary products (such as cement and edible oil), which resulted in their inefficiencies spilling over into other sectors of the economy.[25]

S1.4 Competition Policy Environment Globally, and in Pakistan

In order to promote competition in their domestic industries, developing economies have followed liberal trade policies; streamlined procedures for starting a business in order to reduce barriers to entry; helped integrate their firms with global value chains; implemented business facilitation policies to attract both local and foreign investors; and focused heavily on exports.

Table S1.5: Comparison of Certain Functions Performed by Competition Agencies

Agency	Under a ministry	Organizational Structure	Public Policy Assessment	Market Studies	Market dominance rule	Compel firms to provide documents? Arrange Surprise Visits? If so, are warrants required?
Australian Competition and Consumer Commission	No	One Federal organization with nationwide offices	Yes	Yes	N/A	Yes/Yes/Yes
Anti-monopoly Commission China	Yes	Law is enforced via 3 different organizations	N/A	Yes	1 firm: 50%; 2 firms: 66%; 3 firms: 75%	Yes/Yes/No
Competition Commission of India	No	One Federal Organization	Yes	Yes	N/A	Yes/Yes/Yes
Japan Fair Trade Commission	No	Federal org. with a secretariat, 2 bureaus & multiple regional offices	Yes	Yes	>50%	Yes/Yes/Conditional
Malaysia Competition Commission	No	One Federal Organization	Yes	Yes	>60%	Yes/Yes/No
Competition Commission of Pakistan	No	One Federal Organization	N/A	Yes	40% unilateral merger	Yes/Yes/No
Consumer Affairs Authority of Sri Lanka	Yes	One Federal Organization	N/A	Yes	N/A	Yes/Yes/No
Vietnam Competition and Consumer Authority	Yes	One Federal Organization	Yes	Yes	1 firm: 30%; 2 firms: 50%; 3 firms: 65%; 4 firms: 75%	Yes/Yes/No

Data source: OECD (2018), Competition Law in Asia-Pacific: A Guide to Selected Jurisdictions

[25] In case of Pakistan, sectors where cartelization practices were discovered during the period 2003-2011 included banking, cement, jute, poultry, edible oil, and telecom.

When it comes specifically to putting in place a competition policy, a majority of countries has introduced antitrust/anti-monopoly acts and established competition authorities. As of February 2020, the number of countries and regions with competition authorities stands at 147.[26] Likewise, the regulatory scope of such agencies has widened over time. In addition to pursuing the objectives of price stability and collusion prevention, the authorities are also mandated to ensure consumer confidence through awareness and advocacy strategies; frictionless creation and dispersion of ideas (innovation) in the market; equal growth opportunity for all businesses; and equitable distribution of state aid and incentive schemes.

The competition authorities pursue these objectives by playing four major roles. First, they enforce antitrust policies in their jurisdictions. Second, they carry out investigative studies of various sectors of the economy to monitor and highlight practices hindering competition. Third, they serve as advocacy bodies and raise awareness about the benefits of competitive markets amongst key stakeholders. And fourth, they provide technical expertise to public sector authorities in the form of public policy assessments. A synopsis of the main functions performed by the competition agencies of Australia, China, India, Japan, Malaysia, Pakistan, Sri Lanka and Vietnam is presented in **Table S1.5**.

In Pakistan, the 'Monopolies and Restrictive Trade Practices (Control and Prevention) Ordinance' (MRTPO) was passed in 1970, under which the Monopoly Control Authority (MCA) was formed. The MRTPO was later replaced with the Competition Ordinance in 2007, under which the Competition Commission of Pakistan (CCP) was established. The CCP is mandated to undertake enforcement, advocacy, and research efforts to ensure free competition in all domains of commercial and economic activities, and its jurisdiction spans public as well as private entities (**Box S1.1**). In 2010, the Competition Ordinance 2007 became the Competition Act 2010.

Box S1.1: Mandate of the Competition Commission of Pakistan
The Competition Act 2010 mandates the Competition Commission of Pakistan (CCP) to carry out the following objectives:

Abuse of Dominant Position. The Act prohibits the abuse of a dominant position through any business practice. These include reducing production or sales, unreasonable price increases, price discrimination without objective justification, connections that make the sale of goods or services conditional on the purchase of other goods or services, predatory pricing, preventing new entry, refusing to deal, and boycotting or excluding any other undertaking from producing, distributing or selling goods, or providing any service.

[26] Source: United States Federal Trade Commission.

- **Prohibited Agreements.** The Act prohibits undertakings or associations from entering into any agreement or making any decision in respect of the production, supply, distribution, acquisition or control of goods or the provision of services, which have the object or effect of preventing, restricting, reducing, or distorting competition within the relevant market unless exempted under the law. Such agreements include market sharing and price fixing of any sort, fixing quantities for production, distribution or sale; limiting technical developments; as well as collusive tendering or bidding and the application of dissimilar conditions.
- **Deceptive Marketing.** The Act prohibits deceptive marketing practices. It includes distribution of false or misleading information that may harm the other business, any advertising or promotional material that misrepresents the nature, characteristics, qualities, or geographic origin of goods, services or commercial activities, misleading comparison of goods in the process of advertisement and fraudulent use of another's trademark, firm name, product labeling or packaging.
- **Approval of Mergers.** The law prohibits mergers that would substantially lessen competition by creating or strengthening a dominant position in the relevant market. The Act requires prior notice of proposed mergers or acquisitions that meet the notification thresholds specified in the law. If the CCP determines this to be the case, it can prevent mergers or acquisitions, set conditions or require divestitures.

Source: Competition Commission, Act 2010, Competition Commission of Pakistan

According to the Act, the CCP is empowered to: (i) initiate proceedings either over complaints filed by affected entities or on a suo motu basis; (ii) undertake sector specific research to evaluate existing market practices (either on its own or over complaints over anti-competitive practices); and (iii) review existing and new laws and policy frameworks and make suitable recommendations to make them pro-competition. In case of non-compliance, the commission is empowered to impose penalties of up to Rs 75 million or 10 percent of the annual turnover of entities involved (depending upon the findings); the financial penalty may be combined with imprisonment as well. Meanwhile, leniency provisions also exist in the Act that may relax the imposed penalties, subject to the businesses meeting the requisite conditions.

Building upon the work of its predecessor (the MCA), the CCP has been proactive in identifying practices that prevent, restrict or distort competition. Since its inception in 2007, the CCP has taken about 127 decisions regarding firms' anti-

Table S1.6: No of Decisions and Policy Notes by CCP

	No. of Decisions	Approval of mergers	No. of Opinions/Policy Notes
2008	7	-	-
2009	15	-	6
2010	15	-	3
2011	13	3	1
2012	10	1	4
2013	5	-	2
2014	1	-	5
2015	13	24	4
2016	7	70	4
2017	12	62	-
2018	14	74	5
2019	15	54	6
2008-19	127	288	40

Data source: Competition Commission of Pakistan

Table S1.7: Opinion/Policy Notes Prepared by the Competition Commission of Pakistan

Title	Opinion regarding competition
1. Competition Concerns in the **Automobile Sector** - 2019	"… the existing players have had ample time to recoup investments they have made in near monopoly conditions due to protections afforded to them. Pakistan automobile industry is essentially marred by a **lack of competition**."
2. Issues in the **Real Estate** Sector 2019	"The existing legal framework has failed to maintain a vigilant and a system of proper check and balance in this sector, which results in the general public as well as commercial investors losing their hard earned money… it is imperative that immediate attention is given to this sector by the government and necessary measures are undertaken to **organize, formalize and regularize** it."
3. Market and Regulatory Assessment of the **Air Transport** Sector -2019	"In its role of economic regulator, CAA is mandated with the oversight of monopolistic services pricing. CAA, as a 'dominant undertaking', is the provider of such services, setting charges to recover its costs. This **concentration of functions** leaves users of infrastructure services unprotected (airlines and passengers) in the presence of such conflict of interest, in terms of prices charged and quality rendered."
4. Market Assessment of **Mobile Telecommunications** - 2019	"In order to increase the value of the mobile network in Pakistan it is key to **enhance competition** (i.e., the level of firm rivalry) in the market and remove existing regulatory constraints."
5. Competition Assessment Study of **Wheat Flour Industry**- 2019	"**Monopolistic behavior** of Govt. functionaries (Sindh Agriculture Department, Punjab Agriculture Department, KPK Agriculture Department) hinders private sector participation"
6. Competition Concerns in the **Sugar Sector**-2018	"The sugar sector suffers from ***inefficiencies*** at all levels… The provincial governments should ideally not fix price floor of sugarcane and let the market determine price based on supply and demand. Price floors should only be imposed for limited periods in situations where food security is gravely threatened."
7. Exemptions to Certain Undertakings in the **Construction Sector**-2014	"Do the exemptions granted to FWO, NCL and NLC in the construction sector **distort market conditions and restrict competition**...The clients of various construction projects undertaken by the FWO, NCL and NLC have remained the federal and the provincial governments. Private sector contractors cannot compete for such projects due to these "exemptions". In the long-run, this affects their growth and international competitiveness."
8. Discriminatory Levy of GIDC on Selective **Fertilizer Plants**-2014	"Whether the selective levy of GIDC on pre-2001 fertilizer plants distorts market conditions and has **restricted competition** in the market of urea and thereby harmed consumers. …It is recommended that GIDC is charged equally to all fertilizer plants to create a level -playing field in the urea market. Therefore, it is proposed that the levy of GIDC on feed stock for pre-2001 fertilizer plants be withdrawn and that the Second Schedule of the GIDC Act may be amended to rationalize the GIDC on fuel gas used by fertilizer plants."
9. Discriminatory Application of **IFEM** (Opinion)-2014	"In the interest of eliminating discrimination among refineries and **creating a level playing field** in crude and refined oil markets, it is recommended that the Refinery be given the benefit of IFEM in terms of transportation cost of crude oil as allowed by ECC."
10. Exemption of RD on Import of Ware Potatoes by **IFFC**** (Opinion)-2009	"Withdrawal of 25% regulatory duty to International Fast Food Chains franchises operating in Pakistan on the import of ware potatoes, thereby discriminating local fast food chains and other local importers of ware potatoes, and placing them at a **competitive disadvantage**…In order to ensure free and healthy competition in the market and to create a level playing field for all the market players, it is essential that all undertakings are treated at par. Therefore, it is recommended that regulatory duty on ware potatoes should be imposed equally across the board…"

*Inland Freight Equalization Margin, **International Fast Food Chains Franchisees, Source: CCP Website competitive behaviors (and imposed penalties totaling Rs 26.8 billion); approved around 288 mergers and acquisitions; and written 40 policy notes on various sectors of the economy (**Table S1.6**).

The policy notes and investigative reports published by the CCP, which include comprehensive sector-specific analysis and comparisons with similar international and national cases, have helped reveal that monopolistic practices exist in a number of sectors of Pakistan's economy. Such practices include, but are not limited to, assigning/fixing production quotas among members of industry associations; raising prices in a coordinated manner; reducing the bargaining power of purchasers in product or service provision agreements; and carrying out false/deceptive advertising activities, etc. (**Table S1.7**).

After identification, the CCP pursues cases against businesses suspected of being involved in anti-competitive practices. This usually begins with the agency sending show-cause notices to the firms or associations, and either warning them about punitive action if the practices are not corrected, or imposing fines and/or imprisonment according to the provisions under the Competition Act 2010 (**Table S1.8**).

However, it is important to note that CCP has been facing serious legal challenges in implementing its decisions. Companies under scrutiny often plead that the 18th amendment provides provinces the right of exclusion from federal laws.[27] As a result, any new action taken by the CCP is challenged, which inevitably results in the commission's inability to perform effectively. To-date, a total of 311 cases have been registered against the CCP's decisions, of which 127 pertain to the constitutionality of its laws. Consequently, recovery of imposed penalties becomes difficult, as the penalized parties obtain stay orders against the CCP's decisions. This can be envisaged form the fact that CCP has able to recover only Rs 33.3 million out of penalties worth Rs 27.0 billion since 2008.

S1.5 Policy Implications and the Way Forward

The discussion in preceding sections, based upon a careful examination of relevant literature, has revealed that the competition environment in Pakistan in general have not been favorable for productivity enhancement and growth. Public sector enterprises remain a major feature of the transport and energy sectors of the economy, while indirect interventions by government institutions in the

[27] The Competition Act 2010 states under section 12 (3) that the "Commission shall be administratively and functionally independent, and the Federal Government shall use its best efforts to promote, enhance and maintain the independence of the Commission".

Table S1.8: Show-cause Notices Issued by Competition Commission of Pakistan

Sector	**Verdict/Comments**	**Fine/Action**
1. Show cause notice issued to **Pharma Bureau** (2019)	"We reiterate here that the commission remain vigilant against all forms of collusion and cartelization that may take place in any market, including the pharmaceutical sector."	Warning Issued
2. Show cause notice issued to **Oil Companies Advisory Council** (OCAC)(2019)	"The entire process of procurement undertaken by OCAC for procurement of Fuel Marking Company is in violation of section 4 of the Act (Competition Act)."	In view of the compliance approach, no penalty imposed
3. Show cause notice to **Pakistan Fluor Mills Association (PFMA)** (2018)	"PFMA has been engaged in announcing and communicating, present and/or future retail and ex-mill flour prices through press releases to the public and local authorities and its members. This is in violation of the Section 4 of the Act."	Penalty of Rs 75 million
4. Show cause notice issued to **Utility Sores Corporation of Pakistan** (2017)	"The Commission directs the respondent to be mindful of the competition directions while drafting future tenders be it in the instant matter or otherwise, in order to provide a level playing field and not to hamper the competition in the relevant market."	In view of the compliance approach, no penalty imposed
5. Show cause notice issued to **Pakistan Poultry Association (PPA)**(2016)	"The main issue under consideration in this matter is whether PPA has taken anti-competitive decisions in terms of Section 4(1) of the Act by advertising the prices for broiler chicken and chicken eggs in newspapers."	Penalty of Rs 100 million
6. Show cause notice to **Pakistan Engineering Council**-PEC (2016)	"PEC has taken a decision in terms of Sec. 4(1) of the Act by setting a minimum requirement of 'AA' rating for insurance companies in prima facie violation of Sec. 4(1)"	Penalty of Rs 30 million
7. Show cause notice issued to **Dairy Companies** (2015)	"The main issue in this matter is whether the undertakings (Engro Food Limited, Noon Food Limited, Shakarganj Food Pakistan Limited) marketing campaigns relating to their dairy drinks, dairy liquids and/or tea whiteners constitute deceptive marketing practices in terms of Sec. 10 of the Act."	Penalty of .03% of last turn over for Engro Food Ltd., and Rs 2.5 million for others
8. Show cause notice issued to **Pakistan Automobiles Manufacturers Authorized Dealers Association** (2015)	"In view of the settled pattern of collusion demonstrated by PAMADA, as well as four instances of distinct violation in three relevant markets the commission hereby directs PAMADA to cease its collusive behavior."	Penalty of Rs 140 million
9. Show cause notice issued to **Indus Motor Company** (2013)	"PBO (Provisional Booking Order) gives Indus Motor the sole right to (i) change the price, (ii) design/specification, (iii) delivery schedule without any notice to the buyer. Such terms create a significant imbalance to the disadvantage of buyer's rights and obligations arising under the contract."	The PBO was amended
10. Show cause notice issued to **1-Link Guarantee Ltd. and Member Banks** (2011)	"It was observed that banks are charging uniform amount for ATM cash withdrawal transaction….In the absence of any direction from the SBP, uniform rates of ATM cash withdrawal services implemented by majority of banks raised a suspicion of collusion among banks"	Penalty of Rs 150 million to 1-Link, Rs 50 million to each founding members, Rs 10 million to each non-founding members

Data source: Competition Commission of Pakistan manufacturing sector have also stayed persistently high. Both these developments have distorted the market structure of the economy and fueled anti-export and anti-innovation bias amongst the businesses. Furthermore, despite the existence of a proactive competition agency (CCP), the overall competition policy environment is constrained owing to challenges that are more legal in nature than operational. This has resulted in anti-competitive characteristics becoming more prevalent in the economy, a situation that is evident across most sectors as highlighted in the studies conducted by the CCP and the show-cause notices issued by the agency.

It is important to understand that governments in developing economies pursue multiple development goals, which may not always be compatible with each other. This represents a challenge for policymakers to balance their development strategies with preemptive and remedial measures against unwarranted spillover effects. The latter implies ensuring that the competition environment in domestic market is not compromised, at least in the long term. Thus, the element of coherence is crucial to the effectiveness of different policies in the areas of trade and investment.

In case of Pakistan also, market solution may not always admittedly be the best solution in achieving development goals the economy has set for itself. It may be argued that government interventions are needed in some of the sectors/industries where significant market failures are prevalent, including positive and negative externalities, public goods and information asymmetries, or redistributive policies that are pursued to achieve the broader development agenda. Such interventions, however, run the risk of going against the spirit of inculcating competition in the economy and generate a strong foothold of the government.

In this context, Pakistan's economy needs a fundamental rethinking with respect to its regulatory structure: while a deliberate push might be needed to encourage export orientation, investments, and ensuring food and energy security in the country, this may not necessarily require direct interventions and heavy regulation by the public sector institutions. Furthermore, even when government interventions are deemed necessary, such policy actions must not go beyond the initial objective of guiding business activities along a more sustainable and competitive growth direction. If prolonged, there is a danger that dependence on public sector involvement may become a permanent characteristic of that industry/structure. In the long run, the role of public sector should be confined to addressing market failures through structural reforms, and providing a broader institutional support to businesses.

In particular, the authorities should strive to streamline and rationalize the trade policy by committing to a minimal and uniform tariff structure in order to encourage competition and export-orientation. Higher tariff and non-tariff barriers have, over time, resulted in an industrial structure that promotes anti-export bias, ineffectiveness and rent-seeking behavior. Pakistan has to focus on developing a roadmap that is less intrusive and more facilitative for businesses.

In this regard, the approval of the country's first National Tariff Policy (NTP) is an encouraging development. With the NTP solely under the purview of the Ministry of Commerce, it has been made clear by the government that tariffs would not be used as revenue-generating measures, but would be leveraged to facilitate industrial development and support firms increase their presence in the international market.

The government should also promptly revisit the legal conditionalities to enhance the effectiveness of the CCP over all national and provincial competition matters. This is important because for a competition authority to be successful in its objective of ensuring price stability and avoiding the market distortion by dominant players, it also needs to be a credible *enforcer* of anti-monopoly policies. Competition authorities are deemed efficient and well-functioning if they satisfy the criteria of legality, independence, transparency, effectiveness and responsibility.[28]

Advocacy practices need to be strengthened by improving dissemination of information amongst stakeholders and providing them a platform for policy feedback. The latter is important for four reasons. First, greater awareness about the CCP's functions and the disadvantages of unchecked market practices would result in enhanced justification and credibility of the CCP as an institution. Second, policy advocacy channels would help firms and official authorities to amicably resolve potential disputes, rather than pursuing them through the legal channel. Third, it would improve enforcement by enabling the agency to monitor and review the practices of the firms after providing recommendations or reaching (leniency) agreements. Fourth, such results would then feed into the decision-making of the CCP, thereby improving the efficiency and effectiveness of its operational activities.

However, to achieve these objectives, the competition policy cannot work in isolation. Its objectives must align with the overall macroeconomic agenda followed by the government. One recommendation is to enable the CCP to

[28] Ottow, A. (2015). "Market And Competition Authorities: Good Agency Principles". OUP Oxford.

engage other institutions, such as the BOI and the FBR, to frame an overarching policy that incentivizes growth and innovation and punishes oligopolistic and market-distorting practices. Similarly, competition regulations can be coupled/supported with consumer protection laws to better safeguard consumers against exploitative practices and to ensure general price stability and quality control in the market.