

Trade and Competition: Best Friends Forever?

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Abstract—The links and interactions between trade and competition are at the forefront of the international policy debate as governments seek to recover from the human and economic impacts of the COVID-19 pandemic. OECD’s Ruben Maximiano and Lorena Giuberti Coutinho share their views on the implications state intervention can have on competition and trade policy in the run-up to the 2021 Global Forum on Competition.

With the global economy hard hit by a crisis of unprecedented scale, interactions between trade and competition have become central to the international policy debate. Distressed businesses and disrupted supply chains have prompted active government interventions and trade restrictive measures. Industrial policy is also back at the top of the policy agenda. While necessary as a response to the crisis and even beyond, government support granted to companies can also have important implications for competition and trade policy.

In a globalised economy, government interventions can affect competition in both domestic and international markets. State support has an impact on the cost and revenue structure of supported firms and their actual or potential foreign competitors. This means that unsupported foreign competitors may struggle to enter a market or be compelled to leave it because they do not benefit from the same support as their locally-based competitors. This can also enable supported national firms to expand into international markets, not because they are more efficient, but because they may be entering markets where competing firms have not received any – or the same level of – support.

These dynamics can undermine the global competitive playing field and weaken gains from trade by distorting the efficient international allocation of resources. This may also lead to snowballing ef-

fects whereby individual countries respond by providing more support in the form of direct subsidies, preferential treatment, or state-backed guarantees for their domestic firms. This potentially erodes support for the multilateral trade rules that have brought so many economic benefits.

To avoid such unintended consequences and to safeguard a healthy competition and trade environment, careful design of state support is critical. Tools and approaches from both the competition and trade policy communities can be useful to designing support that avoids medium- and long-term distortions.

Competitive neutrality is a crucial principle when designing state support measures. The OECD has long engaged in promoting and analysing the application of this principle – leading to the 2021 OECD Council Recommendation on Competitive Neutrality¹. Such a Recommendation sets down the parameters for promoting a level playing field among competitors and avoiding situations where unfair advantages are bestowed upon some firms, whether state or privately owned, based on, for example, their nationality or ownership.

Competitive considerations are reflected, to an extent, in the multilateral trading system. While the international trade rules do not contain explicit rules addressing anti-competitive conducts, a central principle, the national treatment obligation, is key to maintaining a level playing field in international markets. This principle prevents WTO member states from giving imported products less favourable treatment than like domestic products, thus preventing any concealed domestic barriers to trade. The WTO has also developed specific rules for curbing distortive forms of government support that particularly target industrial sectors: the Agreement on Subsidies and Countervailing

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Measures (ASCM).

Implementing these rules presents a number of difficulties. For example, enforcing policy transparency through notifications, and defining common approaches to estimate subsidies and other forms of government support.

These and other related issues can benefit from expanding the dialogue between the trade and competition policy communities and exploring best practices across countries. Issues that are typically addressed in competition policy fora, such as market concentration, firm market power and potential barriers to entry, also play an important role in promoting fair trade practices under the WTO rules.

This does not call into question the merits of industrial policies that have specific, preferably measurable, development goals for solving market failures, particularly in sectors that can have economic spill-over effects. Even in such instances, however, emergency or industrial programmes should be transparent, rely on competitive bidding and allocation processes and ensure recipient shareholders have “skin in the game”, allowing firm exit when they do not deliver. These programmes should also be time bound with competition criteria so that when an objective is met they are automatically rolled back to allow markets to reopen to competition. They should also be accompanied by a regulatory review to ensure that barriers to entry are then minimised to ensure competitive markets.

This is where competition authorities’ specific skill sets and knowledge of markets can play a prominent role. Given their experience in articulating the use of economic evidence in their proceedings, they can advise governments in three main ways:

When support measures to firms are considered, competition authorities can help governments identify the market failure the support is meant to address, the proportionality of that support and its potential market distortion. They can do so by analysing the market power of recipients and their competitors and compare counterfactual scenarios with and without the state support, for example. They can also help to design remedies to minimise competition distortions, such as structural or behavioural measures. By identifying actionable

subsidies under the WTO that might be prioritised for analysis from a competition perspective, taking into account the effects on national markets. By being involved in advocating for the design of trade agreements that integrate competition provisions, particularly in relation to the notification of subsidies. Transparency could be enhanced by expanding the scope and depth of notifications in subsidies in both bilateral and multilateral agreements. The 2019 EU-Japan Economic Partnership Agreement provides a recent example. At a multilateral level they can also advocate for the enhancement of the ASCM notification requirements. Given the shared concerns and complementarities of the trade and competition policies, there is clear room for mutual learning and co-operation between both communities, in particular in the current context of working for the economic recovery.

The 2021 OECD Global Forum on Competition will bring together academics and policy makers in trade and competition to discuss:

Whether competition policy should consider differences in economic systems or distortions in trade and, if so, how? How competition and trade policy can be used to maintain a level playing field for doing business amid increased interest in industrial policy and the promotion of “national champions” How trade policy can be used to promote greater harmonisation of competition policy across jurisdictions Potential areas of conflict between trade and competition policy Together, principles and approaches from both trade and competition policy communities can help to promote sound domestic policies and functioning international markets and this will be key to supporting the economic recovery.

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