

## 2. Competition Policy

### (i) Background:

Competition is at the heart of market-based economics. It defines the process whereby sellers independently seek buyers of their goods, services or knowledge in terms of price, quality, originality, timeliness of delivery, after-sales service, and other factors. Competition forces sellers to remain or become efficient and innovative. On the other hand, sellers also acquire and/or seek discretionary market power that can distort market signals, decrease economic efficiency and lower overall consumer welfare. Competition policy, in turn, seeks to maintain the competitive process in order to prevent or minimize abuses of economic power and to achieve economic efficiency, although a number of supplementary objectives are also occasionally invoked (e.g., regional development, employment, control of inflation). At this level of generality, competition policy appears so sweeping in scope that some urge that it be viewed as a "fourth cornerstone" of government economic framework policies along with monetary, fiscal and trade policies.<sup>33</sup>

Without pursuing that debate, there clearly is much in common between competition and trade policies. Both put considerable emphasis on key principles such as non-discrimination (national treatment and most-favoured-nation) and transparency in rules, procedures and action. Both are firmly embedded in market economics and seek to promote economic efficiency and growth. There is growing recognition that these two dimensions of public policy can and should be mutually reinforcing, and that each has lessons for the other. Trade liberalization has expanded the geographic scope of anti-trust investigations. Competition policy may be able to address more effectively the pricing and other production and marketing practices of firms than is possible under current trade rules. But a static application of competition policy could also undermine the export and R&D efficiency gains possible through greater inter-firm cooperation or even international mergers important for a small economy facing increasingly sharp competition at home and abroad.

Two key crosswalks between these increasingly inter-related policies are explored more fully below:

- whether competition policy should or can usefully replace the various trade policy tools collectively referred to as contingency protection (anti-dumping and countervailing duties, and emergency safeguards); and

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<sup>33</sup> S. Khemani, "Objectives of Competition Policy", OECD document DAFFE/CLP(92)2, (May 11, 1992), p.15.