

among trading partners. Eliminating automatic exemptions and establishing full-scope rule of reason treatment is a better alternative. Let firms defend their vertical arrangements on the basis of the efficiencies their transactions enhance.

● *The State Action Defence and Deregulation*

The salience of the distribution networks also pops up in the deregulation debate. First, there are a number of activities or sectors that countries have exempted from the application of competition laws. Second, in addition to the sectoral carveouts, national competition law itself provides for various defences for actions purportedly taken to abide by government regulation. We address both these points in the Annex below.

Competitive markets cannot be expected to develop in economies that want to cling to industrial regulation. It is essential that corporations be deprived of the opportunity to run for the protectionist cover of "the regulated industry defence". Consequently, keeping the deregulation ball moving forward is one of the necessary conditions for truly open markets to thrive.

● *Foreign Competition, Market Access and the Competition Policy Debate*

Some policy analysts have argued that the phenomenon of globalization and increased foreign competition effectively disciplines the exercise of market power in domestic markets. To give an example in the context of this Paper, consider two points. First, under tariff protection a dominant firm may monopolize the market, but free trade will whittle down the share of such players. The domestic market will see more competition as a result of free trade. Second, vertical arrangements deployed by companies with small market shares will not raise prices and will not generally be a competition policy problem. Can we exclusively rely on free trade accords to assure open market access to national markets?

Not really. Access to foreign distribution, perhaps to foreign markets in general, is not a foregone consequence of a free trade agreement. The presence of exempted sectors and regulated industries will turn out to be a roadblock to that quest. Consequently, vigorous enforcement of competition laws to demolish the carved out sectors and to push ahead with deregulation is essential.

The upshot is that a strong domestic competition policy must continuously complement and support a free trade policy.

In this context, it should be noted that the deregulation process (i.e., the elimination of exemptions to competition) does not imply that one or a few foreign firms are accorded some