

# Imports, entry and competition law as market disciplines

Hiau Looi Kee<sup>a,\*</sup>, Bernard Hoekman<sup>a,b</sup>

<sup>a</sup>*Development Economics Research Group, The World Bank, 1818 H Street N.W., Washington, DC 20433, USA*

<sup>b</sup>*Groupe d'Economie Mondiale, Institut d'Etudes Politiques, Paris, France and CEPR, London, UK*

Received 19 April 2004; accepted 28 June 2006

Available online 11 September 2006

---

## Abstract

Numerous countries have adopted or strengthened competition laws in the past two decades. At the same time, domestic industries in most countries are facing ever more intense pressure from imports. In this paper we study the impact of competition law on domestic competition for a large number of countries over time, controlling for the presence of imports and the number of domestic firms. We find that while industries that have higher import exposure or larger numbers of domestic firms tend to be more competitive, the direct effect of competition law on competition is insignificant. However, we also find that industries that operate under a competition law tend to have a larger number of domestic firms. This suggests that competition laws may have an indirect effect on domestic competition by promoting entry.

© 2006 Elsevier B.V. All rights reserved.

*JEL classification:* F12; F13; L11; L44

*Keywords:* Competition law; Import penetration; Entry; Industry markup; Market discipline

---

## 1. Introduction

Lately, the subject of competition law has attracted significant interest in terms of both academic research and policy debates. This in part reflects the wave of countries that have adopted or strengthened competition laws in the past two decades despite the rising competition due to globalization, as well as the recent international efforts to define rules

---

\*Corresponding author. Tel.: +1 202 473 4155; fax: +1 202 522 1159.

*E-mail addresses:* [hlee@worldbank.org](mailto:hlee@worldbank.org) (H.L. Kee), [bhoekman@worldbank.org](mailto:bhoekman@worldbank.org) (B. Hoekman).

in this area.<sup>1</sup> While trade liberalization and removal of regulations restricting entry have been advocated as powerful and administratively simple ways of enhancing competition (Bhagwati, 1968), relatively little cross-country empirical work has been done to identify the effect of competition law on the contestability of markets. For OECD countries this is an interesting research question, but not of major policy significance given that competition enforcement has been long established in most jurisdictions.<sup>2</sup> In many developing countries, however, the question is more fundamental and centers on whether to adopt such laws and if so what type of competition policy will be most beneficial. Any answer to such questions would ideally be informed by evidence on the effects of competition legislation and enforcement.

This paper studies the effect of competition law on domestic competition, in the presence of import competition and domestic entry. Specifically, we try to answer the following two questions: (1) Do competition laws have any direct impact on industry markups given the number of firms and imports? (2) Do competition laws induce entry of firms and thus indirectly lower industry markups?

Empirical evidence that import competition reduces industry markups has been documented in Levinsohn (1993) and Harrison (1994) as well as in subsequent studies.<sup>3</sup> These papers study the impact of import competition on the pricing behavior of domestic firms and conclude that trade liberalization forces firms to set prices closer to marginal costs. Empirical evidence that entry of firms promotes market competition has been found by Bresnahan and Reiss (1991), Djankov et al. (2002) and Hoekman et al. (2004). Focusing on a number of non-traded service industries, Bresnahan and Reiss show that the entry threshold, defined as the minimum market size required to induce a new entry, is negatively related to a firm's markup, and positively related to the number of firms.<sup>4</sup>

In this paper we develop a simple Cournot competition model where the industry markup of price over marginal cost is negatively related to the number of domestic firms in the industry and the share of imports in domestic sales. The industry markup is also affected by the existence and content of competition laws via consequent changes in production costs. We use a fixed-effects semi-translog function of the number of firms, the share of imports in the domestic market, and a competition law dummy variable to empirically approximate the industry markup function. Given that these markups are not observable, we embed the semi-translog markup function into a production function to directly estimate the effects of competition laws, imports and number of firms on the industry markups.

---

<sup>1</sup>Recent discussions in international organizations such as OECD, UNCTAD, and the WTO, as well as for such as APEC and the International Competition Network (ICN) have been on whether and how to expand the reach of competition legislation across members, strengthen cooperation between national agencies and explore the scope for the adoption of common norms. See Hoekman and Saggi (2006) for a discussion and references to the literature.

<sup>2</sup>For these countries the policy questions revolve around specific issues such as how to deal with vertical restraints and merger control. See Evenett et al. (2000) for a review of the issues.

<sup>3</sup>Other studies along these lines that find support for the hypothesis include Grether (1996) and Djankov and Hoekman (2000). For reviews of the literature, see Levinsohn (1996) as well as the contributions in Roberts and Tybout (1996).

<sup>4</sup>Bresnahan and Reiss (1991) estimate the "entry threshold" of many service industries which are mainly non-traded. They conclude that the main factor that increases the entry threshold is the increase in the fixed-cost of entry. Djankov et al. (2002) and Hoekman et al. (2004) obtain similar findings using different data sets and methodologies.

متن کامل مقاله

دریافت فوری ←

**ISI**Articles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات