

Competition

REMOVING ADMINISTRATIVE AND REGULATORY BARRIERS TO COMPETITION

- ▶ The dynamism of Turkey's business sector played a vital role in the country's economic growth in the 2000s.
- ▶ However, because of competition-unfriendly product market regulations markets have not been able to reap the full benefits of this dynamism.
- ▶ Turkish authorities, including the Turkish Competition Authority, can help unlock growth potential by reviewing regulations with the aim of identifying sources of malfunctioning and providing recommendations to modify the regulations that hinder the entry and expansion of firms.

What's the issue?

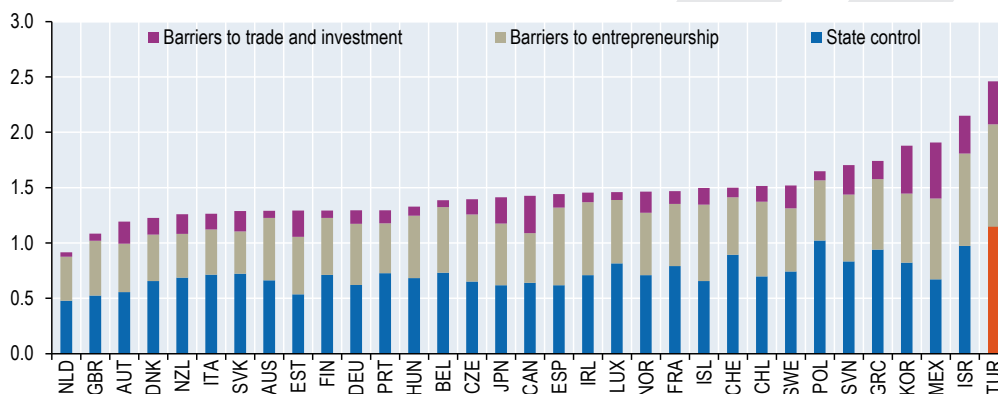
A competitive product market environment that allows new firms to enter markets, efficient firms to grow, and inefficient firms to exit can boost economic growth. One of the requirements for a growth-enhancing competition environment in markets is the existence of competition-friendly regulations, as regulations themselves may create restraints on market activities. It is possible to design regulatory and institutional frameworks in such a way that they encourage competition in markets while at the same time achieving their policy objectives. Also competition law enforcement has a bigger impact on growth in sectors where regulation of product markets is more conducive to competition.

However, according to OECD's Product Market Regulation Indicators regulations in Turkey are significantly less

competition-friendly than in many other OECD countries (see Figure). Turkey's comparatively weak performance on the overall PMR indicator is mirrored in each of the three high-level components: state control, barriers to trade and investment and barriers to entrepreneurship. Public ownership is widespread and the governance of state-owned enterprises has weaknesses. Price controls as well as command and control regulations are widely used and regulatory procedures are very constraining, especially those related to obtaining licences and permits. Ex-post changes in the conditions of public procurement contracts are rather frequent. Incumbent firms benefit from non-negligible regulatory protection, particularly in network sectors, such as electricity, rail and air transport, telecommunications, and postal and courier services. This hampers the creation of a

Turkey has a lot to gain from aligning its product market regulations with international best practice

OECD Product Market Regulation Indicator, from 0 (least restrictive) to 6 (most restrictive)



Source: OECD Product Market Regulation Database, www.oecd.org/eco/pmr.

more level playing field also in other industries that rely on these sectors for inputs, undermining Turkey's competitiveness. There are also significant restrictions to international trade and investment in a number of sectors, including maritime and air transport, accounting, legal and courier services, as well as media and broadcasting.

Turkish Competition Authority can contribute to the process of improving Turkey's product market regulations to a great extent. In fact, Turkish Competition Authority has already been scrutinizing some of the markets with structural impediments to competition. In recent years for instance, the Authority has shown a significant interest in the electricity market, and in 2015 released a wholesale and retail energy market study. In electricity markets, due to high switching costs, in practice final consumers in Turkey are still unable to change their suppliers. Several other sectors have also been scrutinised, such as cinema services, motor vehicles and pharmaceuticals. This useful work needs to be deepened and extended to cover other key sectors, in particular the communications and transport industries. Implementation of structural reforms is then needed.

Why is this important for Turkey?

Competitive pressures act as an effective discipline on firm costs and prices while providing a strong incentive to innovate. The broader economic benefits from this have been well-documented, and the evidence makes a convincing case for the promotion or protection of competition in policy design. In particular, competition can be a driver of productivity growth, which is a primary determinant of per capita GDP growth. OECD analysis shows that if Turkey were to align its product market regulations with the three best performing OECD countries on the OECD's Product Market Regulation Indicator, GDP capita would be 9.7% higher in the long run. At the same time, competition is an excellent tool for reducing inequality as poorer consumers are harmed more by the high prices that the lack of competition engenders.



Further reading

Koske, I. et al. (2015), "The 2013 update of the OECD's database on product market regulation: Policy insights for OECD and non-OECD countries", *OECD Economics Department Working Papers*, No. 1200, OECD Publishing.
<http://dx.doi.org/10.1787/5js3f5d3n2v1-en>

OECD (2014), *OECD Economic Surveys: Turkey*, OECD Publishing.
<http://www.oecd.org/eco/surveys/economic-survey-turkey.htm>

OECD (2011), *OECD Competition Assessment Toolkit Vol. 1 and 2*, OECD Publishing.
<http://www.oecd.org/daf/competition/assessment-toolkit.htm>

What should policy makers do?

- ▶ Empower the Turkish Competition Authority to review regulations in order to identify structural impediments to competition and make recommendations to remove them.
- ▶ Set up a platform composed of all relevant parties to discuss the Competition Authority's recommendations and to implement them in the best possible way.
- ▶ Simplify business entry and exit rules and make the regulatory framework more predictable.
- ▶ Remove administrative and regulatory barriers to competition in network industries, such as the high switching costs in the electricity sector.
- ▶ Align the customs union agreement with the EU with the most open and all-encompassing international trade agreements.
- ▶ Make public procurement rules more conducive to competition, including in public private partnerships, using the EU framework as a possible blueprint.

