Globalisation and Competition Policies

By

P. J. Lloyd


I. Introduction

Globalisation in the general sense of the greater integration of the national economies in the world is a much discussed phenomenon. Greater integration has had many effects on the structure of production in national economies, the role of multinational corporations and foreign direct investment (FDI), product differentiation and consumer choice and other aspects of production and consumption in all trading economies. One particular effect of globalisation has been to change profoundly the nature of competition in markets for goods and services. This paper concentrates on the competition effects of globalisation.

Competition policy developed as a new issue in the later stages of the Uruguay Round, and subsequently, at the Singapore Ministerial Meeting of the WTO in December 1996, the WTO set up a new Working Group on the Interaction between Trade and Competition Policy. At first sight the emergence of competition policy as an issue related to international trade is paradoxical as the liberalisation of trade in goods and services and capital flows has undoubtedly made markets more competitive in recent decades. Trade liberalisation has increased the market access of exporters to many markets and thereby increased sources of competition in these markets. Similarly, the liberalisation of cross-border movements of capital has increased the ability of corporations to establish plants in other countries. Yet, other barriers to competition remain. The very success of trade and capital liberalisation has focused new attention on the remaining barriers.

Remark: I am grateful to participants in the International Economics Study Group Meeting at the University of Nottingham in September 1997 for their helpful comments. Section IV has used some material from Lloyd and Richardson (1997b).
Section II discusses the nature of globalisation and its relationship to cross-country competition in the markets for tradeable goods and services. It emphasises the dual modes of cross-border supply, namely, international trade and foreign direct investment. Section III examines the effects of the recent liberalisation of international or cross-border trade in goods and services and in capital flows on the pattern of international specialisation in production. The parallel liberalisation of trade in produced commodities and in capital has had a super-additive effect on cross-border supply and competition. Section IV surveys the new debate on the international dimensions of competition policy. It considers the desirability of harmonising the competition policies of different nations and other options such as the development of multilateral competition policies under the WTO. In Section V, the feedback effects of the development of bilateral and multilateral competition policies on the levels of trade in goods and services and FDI are considered.

II. Globalisation and the Nature of Competition

Globalisation is an imprecise word with many meanings. Economists who use the term “globalisation” have in mind something more specific than greater integration but there is little agreement on what it is. Increasingly the focus is on the activities and choices of multinational firms, that is, to firms which own and control plants in more than one nation. There are frequent references to global industries or global firms or global products or global technologies.

The parents and affiliates of a multinational group normally act jointly to maximise the interests of the group. Hence, their activities are integrated in a decision-making sense. The United Nations Conference on Trade and Development, which surveys the activities of multinational firms in their annual World Investment Report, uses the term “globalisation” in the sense of integrated production activities and strategies of multinational producers.¹ This is a precise and useful definition of globalisation. It produces distinctions between patterns of production of multinational corporations such as that between multi-doms which duplicate their activities behind national trade barriers, export platforms and more complex integration strategies, and it yields analyses of phenomena such as intra-firm trade, outsourcing and offshore production.

¹ See in particular the survey in UNCTAD (1993: Part 2) of the “integrated international production system” which is emerging.