

## Flag them off and watch them win

### *Does competition policy hinder the emergence of national champions?*

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Countries love national champions. We all do. Whether these are champions in sports, science or business. Who does not look with admiration upon companies like Infosys, TCS or Bharat Forge? Most Indians would have felt a sense of pride when Tata Steel got control of Corus or when Hindalco acquired Novelis.

But do 'national champions' need to be nursed by the state? Or do they emerge on the strength of their superior performance in a competitive environment? This has been the subject of an ongoing debate between the opponents and proponents of competition law and policy.

The former advocate a governmental policy of identifying and supporting 'national champions', even if this means creating a monopoly or near monopoly at home. Thus, they argue, competition policy must be diluted or subordinated to the objective of promoting them.

Are they right? In a memorable speech, Professor Paul Geroski, then chairman of UK's Competition Commission, summed up the three main arguments as follows:

1. Markets today are global; therefore enterprises need to be of a certain minimum size to be able to compete in the global market place.
2. To compete in the global arena calls for heavy expenditure on activities like R&D, distribution networks and so on, which is possible only if enterprises are truly of global dimension.
3. Certain sectors are particularly important to the national economy, since they have 'knock on effects' on other sectors. Firms in these sectors must be propped up by the government even if this means discrimination in their favour. The proponents of the 'national champions' theory cite examples of the East Asian tigers (and now even China), that are argued to have pursued this policy. Ironically, some people in developed countries, too, have begun making such noises now that their firms have started to face the acquisition heat from enterprises in developing countries. But not everyone buys this theory in its entirety.

Informed critics say the East Asian examples are not based on sound research, and are anecdotal in nature. Professor Simon Evenett, in *Competition Law Today* (edited by yours truly), says that the question is whether the support given by these countries to 'national champions' was at the cost of competition at home, and in a manner that would worry competition law proponents. According to him, the "overwhelming impression... is that the vast number of industrial policy interventions would not face objections from an efficiency-minded competition agency." Also, "little or no serious empirical evidence is provided to demonstrate that these measures alone actually worked."

Professor Michael Porter, in his study of the competitiveness of nations, has concluded that there is little evidence of 'national champions' emerging where they do not have to face competition at home. Competition in domestic markets drives national competitiveness.

## Who picks the 'national champions'? Lobbying by a domestic powerful firm, blaming its problems on mysterious, wicked firms or forces operating from abroad, is hardly a sound economic basis for support

Professor Paul Geroski has clinically analysed the arguments put forward by 'industrial policy' enthusiasts. He has sought to set the record straight on the basis of five counter arguments. First, he has argued that for most products and services, markets are not truly global, but are differentiated. He has said, for instance, that even today, "Most markets in Europe are recognisably national: the vast majority of brand names are national and rarely have much pull beyond their home markets." Second, he has argued that critical mass can be achieved just as well, often better, through "clusters" (such as Silicon Valley) as through single ownership/control, because there is intensive competition between the rival firms in the "cluster", while they all benefit from common resources and facilities. Third, he reminds us that monopolies may have the ability to compete, but not necessarily the incentive to do so; they often opt for the easy life. Fourth, who picks the 'national champions'? Lobbying by a domestic powerful firm, blaming its problems on mysterious, wicked firms or forces operating from abroad, is hardly a sound economic basis for support.

Finally, such support, when viewed from a global perspective, is akin to the "prisoners' dilemma". Once each 'national champion' manages to secure backing from its national government, nothing is altered between the several champions in the market, "But taxpayers the world over have been made worse off." This 'race to the bottom' is reminiscent of the race between our states in India to offer attractive sops to Indian companies at the cost of taxpayers. Many of those industries, after having enjoyed the benefits, today dot the Indian manufacturing landscape like extinct dinosaurs.

Geroski has pointed out that competition law or policy, properly understood, is rarely an obstacle to firms with inherent potential to grow into 'national champions'. A better way forward is to strive towards truly competitive markets, which generate efficiencies and innovation, the very qualities that go into the making of champions. It is such markets—which reward demanding consumers and corporate performers alike—that produce champions, not national governments.

The argument here is not that support to 'national champions' is unwarranted under all circumstances, but that any support that distorts competition in domestic markets is hardly the kind that will bring sustainable benefits to the national economy or even to firms that aspire to be 'national champions'.

—The writer is member and acting chairman, Competition Commission of India. These are his personal views

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