Has the Time Come for an Egyptian Antitrust Commission?

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DOES Egypt need an antitrust commission? With all the stories one hears these days, the answer is probably yes.

All market economies operate with some kind of antitrust mechanism that works to prevent the formation of monopoly cartels, which can seriously eat away consumer surplus. The United States, France and West Germany all have antitrust commissions that monitor mergers, check on the existence of barriers to entry into markets by particular firms and watch over market segmentation. They constantly monitor pricing policies and work through the judicial system to ensure fair competition among firms as well as open entry conditions into markets.

In Egypt today, the entry conditions into particular market segments are controlled via the licensing of the Investment Authority. No one can start a large business operation under the new investment law 230 without the direct consent of the Investment Authority.

What is particularly interesting is that the Investment Authority is never keen to grant an investment permit in any sector where a number of private or public-sector firms are active. Its logic in this is that if there are enough firms operating in a given area, additional investment would be of little benefit to the nation as a whole.

The example constantly used by the authority's officials is stainless steel sinks and related products. The authority is reluctant to grant investment licenses to additional producers of such items because many of the current group of manufacturers are in the red and have substantial idle capacity.

25 June, 90

A Point Of View

But an investor who only a short while ago received a negative response when applying for a license to produce stainless steel products suggests a totally different explanation. He believes that the authority has committed itself to a policy according to which it guarantees an initial group of investors market share protection to draw them into particular projects. He believes that once there are three or four producers operating in a market that can meet local demand for a product, the authority immediately stops granting investment licenses in this area.

Is this bad? Well, this investor seems to think so. Why should the Investment Authority be creating barriers to entry? Is this fair business practice? Just because two or three investors enter a market niche before the rest, why should it be closed off to others? All of these are truly interesting questions.

I wonder whether Egypt, if it had an antitrust commission, would find the Investment Authority guilty of discouraging competition or accept such government-created barriers as justifiable. Of course, I would have to side with those who would find the Investment Authority guilty.

In my opinion, both governmental and nongovernmental barriers to market entry are bad. Open markets tend to be efficient because they operate based on what Charles Darwin described so well: survival of the fittest.

By creating barriers to entry and securing market share for a few public and private-sector firms here and there, the government is creating conditions that may allow inefficient firms with obsolete technology and low-quality products to survive. By creating barriers to entry into the market it is preventing the competition mechanism from working.

If the Investment Authority is truly guilty of creating barriers to entry in markets, then it is not abiding by the golden rule of the 'invisible hand.' Such constraints on entry would definitely upset Adam Smith, and any conservative antitrust commission, for that matter.

So, does Egypt need an antitrust commission? The answer is probably yes, but a commission of this kind in Egypt will find itself not only addressing cartel problems by private firms but also uncovering problems in the logic of many of the state institutions entrusted with private-sector growth and development.