

## The Impact of the Socio-Economic Situation in the Region on the Quality of Competition Policy

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### Abstract

The article discusses various aspects of competition policy effectiveness analysis. At present, the antitrust legislation has reached a certain point in its development. It should be recognized that, despite the presence of a sufficiently developed legal tool in this area, the Russian law enforcement practice is still far from the best world standards and needs serious adjustment. It is noted that there is no system analysis in this direction at present, the available estimates are characterized by inconsistency, the lack of completeness and a low degree of reliability. It is shown that the competition policy in its current form based on the application of antimonopoly legislation in its protective version can formally lead to the decrease of efficiency criterion values in the form of economic concentration indicators, on the basis of which it is necessary to transform it in the direction of making it more active. They analyzed the main sources of antitrust laws. They listed the indicators of socio-economic development level, and the hypothesis was formulated about the existence of the relationship between the level of socio-economic development of a territory and the frequency of antitrust law violations. The performed analysis will give us the information about ranking, they will know the list of territories that need attention.

**Keywords:** Competition; Competition policy; Antitrust law; Socio-economic development; Efficiency analysis.



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### 1. Introduction

The evaluation of state effort effectiveness in a particular area is an essential component of any area of government policy, and competition policy in this regard is not an exception. Recently (2012 makes an exception), there has been an increased activity of the Federal Antimonopoly Service (FAS, 2018) in this sphere of state regulation, expressed in intensive legislative activity, a sharp increase of considered cases to suppress the violations of antitrust laws and to increase the amount of fine progressively. One may note a positive trend of violation decrease concerning the antimonopoly legislation before an antitrust case initiation or a warning provision by an antitrust authority. According to 17 applications, the authorities of the city of Moscow in the second half of 2017 eliminated the violations of antitrust laws after the receiving of the relevant requests from the Office. In the second half of 2017, the Department identified 27 cartel agreements, of which 13 are in the medical service market and 3 are in the housing and utility market. The main share of fines levied by the Moscow DFAS of Russia for fines comes from bidding violations: 36.6 million rubles during the first half of 2016 and 36 million rubles during the first half of 2017 (Rasskazova, 2018). On the other hand, at present, the situation is influenced by the passive position of the Ministry of Economic Development of Russia (MED) in terms of competition policy implementation, which essentially reduced to the adoption of the Competition Development Program in Russian Federation and the action plan for its implementation, approved by Russian Government decree (May 19 2009) No. 691-p (they have been cancelled since 2013), and similar programs in the regions without proper analytical support and the synthesis of existing experience, as well as without the publication of monitoring results concerning the implementation of these programs. It should be added that in 2011 the Ministry of Economic Development developed and tested the Methodology for assessing the intensity of competition at Russian Federation markets with the subsequent promise of its systematic improvement and application in order to conduct the comparative analysis of the competitive environment, also in the regions, and to track the dynamics of its change, which is not met until now. Thus, the current situation in the implementation of Russian competition policy is characterized, on the one hand, by a constant increase of antitrust law application intensity, and by the freezing of program measure implementation on the other. In this regard, the question arises on the overall effectiveness of competition policy based on the application of antitrust laws without the meaningful efforts on competition development at all levels of government, and the sufficiency of FAS effort alone for its effectiveness provision. Or, in another statement, the issue of permanent progress provision possibility in the conduct of competition policy within the current Russian economic conditions based on the application of antitrust laws only (The Global Competitiveness Report, 2018)

This article is devoted to research the approaches for an answer obtaining to this question. Possible solutions are based on the analysis of the state competition policy effectiveness, including the assessment of the method adequacy used to conduct such an analysis in full (FAS, 2018).

## 2. Methods

The Competition Development Program in Russian Federation states that the competition policy is a set of consistent measures implemented by the state in order to ensure the conditions for economic entity competitiveness, to increase the efficiency and the competitiveness of enterprise modernization and create conditions to ensure the cost-effective way for citizens concerning goods and services. Thus, competition policy is a key factor determining the competitiveness of enterprises and the standard of citizen living, as well as the main tool to achieve the goals of the country socio-economic development. The main methods of competition policy (antitrust regulation) are presented in Table 1.

**Table-1.** Main methods of antitrust regulation

<b>Economic methods</b>	<b>Administrative methods</b>
Production of substitute products	Prohibitive measures that prevent collusion on prices, markets and production quotas
Financing / lending activities to stimulate the production of scarce goods	Restriction and prohibition of mergers leading to the establishment of offer control
State support of small and medium businesses	Forced demonopolization (the division of companies)
Investment climate improvement for the development of business entities	The establishment of marginal prices or marginal profitability

As a preliminary approximate answer to the question posed in the introduction, there are stably low places of Russia in the world rankings characterizing the favorableness of doing business.

Thus, in September 2018, the experts of the World Economic Forum (WEF) presented the next global competitiveness rating of the countries "The Global Competitiveness Report 2017–2018". Russia was ranked as 38th out of 137 countries. As WEF experts point out, the low effectiveness of antitrust policy clearly reduces the level of country competitiveness (Pakhomova and Kazmin, 2009).

According to the index of economic freedom calculated by the Wall Street Journal and the experts of the Heritage Foundation research center, Russia was assigned to the countries with a predominantly non-free economy in 2011 and was ranked as 107th out of 180 countries.

The World Bank has published the "Doing Business-2017" annual ranking of countries in terms of favorable conditions for doing business, in which more than 6,700 experts from around the world took place - business consultants, lawyers, accountants, government officials, and leading scientists. 10 indicators of business regulation are taken into account: the conditions for starting a business, a building permit obtaining, property registration, loan receiving, etc. In this ranking, Russia took 35th place from 190 countries in 2017 and is listed between Japan and Kazakhstan.

According to research by the All-Russian Center for the Study of Public Opinion, only 16% of entrepreneurs do not see difficulties in entering the markets of neighboring regions, the rest believe that it is almost impossible. After the review of world ranking results, which can be taken as the initial indicative answer to the question posed, let's consider other approaches to assess the effectiveness of current competition policy (Pakhomova and Kazmin, 2009).

A more rigorous approach to this assessment obtaining is the use of the competitive environment state criteria, since they do not use the results of surveys used in world rankings and therefore are free from the possible subjectivity of the respondents. Currently, the main such officially adopted criteria are the indicators based on economic concentration measurement, the market concentration ratio (CR) and the Herfindahl-Hirshman index (HHI). According to the data presented in the Reports on the state of competition in Russian Federation prepared by FAS Russia, the level of economic concentration at the main markets of the Russian Federation has steadily increased in general over the past 5 years (Global Competitiveness Report 2012-2013)

For the sake of justice, let's note that the estimates given in the reports suffer from a number of significant methodological shortcomings, among which are the following ones:

1. The economic concentration indicators were determined by production and not by sales, which is absolutely unacceptable, because, first of all, the volumes of imported products that occupy rather large shares in a significant number of markets are excluded from consideration, and therefore should be taken into account. Otherwise, the concentration estimate will be overestimated. Secondly, a number of enterprises may produce the products for export or for internal production consumption and for this reason not to be present at all in domestic market, and the volume of the corresponding product manufacture will be improperly taken into account during the determination of the concentration indicators, which will lead to their unjustified overestimation once again.

2. In a number of cases, they presented the remaining controversial definition of the commodity boundaries for the markets in question. For example, in the report of 2012, the concentration of sunflower oil production is estimated, although there are quite a lot substitutes for this product in the form of other types of vegetable oil, which should constitute a more general single market for this reason; for this reason, the given estimate is overestimated.

3. In some cases, there was an unjustified unification of various markets into one subject of consideration, which led to an unjustified expansion of the relevant market boundaries and to the underestimation of the obtained concentration estimates. For example, the assessment is being carried out for the market of passenger air transport services on domestic airlines<sup>7</sup>, which is completely illegal as any direction of traffic is a separate market obviously, since the transport service for one-way transportation does not replace the transport service provided by the carrier in

any other direction. It should be noted that, according to the author, the current practice of antitrust law enforcement clearly indicates the boundaries of the markets, each of which is determined by a specific direction of traffic, including aviation.

4. The above estimates are made in different reports for different research objects, either enlarged, or vice versa, extremely localized, which completely eliminates the comparison of the estimates given in them. None of the reports submitted by FAS Russia contains comparable data. This indicates, among other things, the serious deficiencies in the analytical activities of the FAS Russia, also in terms of proper analytical support for the analysis.

5. Most analyzes of competition state at the markets presented in recent reports provide numerous data characterizing certain aspects of the market (market capacity, participants, entry barriers), but the conclusion about the dynamics of market competition is extremely rare (Pakhomova, 2008; Tsyganov, 2012).

### 3. Results and Discussion

Thus, the results of competition state analysis, presented in the reports, have the following disadvantages in general:

- 1) they are not sufficiently strict and are characterized by the absence of a single methodological approach;
- 2) they are very controversial in methodological terms;
- 3) they are often applied to different selectively taken objects, and thus they do not have the properties of continuity and comparability, as well as the representativeness and the completeness of the main trend coverage;
- 4) they do not contain a clear final substantiated conclusion on the dynamics of competitive environment state changes as a whole at Russian Federation markets.

According to the reports, all this raises doubts about the possibility of making strict and substantiated conclusions about the general trends of competitive environment changes at Russian Federation markets. At the same time, even the presented estimates, as was mentioned above, clearly support the cumulative increase of economic concentration and, accordingly, the deterioration of the competitive environment in Russian markets, if we use the concentration indicators for this purpose (Avdasheva *et al.*, 2006).

This conclusion is also confirmed by the results of analytical studies concerning the territorial bodies of the FAS of Russia, which are performed more strictly, since they clearly correspond to the methodological support by their definition adopted for these purposes and are often checked during legal proceedings.

We decided to derive the study hypothesis on the existence of a relationship between the level of socio-economic development of a territory and the frequency of antitrust law violations. When this hypothesis is confirmed, it is necessary to consider the effect specifics. It is assumed that a high level of development implies a low level of violations.

The indicators of socio-economic development level include the following values:

- salary to the MCB, times
- unemployment rate, %
- value added per capita, thousand rubles.
- value added, thousand rubles.
- investment in fixed capital per capita in a full circle, thousand rubles.
- investment in fixed assets per capita in a full circle, thousand rubles.
- total area of commissioned residential buildings per capita, sq.m.
- the total area of residential buildings put into operation, sq.m.
- tax and non-tax income per capita, rub.
- tax and non-tax revenues, thousand rubles.
- the amount of shipped own-produced goods by net types of economic activity per capita, thousand rubles.
- the amount of shipped own production goods by net types of economic activity, thousand rubles.

It is important to note that nowadays the compliance with antitrust laws at the municipal level is not controlled at all. We propose the following on the basis of such statistical data: the name of a municipal district, the number of violations, the subject of the violation, the essence of the taken decision to identify the dependence of these values on the socio-economic factors listed above (Borisova, 2012).

### 4. Conclusions

With the data on the indicators of socio-economic development, it is possible to make the rating of municipal districts having made the rationing of all data. Then they compare this rating with the data on the number and the nature of complaints, thereby revealing the level of competition policy effectiveness within each municipality.

At the end, the performed analysis will give us the information about ranking. We will be aware of those areas that need attention (Lyakin, 2010; Stahl, 2010).

### 5. Summary

At present, antitrust legislation has reached a certain point in its development. On the one hand, over the past 20 years, an enormous path has been made to create a regulatory framework that corresponds to the world practices in general in the field of antitrust regulation. On the other hand, it should be recognized that, despite the presence of a sufficiently developed legal tool in this area, Russian law enforcement practice is still far from the best world standards and needs serious adjustment.

Unjustifiably frequent changes in legislation, a low level of procedural guarantees, the lack of developed standards of proof are the consequence of inconsistent state policy in the field of antitrust regulation. Its detachment from the general social and economic policy of the country can level the positive effect of antitrust regulation and can also lead to the deepening of economic problems.

The need for deep institutional reform of antitrust laws is obvious. It should begin with the rethinking of the goals and the objectives of anti-monopoly regulation, the role of individual state bodies in state policy determination. The reforming of the FAS Russia apparatus and the judicial system is required to bring antitrust regulation, including law enforcement practice, to a qualitatively new level of development. This is the only way to reveal the potential of antitrust regulation fully.

During reforming, it would be reasonable to rely on the positive experience available in other areas of state regulation, for example, on the successful implementation of tax reform. Without an integrated approach to the development of competition, the point implementation of FAS Russia initiatives will be more likely a mistake than an achievement within the framework of individual industries.

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