

# Regulation, Economic Efficiency & Growth

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UTB School of Business

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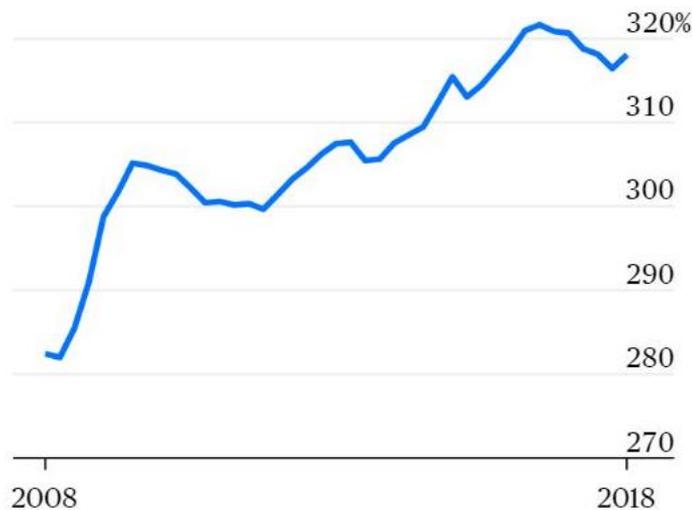
# Global Economic Overview

# Monetary Expansions & Global Debt

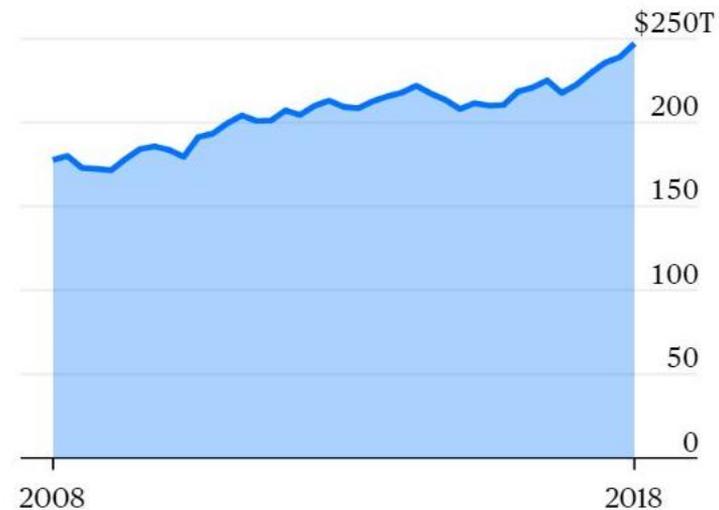


□ Since the *Great Recession*, the global economy has been kept running through aggressive monetary expansions. This massive injection of liquidity has created incentives for a substantial **global debt increase**. In 2008, global debt was around \$173 USD trillion, but increased to \$250 USD trillion as a result of monetary expansions.

Debt as a percentage of GDP



Nominal debt

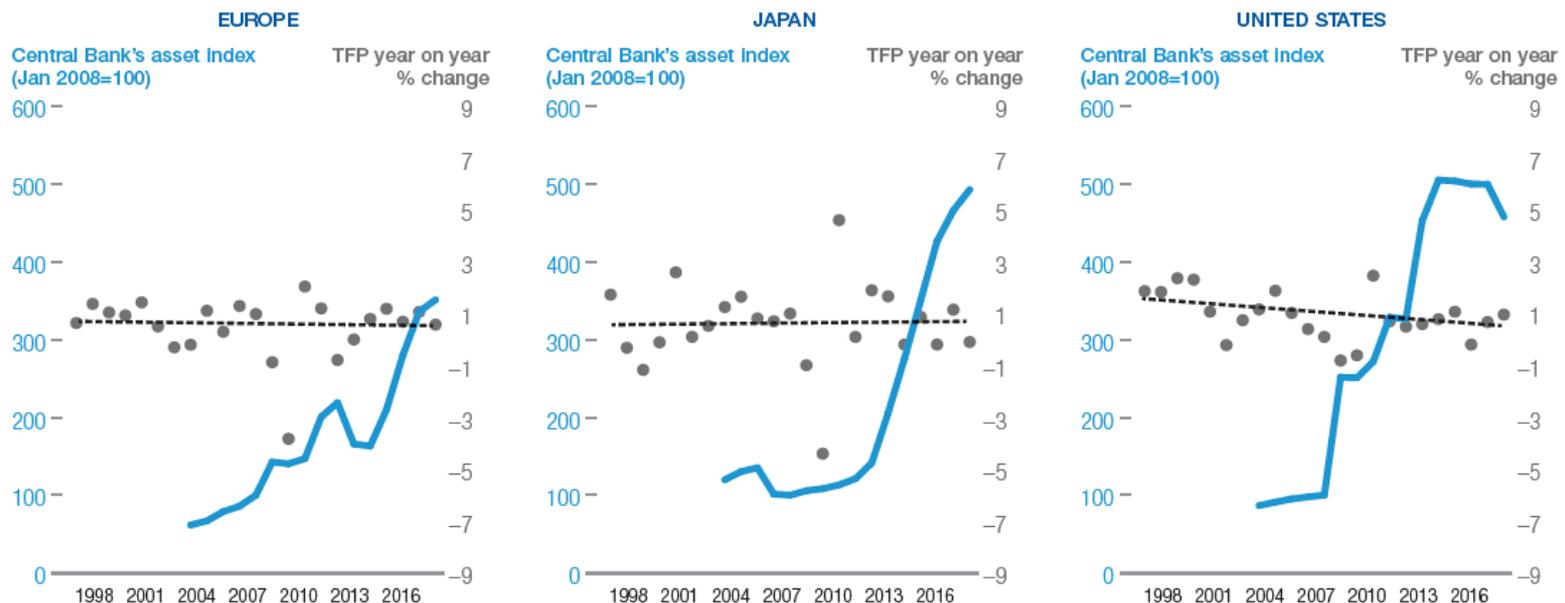


Source: Bloomberg 2018

# Productivity Growth



□ Despite this injection of liquidity, **productivity growth has been stagnant.** During 2000-2007, TFP annual growth averaged 1% in advanced economies and 2.8% in the rest of the global economy. During 2011-2016, TFP grew by only 0.3% in advanced economies and 1.3% in the rest of the economy.



Source: WEF 2019

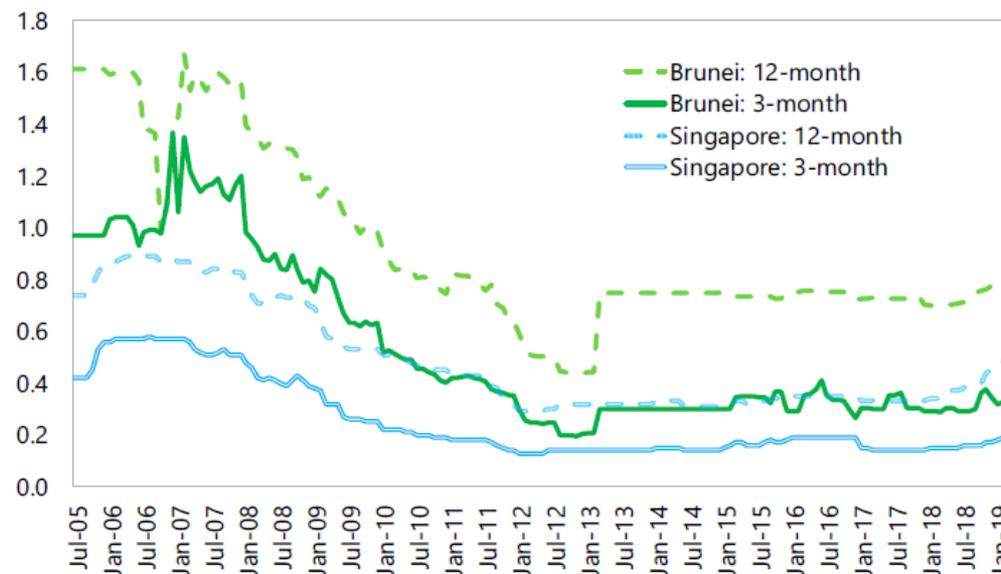
# Capital Misallocation & Productivity



□ Monetary expansion has mitigated the negative effects of the global financial crisis, but it also contributed to **reducing productivity growth by encouraging capital misallocation**. Monetary policy is losing its effectiveness to stimulate the economy (liquidity trap).

## Deposit Rates

(Percent per annum)



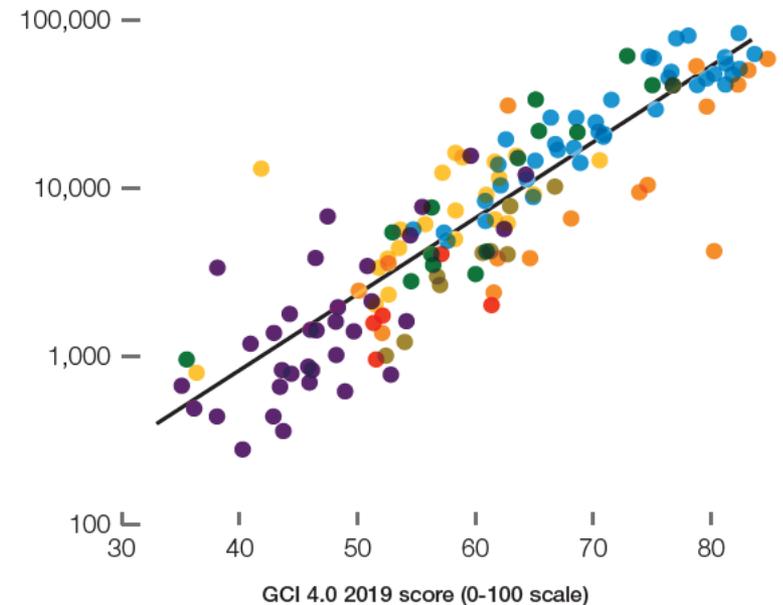
Source: IMF 2019

# Alternative Policy Options



□ TFP is the main determinant of long term economic growth. WEF's Global Competitiveness Index (GCI) is a measure of TFP. Since monetary tools are now ineffective, this is the right moment to use fiscal policy to stimulate productivity-enhancing **investments in infrastructure, human capital and R&D** as well as to implement **structural reforms**.

GNI per capita, 2018 (US\$, log scale)



Source: WEF 2019

# Brunei's Economic & Competitiveness Overview

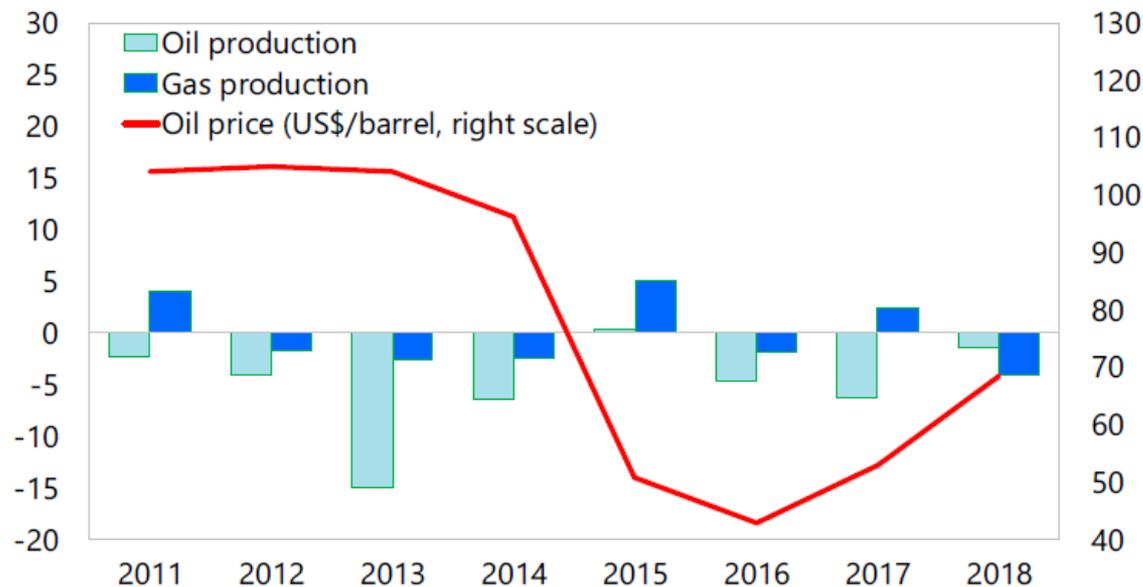
# Oil Prices & Brunei's Economy



□ In the last years, Brunei's economy has been severely impacted by the evolution of international oil prices.

## Energy Sector Production and Oil Price

(Year-on-year percent change)



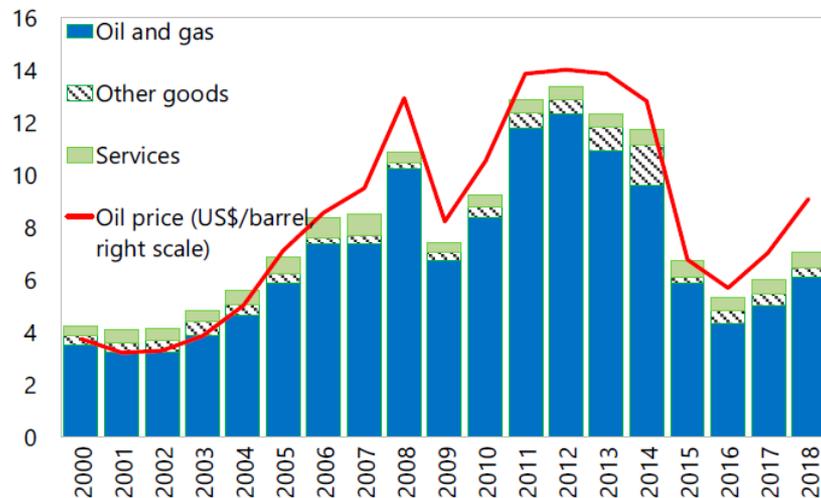
Source: IMF 2019

# Oil Prices & Brunei's Economy

- The impact of oil prices on Brunei's economy is huge, given the importance of O&G revenues for the national economy.

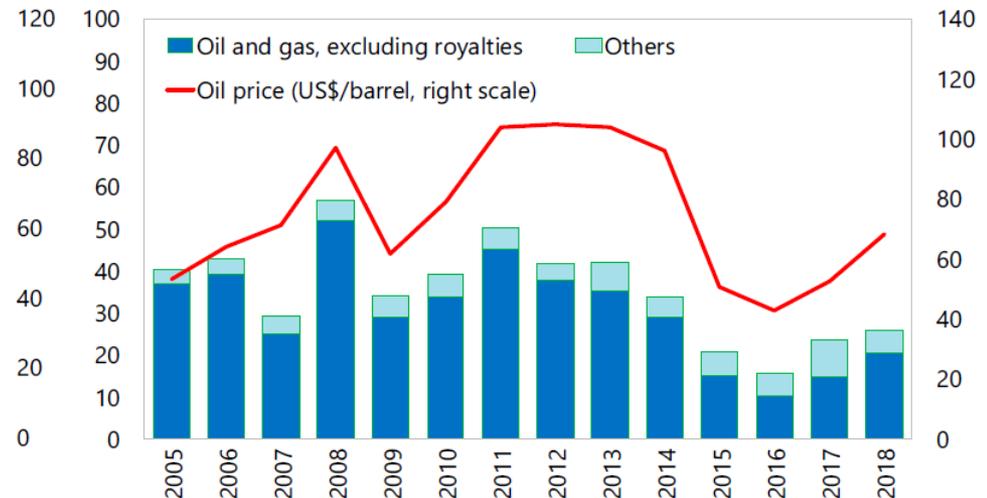
## Export Composition

(In billions of U.S. dollars)



## Fiscal Revenues

(In percent of GDP)



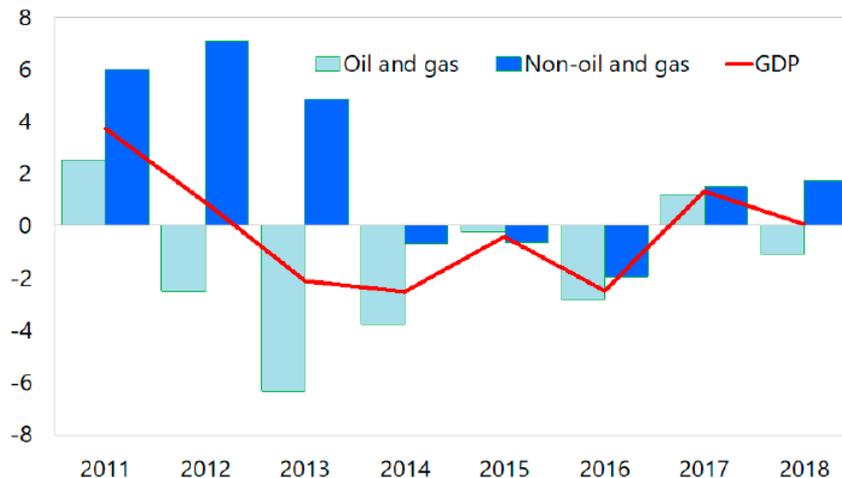
Source: IMF 2019

# Brunei's Recovery

□ Brunei's economy is on the process of recovering of that external global shock, although the shock has already had economic consequences for the country.

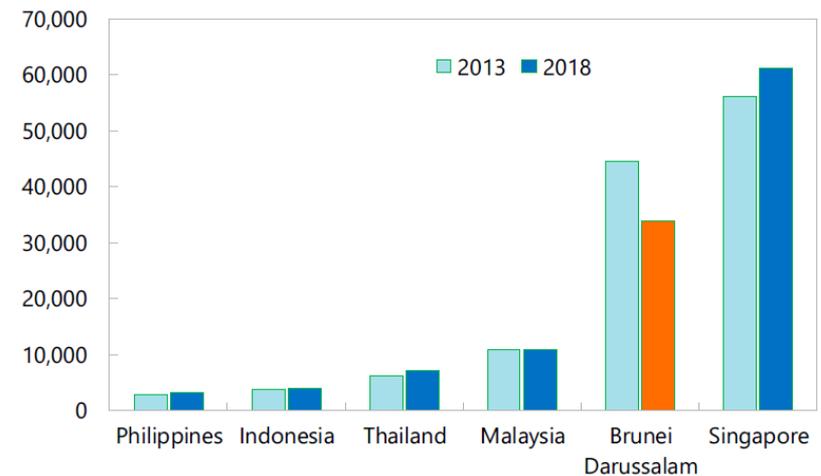
## Real GDP Growth

(In percent)



## Per Capita GDP, 2013 and 2018

(In U.S. dollars)



Source: IMF 2019

# Brunei's Structural Change



□ In this context, the strategy of Brunei's government to accelerate the **diversification of the economy and to implement structural reforms** to create a more robust and resilient economy is fundamental.

- ✓ How competitive Brunei's economy is?
- ✓ How economic regulation can be used to improve the performance of Brunei's economy?



# Brunei's Structural Change



Brunei's economy ranks 56<sup>th</sup>/141 according to WEF's Global Competitiveness Index, 2019.





# Principles of Economic Regulation & Competition

# Principles of Economic Regulation

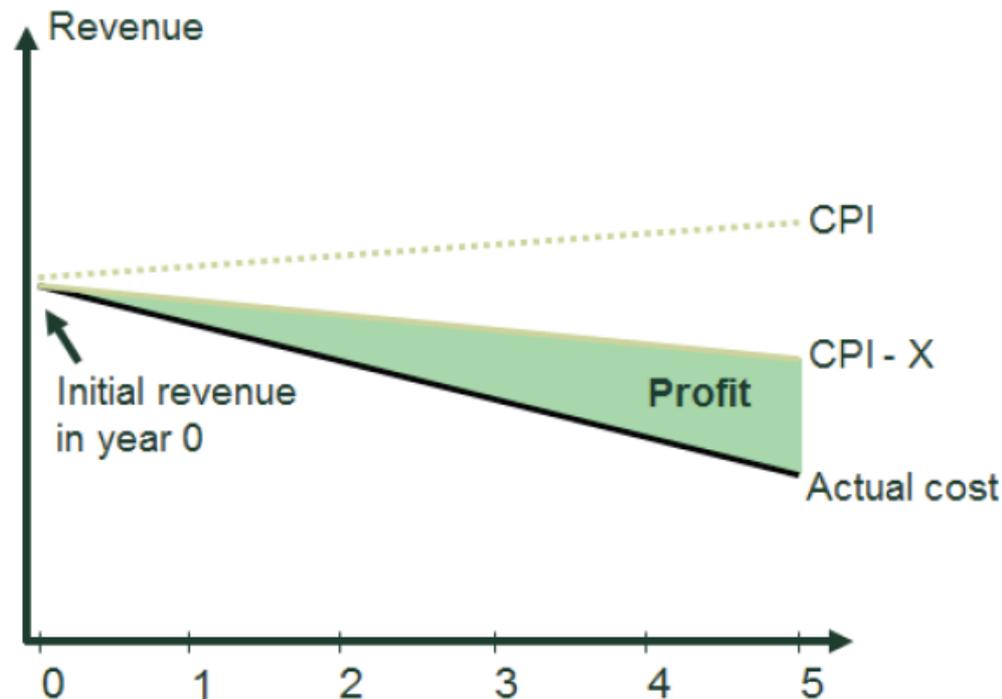


- ❑ By economic regulation we refer to policy instruments that affect prices, entry and the industrial structure of markets, more generally. In a broader definition of welfare-improving “economic interventions”, we can include competition policy.
  
- ❑ According to J. Tirole, Nobel Prize in Economics 2014, the main contributions of economic regulation involve:
  - ✓ Incentives for economic efficiency: price caps
  - ✓ Tariff rebalancing: Ramsey Pricing for cost recovery
  - ✓ Transition to Competition: Access Pricing
  - ✓ Competition *for* the Market vs Competition *in* the Market

# Incentives for Economic Efficiency



- The party that control costs should have incentives to reduce them. **Price caps** are schemes that provide high-powered incentives to cost reduction.



# Tariff Rebalancing

□ Should users pay the full cost of services they use or should this cost be allocated between users and not users? If we conclude that users should pay the cost, we must have an “optimal rule” for the allocation of these costs: Ramsey pricing.

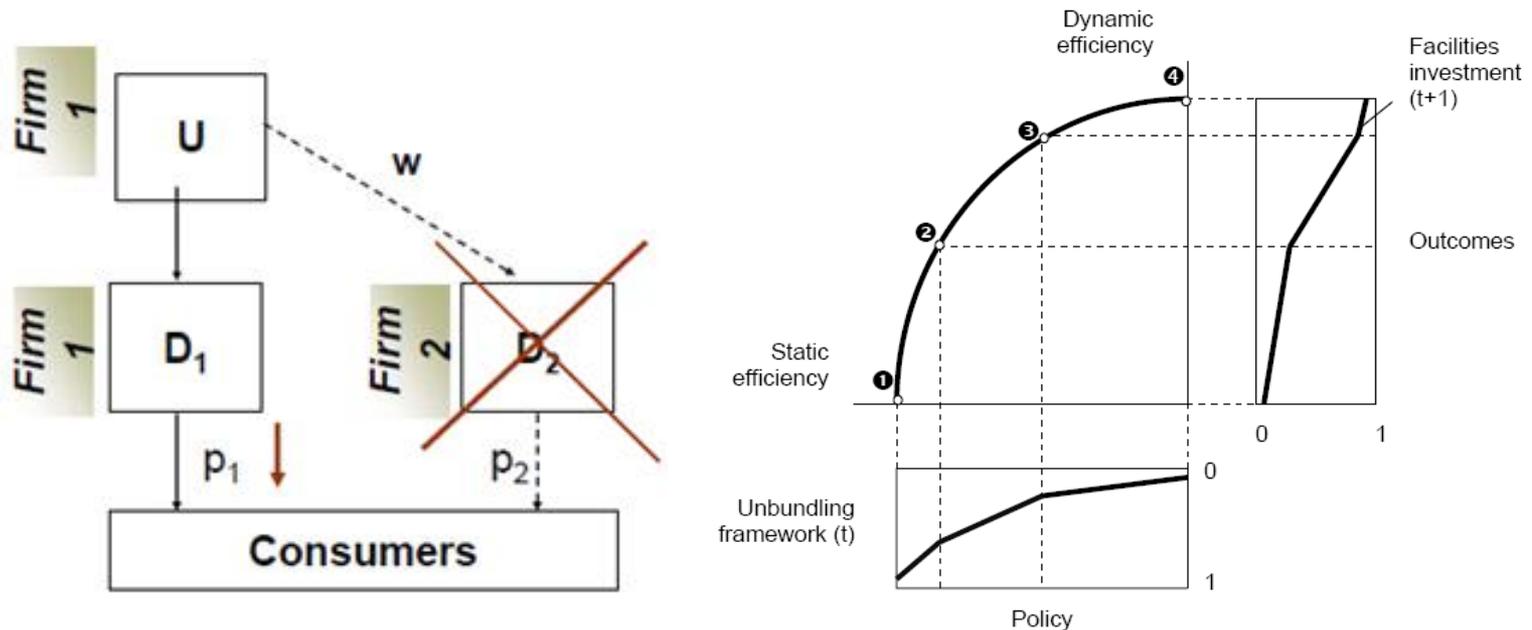
*“Regulated prices should follow commercial logic in their structure, but should be lower on the whole than those of an unregulated monopoly” (J. Tirole)*

$$\Pi = (p_1 - c_1)q_1 + (p_2 - c_2)q_2$$

$$p_1 \left(1 - \frac{1}{\epsilon_1}\right) = p_2 \left(1 - \frac{1}{\epsilon_2}\right) = c$$

# Transition to Competition

- The access to essential infrastructure forces regulators to determine an **optimal access price**. This raises a trade-off between static and dynamic efficiency.



# Competition *for* the Market



- ❑ Competition *for* the market is competition for the right to serve, on an exclusive basis, a given market: **public procurement**.



OECD Public Governance Reviews

## Public Procurement for Innovation

GOOD PRACTICES AND STRATEGIES



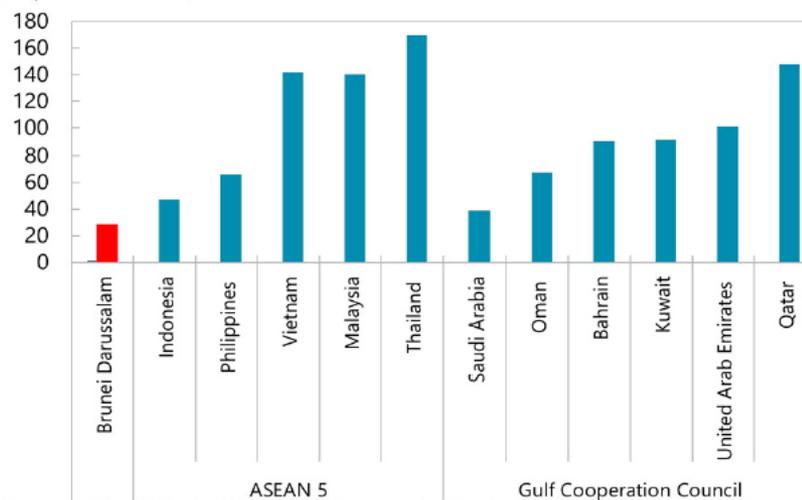
# Regulatory Challenges for Brunei's Economy

# Financial Markets

□ Brunei has a relatively low level of financial intermediation. **Higher financial intermediation can boost economic growth. Developing the capital market** can increase long-term financing, complementing the current efforts of the banking system.

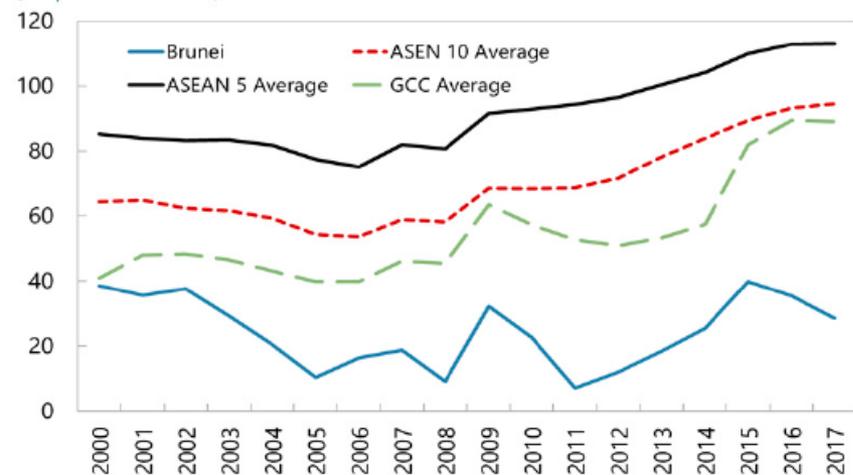
## Domestic Credit Provided by Financial Sector, Latest

( In percent of GDP)



## Domestic credit provided by financial sector

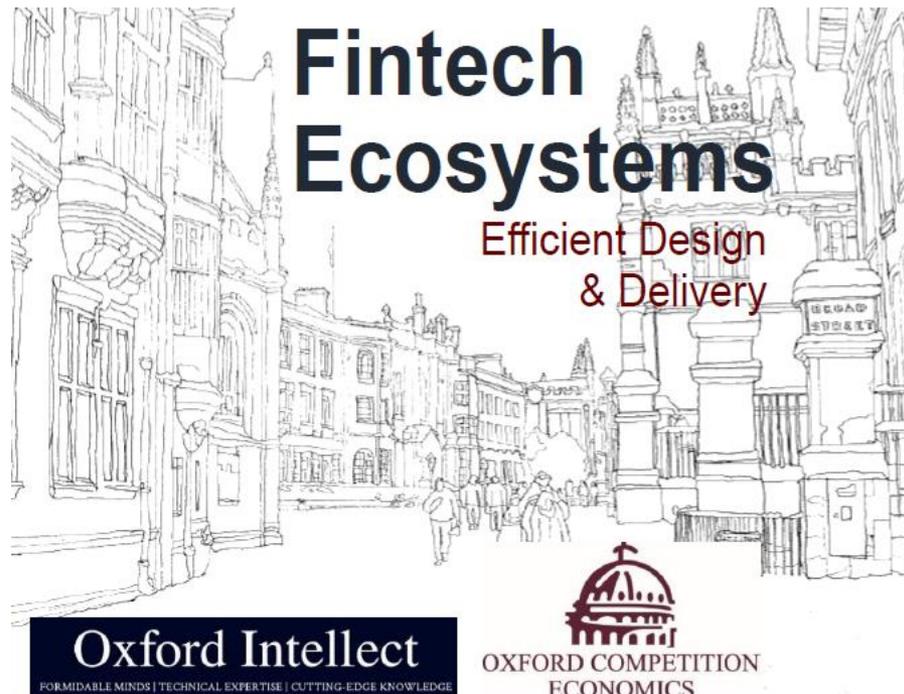
( In percent of GDP)



# Islamic Finance & Fintech



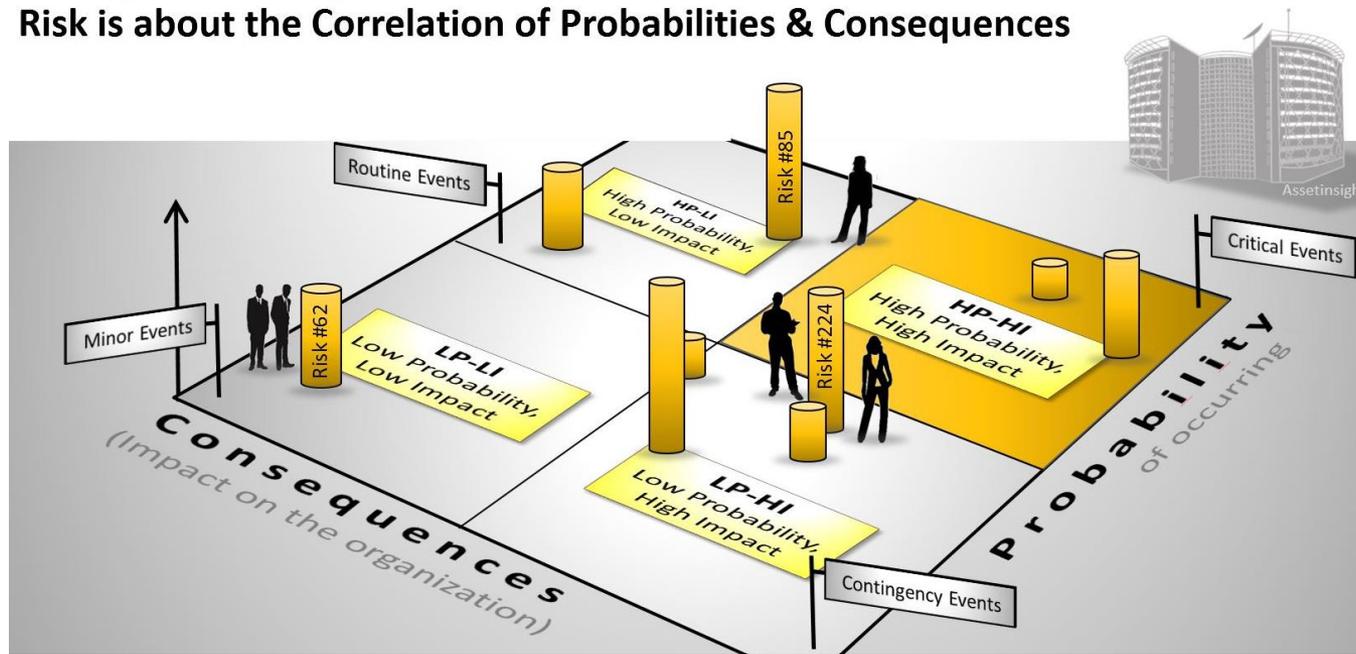
□ Brunei has the highest internet penetration in Asia, which facilitates the **creation of digital marketplaces**. Brunei can be a center for **Islamic Finance** and Fintech. The first challenge is to develop a **Fintech ecosystem** that complements & accelerate innovation in the financial sector according to principles of Islamic finance.



# Fintech and Risks

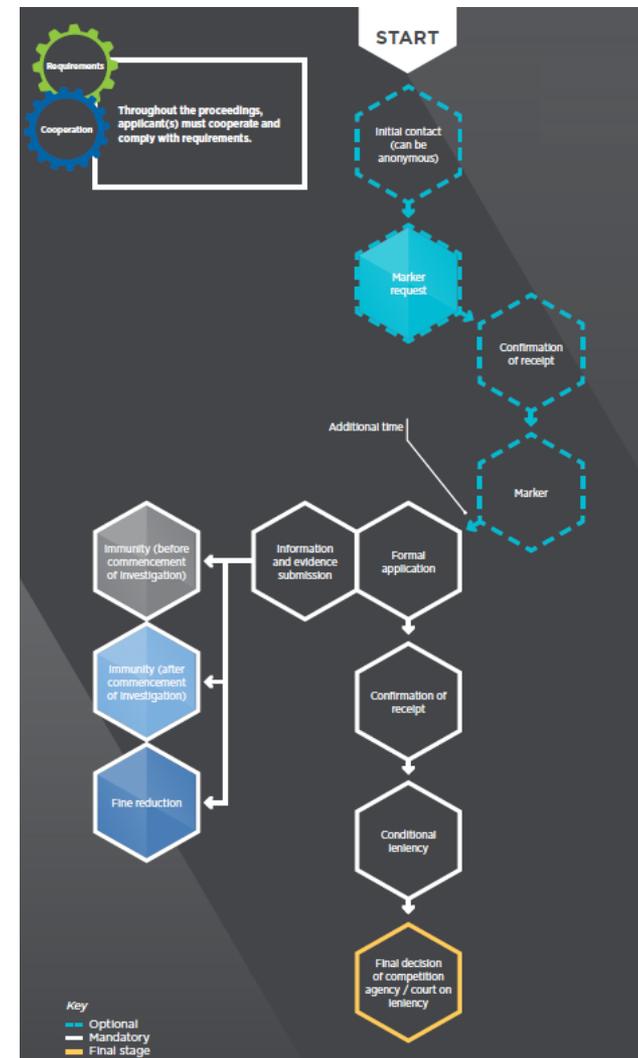
- The second challenge is to **regulate Fintech optimally**, which requires a precise **risk evaluation**.

Risk is about the Correlation of Probabilities & Consequences



# Competition: Leniency Schemes

□ Brunei's Competition Commission was established in 2017 to address the 3 major areas of competition in the country: coordinated effects, unilateral conduct and M&A. The main challenge is to provide **expert training** to antitrust officials and to bring **best international practices**. In the area of collusion, the implementation of an effective **leniency program** is essential.

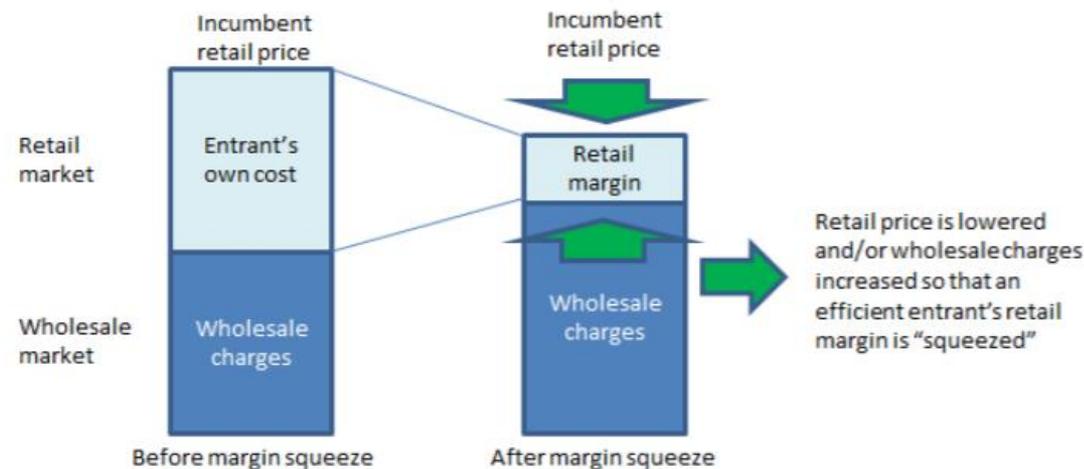




# Abuse of Dominance

□ In the area of unilateral conduct, there are important topics that should be discussed and analysed before implementation:

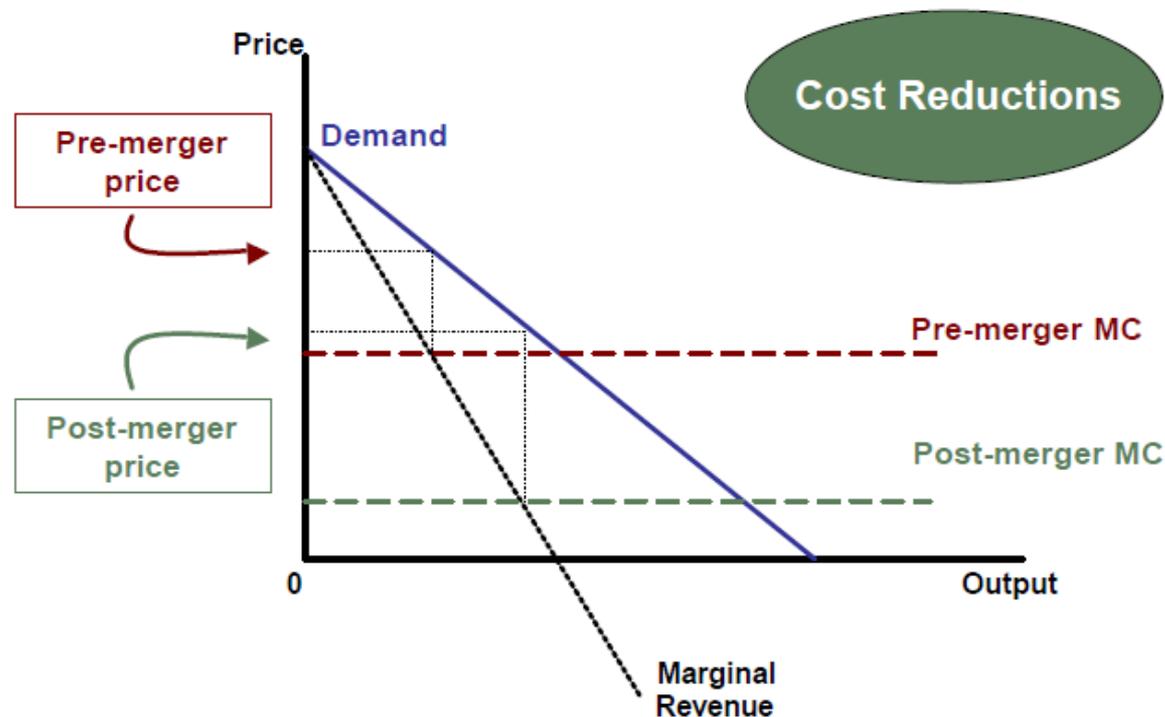
- ✓ Determination of essential inputs (slots, interconnection)
- ✓ Determination of access rates: regulator vs competition authority
- ✓ Early conclusion of investigations





# Mergers & Acquisitions

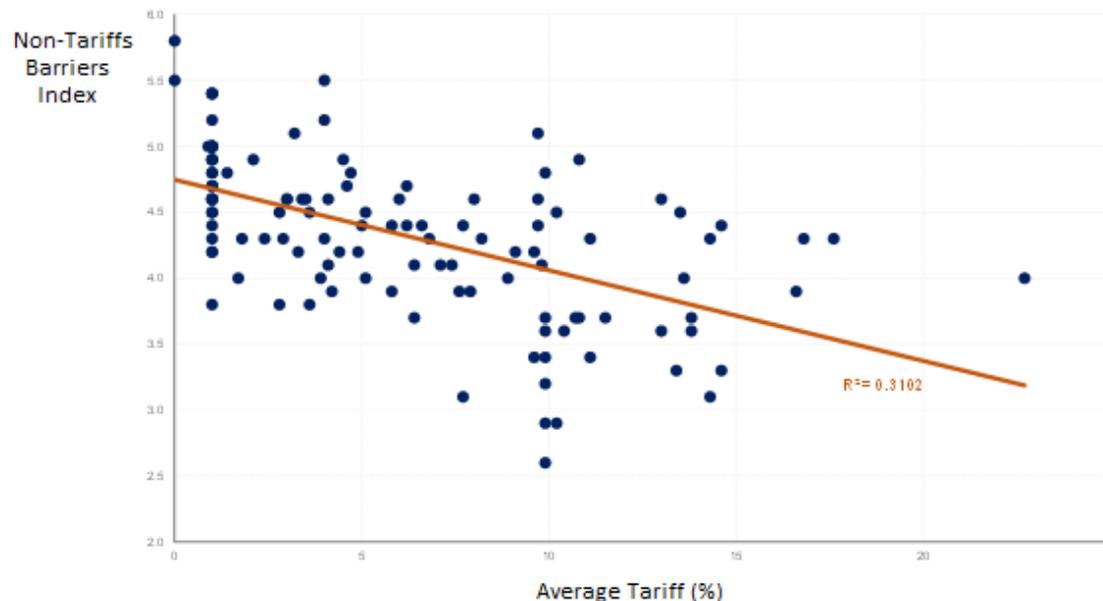
- One of the key challenges in this area is to develop a framework for the **identification and quantification of merger-specific efficiencies**.



# Competition & Tariffs



□ The implementation of the Competition Order also lead to the discussion of the effects of **subsidies** and **discounts** in the process of competition. At the domestic level, anticompetitive discounts may be related to **unilateral conduct** that can violate competition law. In the international arena, these practices can lead to **dumping practices** that may affect average tariffs for trade and non-tariff barriers.



# Rebalancing Energy Tariffs



❑ It is estimated the fiscal cost of fuel subsidies in Brunei is 1.0-1.5% of GDP. Subsidies distort economic outcomes since encourage excessive consumption and inefficient allocation of capital. It is understood that the government will address this issue in the next years. It is important to have in mind that:

❑ **Subsidies may have an asymmetric impact between income groups:** it benefits more the wealthier group than the vulnerable.

❑ **Untargeted subsidies should be avoided and use the liberated resources to increase spending on productivity-enhancing activities** as physical infrastructure, human capital (high quality education and training), SME support and digitalization.



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