THE RELATIONSHIP BETWEEN COMPETITION POLICY AND COMPETITIVENESS

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Abstract. *The turbulent start of the new century has brought new challenges for firms, industries and countries. Success in such times is demanding new perspectives on competitiveness. Despite Romania experience of 10 years of anticompetitive practices legislation, despite of the legislation upgrading to the European standards and to the institutional convergence with the EU in the last years, despite even the positive economic dynamism in the last years, the effectiveness of competition policy implementation is rather low. This paper seeks to analyse the need and relevance of having a competition policy, its benefits, and the necessary amendments which need to be made, so as to arm the economy and the government with a competent institutional mechanism to tackle the emerging challenges.*

Key words: *competitiveness, competition policy, market distortion*

Introduction

Competitiveness is that which measures firms' ability to efficiently create useful services and products, within a globalized environment, in a way that betters the life quality level and that of employment. A steady competition with favourable positions for enterprises is a key factor in the growth of productivity and competitiveness. Competition is thus, not a purpose within itself, but a vital process of the market, which rewards enterprises with the utmost attractive prices, the best quality, or that brings new products on the market, and with that the possibility of having a wider range of products to choose from. As Neelie declares, by competitiveness we understand the situation in which some companies supply goods and services, at reasonable cost and other companies or nations wish to buy (Kroes N., 2005). The test for competitiveness is now of course the market which today means the European or global market.

The determiners of global competitiveness define the context in which companies are born and compete separately, but also in a synergic manner. This climate requires and offers the necessary resources and knowledge to fuel a certain the competitive trumps of certain sectors; the information that indicate the opportunities to be considered; the direction in which the production factors must be assigned; the objectives that must be aimed by shareholders, managers and employees and, not lastly, the pressures and threats to which companies are subject to in order to be flexible and innovative.

Companies obtain competitive advantage where the location of their activity allows for the achievement of proper actives and specializes in knowledge accumulations, where they promptly and suggestively receive information about the market's requirements, where the goals of owners, managers and workers converge into durable investments; where the macro-economical climate is more dynamic and provocative (Miron D., 2003). By the words of M. Porter, companies succeed "where the national diamond is most favourable".(Porter M., 1993)

The more complex and the more dynamic a country's economical background is, the more likely it is that some companies fail if they do not internalize and capitalize according to its requests.

The companies competitiveness relies on several factors, some controllable others not. *The external factors,* they cannot: (Dobre I.C., 2007)

- the internal rate of the inflation and its relation to other countries' inflation rates – the higher the rate the less competitive the goods;

- the real exchange rate – the higher the value in euro in relation to other currencies, the more expensive the exports, making them difficult to sell, while imports cheapen, encouraging purchase on the domestic market;
- the economical growth rate of countries where companies are resided;
- economical politics needed in order to ensure a stable economical environment;
- the power of unions and their ability to ensure higher salaries, bonuses and a shorter working week;
- the extent to which national governments and other public organizations supply assistance and support for business;
- the extent to which national governments can attract foreign direct investments;
- the quality and extension of educational measures, especially in higher education.

The internal factors that influence a business' competitiveness include:

- the stage of the research-development activity;
- the production costs and the final asked price;
- the production methods and managerial practices – for example is the company looking to produce more efficiently, with minimum losses, or are its commodity markets large enough to ensure scale economies?
- the level of productivity;
- investing in new equipment;
- the quality of the goods and their reputation;
- characteristics regarding design;
- the exactness of the delivery dates;
- the quality and extension of post-sale services;
- the structure of the goods that were produced.

A healthy competition policy supports competitiveness

As the European Union progressed, the need to ensure enterprises a frame that is favourable to their competitiveness, has intensified. If we talk about competitiveness, first and foremost, we talk about competition. As it is, competition should be the main reason for the current transformations taking place, maintaining it should also be the first demand for the success of the adjustment process. (Ignat I., 1994)

The size of a company is very important, fact known since the early 50's, when it was considered that an important premise of the European economical integration was trusting that the amalgamation of the European economies determines the birth of large and efficient companies on the market, which would allow a deduction in prices, a higher quality and more competitiveness on the external markets.

Only a dynamic domestic market would determine Europe's companies to succeed abroad. Competition does not guarantee competitiveness, but open markets definitely determine companies to be more innovative, improve on quality and maintain low prices. A strong computational policy is vital in order to ensure that Europe's companies stay amongst the world's most competitive – goal set by Europe in March of 2000, at the meeting of the European Commission in Lisbon, where governments signed a program of economic reforms, by which Europe was to become „the most dynamic and competitive economy in the world", come 2010. (Bannerman E., 2002)

The advantages of the competition also show in equal extent the risk that it offers arguments in favour of crating „national champions". There is no inconvenient regarding the fact that enterprises reach a sufficient level to maintain competition on a global level, but this must take place in a competitive environment, while respecting the policies. Competition, on a national level, helps better a company's ability to be externally competitive.

Domestic competition is at least as important as international competition, the existence of several competing companies benefitting everyone, provided there is a real competition between them and not an attitude of cooperation. The adoption of new regulations, which encourage the rise of new companies, determines the growth of competition and contributes to the maintenance of competitive advantages. Rivalry between companies situated in the same country is favourable from several points of view:

- the competition that exists on the domestic market compels companies to reconsider their production level and that of exports, in correlation to domestic competitive pressures and the opportunities that exist on the external markets;
- domestic rivalry makes companies improve their products, continuously reinventing them, orientating themselves towards other target segments through their new products and offering them to consumers at an arresting price.
- domestic competition determines the creation of new products and services that satisfy a wider range of demands(take for example the competition between German automobile manufacturers, which lead to the manufacture of some of the best European automobiles, but also to the reorientation of some strategies that would have before been unimaginable – the launch of Mercedes's "A classe", which erased the German customary law that said Mercedes is the boss' car and the secretary can barely just afford a Volkswagen)
- besides having advantages, internal rivalry also helps avoid some failures.

Competitive policies protect and encourage competition. By determining the enterprises present in the European Union's domestic market to compete independently, it contributes to creating equal chances for everyone and encourages new market entries.

The report of the European Counsel in spring 2004, in which the Commission critiques the member states for having lacked in progress regarding the Lisbon strategy, shows a slowing down in terms of productivity growth, that being the main cause of a mediocre economical performance within Europe. The feeble growth of productivity in Europe (especially compared to the American performances) has restricted the rhythm of the economical growth. If a large number of progresses were made in regard to the integration of the markets, starting from the creation of the domestic market, a large number of European economical sectors remain fragmentary and can be characterized by low competition and high prices and are, thus, harmful to industries and consumers.

As a main supporter of innovation and productivity growth, an effective competition between enterprises on the enlarged domestic market must be considered as one of the key elements of an efficient strategy for the building of a competitive Europe and for refreshing the Lisbon strategy.

The objective of a proactive competition policy is that of sustaining the competitor's game on the domestic market and urging enterprises to adopt a dynamic behaviour that would improve productivity. It's all about determining the sectors in which development is impaired as the result of a lack of competition and which, for this reason, do not function efficiently. The instruments of the competitive politics forbid, penalize and prevent anti-competitive practices. Moreover, because competitive rules do not question the mere existence of monopoles, be they natural or otherwise, they forbid power or monopole abuse or the creation of such a position with the help of a merger. It must be avoided that such measures taken by states deter the competition, especially with the help of public help.

The main objective of rules when it comes to deals and vantages is to incite enterprises to enter the competition instead of using collusion practices. Deals and other restrictive agreements alter the resources and encourage insufficiency. The application of these rules keeps the enterprises from taking a vantage point, or making abuse through anti-competitive practices (like excluding competitors), in a way that would maintain or strengthen their stand on the market.

Mergers allow newly created entities to exert market power or, more commonly, block competition. In contrast they can also raise the enterprises' efficiency and produce cost economies, which have repercussions on the consumers.

Consequently, the control of the focuses marks the low number of focuses that prevent the maintenance of an effective competition and foresee corrective measures, necessary for maintaining competition.

Public help can be a major obstacle in the way of competition. When it are used to save the business of companies on the verge of bankruptcy, public help can alter competition and interfere with the application of fair game rules on the domestic market. It is well known that European states often subsidy industries in an ineffective manner and do not settle the markets deficiencies, e.g. in terms of research-development, shaping, innovating and capital risk. An effective check of public help, based on solid economical criteria, allows that these measures not interfere with the competition on the domestic market.

Competitive policies contribute to the opening of monopolistic sectors (such as telecommunication, energy, transport) towards the competition, which improves the consumers' position and develops investments and innovation. It encourages member states to push aside entry barriers to all regulated sectors and strengthen the consumers' power, without depriving them from the advantages of general interest services. It must also settle the problem of regular protection, like in the form of authorizations for exerting free professions.

A study on the evolution of more than 100 industries in 10 countries, shows that in all stages of development, there was a strong correlation between the steep competition within every industry and the creation and maintenance of the competitive advantage on the domestic market as well as the external market; creating a national champion with a vantage point has rarely lead to having a competitive advantage on an international level, because companies that did not have to compete on the domestic market only rarely had any success on the external market. (Porter M., 1993) The same situation was found in even in industries that registered important scale economies, from countries with small domestic markets, because this fact forced local companies to get out on external markets.

Ever since 1979, the World Economical Forum of Geneva, published the Global Report on Competitiveness, with which it tries to synthesize the competitive vantage of national economies on an international scale. Among the indicators realizes by this institution, the competitive growth indexed one of the most commonly known indices used in international economy. The competitive growth index uses three main elements: technology, public institutions and macro-economic terms. Macro-economical stability is considered to be essential for economical growth. Although most economists argue that stability in itself does not generate economical growth, the instability of macro-economical indicators can raise question marks on any potential growth.

Companies cannot take investment decisions in economical environments where there is hyper-inflation, and an excessive taxation policy can make it possible that profitable investment projects become unprofitable. Public institutions are also essential to economical growth. Although prosperity is generally created by private entities within a market economy, they are subject to public regulation and especially by their interactions with public authorities, they can be prevented in their activity. For example, a regime of propriety rights where the legal system is efficient in protecting and re-establishing those rights violated is essential for the rightful development of the economical activities. Furthermore, economical science approaches more and more often the impact of institutional organization on the macro-economical performances or different countries. The third element taken into consideration by the global index of competitiveness is technology. The growth of an economy cannot be realized on the long run if the terms of the technological process are not applied. The three elements are not independent: powerful institutions are necessary to achieve macro-economical stability, and that promotes technological innovation.

According to this index, the most competitive economy in the world in 2007 was the US, followed by Switzerland, Denmark, Sweden, Germany, Finland, Singapore, Japan, Great Britain and Holland. According to the Global Competitiveness Index 2007-2008, Romania takes position number 74 out of a total of 132 analyzed countries, with a score of 3,97 (out of a maximum of 7 points).

Conclusions

Competition between companies from the same country seemed, many times, to have had more positive effects than international competition, due to the fact that companies knew their competitors and due to the need to innovate in order to have better results than all the other companies that were working in similar backgrounds. Even so, an open domestic market, along with the adoption of global strategies, could partially substitute the lack of domestic competitors in a small country.

With its instruments for fighting against illegal agreements, focus control, public help control and liberalization measures, competitive politics, does not always have a direct effect on competitiveness. Everything depends on the enterprises abilities in this regard, but also on more concrete measures of applying the Use's competitive policy, emphasizing the economical analysis of market structures and behaviours, allow the progress towards the Lisbon strategy, strengthening productivity and economical growth, with a direct influence over the EU's citizens' lifestyles.

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