
Editorial

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Biographical notes: Magnus Feldmann is a PhD candidate in Political Economy and Government and a Research Fellow in the Program on Justice, Welfare and Economics at Harvard University. His research is focused on comparative and international political economy and economic transition, and his articles have appeared in various journals and edited volumes.

Georg Caspary has worked for many years for several multilateral organisations and private firms on infrastructure and private sector regulation in the developing countries. The arguments expressed here are his personal views and not those of any institution he is or has been associated with in the past.

This special edition looks at the state of play of regulatory reform in the post-Washington Consensus era. As academics and policymakers increasingly realise the importance of good governance and effective regulation to address key public policy challenges, regulatory reform has become a key tool in development policy-making, both at the national level and, in the case of the developing countries, for development agencies and international financial institutions. Given the breadth of regulatory policy challenges, this special edition spans the range of subfields in regulatory policy, including competition, trade, infrastructure, the environment and raw materials, to name but a few.

All the articles in this special issue have a particular country or regional focus, but they nonetheless point to the broader international significance and ‘replicability’ of the main findings. There is a particular focus on the experience of the developing/transition countries, and the articles seek to generate lessons for other countries embarking on regulatory reform.

Friedman addresses a vexing problem for utility regulation, namely, the exercise of market power by utility companies. While many observers view this primarily as a transitional phenomenon, Friedman shows that it may remain a problem in the long run as well. A number of important policy implications follow from his analysis,

which can help mitigate these adverse welfare consequences. First, Friedman shows that well-developed forward markets reduce the problems of market power. This is because forward markets engender a greater time diversity of contract opportunities, which leads to more elastic supply and demand. Since some exercise of market power may persist in the long run, Friedman also argues for developing regulatory oversight over utilities, and he presents a set of specific recommendations for the agencies involved in market monitoring. These lessons may well be relevant for countries embarking on reforms of their utility regulation and who want to avoid problems, such as those during the electricity crisis in California.

Evans argues in her article that natural gas has become a major geopolitical concern in relations among the transition countries and other European states. Transition economies have embarked on very different paths in using and regulating natural gas. Countries to the east, like Russia, by and large have undertaken few market-oriented reforms of their natural gas sectors. The new European Union member states have pursued much broader reforms. These differences often lead to tension. Two factors seem particularly important as prerequisites for major natural gas reforms. The first is energy efficiency, since low energy efficiency can make energy reforms socially and economically difficult. The second is corruption: vested interests and a captive state can severely inhibit reform. The article looks at the arguments behind each of these potential prerequisites for reform and also examines comparative data on energy intensity and corruption. Interestingly, the countries with the lowest energy intensity and the lowest levels of corruption (and the fastest improvements in these areas) also undertook the most extensive natural gas reforms.

A central concern – for academics, policymakers and the public at large – relates to the distributional effects of different regulatory systems. Post's article studies the case of water and sanitation privatisation through concession contracts in Argentina. She shows that privatisation can have beneficial effects for the poor, especially since firms are concerned with their reputation. Pro-poor policies can lead to positive publicity. However, Post shows that these pro-poor effects only materialise if firms have sufficiently long time horizons to make these kinds of investments. The length of the time horizons depends not only on the firms' strategy, but also on the political environment. If a firm believes that the government may seek to renegotiate their concession contract, then they are less willing to make costly investments. Post's paper suggests important policy implications for regulatory reform in weak institutional environments and shifts the focus from the design to the enforcement of the concession contracts.

Valencia's article investigates the regulations and incentives that hinder the development of non-conventional energy sources in Colombia. To this end, the article first discusses the environmental, health and financial benefits from the application of renewable energy sources, both in general terms and in the specific Colombian context. It then describes the available energy resource potential for Colombia. The main part of the article reviews the existing Colombian regulations and provides insights from interviews with the representatives of Colombia's public and private energy sector-related institutions. On this basis, suggestions are made for the possibilities in regulatory reform so that Colombia can make greater use of non-conventional energy sources.

Velázquez-Roa looks at the interaction between competition policy and regulatory reform in Mexico. The topics covered include the interface between competition and regulatory authorities (division of labour and coordination mechanisms) and the antitrust

enforcement experience in the regulated sectors, among others. The paper focuses, in particular, on the amendments derived from last year's reform to the competition law and their policy implications, both in Mexico and internationally.

Montoya and Trillas present case studies of the evolution of regulatory independence in practice for 23 Latin American and Caribbean countries in the telecommunications industry. Based on these studies, the authors construct two realistic indices of regulatory independence, which improve upon the measures of independence that have been used so far in the empirical regulation literature. They show that the legal indices may give a partially distorted picture of the commitment ability of the institutions. Basic illustrative econometrics suggest that the combination of *de facto* and *de jure* independence has a positive and significant impact on network penetration.

Increasingly, regulation and regulatory reform are bound up with policy commitments at the global or regional level. This may be connected with World Trade Organization (WTO) accession, but the most dramatic cases of rapid regulatory reform are associated with European Union (EU) integration. The paper by Kaliszuk provides one of the most comprehensive overviews in the literature of the consequences of EU membership for trade regulation in Poland. While she argues that EU membership has, on balance, been beneficial to Poland, she shows that the adoption of the regulatory standards of a major economic area is associated with both significant benefits and costs. Her analysis suggests a number of important lessons for other transition and developing countries who are considering joining a regional trading bloc or economic union.

The article by Kilvits and Purju addresses a central issue for regulatory reform, namely the role of non-tariff barriers. As tariffs have fallen around the world, there is increasing concern that non-tariff barriers may become more prominent. There is a great need for more empirical studies to assess the actual importance of such non-tariff barriers. Kilvits and Purju focus on a particular kind of non-tariff barrier – public procurement – in the case of Estonia. The Estonian case is particularly interesting, since there was no tariff protection in the 1990s and the economy has often been viewed as a 'Hong Kong of Europe'. Kilvits and Purju use a wide range of indicators to assess the protective effect of public procurement and conclude that it was not significant for most sectors of the economy (except for publishing and printing, where domestic suppliers have the advantage of knowing the local language). The authors also survey the process of procurement reform and highlight the central role of EU integration in promoting regulatory reform.

Regulation has become a top priority for policymakers around the world. Increasingly complex technologies, privatisation, deregulation and further economic integration are likely to make it ever more important in the future. It is, therefore, essential to identify the costs and benefits of the different regulatory regimes in order to design good policies and institutions in the future. This special issue is designed to make a contribution to these debates.