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Transition from Domestic Competition to Strategizing Incentives as an Ex-Ante Process toward International Competitiveness

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Abstract

Domestic competition policy plays essential and fundamental role behind firms' international competitiveness. In particular, this issue is even more important in emerging economies, where markets are still developing. Antecedents of firms' resources, proper industrial environment, and influence of institutions that are considered as competitive advantages are "incentivizing" process that let firms create their competitiveness through competitive market. I propose that cartel is a promising situation to create so-called transition process. Leniency program should be considered as a promising policy generating distrustful atmosphere among cartelists and deter them from forming cartel. This leads to higher degree of competitive market and facilitates incentives to create competitiveness internationally.

Keywords: leniency program, developing economies firms, competitive market, cartel, competitiveness, incentive.

1. Introduction

Competition law and other institutions are usually taken as given in business research. This leads to inconsistencies of scholars' knowledge between developed and developing countries' firms. Fundamentally, competition law plays fundamental role in competitiveness of firms and country. It cannot be treated only as moderating variables or moderating variables as in traditional models. I propose its role as fundamental factors for firms' incentive to create their competitive advantages. Firms confront choices of behavior to win customers over competitors, and they will choose the most net benefit choice. Unluckily, firms, especially in developing countries, are narrow-sight and short-term-oriented. Consequently, they tend to focus solely on domestic market and through market powers that yield relatively higher short-term benefit instead of using strategy for long term benefit. This misleading choice leads to lacking competitiveness internationally. Especially, in developing economies where the markets are relatively small, market power cannot be extended toward international arena.

Competition law and its efficiency in eliminating market power or unfair practicing facilitate firms' competitiveness (Porter, 2004). Analogously, no one can graduate from high school level without finishing elementary school before. This is not because of a regulatory requirement but because the basic knowledge should be accumulated step-by-step *a la* development path. Similarly, developing countries are at the different stage of economic development and competitiveness comparing to developed countries (mostly western countries (Toyne & Nigh, 1997)). Therefore, developing countries cannot skip fundamental processes of development. Even though some exceptions may be possible (emerging economies' MNEs), developing countries cannot rely their fate on luck or chances (Matthews, 2006). Since long, institution has not much being interested by western scholars. This is simply because developed economies possess relatively well-developed institution or basic supportive facilities (Cavusgil, Ghauri, & Agarwal, 2002). Developing countries' scholars cannot simply follow the same tradition since institutional slackness plays an important role in their regions (Ricart, Enright, Ghemawat, Hart, & Khanna, 2004).

At the end of the day, transition process is expected to serve as an 'ex-ante' process toward the destination called "International Competitiveness". *International competitiveness* means firms' international market position is sustainable (Krugman, 1994). The definition of *domestic competitiveness* therefore stands on the same line. As ex-ante process, I articulate that 'transition process' plays is important role as a 'necessary condition' but might not be a 'sufficient condition', toward the rest of the process toward both domestic competitiveness and international competitiveness where market power may lead toward domestic competitiveness but hardly toward international competitiveness. The whole process since domestic competition policy implementation until international competitiveness of firm is called 'The international competitiveness creation process'. The following **Figure 1** shows the big picture of the transition process and the full picture of international competitiveness creation process.

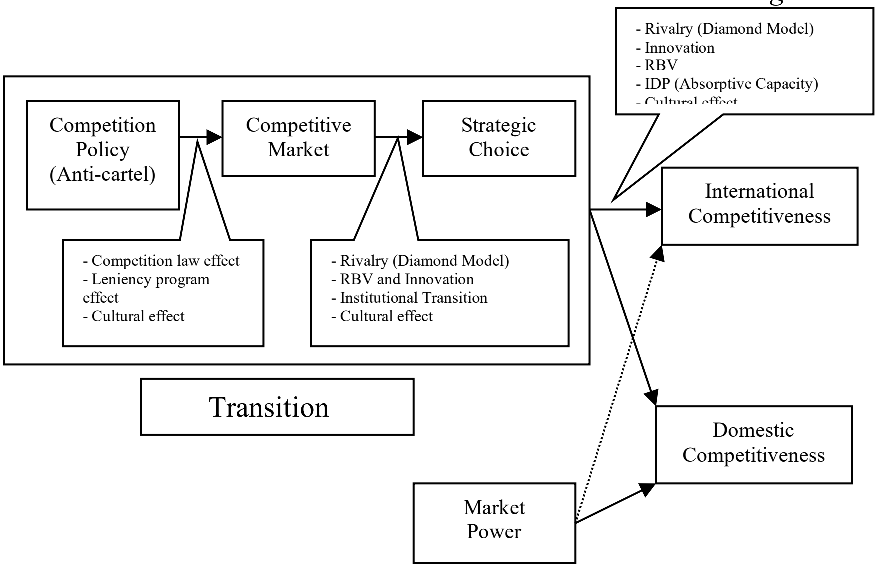

Figure 1: International Competitiveness Creation Process and Transition Process

One interesting point which might be questioned is that "Is is possible that market power may lead to pool of resources in dominant firms and provide them a resource to invest in their strategic choice?" Actually, this point was proposed by some innovationists who believe that innovation leads to market power where firms can gain advantage from this status and incentivizes firms to create innovation (Schumpeter, 1934). Later scholars therefore interpret competition law as an obstruction of innovation and competitiveness of firms, and, likewise, market power will potentially allow firms to increase their levels of competitiveness instead. However, this is a fallacy as claimed by Carl Shapiro (Shapiro, 2005). Some scholars use the following argument to discredit competition law and claim that competition law will contract the development of innovation.

1. Firms normally require having innovation before be able to develop market power.
2. However, competition law would limit this market power development; therefore, this would limit the innovation progress.
3. Therefore, the competition law would topple dominant firms. This would make innovation stagnated.

This stream of logics could be counted as "*post hoc ergo propter hoc*" fallacy (Damer, 1995), that is to say, correlation doesn't imply causation. ***It is not necessary to get innovation through market dominance***. In opposition, major innovations frequently come from lean and eager firms introducing disruptive technologies, in order to bring down existing market leaders, rather than from dominant incumbents who profit greatly from the status quo (Shapiro, 2005). Therefore, competition law would protect small or new firms from abusing market power by dominant firm(s). Consequently, this would incentivize new firms and support them to innovate. Furthermore, ex-dominant firms would be incentivized to develop their own innovation and technological process. This mechanism, finally, stimulates country's innovation level through competition among firms and, by this; innovation within country would be stimulated. However, this doesn't mean that firm cannot be large or hold large market share. It must be proved that firm truly possesses monopoly power over the market such as maintaining price over competitive level. Note that, all of the argument about innovation discussed above requires a given condition of intellectual property rights protection law, this would guarantee an incentive for firms to be in rush and develop their own innovations in order to get the protection and can yield the return from their innovations (Shapiro, 2003).

In order to explain the transition process, I exploit the scenario and set of diagrams to explain the linkages between events. It shall be noted that these diagrams are not the models, and they are simply used to visualize the explanation.

At time **t**, as exhibited in **Figure 2**, with the development of competition law in developed countries for a century, it has been proven to be able to create a considerably competitive market. This stable institution fundamentally endorses competitive firms. Through the process of the regulation, the domestic market could be able to empower their own competing competence, which also leads to international market capability, in contrast with the process in developing countries. Consequently, the only dominant scale domestically is no longer enough to deal with the international market force (Porter, 1990). This can be seen through two choices available for firms in Figure 2, that is; market power/malpractice and strategy usage. Since, in reality, firms have no perfect foreseeing, and imperfect information (Westhead, Wright, & Ucbasaran, 2001), they would see short-run benefit of market power/malpractice as more prominent choice comparing to strategy implementation. The former choice would depend on the market size of domestic market. If the domestic market is large enough (relative to world market), this behavior may yield economies of scale and could lead to international competitiveness (Bain, 1954). However, if domestic market is small (relative to world market), there is nothing left for firms to exploit in order to overcome liability of foreignness (Zaheer, 1995) and competitive internationally.

In strategic choice, which would be elaborated in detail in literature review part, strategy can be either at corporate or business level, and, it could be the strategy that put an emphasis on resources, industry or institution level (Peng M. W., 2006). Moreover, identical strategy may still lead to totally different tactic when firms implement it in given scenario (Kotler & Armstrong, 2008). Hence, there are variety alternatives for firms to exploit their strategy. Sometimes, this is a trial-and-error process by firms who run their businesses in a competitive arena and experience serves as a great model for them to adjust their strategies periodically (Porter, 2004). As thousands of ways being created are all possible to reach the goal of competitive advantage, you can imagine of how the different routes can lead to the same destination. This means the process is of dynamic and flexible adjustment. Therefore, the "secret ingredients' as many people believe to be possessed by successful firms, may not guarantee their success in the others (Barney, 1991). Time, place, and person also become key factors to success (Dunning J. , 2003). Due to the fact that empirical evidences and conceptual arguments still conflict to each other (Foss & Knudsen, 2003) (Peteraf & Barney, 2003), I proposed that institution cannot be treated as moderator or mediator (Ricart, Enright, Ghemawat, Hart, & Khanna, 2004). On the other hand, it should be treated as a fundamental foundation of any mechanism through firm's growth.

Firms can create and accomplish their unique competences, as different tacit knowledge, technological advancement, innovation or cost leadership can be actively adapted to respond to any stimulus to the firm. By this fundamental fact, we can say that the natures of firms are simply about fair market. However, it covers their decisions to adopt effective and efficient business strategies. Therefore, my simple reason is that firms are required to be incentivized to react in a desirable way. Institutional Perspective would be a large flaw if it treats firms as passive entities, instead of reactive or proactive entities. Yet, even resources and capabilities of firms are derived or created within firms through their own processes, firms are still necessary to create interaction interdependently to continue and sustain their businesses.

Competition, or rivalry, within industry can potentially stimulate firms to consistently improve themselves. However, with the static strategy across time, firms who overcome and get pie of customers cannot sustain their competitiveness. I, therefore, prefer to expect this sort of competitive market, where every firm yields not only a normal economic profit but also extra margin above it. Instead, the dynamic process of wax and wane among firms would make them become stronger. Hence, *competitive market* requires a "contestable" and "fair" market. *Contestable* market stands for the situation where small firms can "challenge" larger firm through their competitive advantages developed through strategy implementation. On the other hand, *fair* market stands for the situation where larger firms cannot expel small firms out of market by their market power. Therefore, competitive market refers to the status of market where firms are incentivized to deviate from using market power.

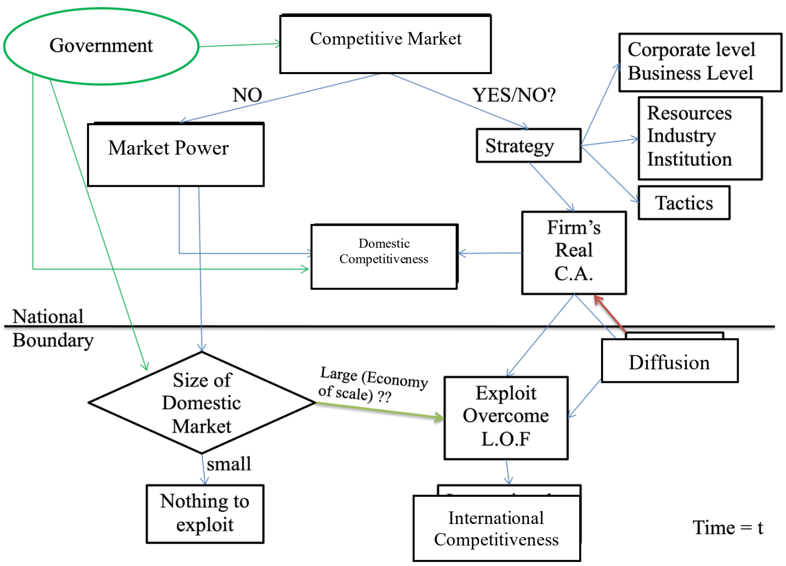

Figure 2: Initial stage of process toward competiveness, at time t

At time **t+1**, as in **Figure 3**, in the long run, degree of globalization would become more intensive, and national boundary approaches meaningless (Ghemawat, 2003). This situation is exhibited in figure 2 where domestic and international competitiveness are merged into global competitiveness. This would ruin validity of using market power, if domestic market is small. This is because the initial domestic competitiveness—which might be gained through market power—has disappeared. It means that firms will need to compete internationally at some certain extent regardless of their consent. This is because there are two possible directions of international investment and trade, that is, inward and outward directions. Even though domestic firms choose to stay in their domestic markets, inward international investment and trade flows will inevitably affect their business somehow.

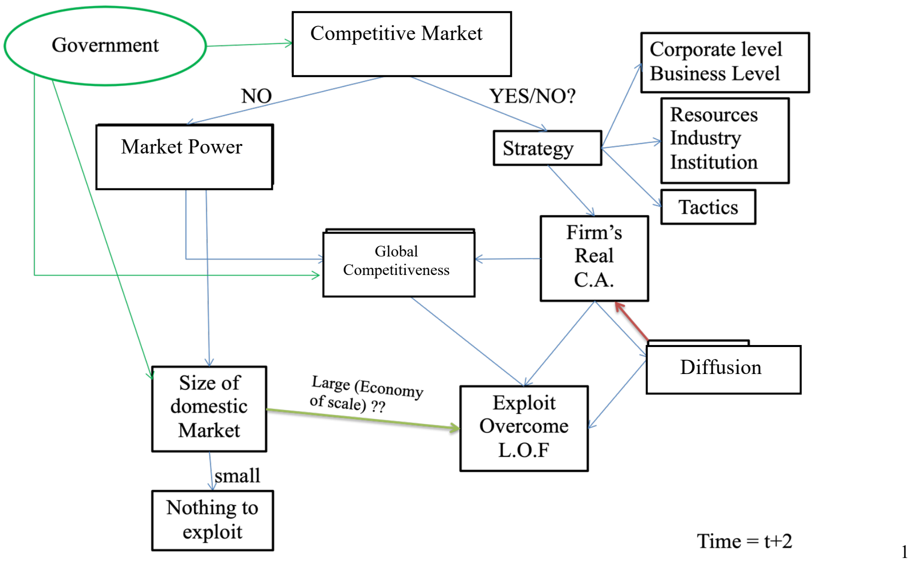

Figure 3: Globalisation pressure

At time **t+2**, as in **Figure 4**, the simplest solution to the undesirable scenario explained previously is to eliminate the choice of market power. However, the scope of this study is cartel and its elimination. There are two supportive reasons to eradicate what cartel is studied and I shall call them as "*two coins of cartel*".

1. *First Coin*: Numbers Can Tell or Are Illusive? I pay my attention to the most lucid cue of anti-competitive behavior which, historically, the number of firms within industry were adopted by courts as indicator. This can be treated as two-sided coin. On one hand, it could potentially be a good indicator of contestable and fair market because numbers can, at least, provide general cue about competition within industry. The larger number of firms, the more intensive competition can be expected. On the other hand, within this seemingly promising numbers of firms can also be illusive, as "Cartel" could be invisibly formed and become a possibly undetectable violence.
2. *Second Coin*: Cartel Is Evil or Promising? As one fact of the cartel principle is to avoid the potential rivalry within the firms about the same level of competency, one promisingly competitive arena is expected to be gradually eliminated because this type of collaboration is not normally required in the situation. On the other hand, if the cartel is detected and discontinued, there should be number of capable firms competing amongst themselves. That means dynamically contestable and fair market would be triggered almost suddenly. With this fundamental fact, we could look at the cartel as two-way possibilities, egregious or promising. Hence, two sides can be flipped independently due to firms' mind and judgment, which, at the end of the day, this mechanism will lead firms to create their own capabilities, both by innovation and absorption. Consequently, competitiveness of firms through this mechanism will lead to the competitiveness of nation as a whole.

I therefore propose a "Coin Flipping Effect" which is the consequence of flipping two coins above to create a competitive market instead of using cartel. The reason I exploit the word "coin flipping" is to represent its easiness and immediacy of changing from cartel formation to competitive market. This effect can potentially be done by a promising policy called "Leniency program". Interestingly, the Thailand Fair Trade Commission, established since 1999, still has zero number of cartel cases in process (Nikomborirak, 2006). This phenomenon could imply a hazard to the possible competitive market to be established in the future. In addition, it can reflect the failure of authority to detect the cartel behavior in the system, since cartel is potential behavior of firm where there is no control, as Adam Smith stated.

"People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." (Smith, 1776)

Cartel also holds some significant characteristics which they tend to keep dynamic relationships, and, most importantly, other members' secret information. ***Leniency program*** was created and developed over period of time aiming to solve this problem. With the simple principle to offer the captured wrongdoers a lenient treatment, in exchange for cartel information, this policy will increase the net cost of cartel forming to exceed its net economic benefits. Eventually, deterrence effect will occur, and the "*prisoner's dilemma*" scenario among the cartelist will also be created. These technical terms shall be elaborated into detail in the following section.

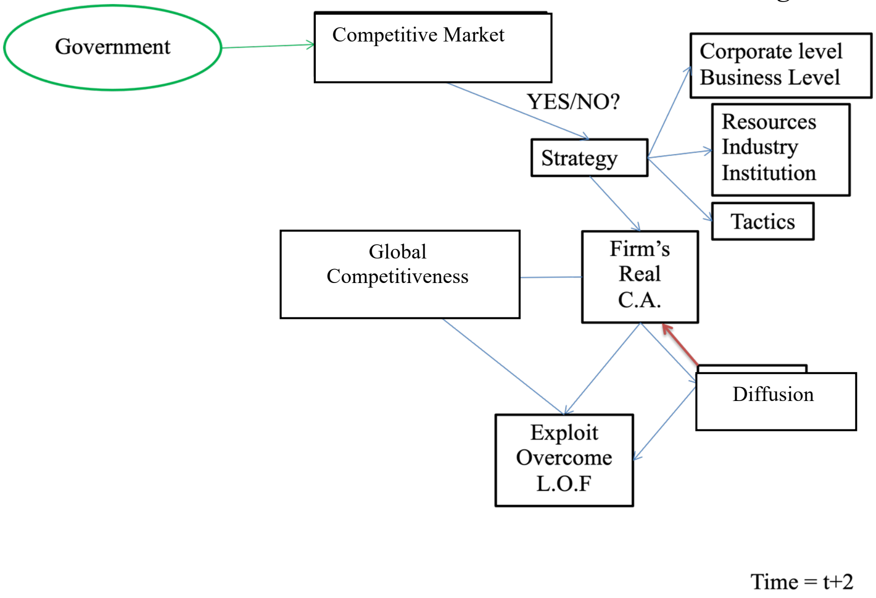

Figure 4: Coin Flipping Effect

In regard to all previous arguments, since we all understand that strategy will potentially lead firms to create their own competitiveness globally; the starting point of this process (transition process) is still in question. I hence try to prove the significance of institution on this process which starts from the change in institution (competition policy) to the stage where firms choose to strategize (strategic choice).

2. Ex-ante Competitive Market: The Path from Competition Law to Domestic Competitive Market in Cartel Scenario

Theoretically, prisoner's Dilemma game theoretic model was among the first model adopted by academia to analyze the situation where reduction of sanction was used to incentivize wrongdoers to confess and provide necessary information to prove guilty of their partners (Osborne M. J., 2004).

The literature on law enforcement did analyze leniency and self-reporting, but focusing on individual wrongdoers committing occasional crimes. Some mentioned about the effects on reducing the cost of prosecution or auditing (Kaplow & Shavell, 1994) (Malik, 1993). Later on scholars turned their interests more on leniency prevention of collusion in hierarchy, however, in static principle-agent model a la Koffman and Jacques (Koffman & Jacques, 1996). They proposed the benefit of adopting two principles (or supervisors) for the reason of creating prisoner dilemma setting between two principles.

Many scholars such as (Motta & Polo, 2003), (Rey, 2003), (Spagnolo, 2000), (Harrington, 2005), etc. have emphasized the optimal design of anti-cartel policies based on the provision of incentives to breach trust and to self-report. As mentioned previously, deterrence effect is the main concerned for policy effectiveness and efficiency in this study. There are some important effects that worth to be mentioned as follow. **The protection from fines effect;** Since the amnesty would be offered only to the first firm reporting before an investigation, this may produce deterrence effects by ensuring that if a cartel member wants to undercut the cartel, it can report and avoid paying the fine (Spagnolo, 2000) (Rey, 2003) (Harrington, 2005). **The reporting as a threat effect;** The threat of self-reporting to punish a conspirator that did not behave as the cartel agreed upon may also become credible, and may be exploited to enforce cartels that would not be sustainable otherwise (Spagnolo, 2000) (Buccirossi & Spagnolo, 2001) (Buccirossi & Spagnolo, 2006) (Ellis & Wilson, 2002). **The reward effect;** Many scholars suggest that rewards could further increase deterrence by generating stronger temptations to undercut the cartel and cash the reward by reporting (Spagnolo, 2000) (Buccirossi & Spagnolo, 2001) (Buccirossi & Spagnolo, 2006).

In real world experiments, leniency programs in different countries have been improved and amended at intervals. Notably, there are two important amendments in leniency program characteristics in two places, United States in 1993 and Europe in 2002. Therefore, these two are considered as "natural experiments" (Spagnolo, 2006). In US, 1993, the amnesty program was revised in three major respects. First, amnesty becomes automatic in the case where there is no pre-existing investigation. Previously, the grant of amnesty was not automatic in US. The decision still depends on DOJ to make a final decision on this grant along the process (Hammond, 2004). Second, post-investigation amnesty was introduced. This is another additional dimension to the policy which was expected to enhance an incentive of cartelist to come forward and provide information to the authority by broadening the length of time possible. Finally, besides from corporation itself, all directors, officers and employees who cooperatively come forward with corporation also receive amnesty. This will ensure their safety, hence, it helps enhance their incentive to come forward and provide information to the authority. These changes provide empirically improvement in number of cases being reported (more than ten times) (Spagnolo, 2006). In EU, 2002, since the first leniency program in EU was introduced in 1996; they have initially learnt several experiences from US 1993 changes. EU's 2002 changes are generally put one their incentive enhancement and coverage. The EU belated introduced automatic full amnesty to the first-comer for the first time. Moreover, ringleaders could also get a leniency given that they did not force other firms to join the cartel. Similarly, post-investigation has been allowed since the first EU leniency program on 1996, it does provide only the partial leniency not full one. All in all, even with minority change the number of cases reported increased about ten-folds which majority cases are pre-investigation ones.

Since long, two empirical studies have been studied by econometrics. Fines, duration and leniency application were analyzed on their relationship by hypothesized that magnitude of fines is positively related to information available to prosecution. By using survival analysis, the policy does not significantly affect the duration of the cartel formation (Brenner, 2005). Another article investigated on the effects of the 1996 EC leniency program is article by Sjoerd Arlman. Arlman (2005) found that the 1996 Leniency Notice led to a reduction in the time it took for the EU Commission to process cartel investigations, but did not enhance deterrence nor did the penalty discounts often reward genuine “whistle blowing" and the provision of value-added information (Arlman, 2005). Another work by Asker (2010) considered the result of cartel defection due to leniency program on market conduct. This study analyzed the case of Parcel tanker shipping business worldwide. The study didn’t indicate any significant change in market conduct due to following main implications. First, the length of contracts between cartelists is still lasting after cartel dissolution. Second, large fixed assets (ships) makes process of adjustment becomes significantly slow and difficult in the market (Asker, 2010). Moreover, Harrington (2004) also suggested similar concern that post-cartel competition practices can be inertia to some extent because cartelists try to avoid signaling such a cartel behavior by changing their market conduct immediately.

In laboratory experiment, Apestaguja, Dufwemberg and Selten (2007) conducted their experiment to investigate the result, also, of leniency program and reward. This first experimental research on issue provided some insightful of potential power of experimental research in explaining the issue. By using one-shot homogeneous discrete Bertrand oligopoly, their study embedded four competition policies: Ideal—there is no antitrust law, Standard—there is antitrust law, Leniency—there is immunity permission for confessed party, and Bonus—there is a reward for reporting firm. The result turned out that the authorities wish to thwart cartels and promote competition effect is not evident, however; whistle-blowing may enforce trust and collusion by providing a tool for cartelists to punish each other (Apesteguja, Dufwenberg, & Selten, 2007). Meanwhile, Bigoni et al. (2008) similar to (Hinloopen & Soetevent, 2005) in the latter four difference treatments are also adopted, Benchmark, Communication, Antitrust, and Leniency. However, there are some extents which make Bigoni et al. differ. Firstly, they used fixed amount of fine instead of percentage of revenue in the period of conviction as other two experiment studies. They provided the reason of avoiding subjects confuse on the expected fine they perceive. I agree more with using fixed amount of fine like Bigoni et al.

Proposition 1: *Leniency program increases the competition level in cartel atmosphere relative to the competition level in cartel atmosphere when there is no leniency program.*

3. Ex-post Competition: The Path from Domestic Competition to Global Competitiveness

One of the most influential perspectives in IB field might be a transaction cost theory, Williamson (1981) argued that monopolies have a lower cost curve which leads to more efficiency. However, it was proved that this has to be trade-off with static losses (lack of innovation) and this trade-off is sometimes uncompensated (Scherer & Ross, 1990). By the main fundamental theory of TC theory, firms internalize markets transaction into their boundaries in order to minimize their costs (Coase, 1937). Hence, firms' size and efficiency could be created due to this reason. This come to the argument I mentioned beforehand that behavior of firms is more important than their size or characteristics. Oligopolistic or even monopoly firms unnecessarily behave against competitive behavior, even though it is not clearly exhibited in reality (Piteris, 2003).

By resource-based view perspective, there is a claim that the one of the most important assumptions is an existence of heterogeneity of resources among firms. This assumption assures that firm would be able to create their sustained competitive advantage through valuable, rare, inimitable, and, organized resources within firm (Barney, 1991). However, if firms are capable of collaborate with each other improperly, these resources' development, leverage and identification become needless or less necessary. Moreover, rareness and inimitability will naturally happen when there is no competitor existence. However, when competitors arise (e.g. firm has to compete internationally), their resources become neither rare nor inimitable anymore. Therefore, sustained competitive advantage would also be negated due to anti-competition behavior like cartel. Coincidently, emphasizing on R&D, expenditure on R and D has an impact on productivity (Griliches, 1986). It is proved by Geroski (1990) exploiting panel data to confirm that monopoly power tend to reduce the rate of innovation, and hence productivity growth (Geroski, 1990).

The literatures on the economics of innovation contain theoretical support for the idea that competition is associated with greater rate of innovation under the assumption of strong ex post appropriability (Arrow, 1962) (Loury, 1979) (Lee & Wilde, 1980). In the same vein, Scherer (1980) argued that insulation from competitive pressures breeds bureaucratic inertia and discourages innovation (Scherer, 1980). Porter's theory also builds on a tradition going back to another argument advanced by Schumpeter (Schumpeter, The Theory of Economic Development , 1934) (Schumpeter, Capitalism Socialism and Democracy, 1943), which sees competition as a dynamic process of creating new products and process. Here, dynamic domestic competition would spur innovation and productivity improvement and, in turn, international competitiveness.

Furthermore, almost unavoidable, industrial organization analysis plays its crucial role in this study (Krugman, 1996). There should be a strong positive association between domestic rivalry and international competitiveness. This hypothesis draws on Michael E. Porter's work (Porter, 1990) , who argues that domestic rivalry pressures firms to innovate and upgrade while fostering positive static and dynamic externalities in the local business environment (such as, supplier availability, easier access to technology and market information, and specialized human resource. development). In this theory, rivalry among domestically based firms offers greater benefits to competitive upgrading than either imports or foreign companies with minimal investment in the nation. Local rivalry not only gives rise to positive externalities, but it creates stronger competitive incentives together with greater pressures to upgrade productivity, because local rivals neutralize advantages due to input costs and other local business conditions. Also, numerous firms in emerging economies find imitating western multinational firms difficult, because their history of operating in a nonmarket system is pulling their legs as they try to learn new tricks in a new market environment (Hoskinsson, Eden, Lau, & Wright, 2000) (Peng M. W., 2000). Therefore, the underdeveloped institution environment makes many emerging economies' firms struggled due to their past upheaval institution environment (Newman, 2000).

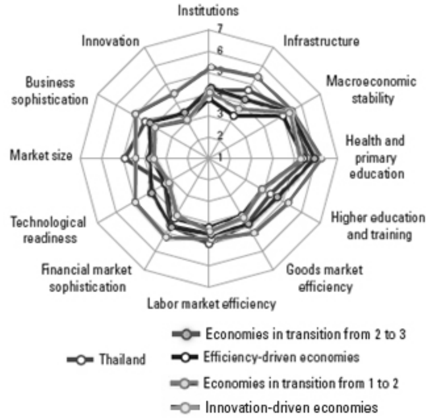

Figure 5: Global competitiveness index (modified) (Schwab & Porter, 2008)

Turning to the analysis based on global competitiveness index, **Figure 5** exhibits the overall picture of different level of stages of development. The index is theoretically based on well-known Diamond model (Porter, 1990). Rivalry at home is not only uniquely important to fostering innovation, but benefits the national industry and cluster in many other ways. Moreover, vigorous domestic competition also guarantee an improvement in other parts of diamond model such as demanding buyers and selective factor disadvantages instead of harvesting market positions, seeking government assistance, or outsourcing high-productivity manufacturing abroad. Porter (1990) points out in Japanese case study that

"*Perhaps, the single greatest determinant of Japanese success, based on our research, is the nature of domestic rivalry*" (Porter, 1990)

Last, but not least, perspective is an institutional perspective, IDP (Investment Development Path) and its fundamental idea support the transition process proposed coherently. In an argument about IDP (Investment Development Path), positive effect of FDI to host countries relies on absorptive capability (considered as O-advantage) of domestic firms in the context of industry, not country (Narula & Dunning, 2009). Here, I come back to my argument that contestable and fairer market makes firms create their own competitive advantage to compete with each other, and by an absence of market power or collusion activity, firms, logically, tend to be better at absorbing these positive externalities (spillovers)arise from FDI. This could be considered as one determinant of hitherto failure in positive cumulative causation between MNEs and development in certain industries. Given the same level of spillovers, its effect would be significantly different depend on receivers of this positive externality to internalize into their firms and exploit it to create competitive advantage.

Narula and Dunning put their emphasis on policy where firms are framed to alter their *raison d'être*, this conflicts to what this study always argues. Coercion leads to avoidance, while incentivizing leads to practicing. Even though the policy could create trend or guideline for firms, and may be imposed with some incentives (e.g. tax relief, subsidy); in the long run, this could not sustain firms' competitiveness internationally. These advantages provided by government are similar, in efficiency and effectiveness *per se*; to market power of firms, but just legalized one. However, to incentivize firm to shift their *raison d'être*, firms should be incentivized to manage this on their own core competence, and creation of competitive advantage. Through, leniency program, as I have expressed, firms are forced to mistrust to each other and relief probability of collusion. I neither reject nor discredit the policy oriented as proposed by Narula and Dunning (2009), since it could be adopted as complementary policy to guide firms where they can expand to. However, only under fundamental incentive that was created from contestable and fairer market domestically, this complementary policy would become sensible for me. Otherwise, after lifting the support, firms would still unable to compete internationally, and withdraw themselves from international market later on.

Considering about an effect of inward MNEs, it guarantees no positive effect to industry within country. Competitive advantage would help domestic firms from being displaced, out-competed or pre-empted by foreign MNEs. I usually put emphasize in proactive sense of development, that is, create real competitive advantage domestically to be able to compete internationally. However, in another side of the same coin, defensive action to inward MNEs would be crucial. Domestic firms have to make sure that they can compete with MNEs within their own location, where they are expected to be indigenous firms who hold some advantages over MNEs (Hymer, 1972). International competition is almost unavoidable, especially in the near future when globalization becomes more intensive. However, positively, if domestic firms can compete with MNEs through their competitive advantage which was created *ex ante* in domestic competition, they can even further develop their own capability due to both diffusion effects from MNEs within industry and their own process of development. This would be the last "pre-launch" stage, before domestic firms can compete and sustain their competitiveness in the global market. Another way round, if at the period that MNEs flow into country, domestic firms are not capable of fairly compete with each other (due to cartel), and surely, with MNEs; domestic firms would be crowded-out from industry. This situation can be analogized to the case of virus immunity, where stronger immunity of human body occurs when initial immunity can deal with new-entrant virus; otherwise, people would get sick due to the same virus.

By this study's interpretation of competitive advantage, this would be rather coherent with Cantillon and the classical economists than initial idea of ownership advantage by Dunning (Tolentino, 2001). However, this is, at the end of the day, worthy to be incorporated into O-advantage of Dunning as Tolentino (2001) suggested. However, from later article (Dunning J. H., 2001), location advantage can take a role of creator in ownership advantage through competitive environment. This means that interpretation of Ownership advantage has been shifted from Bain's based into more classical interpretation, and, consequently, consistent with my argument.

At the end of the day, firms are expected to compete globally. Literatures above are presented diverse perspectives that support the idea of the competitiveness development process from domestic competition to global competitiveness of firms. However, the most important aspect of this chain of arguments is in the stage where competition incentivizes firms to develop their own competitiveness which is not market power exploitation. It has been proved widely that firms' strategizing leads to their long run competitiveness domestically and internationally (Peng, Global Strategy, 2006) (Porter, 1990) (Chandler, 1962) (Foss & Knudsen, 2003). Hence, the crucial thing is the proof of one-step-beforehand process which is the process where firms choose to seriously exploit their own strategies (Barney, 1991) (Porter, 2004) (North, 1990). Firms are economic agents those choose their choices in order to maximize their wealth (which is not necessarily a profit) (Mas-colell, Whinston, & Green, 1997).

Proposition 2: *This increasing level of competition leads to incentive for firms to create their competitive advantages domestically, and, eventually, internationally.*

Proposition 3: *In transition process, increasing level of domestic competition policy serves as the beginning of the process which causes firms to compete with each other. This increasing in competition among firms incentivizes them to increase their level of competitive advantage instead of using market power. Eventually, competitive advantages created by the process can be exploited not only in domestic but also international market.*

4. Conclusion and discussion

The transition process proposed in this study shall be considered as a fundamental framework which might not be necessary for developed economies where their readiness has been developed beyond the scope of this article. However, developing economies are taking their great responsibilities over billions of people's wealth and their well-being does significantly rely on their competitiveness. Considering through different and distinct perspectives (resources-based view, industrial organization, transaction cost theory, innovation, institutions, etc.), one parallel idea has been extracted out i.e. firms are necessarily incentivized to exploit or implement their strategy somehow, the outcome which leads to competitiveness can be in any forms. Moreover, international market is not a suitable place to exploit market power, especially for developing economies' firms. The only promising weapon for their competitiveness internationally is therefore their own competitive advantage which has been developed through domestic market in advance, or, triggered from domestic market to develop internationally afterward.

I therefore propose two steps of the argument as follows. First, increasing level of competition in domestic market shall be gained through appropriate government policy. In the particular case, cartel shall be affected by the leniency program implementation. The reason I choose to specifically consider about cartel because of its promising characteristic to deliver considerably competitive market almost immediately. Second, increasing level of competition in domestic market will incentivize firms to implement their strategies to compete with each other. This incentive will eventually help firms to have their competitive advantage besides market power, and this competitive advantage can potentially be used or developed further when they have to compete in international arena or even in their domestic market with incoming foreign firms.

Empirical research should be studied to confirm the propositions being proposed in this study. I shall recommend the appropriate methodology to confirm all the transition process where policy (leniency program) does not exist as a laboratory experiment. Laboratory experiment gains its advantages since it can simulate unrealistic circumstance and investigate the causes and effects of variables (Friedman & Sunder, 1994).

My concerns about limitation would be put on some interesting issues. Internet is growing in its importance and influence, the next era where internet and multinationals would dominate the world simultaneously would lead us to concern even more about this issue, since it can be expected that competition intensity would increase in more channel. Domestic firms would be forced to go into international market with greater pressure, their "competitiveness" and "absorptive capacities" would be necessary in this scenario. Considering about effectiveness of policy makes ceteris paribus assumption becomes an important ingredient to my analysis. Corporate social responsibility should be put on great emphasized, sometimes, as another framework of my proposition. This concern, however, relate to my propositions somehow. Since firms are limited by their choice to compete with each other, they would have to choose any proper way possible, and some CSR ways are interesting (e.g. pollution prevention, product stewardship, and sustainable development (Hart, 1995).

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