Product market competition, regulation and inclusive growth in Mexico

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On market concentration

- Recent discussion points towards increased market concentration since 1980s.
- Market concentration is a cause of concern about reduced competition.

Certain concerns on validity of claims:

- **Measurement inaccuracies**
  
  Census data is too aggregated to measure relevant markets

- **Unclear link between increased concentration and reduced competition**
  
  Big is not necessarily bad
Aradillas (2017) analyzes 12 markets and finds:

- Exercise of market power and overprices in 10 of them
- Income expenditure in these markets: $2/3$ for average household

**Overprice Paid by Consumers due to Market Power**

- Fruit: 239%
- Bread: 200%
- Inputs for construction: 113%
- Dairy: 95%
- Vegetables: 30%
- Air transportation: 27%
- Tortillas: 26%
- Interurban bus passenger transportation: 15%
- Poultry: 14%
- Beef: 8%

Average overprice: 98%
Effects of market power in Mexican households

Welfare loss due to market power:
- 16% of expenditure of average household
- 31% for lowest income households
- 4.4 times higher for decile I than decile X

<table>
<thead>
<tr>
<th>INCOME DECILE</th>
<th>TIMES WITH RESPECT TO DECILE X</th>
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<tbody>
<tr>
<td>IX</td>
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<tr>
<td>VIII</td>
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<td>VII</td>
<td>1.39</td>
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<td>VI</td>
<td>1.65</td>
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<td>V</td>
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<td>IV</td>
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<td>III</td>
<td>2.75</td>
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<tr>
<td>II</td>
<td>3.14</td>
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<td>I</td>
<td>4.42</td>
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GINI COEFFICIENT

- ESTIMATED: WITH MARKET POWER
- COUNTERFACTUAL: NO MARKET POWER

Gini coefficient: 0.481 (7.3%)
Why is Mexico a country with highly concentrated markets?

**Lack of antitrust enforcement**

- M&As
- ANTI COMPETITIVE CONDUCTS

**Regulation-privilege vicious circle**

- Regulatory design and enforcement benefits a few
- Markets where regulation was not applied
- Markets where regulation enforcement was not required
Recent perception on enforcement efforts

### Simultaneous investigations
- **(Cases)**
- **2013**: 16
- **2014**: 20
- **2015**: 28
- **2016**: 34
- **2017**: 35

### Fines imposed by COFECE
- **(millions of pesos)**
- **2013**: $130.9
- **2014**: $253
- **2015**: $76.5
- **2016**: $309.4
- **2017**: $3,656

### COFECE’s GCR star rating
- 2013: 1 star
- 2014: 2 stars
- 2015: 3 stars
- 2016: 4 stars
- 2017: 5 stars

### Competition Policy Effectiveness Index, Mexico
- **(Global Competitiveness Index, WEF)**
- 2010: 116
- 2011: 120
- 2012: 115
- 2013: 114
- 2014: 104
- 2015: 67
- 2016: 58
- 2017: 64

*Ascendent trajectory*
Competition, A Platform for Growth: 2018-2024
Transversal proposals to increase competition

1. Decree by the Federal Executive identifying and eliminating competition restrictions established by federal administrative regulations in relevant sectors.

2. Decree by the Federal Executive requiring that all amendments to federal laws be subject to a competition analysis.

3. Decree by the Federal Executive to allow COFECE to execute a public review of high impact public procurement procedures to ensure competition.

4. Budgetary incentives for the Mexican states that manage to build bottleneck infrastructure and strengthens regulatory pro-competitive frameworks.

5. Grant COFECE the power to lodge an appeal against federal and local laws which are contrary to the constitutional guarantee of free market access and competition.
Proposals to increase competition in certain markets

**Financial**
Commitment to issue pro-competitive secondary regulation for the Fintech Law.

**Gasoline**
Convene a high level working group to solve all bottlenecks that hinder the development of competition in the gasoline and diesel retail markets.

**Medicines**
Reform the linkage between patents and the process of sanitary authorization to foster entry of generic medicines in the Mexican market.

**Agri-food**
Consolidate a single national agri-food product market by eliminating transit bonds, phytosanitary red tape duplicity and interstate sanitary barriers.