



WORLD BANK GROUP

Market shares, rents and regulation in the 21st century

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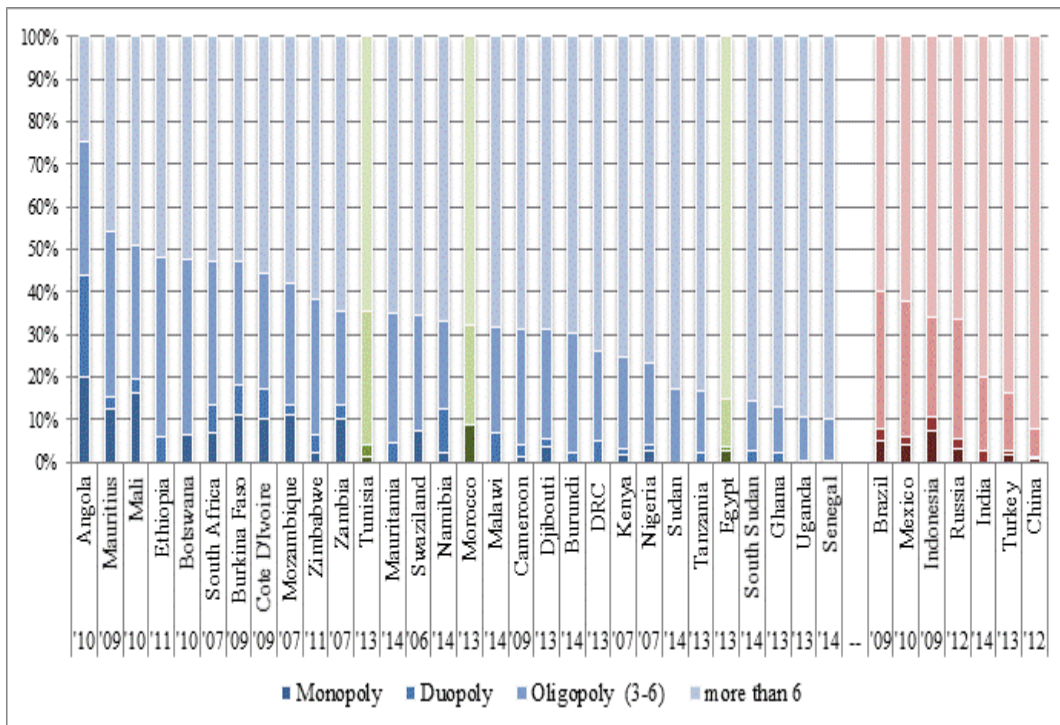
Macroeconomics, Trade and Investment Global Practice

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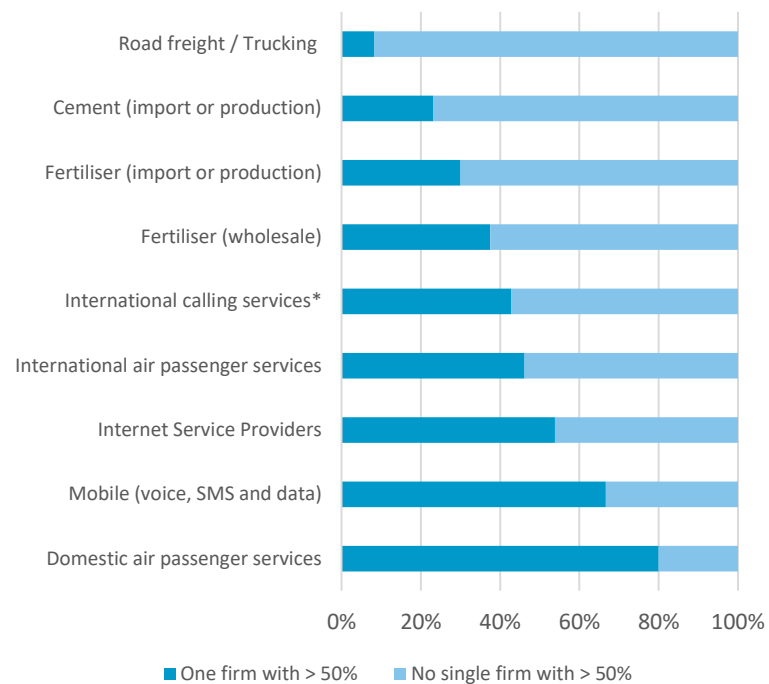
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1. **Market shares and rents.** Why definition of relevant market and understanding origin of rents still matters.
 2. **State intervention.** Theory vs. Practice
 3. **Product Market Regulation.** One framework to assess myriads of regulatory interventions and their effect on the economy

Evidence that in developing economies, irrespective of their size and the specific industry, markets are often more concentrated

Market structure in the manufacturing sector in Africa relatively concentrated



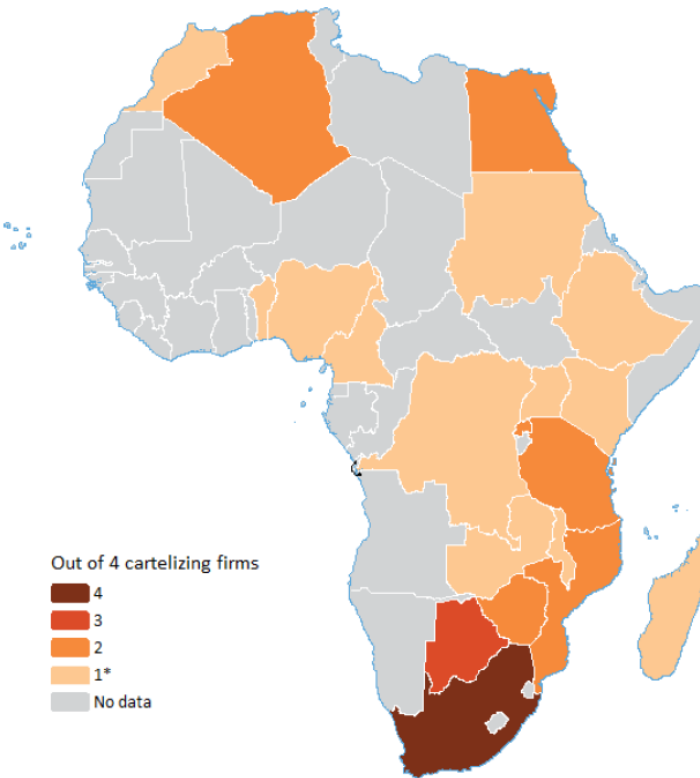
Share of African countries registering one firm with more than 50% market share in the following markets:



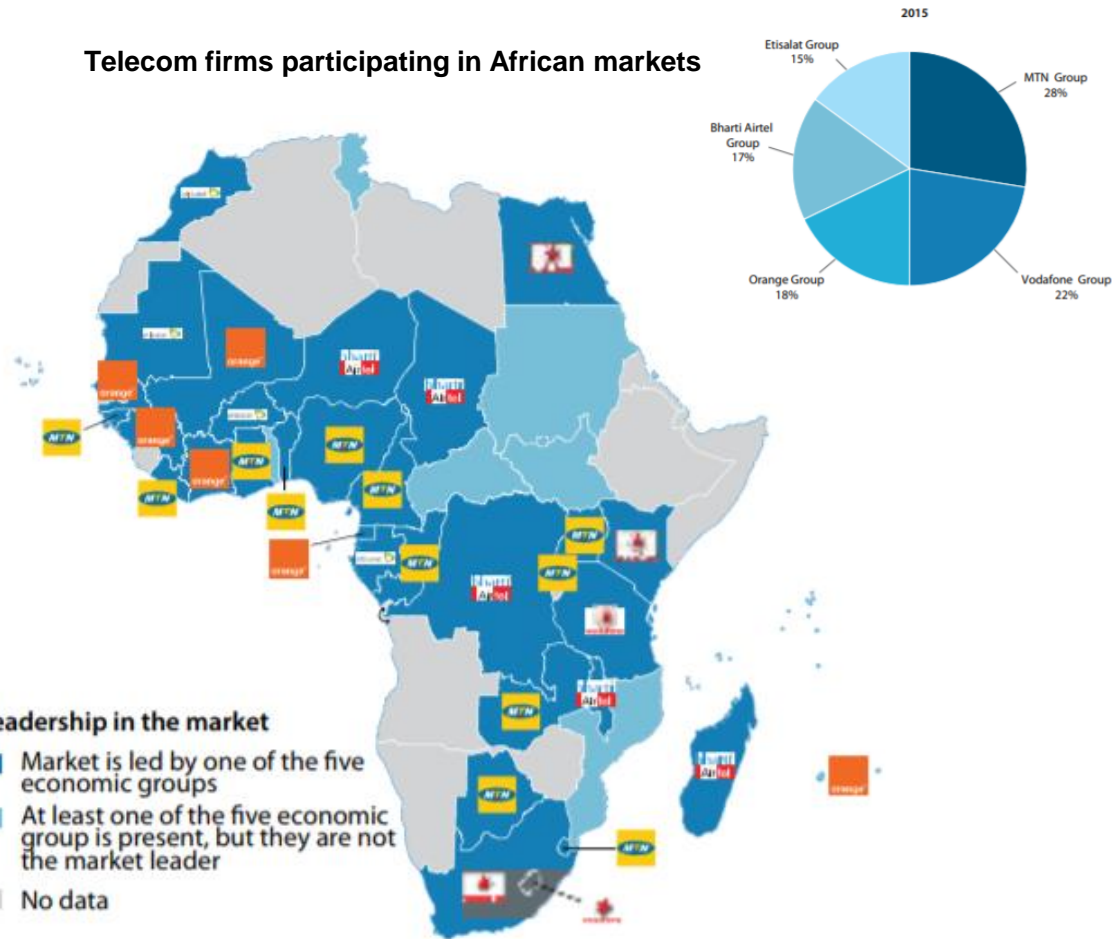
Source: The World Bank Group. 2016. *Breaking down barriers : unlocking Africa's potential through vigorous competition policy (English)*. Washington, D.C. : World Bank Group.

Definition of the relevant market (also from the supply side) and consideration of multi-market contact (1)

Firms participating in South Africa cement cartel also present in other African countries



Telecom firms participating in African markets



Source: The World Bank Group. 2016. *Breaking down barriers : unlocking Africa's potential through vigorous competition policy (English)*. Washington, D.C. : World Bank Group.

Definition of the relevant market (also from the supply side) and consideration of multi-market contact (2)

Product	AMZN	AAPL	GOOG	FB	MSFT
operating systems	✓	✓	✓		✓
browsers	✓	✓	✓		✓
office tools		✓	✓		✓
email and messaging		✓	✓	✓	✓
ebooks	✓	✓	✓		
smartphones	✓	✓	✓		✓
video and music distribution	✓	✓	✓		
streaming video	✓		✓	✓	
video conferencing		✓	✓	✓	✓
home delivery services	✓		✓		
general purpose search engines			✓		✓
special purpose search engines	✓	✓	✓	✓	✓
digital assistants	✓	✓	✓	✓	✓
social networks			✓	✓	
advertising platforms	✓		✓	✓	✓
maps		✓	✓		✓

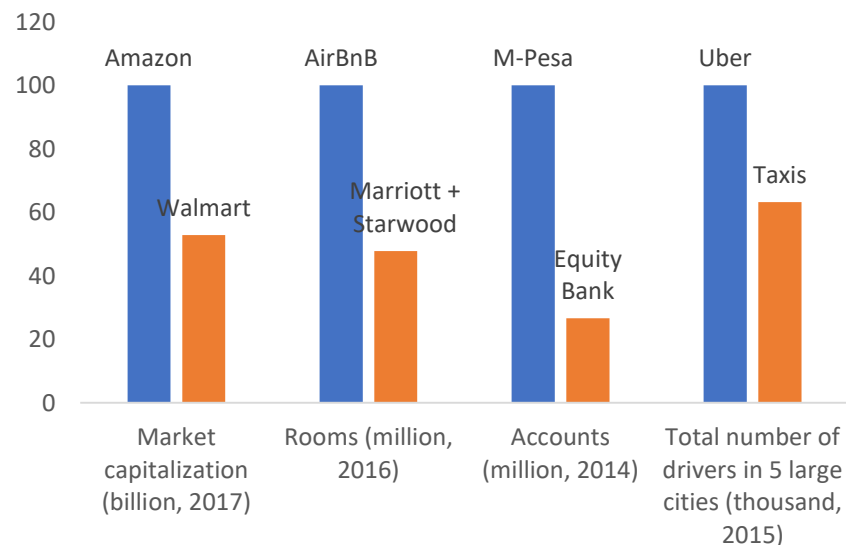
Source: Hal Varian, *Big Data, Personalization, and Competition*. Presentation at OECD Hearing discussion on Big data in November 2016.

Distinction between competition on the merit and rents acquired/sustained through protection or anti-competitive behavior

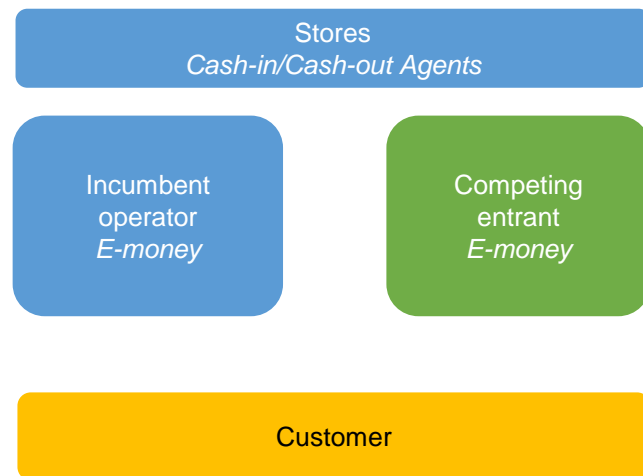
Even companies that disrupt entrenched markets...

... can later have incentives to exclude further competitors

**Platforms and relative size of their largest offline competitors
(Platform size = 100)**



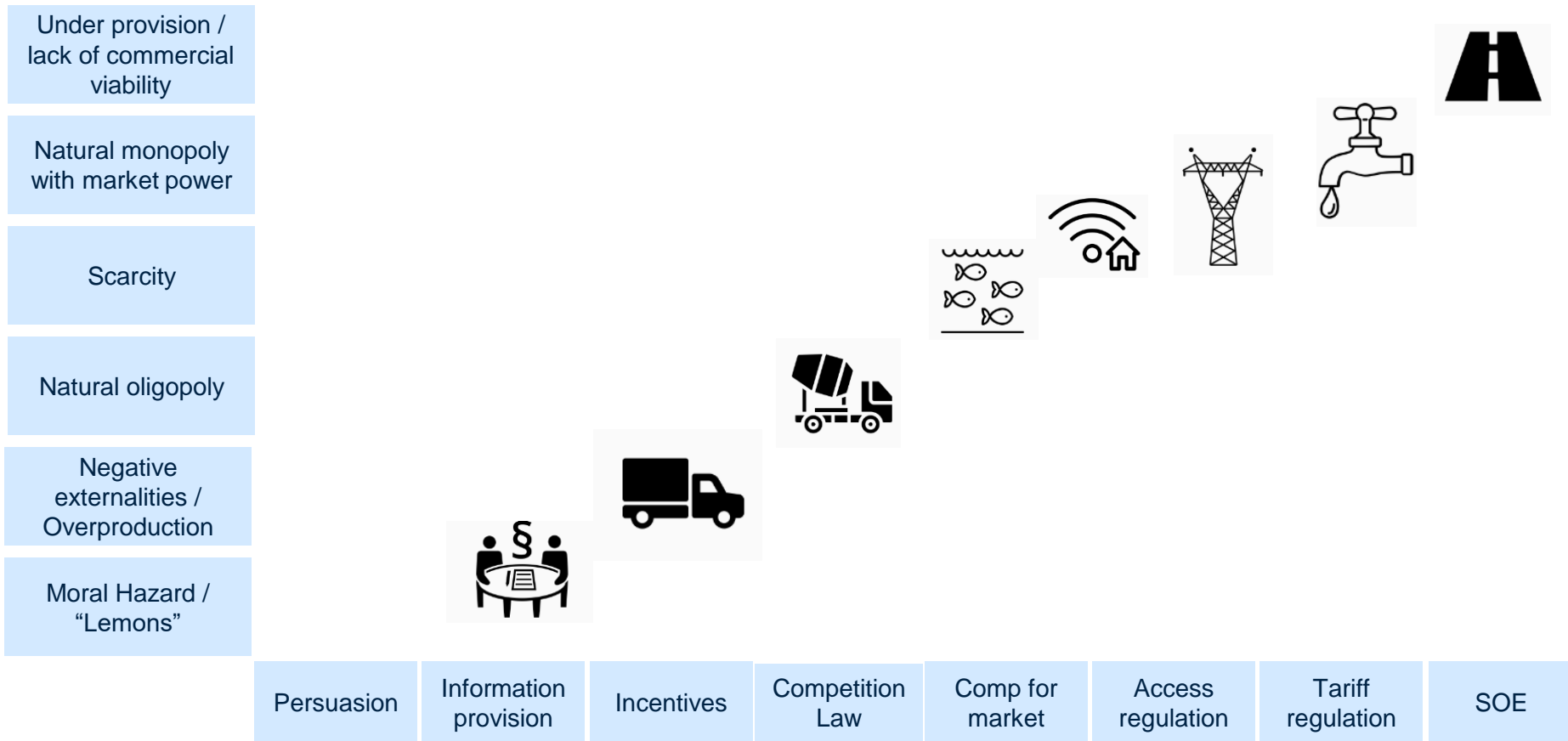
Exclusivity in cash-in/cash-out agents?



Source: Background paper to upcoming WBG World Development Report 2019

State intervention: Ideally, careful consideration of optimal type of government intervention to address market failures

Without this being an exhaustive list of failures and with examples of justifiable interventions...



Examples of government interventions

In practice, in many developing countries (1): government intervention does not address market failure effectively

Under provision / lack of commercial

Market power

Natural oligop

ative

Moral Hazard / "Lemons"

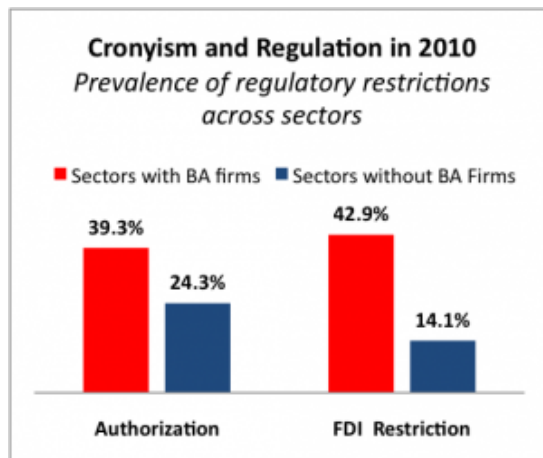
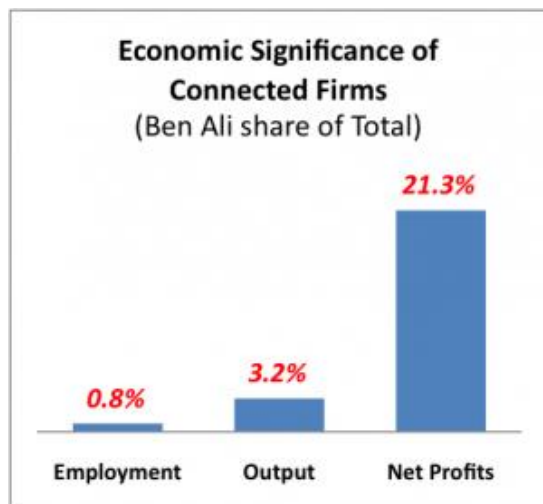


- Persuasion
- Information provision
- Incentives
- Competition Law
- Comp for market
- Access regulation
- Tariff regulation
- SOE

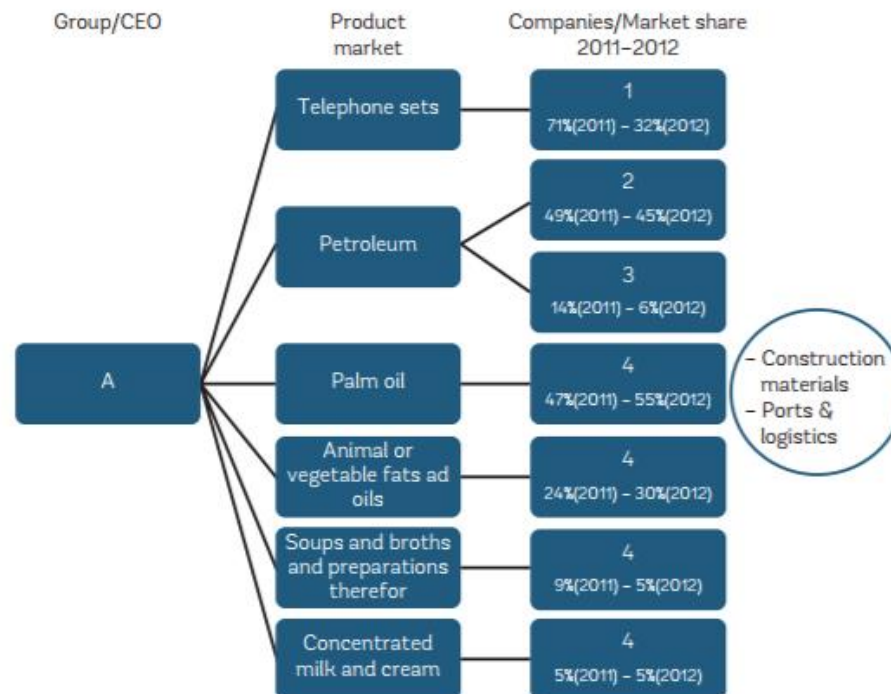
Examples of government interventions

In practice, in many developing countries (2): risk of favoritism and capture

Tunisia:



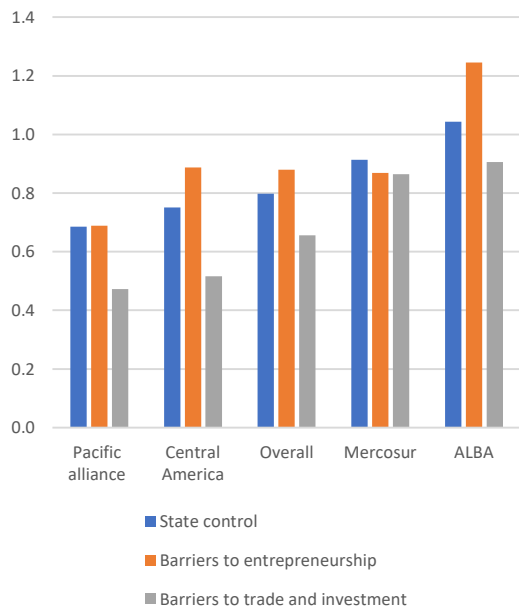
One of the well-connected groups that benefit from lower customs duties in Haiti:



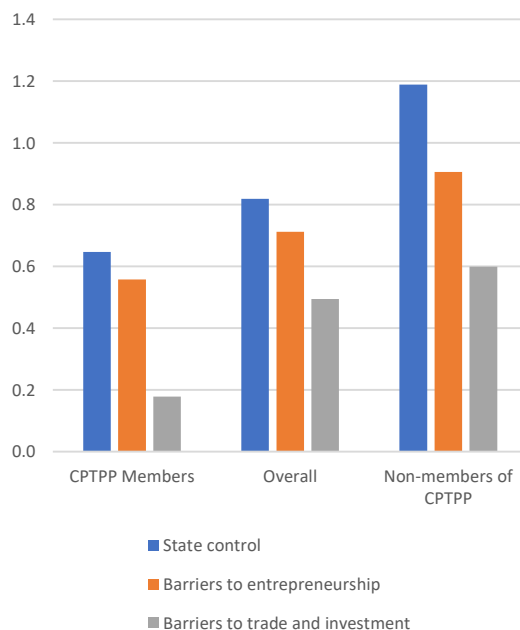
Source: Pop, Georgiana. "Haiti—Let's Talk Competition." (2016).

OECD-WBG data can help identify where product market regulation does not address market failure and unduly restricts competition

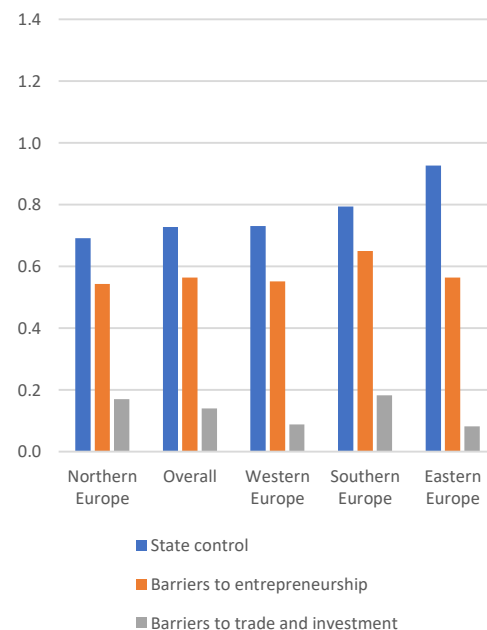
Product Market Regulation Indicator components by country groups in Latin America (2013)



Product Market Regulation Indicator components by country groups in East-Asia Pacific and South Asia (2013)



Product Market Regulation Indicator components by country groups in Europe (2013)



Source: OECD Product Market Regulation database, and OECD-World Bank Group Product Market Regulation database for non-OECD countries 2013 - 2016, as of May 2018

- **Competition and regulatory policy assessments (national and regional)**
- **Country Economic Memorandum**
- **Systematic Country Diagnostics**
- **Country Private Sector Diagnostics**

Conclusion

- Origin and sustainability of ‘supra-competitive rents’
- Focus on reshaping, not reducing state intervention
- Outlook: New areas to regulate?
 - Wholesale messaging services in order to allow for competition in the downstream segment (e-money)
 - Access to data for fintech companies