Market shares, rents and regulation in the 21st century

Martha Martínez Licetti, Lead Economist
Markets and Competition Policy Team
Macroeconomics, Trade and Investment Global Practice

June, 2018
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:**

- Road freight / Trucking
- Cement (import or production)
- Fertiliser (import or production)
- Fertiliser (wholesale)
- International calling services*
- International air passenger services
- Internet Service Providers
- Mobile (voice, SMS and data)
- Domestic air passenger services

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

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

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

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

Even companies that disrupt entrenched markets…

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon</td>
<td>120</td>
<td>80</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td>AirBnB</td>
<td>110</td>
<td>70</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>M-Pesa</td>
<td>100</td>
<td>60</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>Uber</td>
<td>90</td>
<td>50</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Walmart, Marriott + Starwood</td>
<td>80</td>
<td>40</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>Equity Bank</td>
<td>70</td>
<td>30</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Taxis</td>
<td>60</td>
<td>20</td>
<td>5</td>
<td>2</td>
</tr>
</tbody>
</table>

… can later have incentives to exclude further competitors

Exclusivity in cash-in/cash-out agents?

Source: Background paper to upcoming WBG World Development Report 2019

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

- Under provision / lack of commercial viability
- Natural monopoly with market power
- Scarcity
- Natural oligopoly
- Negative externalities / Overproduction
- Moral Hazard / “Lemons”

Examples of government interventions

| Persuasion | Information provision | Incentives | Competition Law | Comp for market | Access regulation | Tariff regulation | SOE |
In practice, in many developing countries (1): government intervention does not address market failure effectively.
In practice, in many developing countries (2): risk of favoritism and capture

**Tunisia:**

Economic Significance of Connected Firms (Ben Ali share of Total)

- Employment: 0.8%
- Output: 3.2%
- Net Profits: 21.3%

Cronyism and Regulation in 2010
Prevalence of regulatory restrictions across sectors

- Sectors with BA firms: 39.3%
- Sectors without BA firms: 24.3%


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

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