



Promoting competition in digital markets

4 October 2019

Antonio Gomes
Acting Deputy Director
Directorate for Financial and Enterprise Affairs,
OECD



Outline

1. The importance of digital markets in SEA
2. Why digital markets are different from a competition perspective?
3. Main challenges for competition authorities
4. The role of co-operation



The importance of digital markets in Southeast Asia



Digital markets in SEA

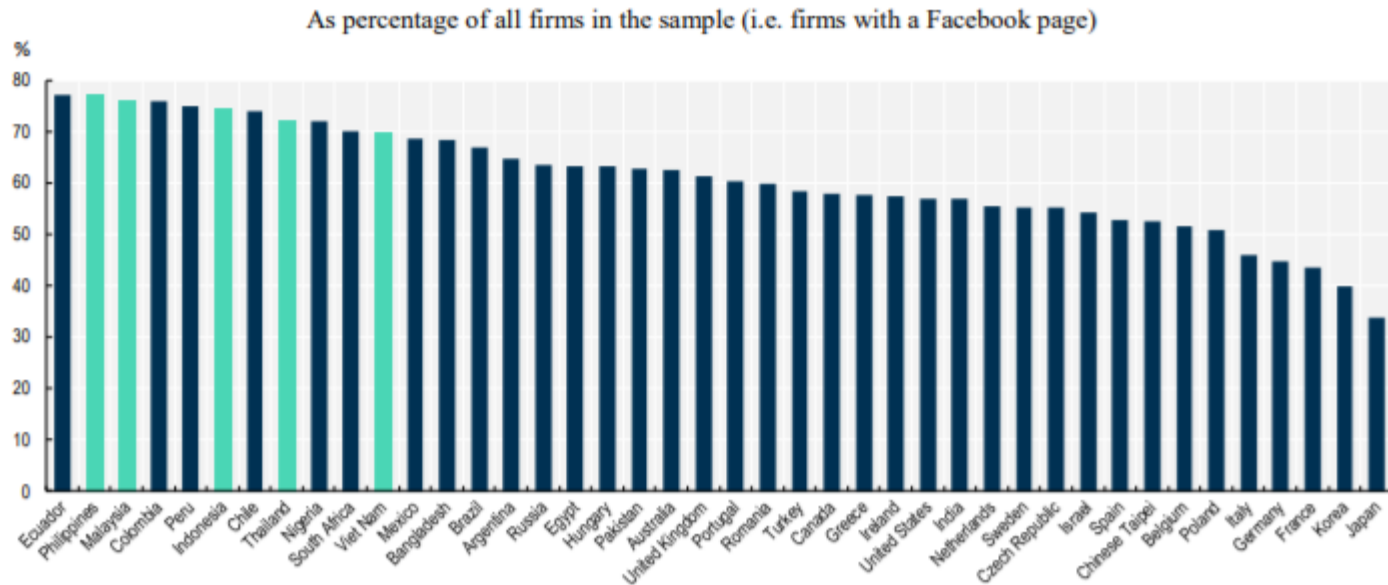
The increasing use of digital technologies in Southeast Asia is ushering in the digital transformation of economies and societies across the region. Not only does this transformation facilitate new services, products and applications. It has the power to change how people live and work.

Source: OECD (2019), Southeast Asia Going Digital: Connecting SMEs



Online sellers (2017-18)

- Thailand and other 4 SEA countries rank among the top 11 in terms of the proportion of firms that are online sellers, with approximately 70% to 77% of firms with a Facebook page being identified as “online sellers”



Source: OECD (2019[13]), *Unpacking E-commerce: Business Models, Trends and Policies*, based on Facebook/OECD/World Bank (2019), *Future of Business Survey* (database)



**Why are digital markets different
from a competition perspective?**



Disruptive innovation

- **Disruptive innovation**
 - New products, processes or business models
 - It often appears in sectors subject to (heavy) regulation (e.g. hotels, taxis, financial services)
- **Regulations may distort competition** (e.g. block or deter entry by disruptive firms; impose unnecessary burdens on established firms)
- **Extent of disruptive innovation**
 - Fast speed
 - Force: breakthroughs rather than incremental technological changes
- **Resistance by incumbents**
 - **Incumbents call for** applying existing regulation to new entrants even when it is not well-suited - claims of “**fair competition**” (e.g. Taxi driver reactions to Uber and alike services)
- Competition authorities have a role to play in **advocating for regulation that does not unnecessarily limit competition** from digital innovations



Characteristics of digital markets affecting competition (1)

Network effects

**Economies of scale
and scope**

**Data as a driver for
competition**

**Switching costs for
consumers**

**Important
intellectual property
rights**

Zero-price

**Blurring of market
boundaries**

Multi-sided markets

**Innovation and non-
price competition**



Characteristics of digital markets affecting competition (2)

- These characteristics tend to lead to **markets tipping** towards one, or a very few, digital platforms (**winner-takes-all** or **winner-takes-most** dynamics)
- Digital platforms may be able to **extend market power from one market into another related market**
- **Big is not always bad, but risks exist if:**
 - Anticompetitive conduct by dominant firms
 - Competition-distorting regulation
 - Entry barriers



Main challenges for competition authorities



A (non-exhaustive) list of enforcement challenges

Merger control

- Transactions may escape value-based thresholds
- Killer acquisitions
- Assessment of dynamic/potential competition to establish harm
- Ex post assessment of merger decisions in digital markets

Collusive behaviour / Anticompetitive agreements

- Big data and algorithmic collusion
- Vertical restraints (e.g. RPM, MFNs, dual pricing, bans on online sales/marketplace, price comparison tool bans)

Unilateral conducts

- Digital markets tend to be relatively concentrated
- Exclusionary conduct against a disruptive firm
- Leveraging of dominance on an adjacent market
- Exploitative conduct (reduction of quality, personalised pricing?)
- Predatory pricing (zero price?)
- Interim measures for timely intervention
- Reversed burden of proof?



Suitability of current enforcement tools: a focus on multi-sided markets

Markets in which a firm acts as a platform and provides different services to different groups of consumers whose demand depends on one another.

(Adaptation of Evans, 2003)

- General consensus **that existing tools are still suitable** to assess competition in these contexts
- Traditional tools may need to be adjusted to consider the **interdependence between the two sides** of the market as looking at each side of the market separately would give deceitful results



The role of co-operation



Co-operation

- **International co-operation**
 - **New and complex** issues (e.g. multisided markets)
 - **Geographic scope** of online platforms often beyond the jurisdiction of a single competition authority
 - Even if markets are local, often **common problems** across jurisdictions
 - Benefits in **sharing experiences and knowledge** given the need to refine tools and expertise of competition authorities
 - **Joint advocacy initiatives** and **regulatory proposals**
- **Inter-institutional co-operation**, particularly between competition, consumer protection and data protection agencies.
- **Not only challenges for competition** but also taxation, consumer protection, privacy issues, legal dispute settlement and product regulation (need for a global concerted effort and new thinking)



Thank you!

antonio.gomes@oecd.org