

DISRUPTIVE TECHNOLOGY AND COMPETITION IN SMALL AND EMERGING ECONOMIES

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DISRUPTIVE TECHNOLOGY AND COMPETITION

STRUCTURE OF PRESENTATION

- ◎ THE MISSION AND VISION OF THE CCM
- ◎ COMPETITION POLICY IN SMALL AND EMERGING ECONOMIES
- ◎ WHAT IS DISRUPTIVE TECHNOLOGY?
- ◎ EXAMPLES OF DISRUPTIVE TECHNOLOGY
- ◎ DISRUPTIVE TECHNOLOGY, COMPETITION AND REGULATION
- ◎ CONCLUSION

DISRUPTIVE TECHNOLOGY AND COMPETITION

THE MISSION AND VISION OF THE CCM

MISSION

- ◉ TO ENHANCE MARKET COMPETITION, CREATING MORE ECONOMIC OPPORTUNITIES FOR THE BENEFIT OF ALL MAURITIANS

VISION

- ◉ AN IMPACTFUL INSTITUTION WITHIN THE MAURITIAN ECONOMY SHAPING THE BUSINESS LANDSCAPE AND DRIVING ECONOMIC PROGRESS THROUGH THE FORCE OF COMPETITION

DISRUPTIVE TECHNOLOGY AND COMPETITION

COMPETITION POLICY IN SMALL AND EMERGING ECONOMIES

- WHAT DO WE MEAN BY A COMPETITIVE MARKET?
 - MARKET PARTICIPANTS ARE SUBJECT TO **COMPETITIVE CONSTRAINTS** (ACTUAL COMPETITORS; POTENTIAL COMPETITORS; BUYER POWER)
 - MARKET PARTICIPANTS DO NOT HAVE (OR WILL NOT HAVE, POST-MERGER) INDIVIDUAL OR COLLECTIVE MARKET POWER
 - BECAUSE THEY LACK MARKET POWER THEY CANNOT PROFITABLY RAISE PRICES, DEGRADE QUALITY, **SUPPRESS INNOVATION** ETC. AT THE EXPENSE OF CONSUMERS

DISRUPTIVE TECHNOLOGY AND COMPETITION

COMPETITION POLICY IN SMALL AND EMERGING ECONOMIES

- WHY DO WE BELIEVE THAT COMPETITIVE MARKETS ARE A GOOD THING?
 - COMPETITION LEADS TO LOWER PRICES
 - COMPETITION LEADS TO THE DEVELOPMENT OF NEW OR BETTER PRODUCTS AND SERVICES **THROUGH INNOVATION**
 - COMPETITION GIVES CONSUMERS CHOICE

DISRUPTIVE TECHNOLOGY AND COMPETITION

COMPETITION POLICY IN SMALL AND EMERGING ECONOMIES

- WHAT DO WE MEAN BY A SMALL ECONOMY?
- IS THIS DEFINED BY REFERENCE TO:
 - POPULATION?
 - SIZE?
 - GDP?
 - OPENNESS TO TRADE?
 - ECONOMIC CONDITIONS?

DISRUPTIVE TECHNOLOGY AND COMPETITION

COMPETITION POLICY IN SMALL AND EMERGING ECONOMIES

- MICHAL GAL'S DEFINITION OF 'SMALL ECONOMIES'
- 'AN INDEPENDENT SOVEREIGN ECONOMY THAT CAN SUPPORT ONLY A SMALL NUMBER OF COMPETITORS IN MOST OF ITS INDUSTRIES WHEN CATERING TO LOCAL DEMAND'
- THIS IS INFLUENCED BY THREE MAIN FACTORS: POPULATION SIZE; POPULATION DISPERSION; AND THE DEGREE OF INTEGRATION WITH NEIGHBOURING JURISDICTIONS

DISRUPTIVE TECHNOLOGY AND COMPETITION

COMPETITION POLICY IN SMALL AND EMERGING ECONOMIES

- ◉ FOR THE PURPOSES OF COMPETITION LAW AND POLICY, GAL'S DEFINITION IS A USEFUL ONE
- ◉ IT FOCUSES ON THE ECONOMIC CONDITIONS OF THE MARKET IN QUESTION
- ◉ THE CHALLENGE THEN IS TO APPLY THE PROVISIONS OF COMPETITION LAW TO MARKETS HAVING THOSE CHARACTERISTICS

DISRUPTIVE TECHNOLOGY AND COMPETITION

COMPETITION POLICY IN SMALL AND EMERGING ECONOMIES

- IN PRINCIPLE MARKETS IN SMALL EMERGING ECONOMIES CAN BE COMPETITIVE
- IN OPEN ECONOMIES LOCAL BUSINESSES ARE EXPOSED TO INTERNATIONAL COMPETITION
- THERE ARE ALSO MANY MARKETS WHICH CAN BE COMPETITIVE AT LOCAL LEVEL, FOR EXAMPLE:
 - HOTELS
 - TELECOMMUNICATIONS
 - BANKING AND FINANCIAL SERVICES
 - CONSTRUCTION

DISRUPTIVE TECHNOLOGY AND COMPETITION

COMPETITION POLICY IN SMALL AND EMERGING ECONOMIES

- THERE ARE MANY REASONS WHY MARKETS MAY NOT BE COMPETITIVE IN SMALL ECONOMIES:
 - THERE MAY BE NATURAL MONOPOLY WHERE COMPETITION IS NOT POSSIBLE; THERE WILL OFTEN BE HIGH LEVELS OF CONCENTRATION WHERE COMPETITION IS MUTED
 - DISRUPTIVE TECHNOLOGY MAY BE ABLE TO 'BYPASS' NATURAL MONOPOLY
 - HIGH LEVELS OF CONCENTRATION IN A LOCAL MARKET ARE UNLIKELY TO BE ERODED BY COMPETITIVE ENTRY FROM WITHIN THE MARKET
 - AGAIN, DISRUPTIVE TECHNOLOGY MAY PROVIDE AN OPPORTUNITY FOR ENTRY

DISRUPTIVE TECHNOLOGY AND COMPETITION

COMPETITION POLICY IN SMALL AND EMERGING ECONOMIES

- REASONS WHY MARKETS MAY NOT BE COMPETITIVE IN SMALL MARKETS:
 - THERE ARE OFTEN POWERFUL BUSINESS ELITES WITHIN SMALL ECONOMIES WHICH WISH TO PRESERVE THEIR PRIVILEGED POSITION
 - BUSINESS MAY EXERCISE CONSIDERABLE INFLUENCE OVER POLITICIANS AND THE LOCAL MEDIA
 - IN MANY ECONOMIES, INCLUDING SMALL ONES, THERE IS A LACK OF A COMPETITION CULTURE AND A NEED TO EDUCATE CITIZENS AS TO THE BENEFITS OF COMPETITION OF OF THEIR RIGHTS

DISRUPTIVE TECHNOLOGY AND COMPETITION

COMPETITION POLICY IN SMALL AND EMERGING ECONOMIES

- REASONS WHY MARKETS MAY NOT BE COMPETITIVE IN SMALL MARKETS:
 - IN MANY (SMALL) ECONOMIES THERE ARE SEVERE GOVERNMENTAL RESTRICTIONS OF COMPETITION
 - HENCE THE SIGNIFICANCE - PARTICULARLY IN SMALL ECONOMIES - OF COMPETITION ADVOCACY BY THE LOCAL COMPETITION AUTHORITY
 - MARKETS MAY NOT BE COMPETITIVE BECAUSE OF THE EXISTENCE OF CARTELS OR ABUSIVE BEHAVIOUR
- DISRUPTIVE TECHNOLOGY MIGHT BE A CONSIDERABLE SPUR TO COMPETITION!

DISRUPTIVE TECHNOLOGY AND COMPETITION

WHAT IS DISRUPTIVE INNOVATION?

- ◉ THIS IS NOT A TERM OF ART
- ◉ SEE THE OECD'S ROUNDTABLE ON DISRUPTIVE INNOVATION IN JUNE 2015 AND THE ISSUES PAPER OF THE OECD SECRETARIAT OF 28 MAY 2015
 - INNOVATION MEANS 'THE SUCCESSFUL DEVELOPMENT AND APPLICATION OF NEW KNOWLEDGE'
 - DISRUPTIVE INNOVATION **DRASTICALLY** DISRUPTS MARKETS
 - THESE ARE NOT INCREMENTAL, PREDICTABLE DEVELOPMENTS
 - THEY ARE HUGELY CHALLENGING TO INCUMBENTS

DISRUPTIVE TECHNOLOGY AND COMPETITION

WHAT IS DISRUPTIVE INNOVATION?

- ◎ OECD ROUNDTABLE (CONTINUED)
 - TYPICALLY DISRUPTIVE INNOVATION INVOLVES NOT ONLY NEW PRODUCTS BUT ALSO **NEW BUSINESS MODELS**
 - OBVIOUS EXAMPLES OF THIS ARE UBER AND AIRBNB, WHICH USE THE INTERNET AND SMARTPHONES TO MATCH SUPPLY AND DEMAND AND MAKE USE OF EXCESS OF CAPACITY
- ◎ ONE REASON THAT THE SUBJECT HAS HAD SO MUCH ATTENTION IN RECENT YEARS IS THAT IN DIGITAL MARKETS THERE ARE NETWORK EFFECTS AND EXTREME SPEED

DISRUPTIVE TECHNOLOGY AND COMPETITION

WHAT IS DISRUPTIVE TECHNOLOGY?

- ◉ SEE ALSO THE OECD'S SUMMARY OF THE HEARING ON DISRUPTIVE INNOVATION FOR SOME FURTHER POINTS:
 - DISRUPTION MAY COME FROM EXISTING FIRMS OR NEW ENTRANTS
 - DISRUPTION OFTEN OCCURS ON LARGE MARKETS WITH ENTRENCHED AND INEFFICIENT INCUMBENTS
 - DISRUPTORS OFTEN SATISFY AN UNMET DEMAND
 - DISRUPTORS MAY BE GREATLY TO THE BENEFIT OF CONSUMERS
 - DISRUPTIONS PRESENT CHALLENGES FOR COMPETITION AUTHORITIES AND REGULATORS

DISRUPTIVE TECHNOLOGY AND COMPETITION

EXAMPLES OF DISRUPTIVE TECHNOLOGY

- ◉ THERE IS NOTHING NEW ABOUT DISRUPTIVE TECHNOLOGY
 - RAILWAYS!
 - TELEPHONES
 - CINEMA AND TELEVISION
 - SINGLE RECORDS, LPS, CDS, DIGITAL MUSIC, DIGITAL DOWNLOADING, DIGITAL STREAMING
 - DIGITAL PHOTOGRAPHY

DISRUPTIVE TECHNOLOGY AND COMPETITION

EXAMPLES OF DISRUPTIVE TECHNOLOGY

- ◉ IN MORE RECENT TIMES IT IS THROUGH THE USE OF THE INTERNET AND SMARTPHONES THAT DISRUPTION HAS BEEN SO PROMINENT
- ◉ THE TWO MOST OBVIOUS EXAMPLES ARE UBER AND AIRBNB
- ◉ HOWEVER THERE ARE PLENTY OF OTHER EXAMPLES:
 - ONLINE DELIVERY OF FAST FOOD
 - ONLINE SALE OF REAL ESTATE
 - HOTEL AND FLIGHT BOOKING
 - ONLINE SHOPPING GENERALLY

DISRUPTIVE TECHNOLOGY AND COMPETITION

DISRUPTIVE TECHNOLOGY, COMPETITION AND REGULATION

- ◉ CLEARLY DISRUPTIVE INNOVATION CAN BE BENEFICIAL FOR COMPETITION (AND THEREFORE CONSUMERS)
 - SOMETIMES THIS IS IN THE FORM OF ENTIRELY NEW PRODUCTS
 - ALSO IT CAN ELIMINATE (UNNECESSARY) MIDDLEMEN AND INEFFICIENCIES (UNUSED CARS, EMPTY HOMES)
 - DISRUPTIVE INNOVATION MAY BE A WAY OF AVOIDING POOR REGULATION

DISRUPTIVE TECHNOLOGY AND COMPETITION

DISRUPTIVE TECHNOLOGY, COMPETITION AND REGULATION

- ◉ DISRUPTIVE INNOVATION IS PAINFUL FOR INCUMBENTS, IN PARTICULAR WHEN THEY ARE UNABLE TO ADAPT TO THE FRESH BUSINESS MODELS DISRUPTORS USE
- ◉ INCUMBENTS MAY REACT TO NEW ENTRY:
 - BY INSISTING THAT NEW ENTRANTS SHOULD BE SUBJECT TO THE SAME REGULATORY STANDARDS THAT APPLY TO THEM
 - BY ASKING GOVERNMENT SIMPLY TO BLOCK ENTRY
 - OR BY THEIR OWN ANTI-COMPETITIVE STRATEGIES

DISRUPTIVE TECHNOLOGY AND COMPETITION

DISRUPTIVE TECHNOLOGY, COMPETITION AND REGULATION

- ◉ GOVERNMENTS, REGULATORS AND COMPETITION AUTHORITIES ALL HAVE ROLES TO PLAY IN THIS DEBATE
- ◉ GOVERNMENTS - POLITICS - ELECTIONS ...
- ◉ REGULATORS:
 - WHAT IS THE REGULATORY ENVIRONMENT?
 - WHAT ARE THE REGULATIONS INTENDED TO ACHIEVE?
 - HEALTH? SAFETY? PRUDENTIAL SUPERVISION? QUALITY STANDARDS? SECURITY OF SUPPLY?
 - ARE THE REGULATIONS STILL NECESSARY? PROPORTIONATE

DISRUPTIVE TECHNOLOGY AND COMPETITION

DISRUPTIVE TECHNOLOGY, COMPETITION AND REGULATION

- ◉ **COMPETITION AUTHORITIES**
 - TAKE ACTION AGAINST ANTI-COMPETITIVE BEHAVIOUR BY INCUMBENTS (FOR EXAMPLE COLLECTIVE BOYCOTTS, EXCLUSIVITY AGREEMENTS, PREDATORY PRICING)
 - REVIEW ‘KILLER ACQUISITIONS’ UNDER MERGER CONTROL
 - ACT AS A ‘**COMPETITION ADVOCATE**’ TO GOVERNMENT
 - SEE THE ISSUES PAPER OF THE OECD’S ROUNDTABLE ON DISRUPTIVE INNOVATION FOR A CHECKLIST OF QUESTIONS TO BE ASKED ABOUT THE EFFECT OF REGULATIONS ON DISRUPTIVE ENTRANTS

DISRUPTIVE TECHNOLOGY AND COMPETITION

CONCLUSION

- ◉ DISRUPTIVE INNOVATION IS CAPABLE OF BRINGING GREAT BENEFITS TO SOCIETY
- ◉ ALL OF US BENEFIT FROM IT IN OUR DAILY LIVES, WHETHER WE HAVE THOUGHT OF IT CONCEPTUALLY OR NOT
- ◉ IT BRINGS WITH IT FASCINATING CHALLENGES FOR GOVERNMENT, REGULATORS AND COMPETITION AUTHORITIES
- ◉ IT WILL BE INTERESTING TO VISIT FOR THE 15TH ANNIVERSARY OF THE COMPETITION COMMISSION TO REVIEW THE SITUATION!

DISRUPTIVE TECHNOLOGY AND COMPETITION

THANK YOU FOR YOUR ATTENTION!