



## ASEAN COMPETITION CONFERENCE 2017, KUALA LUMPUR

# How Competition Authorities can stay relevant in the digital economy

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# Disruptive innovations, challenges & opportunities

“The world is going through a period of great uncertainty. **Significant structural shifts** are taking place in many countries. Industries and jobs are **changing rapidly**. Amidst the disruption, there will be **opportunities**. We cannot be sure which industries will perish and which will flourish. What is certain is that Singapore must **stay open** to trade, people and ideas, and **build deep capabilities** so that our people and companies can seize the opportunities in the world.”

Prime Minister Lee Hsien Loong’s foreword to the  
Report of the Committee on the Future Economy (8 Feb 2017)

# Disruptive innovation as an important process for progress and growth

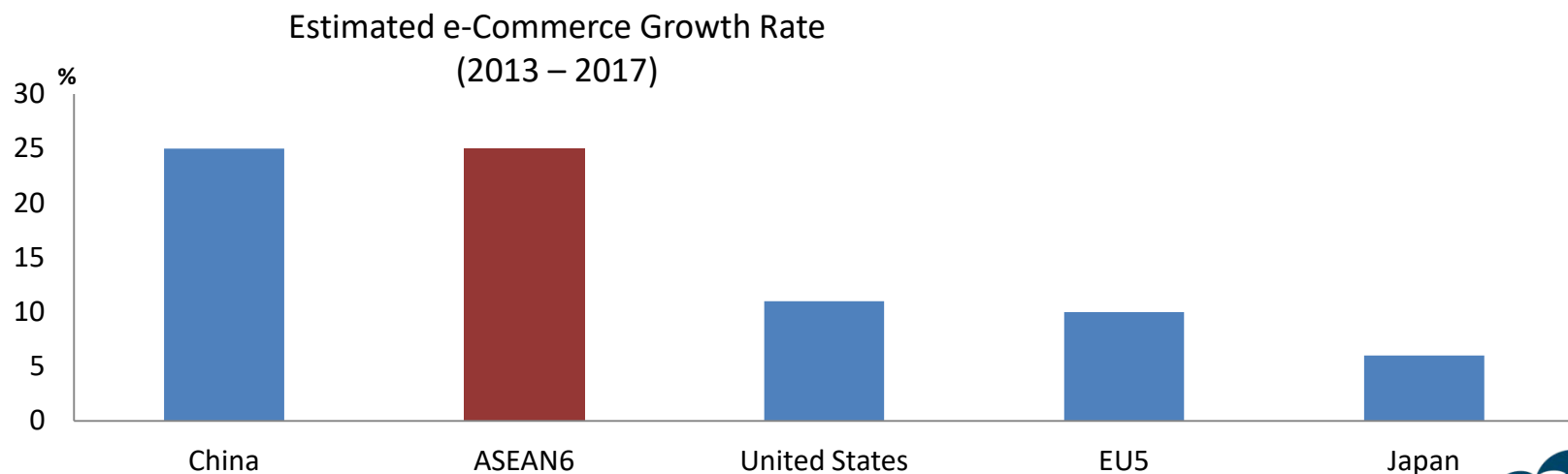
- Refers to new products/services, technologies, manufacturing processes and business models that **drastically** alter or supplant existing markets
- Traditional businesses models **transformed**
  - E.g. How e-commerce is transforming the bricks and mortar retail industry
- **Competitive dynamics** of businesses in existing markets **altered** or **supplanted**
  - New entrants spot area(s) of consumer demand unmet by incumbents and come in to fulfil it (e.g. Taxis – Grab/Uber)
  - Call centres supplanted by taxi apps
  - Middlemen being disintermediated (e.g. blockchains)

# Potential for significant benefits to economies

- › Including lower prices, better/new products and services
- › Transforming economies and improving lives: **Big Data and Vision of Smart Nation (Singapore)**
  - › Enhancing the way people live, work and interact through technology
  - › Supporting open data as an enabler of Smart Nation - Allow third parties to glean useful insights (e.g. OneMap, MyTransport)
- › Employment opportunities, and reducing poverty: **Go-Jek & GrabBike (Indonesia)**
  - › Helping low-income move up the poverty line with more stable income
  - › Driving sales for small businesses (e.g. food delivery by ojek drivers)

# Relevant & important for ASEAN regional integration

- E-commerce market has huge potential for growth in ASEAN (AT Kearney)
  - China and ASEAN have the best potential for e-commerce globally
  - Estimated online retail market size is USD 7b for ASEAN-6
  - 15% growth annually in the past 4 years, with potential to growth even faster (up to 25% p.a.)



# Relevant & important for ASEAN regional integration

- ▶ Intra ASEAN cross-border trade through e-commerce can drive **regional economic integration**
  - ▶ Facilitates cross-border trade and foreign investments through supply of intermediary services
  - ▶ Hence, **ASEAN Economic Community 2025 Blueprint** has recognised e-commerce as an area to strengthen regional integration

# Despite benefits of disruptive innovation , concerns are raised...

- May raise **concerns in areas such as consumer protection, safety**
  - Political pressure and/or calls from incumbents to “level the playing field,” or call for regulatory safeguards
  - E.g. To protect consumer interests, private hire cars driver now required to have a vocational licence (Singapore)
- **Restrictive business practices** which may become problematic when dominance occurs in fast moving digital markets
  - E.g. CCS investigated online food delivery service providers’ exclusive agreements with restaurants
- **Mergers and acquisitions that may reduce competition**
  - Loss of competitive dynamics if “maverick” player acquired (non-coordinated effects)
  - E.g. Online grocery retailer acquired by bricks and mortar supermarket



# What can competition authorities do? – Balance tensions with advocacy

- › Disruptive innovations can create tensions between regulation and competition policy .
- › Advocacy plays a role in **balancing** these tensions
  - › Enforcement threshold may not have been crossed
  - › Barriers to entry created by government (e.g. regulations favouring incumbents)
  - › Advocacy can help promote regulations that achieve public policy objectives yet minimising impact on competition
  - › Externalities (e.g. job losses) may be alleviated with other policy measures (e.g. retraining)
- › Advocacy acts as a **sense check** to ensure consumers and markets benefit ultimately in the long run
  - › Ensure regulatory changes are not simply quick fixes
  - › Ensure regulatory changes are not held back due to lobbying by incumbents



# What can competition authorities do? – Balance tensions with advocacy

- Recommended good practices for advocacy (ICN Special Project 2016)
  - What: **Engage government agencies with clearly defined competition objectives**
    - Advocacy message underpinned by knowledge of disruptive innovation, competitive dynamics, government agencies' regulatory response and motivations
    - Tell a compelling narrative
  - How: **Use an assortment of advocacy tools, adopt a collaborative mindset and be a credible source of expertise on competition**
  - When: **Provide timely advice, strike when the iron is hot, and take a long-term perspective**

# What can competition authorities do? – Ensure assessment remains robust

- › In competition assessment, consider the characteristics of digital economies within its regulatory environment
  - › **Multi-sided platforms**
    - › Many online markets are intermediaries, connecting different users
    - › In defining relevant market - consider the characteristics of the platform, different user groups and how users interact
  - › **Network effects**
    - › Could be potential barrier to entry – most successful platform rewarded as market tips in its favour
  - › **Multi-homing**
    - › Users use more than one platform to transact or interact
    - › Reduces market power of platforms

# Proposed acquisition of JobStreet by SEEK (2014)

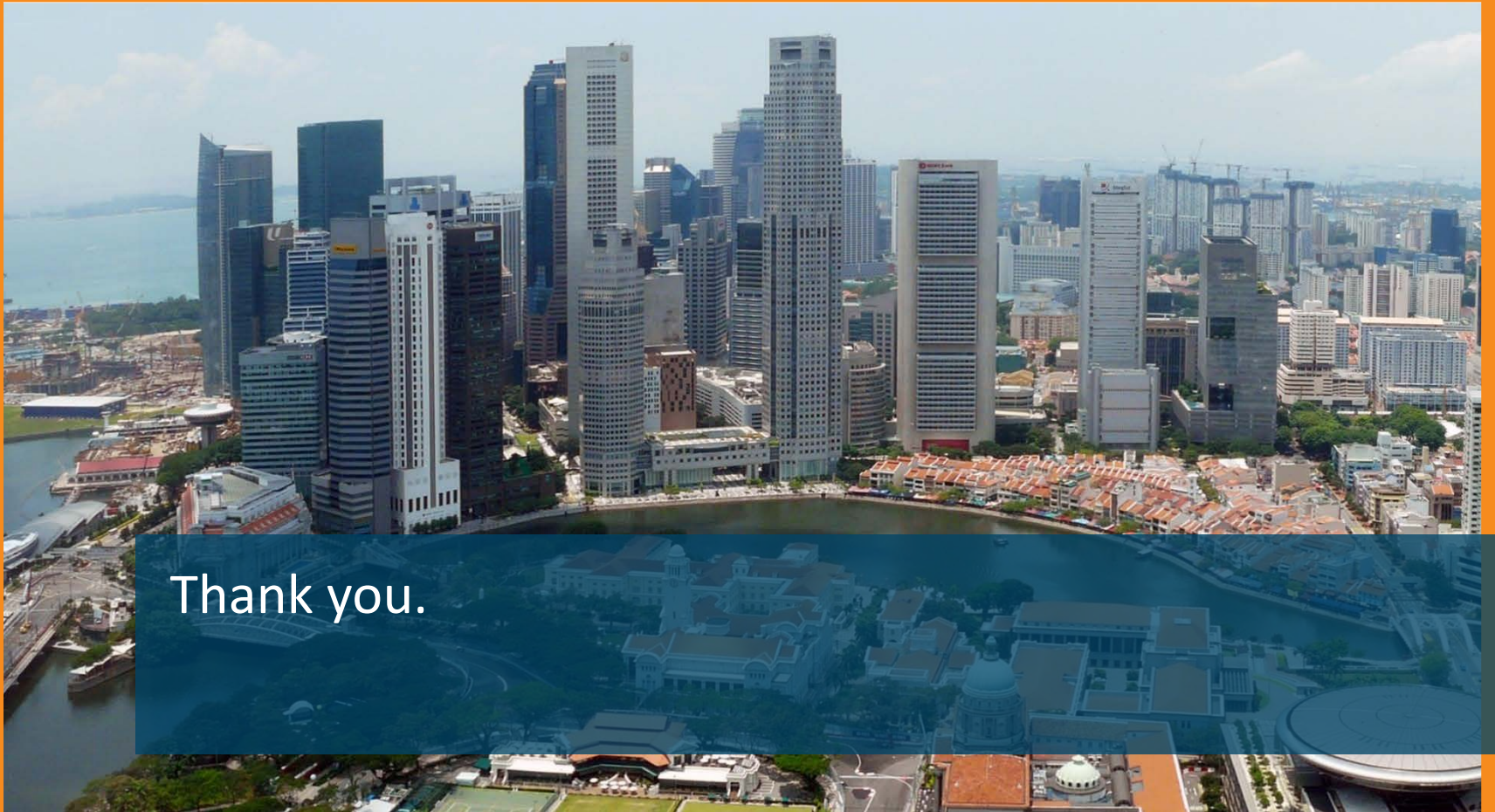
- › Brings together **top 2 online recruitment advertising service providers** in Singapore – JobsDB and JobStreet:
  - › **Multi-sided platform** - Recruiters and employers (on one side); and jobseekers
  - › **Network effects** - Requires a significant jobseeker pool to make it attractive to advertisers; and significant job posting to make it attractive to jobseekers
  - › **Multi-homing** – Jobseekers, employers and recruiters tend to use more than one service provider at any time
- › CCS found that the merger **may reduce competition** – Parties may demand exclusive lock-in contracts, bundle/tie across brands, impose price increases post-merger
- › CCS approved the merger, **with commitments** from SEEK
  - › Not to enter into exclusive agreements with employers and recruiters
  - › Cap prices at current prices, allowing for inflation
  - › Divest Jobs.com.sg (another aggregator site)

# Big Data

- Data increasingly ubiquitous as world becomes digitalised. Large data sets (Big Data) presents tremendous opportunities for governments, businesses and consumers
- Big Data should be recognised and treated as an asset like property or human capital
- Whilst data (subject to privacy concerns) can be a “public good” to be used by governments to create value, it can be monopolized as a “private good’ by firms as a competitive asset
- Competition policy and law can be useful to ensure that data is not monopolised by the private sector at the expense of competition or welfare of a society

# Conclusion: Rising above the challenges

- Disruptive innovations are a critical component of markets and the competitive process to drive benefits for businesses and consumers
- Tools available to address competition concerns – advocacy, enforcement, market studies
  - Negative externalities (job losses) need to be addressed otherwise advocacy will be weakened
- CCS is developing an e-commerce handbook for ASEAN competition authorities:
  - Potential barriers to growth
  - Competition and regulatory challenges
  - Achieving an ASEAN single digital market



Thank you.