



## Emerging challenges in competition policy and regulation

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Published online: 12 April 2023

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Competition and regulation authorities contribute to social and economic welfare by monitoring the conduct of public and private organisations with the purpose of promoting fair competitive and operational conditions across the market economy. Competition and regulation authorities are currently operating in a geopolitical context that is increasingly protectionist, so that one of the challenges they face is how to deal with these tendencies in situations where the objective of promoting competition and trade conflicts with broader political objectives. The political interventions implemented in different countries worldwide can be seen as a reaction to the difficulties faced by domestic firms in markets dominated by powerful and technologically advanced foreign firms. More generally in the context of competition policy and regulation, while recent advances in technology provide great economic opportunities, policymakers' objectives require them to maximise the economic and social benefits, and to regulate the potential negative effects, of these technological advancements.

Technological changes over recent years have created economic opportunities in many markets, in particular as a result of digital innovation and the emergence of online platforms as means for organising economic activities (Spiegel & Waldfogel, 2021). These trends have promoted the establishment of emerging economic actors and networks of suppliers and users of goods and services (McIntyre & Srinivasan, 2017). However, the increased digitalisation of economic activity and of markets has created challenges for competition and regulation authorities that aim to establish the conditions for fair competition, while protecting consumers from undue exploitation and shielding taxpayers from unnecessary costs.

Changes in the nature of production, trade and market interactions have led to calls for increased policy interventions aimed at supporting the development of new tech-

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nologies, promoting innovative market entrants but also pressures for Governments to protect national economies, producers and jobs. The emerging challenges for competition and regulation authorities, and Governments more broadly, have become more complex and difficult to manage without the support of rigorous theoretical contributions and empirical evidence to demonstrate the effectiveness of policy tools and interventions (e.g. see Armstrong 2006, Rochet and Tirole, 2006, and Katz 2019).

The role of regulatory authorities and policymakers in promoting economic activity and identifying promising paths for development has been central to themes addressed in *Economia e Politica Industriale* (hereafter EPI) and in the *Journal of Industrial and Business Economics* (hereafter JIBE) since its inception fifty years ago, as mentioned by Francesco Silva (2023), who restates the original purpose of the publication as the promotion of “a tool for academic communication but also for dialogue with policymakers and social players”. We do believe that this objective has become even more critical and crucial for the development of sound industrial policies today, in the presence of global (economic and non-economic) crises and challenges that clearly require a coordinated set of actions by different institutional actors.

Both EPI and JIBE have played their role over the years in fuelling the debate, and more generally, in keeping the interest of academics and practitioners alive on emerging challenges in the competition policy and regulation of markets. Important reflections on the critical role of competition and regulation authorities were offered by contributors to EPI and JIBE in articles which evaluated the transition from a model of industrial policy based on the direct involvement of the State in several markets to a system based on the monitoring of competitive conditions in the market and the enforcement of competition law, when intervention by the authority was required.

Without any ambition to be exhaustive, and just for illustrative purposes, these contributions included an article by Michele Grillo (1996) on the role of the relatively new Italian competition authority (Autorita' Garante della Concorrenza e del Mercato) in creating the conditions for non-discriminatory competition in markets. In 2001 Giovanni Ramello (2001) offered some reflections on the debate about the role of competition authorities among those who see their duties limited to strict law enforcement and those who see their role as contributing to shaping market configurations along lines dictated by broader economic policy objectives. More recently Carlo Scarpa (2005) has labelled the period 1997–2004 as the ‘maturity’ phase of the Italian competition authority, a phase during which the authority has been able to promote competition in specific sectors of the economy. At the beginning of the digital transformation era Antonio Butta' and Andrea Pezzoli (2014) started to develop the debate about the potential impact of digital innovations on the competitive environment for traditional retailers, a topic which remains very much relevant today and which is investigated empirically in one of the contributions to this special section, as discussed below.

Based on these premises, which have only been sketched out here due to space constraints, the 50th Anniversary special section addresses current and emerging issues in the competition policy and regulatory practice by presenting contributions that can help to advance our understanding of the nature and impact of regulation,

competition and industrial policy interventions on market structure, strategic interactions, and consumer protection at different geographical and sectorial levels.

In fact, economic theory and empirical analyses of the impact of digitalisation on a range of different markets have provided rigorous and informed guidance to competition and regulation authorities which they can apply in their practice of monitoring and regulating public and private activities in markets. With companies' strategies and consumer behaviour changing as a result of emerging trading and networking opportunities, the set of powers and tools available to authorities needs to adapt so that their ultimate objective of promoting competition and protecting consumers can be pursued most effectively. Adhering to this perspective, this special section aims to provide evidence and useful considerations for policy makers in dealing with complex market conditions, as a result of rapid technological change which affects the nature of competition and market interactions among firms and between firms and consumers, at the national and international level.

Overall, this special section contains contributions on two main themes which relate to key challenges faced by competition and regulation authorities today: some of the articles address the effects of the increase in protectionism and suggest possible mitigations while others focus on the impact of recent advances in technology, or the regulation of technology, on market outcomes. Below we briefly describe these contributions.

In the first article, Sergio Mariotti discusses the role of competition authorities in the present context of a general increase in protectionism worldwide. This trend of increased protectionism has made it more difficult for supranational institutions to manage international relations in order to promote free trade and investment across national borders. The recent emergence of protectionist and discretionary practices in the implementation of competition policy at the national level leads the author to develop some considerations about the potential effects of a discriminatory environment towards foreign competitors on foreign direct investment (hereafter FDI) and, as a consequence, on economic growth and welfare. Following a description of recent trends in the application and enforcement of competition law the author suggests some actions that might create an environment more suitable to stimulate FDI activities. These proposed actions aim to reduce the risk of capture by lobbying groups which can be achieved by removing non-competitive goals from the duties of competition authorities and by bringing the application of the "rule-of-reason" closer to the "rule-of-law". Furthermore, the author invites Governments to provide more resources to the national competition authorities and to encourage the use of tools such as private enforcement and leniency programmes for a more effective action.

The theme of competition policy and its effects on FDI activity and associated locational decisions is also central in Jihad Ait Soussane and Zahra Mansouri's contribution to this special section. The authors reflect on the role of technological transformation in creating pressures on less innovative domestic firms, which has led some national authorities to enact protectionist policies that create barriers to investment by foreign companies. The emergence of such policies at a global level and their potential impact on the extent of competition and investment on FDI is also highlighted in Sergio Mariotti's contribution to this special section. Jihad Ait Soussane and Zahra Mansouri undertake an empirical investigation of 38 OECD countries with

the objective of assessing the effects of their competition policies and market regulations on the levels of inward investment in their domestic territory. Their analysis provides evidence of the existence of significant barriers to entry for foreign investors in countries with a high level of anti-competitive regulation (as measured by the OECD Product-Market Regulation indicator). This result leads the authors to encourage policymakers to lower tariff barriers, reduce the extent of State intervention in the market and, more generally, to simplify the regulatory framework.

A focus on international economic activities also characterizes Lorien Sabatino and Geza Sapi's contribution but this time in the digital market context, looking at e-commerce trade rather than FDI. In their article, the authors discuss the implications of regulatory interventions in markets, such as the recent General Data Protection Regulation (GDPR), on consumer's purchasing activities on e-commerce platforms. Based on an extensive dataset of transactions in the US, France, Germany, Italy and the UK, their empirical analysis reveals a decline in online traffic to e-commerce websites in Europe following the introduction of the GDPR regulation. The negative impact on smaller retailers is greater under normal demand conditions but during periods of peak demand they actually experience increased traffic. Their results lead the authors to draw some interesting implications for both privacy and competition policy, given the interrelated nature of the two forms of regulation today. The introduction of strict privacy regulation can have effects on the nature of market competition in digital markets with a more significant impact on the number of visits received by smaller firms. Their results however show there is no evidence that this impacted market concentration.

Regulatory barriers and constraints are also the focus of the contribution by Fabio Pieri, Chiara Tomasi and Valentina Cecco to this special section. The authors investigate the role of the so-called "red tape" on firms' entry and exit decisions. Their empirical analysis covers 22 European countries and 14 manufacturing sectors between 2013 and 2019. Their results provide evidence of a negative effect of regulatory constraints on firm entry and exit across all the countries included in the analysis. In particular, the time required to comply with bureaucratic requirements has a stronger impact on entry and exit than the monetary costs associated with administrative procedures. Furthermore, regulatory constraints turn out to have a more pronounced negative effect on the entry and exit rates of small firms. The authors conclude that policy makers should introduce reforms that reduce barriers to entry and exit, especially in the countries characterised by the presence of relatively small and old firms, in order to promote the emergence and diffusion of high-potential business ideas which can effectively stimulate increases in productivity and economic growth.

In the final contribution to this special section, Shandelle Steadman, Anna Rita Bennato and Monica Giulietti extend the discussion about the role of regulatory interventions to markets where technological innovation can be used effectively to promote the pursuit of environmental objectives which underpin the transition to a net zero economy. By analysing the impact of peer effects on the diffusion of solar photovoltaic technology among UK residential energy users, the authors identify potential areas of intervention by energy regulators who, among their duties, are legally required to promote the timely achievement of net zero objectives. As their results show significant local/regional peer effects on the diffusion of this low carbon tech-

nology, the authors suggest that local authorities should be given a leading role in promoting the uptake of the technology, as they can facilitate the spread of relevant information but also promote the emergence of virtuous peer effects through their energy efficiency programmes applied to social housing schemes. The authors also recommend that regulators should promote community-level initiatives and local engagement strategies which can be crucial in encouraging residential consumers to be more actively engaged in the transition to a net zero energy system.

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