

Competition and Competition Policy in Digital Economy: Debate, Reflection and Suggestion¹

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In recent years, China has achieved vigorous development in digital economy: on the one hand, digital technology has given rise to an unceasing emergence of new industrial sectors and business models, infusing great vitality to China's national economy; on the other hand, digital technology has continuously infiltrated into China's traditional economy, and has greatly improved their production efficiency.

However, there have also been increasing doubts and controversies on the rise of digital economy enterprises. The doubts and controversies focus on market structure and corporate behaviours. In terms of market structure, the doubts are mainly the excessive concentration of market. In terms of corporate behaviours, the controversies are mainly the so-called "abuse of market dominance". For example, how to assess and deal with the newly-emerged suspected abuse such as forcing merchants to sell exclusively on one platform and big data-enabled price discrimination against existing customer has been a difficult question for China's regulators.

In essence, all the doubts and controversies are related to the organizational form under digital economy: platforms. In general, a platform is a trading place for users (e.g. buyers and sellers) to exchange goods, services, information, etc. Driven by digital technology, platforms have grown in an unprecedented way. Compared with traditional corporate organizations, platform has its own features as follows:

First, every platform has a duality, to wit: it is a combination of market and enterprise. On the one hand, every platform has its employees, assets, and organizational structure. Thus, it uses internal orders to allocate resources when participating in necessary external market competition. In this regard, it is just like a traditional company. On the other hand, it does not directly engage in production or sales, and what it does is matching demands to supply. In this regard, it is more like a market.

Second, as a company competing in the market, every platform has apparent "cross-side network externality".

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Third, as a market bringing users together for transactions, the first and foremost feature for every platform is that it can control users' access to the platform.

All controversies on platforms stem from the above features. For example, the existence of cross-side network externality determines that platforms are enormous in scale and high in market share concentration. Platforms' duality require that they should not only function as traditional enterprises, but also maintain some governance, whereas the latter may conflict with the traditional theories on competition.

These questions cannot be resolved by a mechanical application of traditional competition policy to the field of digital economy. Instead, there should be a reflection and redesign of competition policy according to the features of platforms.

In theory, there should be a consideration from two aspects: one is competition, monopoly, and the nature of antimonopoly; the other is social welfare, an important goal of competition policy which needs to be redefined.

In practice, there should be a consideration from three aspects: first, how to determine relevant market in digital economy; second, how to assess market power in digital economy; third, how to deal with the behaviours which are deemed to be an "abuse of market dominance" in traditional economy.