

Strength of investor protection and competition in ICT industry: A focus on internet and telephony markets in Asian countries

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ABSTRACT

Investor protection is controversial in ICT industry such that the high investor protection may harm the industry, prevent new comers to enter into the market and induce collusions among dominant firms. This study provides another evidence of the relationship between strength of investor protection and competition in ICT industry. It uses OLS and Tobit to analyze the data from 144 countries. The findings reveal that the higher investor protection will induce higher competition. It means that potential investors prefer to enter into a market where they are well protected. Therefore, the number and quality of investors in these markets are high. They tend to compete rather than collude with other firms in the same market. However, this relationship is weakened in Asian countries. It means that even though the investor protection is good but the Asian markets are still risky by other uncontrollable factors such as politics. Therefore, quality investors may hesitate to enter into these markets and consequently the competition is not so high.

Keywords: ICT industry, Investor protection, Competition, Internet, Telephony

1. Introduction

Investor protection is controversial in ICT industry such that the high investor protection may harm the industry, prevent new comers to enter into the market and induce collusions among dominant firms. This study provides another evidence of the relationship between strength of investor protection and competition in ICT industry. It focuses on the internet and telephony markets in Asian countries.

2. Methodology and models

It uses OLS and Tobit to analyze the data from 144 countries around the world. The data of competition in ICT industry are from the Networked Readiness Index (NRI) in 2012 provided by World Economic Forum (WEF) and the strength of investor protection are from the World Bank in 2012.

The OLS and Tobit models are set as follows:

$$Competition = \alpha + \beta_1 Protection + \beta_2 (Asia * Protection)$$

where $Competition$ = Competition index (ranges from 0 – 2)

$Protection$ = Strength of investor protection (ranges from 0 – 10)

$Asia$ = Dummy variable indicating being an Asian country

3. Results

The results from Ordinary Least Squares with robust estimator (Suriya, 2010) shows that the higher strength of investor protection leads to higher competition in the internet and telephony markets (Table 1).

Tobit estimation which limits the dependent variable within 0 and 2 also confirms that the investor protection plays a significant role in welcoming competition among firms (Table 2).

Both models present that the effect is weakened in Asian countries. The level of competition reduces around a half for ICT markets in Asia. However, the net effect is still positive for the relationship between the investor protection and competition.

Table 1: OLS estimations of the relationship between strength of investor protection and competition in internet and telephony market

Dependent variable: Competition						
Variable	Coefficient	Robust Standard Error	t	P> t	95% Confidence Interval	
Protection	0.0658	0.0257	2.57	0.011	0.0151	0.1167
Asia	-0.0361	0.0159	-2.27	0.025	-0.0675	-0.0047
Constant	1.3182	0.1490	8.85	0.000	1.0236	1.6128
Number of observations	144			Prob. > F	0.0144	
R-squared	0.0521			Root MSE	0.4878	

Source: Calculation using Stata 10.

Table 2: Tobit estimations of the relationship between strength of investor protection and competition in internet and telephony market

Dependent variable: Competition						
Variable	Coefficient	Robust Standard Error	t	P> t	95% Confidence Interval	
Protection	0.1123	0.0479	2.34	0.021	0.0175	0.2070
Asia	-0.0591	0.0255	-2.31	0.022	-0.1095	-0.0086
Constant	1.3145	0.2523	5.21	0.000	0.8158	1.8132
/sigma	0.7269	0.0668			0.5948	0.8590
Left-censored at zero	2	Uncensored	85	Right-censored at 2	57	
Number of observations	144				0.0241	
Pseudo R-squared	0.0280			Log pseudo likelihood	-140.12	

Source: Calculation using Stata 10.

4. Conclusions

This study reveals that the higher investor protection will induce higher competition. It means that potential investors prefer to enter into a market where they are well protected. Therefore, the number and quality of investors in these markets are high. They tend to compete rather than collude with other firms in the same market. However, this relationship is weakened in Asian countries. It means that even though the investor protection is good but the Asian markets are still risky by other uncontrollable factors such as politics. Therefore, quality investors may hesitate to enter into these markets and consequently the competition is not so high.

Further studies should be conducted by introducing more controllable variables into the model. Moreover, it should provide more choices of the dependent variable that represents the protection in ICT industry. An interesting issue for the next research work is the relationship between market protection from foreign share holding and competition in ICT industry.

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