Regulation in Regulated Industries

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Regulated Industries?

- Regulated industries: former natural monopolies in which entry still requires acquiring or being awarded with a new license or contract, usually through a competitive bid.

- All industries are regulated to some extent. We can draw a continuum of regulated industries. Infrastructure/former natural monopoly industries are at the extreme of highest regulation.

- Profitability conditioned by up-front payments, (regulated) prices, required investments and competition.

- Regulation is also a shelter from competition.

- **My point is:** Where technology allows competition and transparency, regulation should be kept to a minimum and liberalization should be the default option.

- FDI its the natural outcome of liberalization.
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- Why do regulated firms expand abroad?
  - Deregulation.
  - Not all regulated firms are equally competitive
    - Technical expertise. Project execution capabilities
    - Political capabilities

- Emerging market multinationals?

- Limits to international expansion of regulated firms:
  - Regulatory Heterogeneity: Multidomestic strategy / Deviation from optimal learning path
  - Policy instability is a double-edged sword:

- In sum, more FDI will be the consequence of more deregulation and better institutions, along with increased competition, and more efficiency in the delivery of regulated services.