

Anti-monopoly on Platform economy of the Internet -- Case Description on Alibaba abusing its dominant market position

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Abstract. This thesis explains and demonstrates anti-monopoly on platform economics of the internet with the case description of Alibaba abusing its dominant market position. The thesis starts with the introduction of the market classification in the western economy and the definition, causes, and main resources of monopoly, along with accompanying negative consequences brought by monopoly, including welfare loss to the demanders in the market and welfare loss to the overall society. Analysis of abusing big data, price discrimination and exclusive transaction are delivered to demonstrate the main forms of platform monopoly of the internet. After that, the thesis introduces the background of the Alibaba monopoly event and the government's punishment. Through the case, the author shows the present management regulations on standardizing the monopoly in the platform economy of the internet. Based on the case, the author makes suggestions, such as monitoring big data, protecting personal information, and establishing the enterprise reputation mechanism, on the improvement of relevant management strategies.

Keywords: Anti-monopoly; platform economy of the internet; Alibaba monopoly event.

1. Introduction

Marx once said: "Monopoly is a good thing because it belongs to the economic category. The bad thing is the reality caused by monopoly, resulting in a series of disadvantages, such as no competition, slow technological update, and waste of resources."

In recent years, the quick development of the platform economy of the internet has aroused people's attention to the accompanied monopoly behavior under new internet technologies. Cloud computing, big data, and AI technology have greatly promoted the production efficiency of modern enterprises and have updated the innovation mode. On the one hand, Internet platforms utilize these technologies to optimize resource allocation and improve efficiency to a great extent, but on the other hand, they also begin to abuse the dominant market position and implement a series of new monopoly modes, damaging social welfare and the development of innovation.

To begin with, the thesis introduces the description of monopoly and the consequences of monopoly. Forms of monopoly on the platform economy of the internet will be further delivered. Net this thesis will apply case description of Alibaba abusing its dominant market position to analyze the major forms of platform economy monopoly and the resulting negative impact, including welfare loss to the overall society and leak of personal information. Based on that, the thesis suggests that relevant government agencies should monitor big data, protect personal information, establish enterprise reputation mechanism, and improve relevant law. And the effects on anti-monopoly on platform economy of the internet will be introduced before the conclusion part.

2. Description of Monopoly

2.1 Definition of Monopoly

Western economics divides the market into four major types, perfectly competitive market, monopolistic competitive market, oligopoly market and perfect monopoly market. The distinction between them is mainly the number of manufacturers, the influence of market price and the difficulty of entering the market. Monopoly refers to the action of exclusion and restriction of competition and

is also a market state where only exists a sole firm controls the industry and abuses its dominant market position.

A firm is considered a monopoly if it is the sole seller of its product in the market without close substitutes. Marx believed that monopoly is an inevitable development of the capitalist economy. Free competition results in the concentration of production, and when production concentration evolved into a certain stage, it inevitably leads to monopoly, which is the general law of capitalist development. The fundamental cause of monopoly is barriers to entry, other firms cannot enter the market and compete with the sole seller [1].

As to platform economy, the unique production process makes it easy to move towards production concentration and production. On the one hand, platform enterprises need large-scale input of material capital and human capital. On the other hand, producers on the platform can use high-tech algorithms, and data analysis to achieve a ‘winner-takes-all’ monopoly pattern [2].

2.1.1 Main resource of monopoly

Main resources cause the barrier to enter the market, which refers to the key resource demanded for production manipulated by the sole seller.

The first is monopoly resources: a key resource required for production belongs to a single firm. Owning a key resource is the most direct method for a firm to have the dominant role in the market, but it’s not that realistic since resources are normally owned by many people.

Second, government regulation: the government gives a sole firm the exclusive right to produce a certain product or service. Government regulations can prevent other competitors to enter the market, classic examples are patents and copyright.

Lastly, the production process: a single firm can produce produce at a lower cost than can a larger number of producers. This reduces the firm’s cost in production to a great extent, thus increasing competitiveness significantly [3].

3. Consequences of Monopoly

Under the condition of a perfect monopoly market, a firm can regulate and set the price, usually higher than the equilibrium price under a perfectly competitive market and maximize its profit. From the standpoint of consumers, monopoly becomes undesirable because of this high price, resulting in welfare loss.

In a perfectly competitive market, the quantity demanded always equals the quantity supplied, reaching an equilibrium. But the sole firm in the monopoly market that wanted to maximize total revenue would choose the level of output where the demand curve and marginal-cost curve intersect, thus making the price higher than equilibrium. As figure 1 depicts, below this level, the value of the good to the marginal buyer exceeds the marginal cost of making the good. The monopoly quantity is lower than the efficient quantity, causing the deadweight loss.

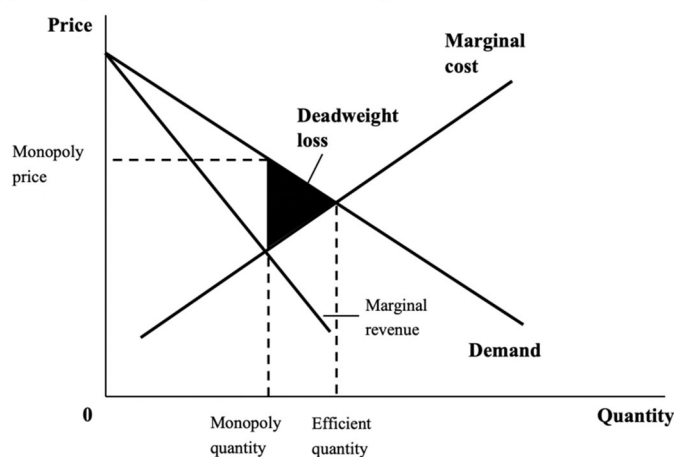


Fig. 1 Deadweight loss of monopoly (Quoted N. Gregory Mankiw. Principles of Economics, 2011)

3.1 Welfare Loss to Demander

The consumers are supposed to purchase the products at the equilibrium price under the condition of the competitive market, which is lower than the monopoly price. The difference between their reservation price and actual purchasing price becomes smaller, reducing their surplus. In addition to that, a shortage of supply renders them lose the opportunity to purchase a certain product, which might be of great importance to them, especially daily necessities like water resources and electric energy.

3.2 Welfare Loss to Society

It is easy to consider monopolies maximize their profit at the expense of the public society. And exactly, the sole firm does earn a great profit by abusing its dominant market power. Welfare in the monopoly market includes both the ones of consumers and producers. When consumers pay an extra dollar because of a monopoly price, the consumer endures the welfare loss of a dollar, and the producer enjoys the same amount. But this transfer does not affect the total welfare of the market.

The reason why the public usually wants to regulate monopolies is because of the low efficiency in production and sales. The sole firm could have produced and sold more products but choose to limit the quantity of supply to make more profit. The deadweight loss measures how much the total quantity available in the market shrinks. The efficiency and deadweight loss stem from the low quantity of output. Although the monopoly firm could have more producer surplus by the same amount that it has reduced the consumer surplus, making the total welfare not changed, the firm may use the extra producer surplus to retain its dominant market position, creating the social loss of those costs and the deadweight loss [4].

4. Forms of Monopoly on the Platform Economy of the Internet

The phenomenon of internet platforms harming consumers' rights and interests in various forms is not new. Generally, it's based on information technology like big data, cloud computing and AI technology.

4.1 Abuse of Big Data

Data monopoly is a familiar refrain to the public. The internet platform collects users' private data at a very low cost by making consumers authorize personal information when having access to a certain service on the internet. By tracking, analyzing, and profiling the user data and providing targeted services to consumers, internet platforms achieve data monopoly. An Internet company can have access to user data from various dimensions by asking consumers to authorise irrelevant information to dig into their preferences, for example, the reservation price.

4.2 Price Discrimination

Abusing big data can help internet companies to achieve a perfect monopoly. The main manifestations of price abuse are predatory pricing and price discrimination. Predatory pricing refers to the platform releasing a large number of subsidies in the early stage of development and evicting other competitors. But after the platform attains a dominant role in the market, the subsidies might be cancelled or even set the price higher to implement a monopoly. Price discrimination refers to knowing each consumer's reservation price and charging each of them the exact amount of willingness to pay, reducing the consumer's surplus to zero and making all the surplus belong to producers [5].

The price discrimination of internet platforms has been more convert. Under the premise of maintaining uniform pricing, merchants directly or indirectly discriminate on price by sending targeted push service, email, or window messages to consumers, or by abusing big data analysis results, and real-time price changes, which makes consumers more vulnerable. Because consumers do not share information with each other. Any consumer who does not deliberately seek out another

customer to compare prices, or who places orders through different phones at the same time, has no way of knowing whether the price displayed on the screen between them is a standard "equal" pricing or just "customized" for themselves.

4.3 Exclusive Transaction

Exclusive transaction demands consumers to unconditionally choose between one commodity and the other. Internet platform enterprises require suppliers to 'choose one of the two', such as banning Alipay and only allowing WeChat payment. This seriously hinders fair competition in the market and demolishes the development of innovation, quality, service, and other traditional ways to compete for each firm [6].

The monopoly of internet firms impedes innovation and destroys the atmosphere for companies to develop new products and technologies. Monopoly curbs the innovation process of relatively small competitors and merges those small companies. The range has covered the areas of social networks, catering platforms and search engines, bringing adverse effects on the overall economy. Abusing big data and personal information might threaten public and national security as well.

5. Case Description on Alibaba Abusing its Market Position

5.1 Background

On April 10, 2021, the State Administration for Market Regulation imposed a fine of 18.228 billion yuan on Alibaba (referred to as Ali) for monopoly behavior, which aroused people's attention to the monopoly of the internet platform economy. The case mainly accused Ali of implementing an exclusive transaction, a new economy phenomenon supported by big data, cloud computing and other new technologies. Ali's platform monopoly began as early as 2015, by abusing its dominant market position in e-commerce.

Ali has imposed a binary requirement on platform listings, banning merchants from opening stores and participating in other competing platforms. Through data technology and algorithm technology, Ali ensured the implementation of the exclusive transaction was effective. In 2019 and 2020, Pinduoduo and JD accused Alibaba several times of the exclusive transaction problem. In addition, Freshippo, owned by Alibaba, does not accept cash or other forms of payment to ensure the dominant role of Alipay. In response, the state imposed a 'sky-high' fine on Alibaba, and Ant Financials' launch was suspended.

The anti-monopoly penalty against Alibaba has far-reaching implications for the whole internet industry. In 2021, the State Administration for Market Regulation of China fined Meituan, Baidu, Tencent, Suning, JD and other internet platform companies for abusing their data technology. Shares of those companies witnessed a relevant fall. The monopoly of Ali involves multiple markets and industries, and the platform monopoly causes unfair market and industry competition. Such as price discrimination, stagnant innovation, and welfare loss. In addition, Alibaba's monopolistic behavior also included improper investments, acquisitions and mergers of more than 500 companies [7].

5.2 Management of Internet Platform Monopoly

5.2.1 Monitoring big data

Government agencies should establish a big data monitoring mechanism and set up standardized and reasonable monitoring, reporting, investigating and other processes. Moreover, government agencies should encourage mutual supervision among enterprises and open channels for reporting and impeaching. And set up big data regulatory whitelist, tracking regulatory whitelist enterprises, for violations of the law. Enterprises that disobey regulations and industry norms are blacklisted and will be notified to the public.

The government also establishes a sound incentive mechanism for internet companies to keep their faith and good reputation in using big data. Under equivalent conditions, government open green

channel to support and publish incentive policy to benefit those companies that obey the regulation. In the process of financial subsidies, government procurement, government purchase of services, and government investment project, the credit records of market producers should be checked.

5.2.2 Protect personal information

Government agencies should improve laws and regulations on the protection of personal information. Building a legal framework for the protection of user information is necessary under the current condition of the market economy. With the rapid development of user information protection, the deficiency of relevant laws and regulations has been exposed to the public. A growing number of questions indicate that there are many law details that need to be further developed. In order to better the legal protection and consumer rights and interests, big data development should be the trend of the times, in addition to the development of big data technology.

In addition, society should build an atmosphere to cultivate the concept of consumption right and improve the awareness of protecting personal information among the public. Agencies should improve the law on protection of consumer rights and make it clear how big data should be used reasonably and morally. The application of big data to illegal areas should be banned. As for the relevant regulatory agencies, they should clarify the responsibilities of each department and avoid the problems caused by sectoral segmentation and blame shifting, as well as the lack of response to take actions [8].

5.2.3 Establish the enterprise reputation mechanism

Internet companies all should sign the letter before they enter the market and operate the business. The normative treaties can ensure that there will be no price gouging and fraud during the operation and minimize the interest leakage problem. The information credibility mechanism needs the public and the relevant government departments to cooperate. In addition, consumers can report problems of Internet companies through complaint channels and. Relevant government departments, such as the Ministry of Industry and Information Technology should supervise the operations of Internet companies according to the treaties. At the same time, it should also collect feedback from consumers to evaluate whether the relevant company behaves well or not. Through analyzing the feedback from the public and investigating, the relevant government agencies should evaluate whether the platform is operating legally, if not, the reputation points will be deducted. Making the reputation of each platform transparent to the public and let consumers to decide which platform is worth visiting.

6. Effects on Anti-monopoly on Platform Economy of the Internet

6.1 The punishment of Alibaba

The State Administration for Market Regulation made an administrative and legal decision in accordance with the law, ordering Alibaba to stop its illegal activities and imposed a fine of 18.288 billion yuan and 4% of its 2019 sales in China of 456.712 billion yuan.

Meanwhile, in accordance with the 'Administrative Punishment Law' and with the principle of combining punishment with education, State Administration for Market Regulation issued the "Administrative Instruction" to Alibaba, requiring it to carry out comprehensive rectification and strictly implementing the platform enterprises' main responsibilities. Alibaba should enhance internal control and rectify management, protect the legitimate rights and interests of merchants and consumers, maintain fair competition, on the platform. Alibaba should also submit self-inspection compliance reports to the relevant government agencies for three consecutive years [9].

6.2 Improve of the relevant law

The government should strengthen the accurate definition of the monopoly market of the platform economy and clarify the reasonable degree of data used by platforms from the legal perspective. In addition, many other factors should be taken into account to determine whether a company is abusing

its market position, such as market share, market transaction rate, market correlation degree and the importance of data. The Ministry of Industry and Information Technology should formulate a more detailed website information management system to ensure that platform cannot infringe on users' benefits. It should guide and supervise the important information systems of government departments and key industries in a more standardized way. In the market economy, the price is one of the main means for competition. The government should do its job properly and stop the intervention of improper big data use. Being powerful in market price regulation and supervision can also strengthen the government's macro-economic. Normative competitive market can boost the economy of the overall society [10].

7. Conclusion

This thesis mainly explains the monopoly behavior in the market and how monopoly causes welfare loss through the diagram. The case description shows how internet companies like Alibaba abuse modern internet technology to achieve monopoly behavior and acquire the dominant market position. The main techniques include big data, price discrimination and exclusive transaction. Consequences brought by monopoly are serious, such as hindering innovation, promoting unfair competition and unfair merge. The leak of personal information causes unknown risks to the whole society or even national security issues. So, government intervened and released punishment on Alibaba. Through the case, the thesis shows that monitoring big data is very urgent nowadays and relevant regulations should be reformed to better supervise internet companies. The government departments should cooperate more effectively and efficiently, the company's reputation should be paid more attention to, and their operating process should also be made transparent to the public.

Although the thesis has analyzed the anti-monopoly on platform economy of the internet and the case description on Alibaba abusing its dominant market position, the research still lacks data support and quantization to further study the effectiveness of the suggestions. Mathematical modelling may help to research the topic in a more effective way.

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