



The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

REGIONAL COURSE AND POLICIES

DETERMINATION AND ASSESSMENT OF COMPETITIVENESS OF REGIONAL COMMODITY MARKETS

RAISA KRASAVINA, PH.D.

Assistant Professor
Nizhny Novgorod branch State University

JEL Classifications: R11; **UDC:** 332.142

Key words: Regional commodity market, boundaries of relevant market, concentration ratios, competitiveness factors.

Abstract: The paper observes the structure of regional commodity markets as a relation between competitive and monopoly regulating powers. A method for quantitative evaluation of competitiveness of certain markets depending on factors dominating in the region is proposed.

ISSN: 1804-0527 (online) 1804-0519 (print)

PP. 79-81

Introduction

A regional market is an elaborate, in terms of objects and subjects, system of commodity circulation with a certain degree of territorial location, capacity and structure determined by a specific set of factors of economic space formation.

The relevancy of this definition results from system features of regional markets: integrity, structure, cohesion and hierarchy (Gryaznova and Dumnaya, 2006). In turn, they are related with an issue of setting boundaries of a regional market which constitutes a step-by-step procedure: i) detection of connection between the resource and the territory; ii) determination of the degree of discrepancy between potential and actual boundaries (relevant boundaries); iii) analysis of openness of the market and intensity of interregional connections. In the Russian Federation, where economic and institutional processes on a regional level are not balanced due to significant spread of monopolistic activities, it is especially important for economic and managerial entities.

Identification of competitiveness of regional commodity markets: theoretical aspect

Categorization of regional markets into monopolistic, oligopolistic and deconcentrated markets results from controversial activities of monopolistic and competitive regulating powers. Consequently, certain types and kinds of regional commodity market structures are formed: "monopoly of position" (food products); infrastructural monopoly (transport services); technological monopoly (communication services); monopoly of local governmental authorities (housing maintenance and utilities); limited oligopoly (manufacture of construction materials); oligopoly with a dominating company (preproduction and assembling in machine building); "free" (uncontrolled) competition (agricultural products); "limited" competition (informational products).

The presented multiplicity of the structure of regional commodity markets may have both negative and positive consequences for their functioning.

The following shall be referred to negative consequences:

- circularity /"narrowness"/ of interregional connections;
- deformity of industrial and reproduction structure;
- narrow specialization of manufacturers;
- regional monopolism ("economic egoism").

The following shall be referred to positive consequences:

- different-sized business entities;
- variety of organizational and pricing schemes;
- maintenance of competitive environment.

Quantitative assessment of competitive environment of the regional commodity market

For quantitative assessment of the competitive environment condition of regional commodity market, well-known microeconomic indicators are used: market concentration ratio (CR), Lerner Index (L), Herfindahl-Hirschman Index (HHI).

Each of the indicators has its specific threshold values obtained by analysis of business experience gained. For a regional market of consumer goods, the CR is recommended at the rate of no greater than 45%. For the production means market it should be up to 70% (Kovalenko, 2005). Concentration ratio has limitations in practical reliability due to the fact that it does not illustrate quantitative differences between dominance situations and equal shares. Owing to this, in practical application it is important to perform a numerical comparison of several concentration ratios at the same time: for example, three (CR3) and four (CR4) of leading companies. The Lerner Index describes deforming influence of a monopolist on a regional market relating to ineffective allocation of resources. Its quantitative value varies from 0 to 1.

CHART 1. SYSTEM OF CRITERIA ON DEVELOPMENT OF REGIONAL COMMODITY MARKETS

Factor	Indicators	Measurement	Use as a criterion of RCM development
Resources	Natural conditions	Territory comfort level	By nature and degree of impact on people's lives and business activities
	Natural resources	Location	Profitability of economic activities in comparison with other regions
		Reserves (balance/off-balance)	Possible "long life" of competitive advantages
		Utilization potential	Development of prospective economic and business activities
Demography	Consumers' contingent (structural content)	Allocation of residents by marketing research criteria	Possibility of perspective analysis of volume, intensity and nature of consumers' demand, methods and lines of need initiation
	Social environment ("quality of population")	Stratification on the basis of economic activity and political orientation	Determination of population readiness and its strata to reformation and its rates
Business	Profile (specialization)	Industrial structure and its dynamics	Finding prospective location in territorial labor division
		Primary specialization industries and their: A) percentage share in regional production; B) territorial concentration C) intensity of interregional exchange	Evaluation of capability to effectively produce mass products
	Development of infrastructural industries	Consideration of absolute numbers and ratios, inertia of functioning, functional substitutability of elements	Analysis of capability to provide optimal conditions for production functioning and circulation of commodities, life activities of population; generating impulses of new exploration and integration of the economic space
	Cluster formation	Determination of nature of composition of industries and degree of their mutual attraction on the basis of vertical and horizontal interrelations between entities of different profiles by "demand chains"	Change in quality of the economic situation and formation of competitive advantages by influencing competition dynamics, increasing production efficiency indicators, realization of synergy effect
Institutional	Private property institution and level of its legal protection	Practically efficient measures for support of proprietary rights and a number of successful cases for its legal defense in courts of primary jurisdiction per year	Possibilities to maintain practical business activity
	Correlation of companies of different types of ownership and legal organizational forms	Determination of institutional structure of the production sector	Determination of efficiency /expediency of functioning of certain business entities of these particular legal organizational forms
	"Transparency" of commodity circulation channels, informational and financial flows	Existence and intensity of activity of informal organizational structures and schemes; number of violations of customs and tax laws per year	Detection of existence of organized and non-organized markets, their correlation and possibility of legalization of activities
	Small business development	Parameters of a small form sector in the region: efficiency and productivity indicators	Maintenance of an appropriate level of competition, possibility to occupy market niches, satisfaction of diversity of consumers' demand
	Effectiveness of functioning of regional regulatory authorities	Number of anti-monopoly claims reviewed	Examination of subjectivity, strength and direction of deforming actions and influences
	Bureaucratic procedures	Determination of "volume" and length	Setting non-economic barriers for regional commodity markets, possibilities to reduce such barriers

The Herfindahl-Hirschman Index allows overcoming disadvantages of concentration ratios and captures the difference between concentration levels on the markets with an equal number of companies. This discovers a dominating company in the market structure which makes the market less competitive. Maximum HHI = 10 000 (in case of "pure" monopoly). If HHI is greater than 1800, the market is deemed strongly monopolized.

On regional markets in the Russian Federation, we observe a discrepant situation which, by its structure, is closed to the structure of a monopolistic type with the relevant actions relating to pricing and commodity circulation.

The Nizhny Novgorod Administration of the Federal Anti-Monopoly Service (NA FAS) annually carries out analysis of 50 and monitoring of 300 commodity markets. Among highly-concentrated (by CR3 criterion) commodity markets of the Nizhny Novgorod region are: bread elevator market; car distribution market (taking into account products of OJSC "GAZ"); hydrocarbon gas market; secondary and domestic waste collection, removal and burial market. Moderately concentrated commodity markets are: cellular communication, oil products distribution - wholesale and retail, services markets (outdoor advertising, television, radio). Among highly concentrated financial markets are: medical insurance, non-governmental pension funds, mortgage lending and brokerage services. Moderately concentrated financial markets are: compulsory civil liability motor-vehicle insurance (OSAGO) and consumer lending. Such state of the markets illustrates absence of economic incentives of monopolies for intensive business conducts and leads to price aggression (Business Portal, 2009).

For comparison, let us consider the data on markets situation in Saint-Petersburg. Markets of sausage products, prefabricated meat products and canned meat products there can be deemed moderately concentrated (CR3 = 46 - 56,6); market of dairy products is highly concentrated (CR3=73); retail and wholesale pharmaceutical markets is low concentrated (CR3= 15, HHI=180) and (CR3=44,4 , HHI = 970) respectively. Moreover, it is necessary to take into account illegal monopolistic actions deforming actual market structure. For instance, motor fuel market is formally low concentrated but if one considers commodity distribution network above the retail level, it turns out to be an absolute monopoly of one wholesale supplier which is noted in the FAS claim against the major players in the oil products market ("Rosneft", "LUKoil", "Gazprom Oil", "TNK-BP).

Conclusion

As a result, competitiveness of the regional commodity market may be determined as readiness to respond (adequately or in advance) to the demand of different territorial localization.

Competitiveness unites features of the "sets": influencing factors; subjects; elements of the market mechanism.

All of the above are "projected" to this territory but may be located and act beyond its borders.

Therefore, a critical price situation on the regional commodity markets refers not to accidental monopolistic actions but to quite regular processes of opposition to monopoly and competition when fixed ceilings of monopoly prices and profits may not be lowered by objective market transformations.

References

- Competitive advantages as a precondition for regional development, <http://dvo.sut.ru/libr/history/i299mez2/7.htm>
- Development strategy for the Nizhny Novgorod region until 2020, www.government.nnov.ru
- Gryaznova, A., Dumnaya, N. (Eds.), 2006. Microeconomics. Theory and Russian practice: textbook, M.: KNORUS.
- Kovalenko, E., 2005. Regional economics and management: educational guidance, SPb.: Piter.
- Nizhny Novgorod region (special project), 2007. Expert Volga, No7, February.
- Porter, M., 2000. Competition: educational guidance, M.: Publishing house "Williams".
- Porter, M., 2006. Competitive strategy: Method of analysis of industries and competitors, M.: Alpina Business Book.
- State of competitive environment in regional markets of Saint-Petersburg and demonopolization program, <http://www.4p.ru/main/research/4254/>
- Yusupov, K., 2006. Regional economics: educational guidance, M.: KNORUS.