

Impact of Market Structure on Regulatory Enforcement: Evidence from Online Censorship in China

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Abstract

This paper studies the role of market structure in regulatory enforcement through a unique empirical example: censorship via content removal by three major live-streaming platforms in China. Adopting an event study approach, this paper shows that platforms of different sizes censor a different number of keywords with notably different delays and their traffic declines after censorship. This paper then develops a model where the platform's profit depends on its own censorship action as well as that of its competitors, induced by the switching behavior of users with heterogeneous preferences for censorship. By complying with the government's censorship request, platforms may lose users who prefer to evade censorship by switching out. By not censoring, platforms incur a cost imposed by the government that is positively correlated with their sizes, but it also allows them to attract new users from their competitors that do censor. The model predicts that when the political pressure is sufficiently high and platforms are of similar size, they are less likely to censor as the number of competitors increases. If platforms are highly asymmetric in size, small platforms have strong incentives to differentiate themselves from their big competitors by not censoring, while big platforms find it costly not to censor. When the market becomes more concentrated, the behavior of big platforms dominates and as a result, users experience more censorship.

Keywords : Censorship, strategic interaction, market concentration, event study

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