

Title: Spillover Effects of Opening a Market: A Study of the Indian Cellphone and Wireless Service Markets

Abstract:

This paper highlights and quantifies a new channel through which opening a market to international competition can benefit domestic firms. In this channel, the presence of international firms in an open market helps the development of a complementary market (a cross-market spillover effect), which, in turn, benefits domestic firms in the open market (a within-market spillover effect). Our context is the Indian mobile industry during the 4G rollout. The industry consists of the handset market, which is open to international competition, and the complementary wireless service market. Using a detailed dataset on these two markets, we estimate a structural model of consumer demand, carriers' 4G network expansions, and handset firms' product choices. Our estimates yield four findings that support the spillover effects. Using counterfactual simulations, we quantify both the within-market and cross-market spillover effects.