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ANALYSIS ECONOMY

Insights Into India's Market Evolution: Oligopoly's Growing Influence

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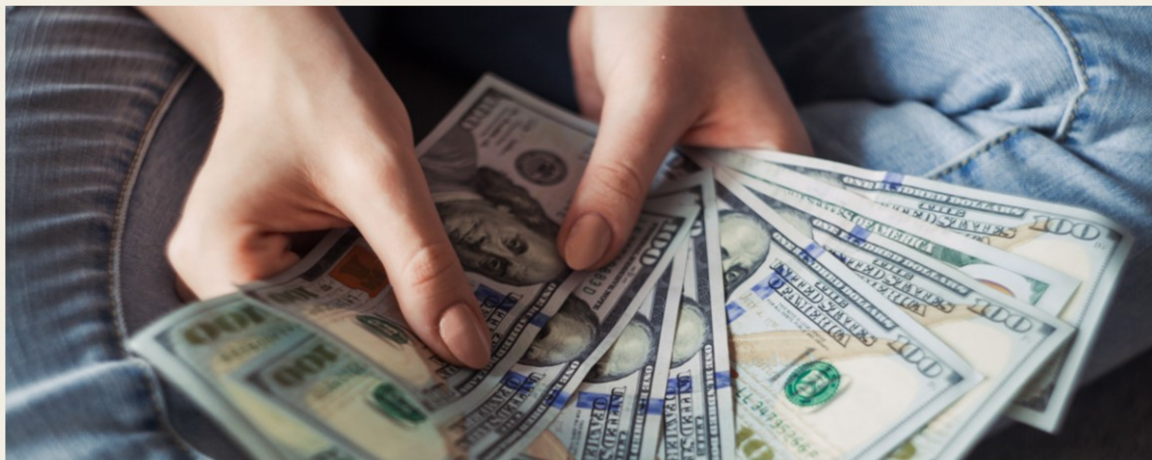
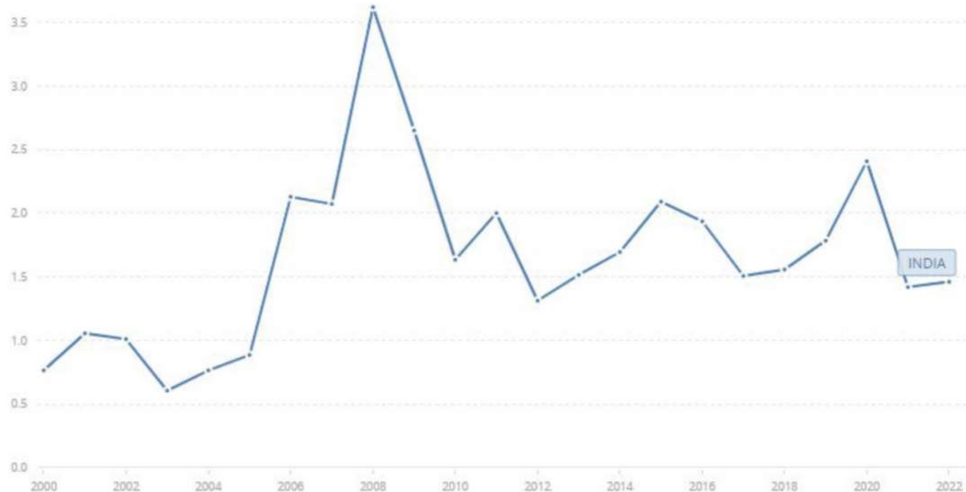


A serious dichotomy is now visible in the prevailing narrative that India is one of the most attractive destinations for global investors and the fact that the Foreign Direct Investment (FDI) is falling sharply as a ratio of Gross Domestic Product (GDP). Is this happening because global companies are apprehensive about India's economic policy increasingly geared towards protecting domestic oligopolies as part of its *aatmanirbhar* (self reliance) policies? This aspect needs closer scrutiny.

India's GDP is currently growing in excess of 7 plus%, while inflation has receded to below the 6% mark. Furthermore, the Current Account Deficit (CAD) stands at a modest 1.2% of GDP. Amidst the backdrop of global turmoil marked by conflicts in regions like Russia and the Middle East, alongside political instability in Pakistan, and economic downturn in Northern Europe and China, there are reasons to laud India's reselient growth. The Indian growth narrative is gaining widespread recognition and proving fruitful, largely owing to the synergistic convergence of Jan Dhan, Aadhaar, and mobile (JAM). This convergence has significantly enhanced accessibility to services and economic opportunities, complementing India's overall economic development.

However, a puzzle within this growth narrative is the declining FDI as a percentage of GDP. Despite the apparent strength and attractiveness of the Indian economy, the decrease in the FDI rate raises questions.



Source: World Bank (2024). Available at: https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2022&locations=IN&start=2000

Foreign Direct Investment, Net Inflows (% of GDP), India.

A key factor contributing to the decline in FDI could be attributed to government policies, including import restrictions, discriminatory practices against foreign firms, and erratic policy changes and tax treatments. This has led to some of the major technology advanced foreign firms shying away from investing in India. For example, Taiwan based Foxconn Technology Group pulled out of a deal with Vedanta to jointly manufacture semiconductor in India. Sony, Japan also snapped ties with Zee Entertainment, scrapping the much hyped $10 billion deals. Tesla is stilling toying with the idea whether to start manufacturing in India. Vodafone has announced its decision to cease further business operations in India. Critics argue the big conglomerates in India do not want Indian companies to be taken over by the foreign corporations.

Over the last one decade India is witnessing the emergence of oligopolistic market structure. Oligopoly, characterised by a few large firms dominating an industry, has become increasingly prevalent across several sectors in India, including aviation, gas and energy, infrastructure, telecommunication, banking, retail, media, and automotive.

The emergence of a few dominant players, especially in the presence of weak institutions like a monopoly regulating authority and with government favouring large industry players may lead to price rises that adversely affect consumers. This may be the case happening with India.

Fast growth in India has led to the formalisation of economic activities. But formalisation of economic activities in India also allowed the emergence of bigger businesses which may form cartels and start charging higher prices. They can create entry barriers for efficient smaller and marginal players by hoarding or limiting access to scarce resources through political funding. The bigger players have access to massive capital investment, advanced technology, and extensive distribution networks which is outside the reach of the smaller players.

However, the survival of small and medium enterprises (SMEs) is crucial for job creation and sustaining mass consumption. SMEs produce goods which are typically consumed by low and middle-income households with a higher marginal propensity to consume. They have a presence in day-to-day life, ranging from baby foods and biscuits, medicines, education, healthcare to hotels and travel.

The consequences of oligopolistic market structures in India are mixed. In some sectors such as the paint industry and electronic items like TVs and refrigerators, the price increases have been relatively lower. However, that is not true for sectors such as telecommunication, healthcare, media and entertainment, education, and aviation.

For example, over the last three years, entry level telecom tariffs have increased 340% from Rs 35 to Rs 155. Air fares shot up after Go First was grounded. The cost of digital TV recharge has also increased three folds over the last five years.

The costs of healthcare and education in India, most of which have to be borne privately, are also on the rise. As per the latest household social consumption data (NSS 75th Round), only 4% of the rural population and 19% of the urban population reported that they had health expenditure coverage. According to the Economic Survey 2022-23, almost half of all medical expense is still borne by patients.

A recent study finds that drug prices and the profitability of domestic pharmaceutical firms have grown post-Covid. The cumulative wealth of pharma billionaires doubled after 2018, and 15 of India's top 100 billionaires are from the sector. This study covered data from six pharma and diagnostics companies, and demonstrated a spike in overall profit and revenues between 2011 and 2021.

In education, too, there's a similar story. As per a survey conducted by *ET Online* research, educating a child from age three to 17 costs around Rs 30 lakh; a four-year B Tech or a three-year BSc costs Rs 4-20 lakh; and a five-and-half-year MBBS degree can cost up to Rs 1 crore.

In fact, trends indicate that Indian policymakers are encouraging emergence of big domestic manufacturing corporates by implementing measures such as raising import barriers, employing discriminatory practices against foreign companies, and making arbitrary policy changes and enforcement actions, particularly in the realm of taxes.

Drawing from China's experience, it's evident that technology plays a pivotal role in propelling any nation to the forefront of manufacturing. However, adopting a more protectionist stance in the Indian market could potentially impede efficient manufacturing processes and hinder job creation.

While measures like the Competition Law Amendment Bill may address pricing concerns stemming from an oligopolistic industry structure, fostering an environment conducive to attracting technologically advanced foreign manufacturers is essential for generating manufacturing jobs in India. Thus, Indian policymakers should not hesitate to prioritise the creation of such a business environment.

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