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40TH SKOCH SUMMIT, JUNE 12, 2015

'THE ROLE OF COMPETITION IN A GROWING ECONOMY'

INTRODUCTION: THE GROWTH IMPERATIVE

1. It is indeed a pleasure to be here at this Summit, which marks two momentous events – 140 years of the Bombay Stock Exchange and 10 years of listing of the Yes Bank. Let me, at the outset, compliment the SKOCH Group for organizing this Summit and focussing on "**Making India a $20 Trillion Economy".** Ambitious indeed; inspirational to trigger that ambition.

2. Friends, growth arguably is the central policy concern across nations today. How to fire up the national growth engines amidst the persistent global economic malaise is a pressing question before policymakers all over the world. In so far as we are concerned, India's economic outlook has somewhat improved over the past year. The recent macroeconomic numbers have imbued optimism for an impending recovery. But the challenge at this juncture is not just to regain the lost momentum, but to create conditions for a growth that is sustainable over the next 15 to 20 years; to make sure that our growth narrative is not punctuated with frequent disruptions owing to domestic structural constraints.

3. The nineteenth century belonged to Europe; the twentieth century to America. We are told that the century we now live in will be dominated by Asia. Some years ago the focus in Asia was on the so-called East Asian Tigers – Japan, South Korea, Singapore, Taiwan. Today much attention is being paid to the emergence as global players of the world's two most populous countries, China and India. Driven by robust demand, the economic and technological surge of these two countries has caused a great deal of admiration – and perhaps an equal amount of alarm – in the West.

4. The Asian century concept has so far largely focused on the economic realm. It talks of rising national incomes, rising share of world trade of its countries, the growing numbers of billionaires etc.

5. It is in this backdrop that analysts and policy-makers have been talking of a $20 trillion Indian economy in, say, 15 years from now. Aspirational goals are necessary to usher a spirit of "will do"; however, setting goals is not enough. A large and complicated matrix of macro and micro economic policies and effective implementation strategies have to be worked to achieve that goal.

6. As a small part of the big picture, I will share with you my thoughts on "The Role of Competition in a Growing Economy".

COMPETITION FOR GROWTH

7. Ladies and Gentlemen, several factors in combination drive economic growth. The crucial ones are productivity and innovation, which have close linkages with competition. It is the "invisible hand" of competition that steers markets towards efficient equilibriums. As economic theory shows, competition acts as a disciplining device for businesses to be more efficient in their use of resources leading to lower costs, lower prices, and higher output. This effect is further enhanced with competition reallocating market shares from low to high productivity firms. It is competition that makes sure that over time only the most productive firms survive, making the entire sector and the economy more productive. This is not mere theory. Australia which conducted an extensive 'Competition impact Assessment' in the mid-1990's found about 1800 instances of competitive distortions. Removal of such distortions eventually allowed the economy to grow by 5.5% and consumers benefitted annually by A$ 9 billion.

8. Without competition there is usually no need to innovate. At best, a monopolist would, so to speak, be using costly innovation to out-compete its own existing products. Competition creates the best incentives for innovation that brings about dynamic efficiency.

9. As a corollary, the strength of competition is also likely to influence a country's competitiveness. In this globalised world it is not possible for a nation to achieve its full economic potential if it is not able to compete globally. Competitiveness of a country is the key to unlock its way into international trade as well as in attracting foreign investment.

10. There is now important empirical evidence that competition contributes to growth in developed countries. Research in developing countries has also shown the importance of this link. The remarkable shift in the India growth story from the so-called 'Hindu rate' in the pre-reform era to the 'golden growth period' post 2000 itself is a testament to the kind of growth potential that competition may unleash.

11. India's industrial policy today is a far cry from the pre-1991 era characterized by static miss-allocation of resources - resulting in a dynamically inefficient system in so far as it impeded innovation, technical change and growth. The virtually unconditional protection provided to domestic industry, together with the other aspects of the licensing regime, fostered a high cost industrial structure that was inefficient in utilization of resources and unable to compete internationally. The spectrum of reforms, which altered the economic architecture of our country, was designed to increase market contestability with the presumption that it would increase competitiveness of Indian industry and contribute to the overall economic growth. What followed was a

fascinating story of unprecedented business dynamism and high economic growth.

COMPETITION LAW REGIME

12. This is not to say that liberalised markets can be presumed to be competitive *per se*. They can still be fraught with distortions caused by vested interest groups, large monopolistic firms or groups of firms in concert. Such distortions break the link between liberalised markets and the productivity and innovation gains that they are believed to yield. Hence the need for a robust competition law and policy.

13. Interestingly, with the channels of interaction between competition and economy getting uncovered, the two seemingly divergent disciplines of competition law and development economics are finding common ground. Developing countries now form the majority of jurisdictions that have enacted competition law statutes.

14. The Indian competition law regime is governed by the Competition Act 2002 which was enacted in 2003, amended in 2007 and made fully operational in 2011. The Preamble of the Act institutes the Competition Commission of India in view of *'economic development of the country'*. This is a rather unique and unambiguous endorsement of the link between the micro functioning of individual markets and the larger development imperatives of the country. This is also to affirm that competition is not an end in itself, but a means to achieve greater economic goals.

15. The mandate of the Commission, as enshrined in the Preamble of the Act, is (a) to prevent practices having adverse effect on competition, (b) to promote and sustain competition in markets, (c) to protect the interests of consumers and (d) to ensure freedom of trade carried on by other participants in markets. Clearly, the Commission's intervention in markets is not to protect individual competitors or incumbents but to protect competition as a process. The Act is ownership neutral and is applicable to government, private, Indian and foreign enterprises alike. It also marks a departure from structural to behavioural framework of decision making.

16. In the short span of six years, the Commission has reviewed over 600 cases pertaining to anti-competitive agreements and abuse of dominance in diverse sectors such as stock exchange, infrastructure, travel, automobile, real estate, pharmaceuticals, entertainment etc. and imposed penalties on the erring enterprises.

17. Across the world mergers and acquisitions remains a key strategic tool to drive growth, build scale and enhance efficiency. Not only that, they can bring about new products and processes and these, in turn, may trigger fresh rivalry with competing firms. As the institution responsible for regulation of mergers and acquisitions from the competition perspective, the Commission is committed to ensure that companies can effectively benefit from M&As where they do not undermine the functioning of

markets. During the period of June 1, 2011 to date, the Commission has received more than 282 M&A filings, most of which have been cleared by the Commission within a period of 30 days.

CHALLENGES AND THE WAY FORWARD

18. There is no empirical evidence as yet in the Indian context that the self-correcting mechanism of the market is sufficient to wipe off supra normal profit or that competition is deeply entrenched in all the sectors of the economy. Post-liberalization, corporate dynamism has come to stay but there are indications that entry is slow and some sectors of the Indian economy are still more concentrated than what efficient outcomes would warrant. Clearly, there is a need to identify the types of firms and sectors that have relatively high permanent rents, and the speed of erosion of these rents, the underlying reasons - in order to guide competition policy.

19. Promotion of business dynamism also requires both corporate governance and competition compliance programmes. It is only when such supply side responses are well entrenched in the business community that competitive capitalism can be harnessed and become the engine of India's structural change and growth.

20. Ladies and gentlemen, let me now move from generalisations to **three areas** where competition can play a catalytic role in unlocking growth potential for the whole economy. **First, Public Procurement**. Public

procurement accounts for a significant proportion of GDP in India. Major departments like defence, railway, power telecom and aviation spend about 50 per cent of their budget on procurement. This expenditure is higher than the expenditure of most of the State Governments. Liberalization of the procurement markets, through the elimination of needless and unfair restrictions on the competing suppliers, will result in value for money. The findings of an OECD survey suggest that savings to public treasuries between 17% and 43% have been achieved in some developing countries through the implementation of transparent and competitive government procurement regimes. This can help augment governments' ability to invest in social and physical infrastructure.

21. **Second, Infrastructure.** Many of the critical infrastructure sectors in India are under producing due to lack of competition. The worst hit due to lack of competition is the power sector. The control of distribution infrastructure i.e. the wires by a monopolist gives rise to access issues for generating companies and traders at the retail supply level. Managing such infrastructure in an openly accessible manner permits a wide range of producers of private, public and non-market goods to flourish. It is indeed difficult to convince a monopolist to share her assets in distribution as she enjoys the dual role of network operator and of a retail distribution licensee. This conflict of interest requires to be removed by separating carriage from content.

22. **Third, Services Sector.** The growth trajectory of the Indian economy has leap-froged from the Primary Sector (Agriculture) to services. More than 55% share of the GDP is now contributed by services. It also provides employment to a vast multitude. However, many services both in India and in other countries tend to be somewhat closed. Consequently, the business community and professionals are denied full advantage of competitive pressures. There is clearly a case for constraints to be lifted which will work to the advantage of users both in terms of quality and cost.

POST-LIBERALISATION : ROLE OF THE STATE?

23. Ladies and gentlemen, post-liberalisation and with a more market-centric economy, where is the State placed? Planning was the mantra of Economic Policy-making in the 1950's and 60's. This was replaced by "Liberalisation" post-1991. But does liberalisation mean that the State ceases to play an important role? No. On the contrary, the demands on the State increase in so far as the policy architecture is concerned.

24. What are the critical deliverables for the State/government by way of an enabling environment to build a $20 trillion economy? First and foremost is the imperative to develop effective and credible institutions. We need an economic governance ecosystem of a kind different from what has been in place in a controlled economy.

25. Second, the State is duty-bound to enforce the Rule of Law. This requires equality of treatment without discrimination. One person pays her taxes and the other evades with impunity. Not acceptable. One enterprise is penalised for a violation of the law and another similarly placed entity is let off. Not acceptable.

26. Third, entry barriers have to be removed save for those activities which are in the negative list for genuine public policy reasons. This approach will help provide a level playing field and benefit the end consumers also.

27. Fourth, contract enforcement is crucial for a business-friendly regime. We are not rated high on this score and this is clearly an area on which the State, in conjunction with other stakeholders, has to deliver.

28. Lastly, the overall framework of 'ease of doing business in India' is crucial. Mere lip-service will not suffice. Concrete steps to improve the perception of the country on this count would be a pre-requisite for taking the economy to the $20 trillion threshold.

Thank you, Ladies and Gentlemen.