

# Free markets may not create competition on their own, says CEA

'Morality, ethics should undergird free-market economy'

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Free markets do not necessarily create a competitive environment, and it is the responsibility of competition agencies and regulatory authorities to ensure such conditions, Chief Economic Advisor (CEA) V Anantha Nageswaran said on Friday. He said the implementation of certain regulations could

perpetuate existing market dominance and sometimes end up harming new entrants.

“Regulators must not hesitate to intervene in order to keep markets free from entry

barriers,” Nageswaran said while addressing a conference organised by the Competition Commission of India. “Competition unleashes the true potential of an economy and helps break free from the status quo... Free markets on their own may not guarantee the benefits of competition,” he said, adding that “morality and ethics should undergird a free-market economy”.

The CEA's remarks come in the backdrop of a new digital competition law, which is being discussed by an inter-ministerial panel to ensure there is no abuse of dominance by big-tech players.

In the technology space for instance, he said, regulators implement data and privacy norms that guarantee users complete access to their data, but users can end up choosing only large players since they place a greater degree of trust in them.

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**“REGULATORS MUST NOT HESITATE TO INTERVENE TO KEEP MARKETS FREE FROM ENTRY BARRIERS”**

**V Anantha Nageswaran, Chief Economic Advisor**

exports go to Africa, and Nigeria is a major destination, where big Indian drug companies like Sun Pharmaceutical have a manufacturing presence, and it is among the top 10 consumer healthcare companies there.

## Consumer goods

Consumer companies like Godrej and Dabur, too, have significant exposure to Nigeria. "Godrej Consumer sees 30 per cent of its revenue come from Africa, as a result, the impact of Nigeria's demonetisation will be felt. It sees approximately 7-8 per cent of its consolidated revenue come from Nigeria. In this quarter, Godrej Consumer Products will see a meaningful impact due to the demonetisation," said Vishal Gutka, vice-president of research (consumer and retail sector), Phillip Capital India. He added that other companies don't have significant exposure to the country.

"As it happened in India, there will be some impact on consumption patterns due to demonetisation in Nigeria. However, we believe that consumption trends will normalise over the next few months. There are very few Indian consumer companies with exposure to Nigeria and we do not see a significant impact on Indian consumer companies" said Sachin Bobade, vice-president, Dolat Capital.

Dabur India and Godrej Consumer Products did not respond to *Business Standard's* emails.

## CEA...

"This will ultimately lead to loss of competition across similar platforms, concentrating power in the hands of a few...Competition agencies should be mindful of the unintended consequences of their action," he said.

The CEA also said excess competition could be undesirable in sectors such as banking, insurance, and securities, as it could create instability in these sectors. He said banking and financial services sectors were subject to norms that promoted competition among existing firms to keep interest rates fair and prevent market dominance by big institutions.

Nageswaran said regulators were often hesitant to intervene in markets.

"It is not just about prices remaining competitive or displacing monopolies, competition agencies and regulators also have to keep one eye on the systemic welfare that the markets create or do not create."

He also stressed the scope of cooperation between regulatory authorities and competition agencies "Regulators and competitive agencies must mutually agree upon ex-ante and ex-post actions and balance the two to avoid producing outcomes that work against the action that either agency takes," he said.

Nageswaran said competition agencies must remember that they were in "forever competition" with companies and markets.

Drawing comparison with international markets such as the US, Nageswaran said telecom, digital services, health, and pharmaceuticals sectors in the US had displayed a failure of the ability of free-market enterprises to create a genuinely competitive setting as posited by theory.

## Markets...

The expansion of the services sector also aided sentiment. The S&P Global India Services Purchasing Managers' Index rose from 57.2 in January to 59.4 in February, its highest since February 2011.

"The market had more reasons to cheer today than to worry about concerns regarding inflation. PSU Banks led the sectoral rally as reports of foreign investments in Adani stocks helped the sector in recouping the dampened sentiments. The sentiment was further lifted by FIIs turning strong buyers. Positive global sentiments also played a vital role in uplifting the market, as a Fed official commented on a favourable level of a rate hike in the next meeting," said Vinod Nair, head of research, Geojit Financial Services. All Adani group stocks rose on Friday, with flagship Adani Enterprises gaining the most at 17 per cent.

Foreign Portfolio Investors bought shares worth ₹246 crore, provisional data from the exchanges revealed. The market breadth was positive with 2,146 stocks advancing and 1,370 stocks declining. Four-fifths of the

