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## Global Forum on Competition

### COMPETITION AND POVERTY REDUCTION

#### Contribution from India

-- Session I --

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## COMPETITION AND POVERTY REDUCTION

-- India\* --

### Executive Summary

The paper primarily focuses on competition as an anti-poverty approach in poverty reduction. The paper discusses broadly the causes and historical review of poverty trends in India. The paper further elaborates the impact of liberalization policies and economic reforms in poverty reduction since 1990's and emphasizes how competition affects markets of essential items through innovation and productivity. The paper also discusses the role of competition advocacy and competition effect on poor, entrepreneurs and job seekers. Finally the paper highlights the significance of competition as an engine of growth and approach of competition policy towards poverty reduction in India.

### 1. Introduction

1. Poverty is one of the biggest challenges today for the developing countries including India. The causes of poverty are diverse and issues are continuously debated and discussed nationally and internationally.

2. In India, the problem is more acute as the situation has been aggravated by high density of population, poor land-man ratio and high unemployment rate. Poor performance by the agriculture and the allied sector coupled with poor absorption of labour force by industrial sector has further deteriorated the situation.

3. Over last few decades, in India, several programs were initiated to curb poverty and positive results in poverty reduction have been achieved. Further, significant improvement has been observed across human development indicators such as literacy, life expectancy, education and healthcare. India's economy has grown steadily over the decades as a result of implementation of several economic policies, including competition policy with an aim to enhance consumer welfare and reducing poverty levels.

4. Like other economic policies, competition policy has also complex inter-relationships with poverty. Greater competition leads to well-functioning competitive markets, and promotes innovation, productivity and growth. All these factors positively affect reduction of poverty and generate employment and prosperity. Role of competition agencies also becomes extremely important in the context when rising prices have an adverse impact on the poor. Higher prices arising from the anticompetitive practices such as cartels have a greater impact on poor in comparison to other sections of the society as their access to essential goods and services is severely reduced.

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\* The views expressed in the document have been researched and analyzed by the officers of the Competition Commission of India and do not necessarily represent the views of Government of India.

5. This paper explores how competition policies along with other economic policies make impact on poor people in India. Effective regulation and competition make the functioning of markets efficient and aim to provide cheaper prices of essential items to poor. The paper will discuss the significance of competition policy as a government instrument in eradication of the poverty and enhancement of consumer welfare.

## 2. Poverty in India

6. According to the World Bank, India has the one- third of the world's total poor. A total number of 32.7% of the total Indian people fall below the international poverty line of US\$ 1.25 per day (PPP).<sup>1</sup> Poverty line is an economic benchmark used by the Government of India to indicate economic disadvantage and to identify individuals and households in need of government assistance and aid. In India, the Planning Commission calculates the poverty estimates and poverty line. Recently, on the basis of Tendulkar Committee Report, the Planning Commission has reduced the poverty line to Rs. 28.65 per capita daily consumption in cities and Rs. 22.42 in rural areas, scaling down India's poverty ratio to 29.8 per cent in 2009-10. In India, an individual above a monthly consumption of Rs. 859.6 in urban areas and Rs. 672.8 in rural areas is not considered as poor.<sup>2</sup>

### 2.1 *Recent Poverty Trends: Key Findings of the Tendulkar Committee Report, 2012:*<sup>3</sup>

7. The Tendulkar Committee has prepared a final report on poverty estimates. Head count ratio (HCR) has been calculated using urban and poverty lines and the aggregated BPL population of the states has been used to obtain the final all-India HCR (Head Count Ratio) and poverty lines in rural and urban areas. Some of the major findings of the report were:

- There was a decline of 7.3 percentage points in the all-India HCR from 37.2% in 2004-05 to 29.8% in 2009-10. Rural poverty declined by 8.0% points from 41.8% to 33.8% and urban poverty declined by 4.8% points from 25.7% to 20.9%.
- In rural areas, approximately 50% of agricultural labourers and 40% of other labourers were below the poverty line, whereas in urban areas, the poverty ratio was 47.1% for casual labourers. Regular wage/ salaried employment have the lowest proportion of poor. In the agriculturally prosperous state of Haryana, 55.9% agricultural labourers are poor, whereas in Punjab it is 35.6%.

8. The above data clearly indicates the significant reduction in poverty levels in India. Even though the total overall poverty in India has declined, it is also pertinent that the extent of poverty reduction is often debated in India.

### 2.2 *Causes and Historical Review of Poverty*

9. Poverty is caused by many factors such as illiteracy, population growth (against low economic growth), high growth rate of unemployment etc. Gender, literacy, land-ownership, employment status, religion and caste are also closely linked with poverty. After Independence, many initiatives have been taken by the Government of India to curb poverty. Subsidies in the essential items (food, water, energy etc.), access to loans to farmers and poor, better techniques in agriculture and irrigation, education

<sup>1</sup> Poverty Data, World Bank, [www.data.worldbank.org/country/india](http://www.data.worldbank.org/country/india) .

<sup>2</sup> 2012, Tendulkar Committee Report.

<sup>3</sup> 2012, March Poverty Estimates for 2009-10, Press Information Bureau, Government of India

programmes, protection and growth of labour intensive industries, price support, and family planning were the important measures taken by the Government since 1950. Government of India also introduced a number of planning schemes to provide food and essential items at subsidized and controlled prices.

10. However, despite many efforts during 1950's to 1980's, poverty reduction did not show much progress. In 1951-52, the first year of the National Sample Survey (NSS), the head-count ratio of poverty in India was close to 45 percent of the population. Even after 30 years in 1983, the poverty ratio stayed "constant" at 43 percent.<sup>4</sup> However, since then, there has been a sharp fall in poverty with the level for 1999-2000 being "close" to 26 percent. The number of poor declined to 260 million in 1999 due to reduction of poverty ratio by 10 % in 1993 -1999 significantly.<sup>5</sup> It clearly signifies that economic reforms have made a positive impact on high economic growth, poverty reduction and unemployment. Undeniably, economic reforms have contributed significantly in culminating absolute poverty levels.

### 2.3 *Poverty and Liberalization*

11. Liberalization was one of the major economic reforms made by India in 1991. In his Budget Speech, the then Finance Minister India, Dr Manmohan Singh said, "*It is essential to increase the degree of competition between firms in the domestic market so that there are adequate incentives for raising productivity, improving efficiency and reducing costs*".<sup>6</sup>

12. India undertook a number of reforms in different sectors of the economy including reduction in tariff barriers, opening foreign investment , technology advancement, removal of control in financial sector, tax structure etc. Many controls on trade and industry were removed to foster competition, efficiency and productivity in all major sectors of the economy. Indian economy was opened to competition from within and abroad. The two central components of these economic reforms were the liberalization of India's private sector and the reforms of the public sector. As a result, India made a significant economic growth in various segments of economy e.g. telecommunications, civil aviation, transport, manufacturing etc. Apart from achieving higher economic growth, India also witnessed reduction in poverty and malnutrition during the period. Other economic indicators, where major improvements were noticed were literacy rate, employment growth, inflation, balance of payments, factor mobility etc.<sup>7</sup> The poverty ratio (percentage of total people living below poverty line) went down to 26.8% and the World Bank cited the economic growth as the most important factor for poverty reduction in 1990's.<sup>8</sup>

13. The economic growth and the rapid industrialization during the economic reforms led to much higher investments, which paved the way for the entry of private players and simultaneously accelerated the employment generation. Per capita income went up and India emerged as a vibrant and dynamic economy as 60 million people escaped from the poverty trap.<sup>9</sup>

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<sup>4</sup> 2006, Arvind Virmani, Working Paper, Poverty and Hunger in India, Planning Commission

<sup>5</sup> Poverty and Poverty Dynamics in India: Estimates, Determinants and Policy Responses Aasha Kapur Mehta and Shashanka Bhide (2012).

<sup>6</sup> Prime Minister, Mr Manmohan Singh (1991, the then Finance Minister's speech).

<sup>7</sup> 2006, Arvind Virmani, Working Paper, Poverty and Hunger in India, Planning Commission.

<sup>8</sup> The World Bank, "India: Sustaining Reform, Reducing Poverty", The World Bank, "World Development Report 2002: Building Institutions for Markets.

<sup>9</sup> A. Shah and Aisha Kaptur Mehta, "Chronic Poverty in India: Incidence, Causes and Policies,"

### 3. Poverty and Competition

14. Since independence, India continues to pursue the strategy of planned economic development with the objective to promote social and economic advancement. The planned development was the means for growth in agriculture as well as technological advancement in industrial sector. Industrial Policy Resolution 1956 which suggested the emphasis on heavy industries, led to significant growth in the development of public sector.<sup>10</sup> Nevertheless, a high concentration of economic power was found by MIC in 85% of the industries in India. Monopolies and Restrictive Trade practices Act, 1969 (MRTP Act) was enacted to check the level of concentration of Industries. Industrial Policy statement in 1980s stressed the competition in domestic market, technological up-gradation and modernization. Nevertheless, evolution of the industry along with rapid industrialization also witnessed the growth of anticompetitive practices in different sectors of economy. A competitive regime became the need of hour to curb such practices along with ensuring the protection of interest of consumers as well as enterprises. In 1999, Government announced the appointment of Raghavan Committee and the MRTP Act was replaced by the Competition Act, 2002.<sup>11</sup>

15. It is internationally understood that competition fosters productivity. The objective to enhance productivity forces the market players to innovate and optimize efficiency, leading to supply of better quality and competitively priced products, which ultimately benefit the poor.

16. Competition is also closely linked with public procurement programmes. In India, public procurement accounts for 20-30% of the total GDP. Bid-rigging in public procurement can cause serious economic harm. It increases prices artificially and lowers quality, leading to loss of taxpayers' money. Inefficient procurements have a detrimental impact on the quality of key public infrastructure and services and hurt the interests of the poor largely relying on public provision. If procurement process would be implemented in a competitive manner, in view of the huge public expenditure on procurement, achievement of a meagre 5 per cent decline in procurement prices by infusing competition in public procurement has potential of saving huge amount of public resources. This would help in avoiding wastage of public money and curbing fiscal deficit. In addition, this will contribute to better allocation of resources towards development needs and poverty reduction programmes apart from improving's access to good quality public goods and services.

### 4. Competition's effect on markets for essential items

17. This section emphasizes how competition affects markets for essential goods and services. It further elaborates what role competition policy could play in making the provision of essential goods and services more efficient.

18. Competition drives markets towards achieving optimum efficiency and results in cheaper prices of the essential items. In the present context, the "essential items" means those goods or services which are acquired primarily for personal, family or household purposes, such as a food, water or petroleum products such as gasoline, fuel or services such as electricity, telecommunications, banking etc.<sup>12</sup> Effective competition facilitates innovation and increased productivity. This not only bring downs the prices of these essential items but also increases the quality, output and makes the goods and services more affordable. The lower prices that result from increased competitive pressures expand markets and make goods and

<sup>10</sup> Government of India Handbook of Industrial Policy and Statistics (Various Issues), Office of Economic Adviser, Ministry of Commerce and Industry. New Delhi.

<sup>11</sup> 2011, Draft National Competition Policy.

<sup>12</sup> 2007, R S Khemani :Competition Policy and Promotion of Investment, Economic Growth and Poverty Alleviation in Least developed countries.

services more affordable. On the contrary, when there are unnecessary regulatory impediments and insufficient competition in markets, the poor often pay higher prices and receive lower-quality goods and services which affect their total income drastically<sup>13</sup>.

19. Hence competition in domestic markets is extremely important in making essential goods available at competitive prices, which has an impact on wider social development goals including poverty reduction. The World Bank in the Global Economic Prospects Report 2005 has emphasized the linkage between competitive markets and rate of poverty. Report says that, *“Economies with competitive domestic markets generally tend to have higher levels and rates of growth in per capita income. These economies also have lower rates of poverty and attract more domestic and foreign investment.”*<sup>14</sup>

20. Unethical conducts like favouritism, nepotism in business practices, poorly designed public procurement and other government policies, cartels among oligopolistic firms and other anti-competitive traits also adversely impact competition, which affects the prices of the essential items. Ultimately, the impact is relatively more stringent on the poor than any other section of the society. A strong and robust competitive regime will definitely contribute effectively to check any inflationary rise in price of the essential items arising from anticompetitive practices and avoid adverse effect on poverty reduction.

## **5. Competition Commission of India’s Experience with Markets:**

21. Distortions in the competition affect the price adversely and poor are disproportionately affected by the higher prices of the products. Well-functioning markets symbolize a healthy economy as it implies that markets are working in an efficient manner without distortions.<sup>15</sup> Concerns increase, when higher prices caused by anticompetitive conducts affects the market of staple products. For example, the market for agricultural products is adversely affected by the anti-competitive behaviour of the intermediaries. Neither the farmer nor the end consumer is benefited from the lack of competition in agriculture as most of the profit is gobbled up by the intermediaries through anti-competitive practices. More importantly, the situation has grave implications, when nearly 50% of rural agricultural labourers are below the poverty line in India.

22. Competition Commission of India recognizes the impact of competitive markets on the inclusive growth and the economic development of the country. Competition Commission of India (CCI) has taken several pro-active measures to encounter anticompetitive practices existing in various sectors of the economy. Actions were initiated for investigation including the markets of staple products (cartelization of supply of sugar, onion etc.) and industrial products (LPG cylinders, cement cartelization, banking etc.) In one of the major path breaking decision through its order dated 20 June 2012, CCI imposed a penalty amounting to more than six thousand cores (approx. USD 1.1 billion) on eleven cement manufacturers in India. CCI found that these cement companies had indulged in fixing the prices through cartelization. The penalty was imposed at the rate of 0.5 times the net profit of such manufactures for the past two years. CCI also stated in its order that "limiting and controlling supplies in the market and determining prices through an anti-competitive agreement is not only detrimental to the cause of the consumers but also to the whole economy since cement is a crucial input in construction and infrastructure industry vital for economic development of the country".<sup>16</sup> The Commission is also investigating suspected cartels in many vital sectors of the economy.

<sup>13</sup> 2004, Joachim Ewert and Jeffrey Henderson, How Globalisation and Competition Policy inhibit Poverty Reduction.

<sup>14</sup> 2005 World development Report: Investment Climate, Growth and Poverty.

<sup>15</sup> 2004, Pradeep S Mehta and Nitya Nanda, Competition Policy, Growth and Poverty Reduction in Developing Countries.

<sup>16</sup> *Builders Association of India vs Cement Manufacturers' Association & Others*. Case No 29/2010, CCI.

## 6. Competitive markets versus “pro-poor” government controls/interventions

23. The Government role in fostering competition is continued to be discussed among policy makers, researchers etc. with reference to the degree of protection and direct support that government provides to business entities. Exemption and exception have been observed in many countries, where assistance is provided by the government in terms of price support and procurement policies.<sup>17</sup> These exceptions and exemptions to certain products or certain sectors (e.g. small-scale industries or the public sector) from competition policy have always been debated in the context of pro-poor government controls/interventions.

## 7. Competition effect on poor, small entrepreneurs and job seekers, in principle

24. This section examines what role could competition play in improving the prospects for poor entrepreneurs and job seekers. The chapter also discusses the competition effect on poor and how a robust competition authority can contribute towards their betterment.

25. **Competition effect on Poor:** Busting of cartels is significant especially in industries catering to the market of essential items, which are consumed by the poor mostly.<sup>18</sup> Cartels are the consortium of associations or enterprises which aims to maximize personal / mutual gains through unprincipled activities. Cartels jeopardize the competition and are detrimental for consumer welfare. The consequences could be more serious, when anticompetitive practices affect the market of staple products which affects the poor disproportionately. A strong competitive regime can eventually help poor from escaping the trap of such cartels, which are capable of affecting directly the daily life of the poorest of the society.

- **Role of Competition Advocacy:** A properly designed advocacy program will eventually help in curbing anticompetitive practices existing in the economy. To have a greater impact and a wider reach to the different sections of the society, the program should be comprehensively implemented. Publishing of advocacy booklets and leniency program in national and regional languages is an extremely important measure for effective implementation.
- **Competition effect on small entrepreneurs and job seekers:** Undoubtedly, the level of competition is connected to entrepreneurship and growth. In other words, we could infer the positive correlation between entrepreneurship and competition policy. The level of competition enhances efficiency and subsequently productivity. This productivity escalates growth at different levels such as personal/individual, sectoral and at country level. Enhanced productivity also paves the way for innovation through investments in markets, which results in more employment generation<sup>19</sup>. The level of entrepreneurship is however, sometimes adversely affected by the level of competition in the market, where the entrepreneur enters. The situation becomes pertinent when the entrepreneur is a relatively poor entrepreneur. High competition in such markets could result in decrease in prices which may have an adverse effect on their total income.<sup>20</sup>

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<sup>17</sup> 2007, R S Khamenei: Competition Policy and Promotion of Investment, Economic Growth and Poverty Alleviation in Least developed countries.

<sup>18</sup> International Network of Civil Society Organizations on Competition, World Competition Day: Impact of Cartels on Poor.

<sup>19</sup> Competition and Entrepreneurship as Engines of Growth, Gain Fazio.

<sup>20</sup> 2012, OECD, Latin American Competition Forum, Session: Competition and poverty reduction.

## 8. Competition effect on poor, small entrepreneurs and job seekers, in reality

26. Anti-competitive practices existing in the market of essential items may affect the poor disproportionately. The chapter discusses the efforts made by Competition Commission of India to investigate the markets including the market of essential items. The section further emphasizes the role of competition advocacy towards creating a culture of competition in the economy for the benefits of poor and small entrepreneurs.

1. **Enforcement:** As mentioned earlier, Competition Commission of India has intervened in many sectors in India including the markets of essential items to combat anti-competitive practices. Further, the Commission has initiated suo-moto actions based on the information received through public domain and other sources. Some of the suo-moto cases initiated by the Commission in different sections are mentioned below:<sup>21</sup>
  - i. Suo-moto Case no. 01/2011 (In Re: Rise in Onion Prices)
  - ii. Suo-moto Case no. 03/2011 (In Re: suo-moto case against LPG cylinder manufacturers)
  - iii. Suo-moto Case no. 01/2010 (In Re: Sugar Mills)

CCI initiated a series of investigations and imposed a penalty of Rs165.59 crores to the contravening entities in the case against LPG cylinder manufacturers. However, CCI has closed the matters relating to sugar mills and banks as violations were not established. The suo-moto probes undertaken clearly signify the commitment of CCI to keep a check on anticompetitive practices especially in sectors which have a bearing on poor.

2. **Role of Competition Advocacy:** Competition advocacy is one of the main pillars of modern competition law in India, which aims to create, expand and strengthen awareness of benefits of competitive markets in the economy. Section 49 of the Act empowers CCI to take suitable measures for the promotion of competition advocacy, creating awareness and imparting training on competition issues. This mandate is a unique provision as no other law has such a provision in India. Accordingly, CCI has undertaken widespread advocacy amongst the stakeholders to inculcate a culture of competition in the economy. In pursuance of this mandate, the Commission lays adequate emphasis on the non-enforcement measures and has entrusted a dedicated division to undertake advocacy activities with the stakeholders to inculcate competition culture in the economy.<sup>22</sup>

## 9. Conclusion: Competition Policy towards Poverty

- Poverty reduction would be feasible through rapid industrialization and to achieve speedy success, all industries must work with optimum efficiency to enhance productivity and growth. Here, the role of competition become significant as competition is an engine of growth which drives efficiency and more productivity.<sup>23</sup>

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<sup>21</sup> See orders of the Commission, [ww.cci.gov.in](http://ww.cci.gov.in)

<sup>22</sup> 2012, OECD, Annual Report on Competition Policy Developments in India.

<sup>23</sup> 2004, DFID, Competition, Innovation and Poverty

- Those economic activities should be prioritized and effectively implemented which makes a positive impact on the poor. Competition in the markets of essential items such as food, water, energy, transportation will be helpful in providing affordable and better quality products to poor. Hence, the competition authority must ensure to sustain competition and eliminate anti-competitive practices from such markets.
- The Competition Authority must assess the impact of procurement policies and government regulation on competition. The Competition Assessment Toolkit as prepared by OECD will definitely prove to be useful for government to eliminate barriers to competition.<sup>24</sup>
- Effective enforcement of competition policy through enforcement and advocacy will make the economy open but well- regulated. This kind of economy will not only attract domestic investments but will also encourage foreign direct investments. A well designed and implemented competition policy will certainly make a positive impact on consumer welfare and poor by making goods and services available at competitive price. At the same time, it would open up market and enhance production opportunities creating employment. Such a scenario would indeed help in reducing poverty.

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[www.oecd.org/daf/competition/competitionassessmenttoolkit.htm](http://www.oecd.org/daf/competition/competitionassessmenttoolkit.htm)

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