COMPETITION DISTORTIONS IN INDIA – A CUTS DOSSIER

(CDI 62: October-December 2023)

For earlier Dossiers please see: https://cuts-ccier.org/competition-distortion-in-india/

This periodic dossier produced by CUTS International looks at the interface of policy issues that impact competition in India, which can be both negative and positive. News, as published, is used without verifying its accuracy. The purpose is to flag issues to the layman and the specialised policymakers and regulators, rather than be judgmental about them. This would require greater analysis, particularly in terms of cost and benefits in addition to that.

Dear Reader,

Greetings and a Very Happy New Year!

We are pleased to present the Competition Distortion Dossier #62 for the fourth quarter of the year, i.e., October to December 2023. We have extensively covered the most significant news stories from the last quarter that have impacted the competitive landscape in India both positively and negatively. Taking forward from previous editions, we have divided the dossier into three parts: Trade Policies; Policies Promoting Competition, and Policies Inhibiting Competition.

The initial segment discusses India's trade policies related to the export and import of both essential and non-essential goods, examining their effects on India's market susceptibility on the global stage. Emphasis is being placed on the aviation sector, recognised as a pivotal and influential industry in this context.

The dossier's second section provides insights into policies that foster competition during the fourth quarter within India. It delves into the intricate details of financial sector policies during this period, offering a comprehensive examination of the RBI's policies and foreign exchange services. It also touches upon the easing of the KYC norms with the introduction of a single KYC for financial services. Additionally, the dossier explores transportation policies, specifically in the railways and civil aviation industries, providing a nuanced understanding of the regulatory landscape and its implications on market dynamics.

The final segment addresses policies that disrupt competition within the country, impartially highlighting the impact of the divestment policy and the insufficient employment generation by major technology companies in India. The issue of bankrupt firms and the importance of timely capital expenditure and technology upgrades have also been discussed.

We hope you enjoy reading these stories as much as we did, reporting them. Kindly also circulate this bulletin within your networks to build higher awareness which can aid our efforts to grow.

Cheers!

Contents

A. Trade Policies

GTRI Warns Over 51.5% Agri Exports Vulnerable to Global Prices

India's agricultural sector faces critical challenges due to the country's heavy reliance on a narrow export range comprising basmati rice, non-basmati rice, oil meals, spices, and sugar. This makes the sector vulnerable to global price and demand fluctuations further compounded by export bans and the country's struggle to safeguard rice and wheat subsidies in the WTO's public stockholding programme.

Domestically, inadequate infrastructure, quality control issues, and non-tariff barriers (NTBs) exacerbate woes. Global agricultural trends and dominance by a few major firms in grain trade further impact imports and exports, resulting in a notable downturn in the sector.[1]

Food For Thought

India's agricultural export prowess, a long-standing driver of global market surges, faces challenges due to recent restrictions on key products like sugar, wheat, basmati rice, non-basmati rice, oil meals, and spices. Implemented to stabilise domestic retail prices, measures like curbing sugar exports and banning non-basmati rice and wheat shipments have reverberated across the global rice market. The government implemented this ban to protect the domestic market from the instability caused by volatile retail prices within the country.

With India traditionally leading as the largest rice exporter — representing 40 percent of global exports in 2022 — the ban has substantially affected low-income nations dependent on Indian rice. Consequently, nations like Vietnam and Thailand have seen increased pressure as alternative rice sources. Despite aiming to reach the impressive benchmark of US$53bn in agricultural exports, akin to the previous year, the imposed restrictions present a formidable hurdle, jeopardising the attainment of this goal. These limitations notably affect a significant portion, approximately 51.5 percent, of India's agricultural export basket, amplifying vulnerability within this crucial sector.

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1 https://economictimes.indiatimes.com/news/economy/foreign-trade/gtri-says-51-5-agri-exports-from-just-5-products-makes-sector-vulnerable-to-global-prices-demand/articleshow/106268473.cms

As part of a strategic shift, India now focuses on diversifying exports, highlighting products such as bananas and value-added millet. However, amidst these efforts, India grapples with internal hurdles: infrastructural deficiencies, logistical inefficiencies, quality control issues, and NTBs. These challenges hinder the agricultural sector's growth and competitiveness, exposing it to the volatile nature of global prices and shifting demand patterns.

Measures Reduce Import of Non-Essential Goods

India has employed several strategies to minimise non-essential imports like TVs, tyres, wallpaper, and AC gas compressors. These measures involve restricting inbound shipments, introducing a production-linked incentive (PLI) programme, and enforcing mandatory quality standards. Additionally, the country has imposed antidumping and countervailing duties.

The primary goal is to scrutinise and regulate the inflow of non-essential goods while bolstering domestic production in sectors heavily reliant on imports. The Ministry's directive to mandate import registration under the Paper Import Monitoring System (PIMS) for 201 categories of paper and paperboards, including various types like glazed newsprint, handmade paper, and tissue paper, further reinforces efforts to curtail imports.[2]

Food for Thought

India's pursuit of self-reliance under the 'Atmanirbhar Bharat' initiative involves a strategic focus on sectors heavily reliant on imports. The government has implemented a series of measures, such as imposing customs duties on specific products, compelling restrictions on inbound shipments, and enforcing minimum import prices on certain commodities.

Additionally, initiatives like the National Food Security Mission Scheme and PLIs have been introduced to encourage domestic quality-driven production, aiming to reduce the dependency on imports for items like Televisions, AC gas compressors, tyres, sandals, and wallpapers. By advocating for compulsory quality standards and utilising anti-dumping measures, the government aims to bolster domestic production capacities in critical

[2] https://economictimes.indiatimes.com/news/economy/foreign-trade/restrictions-pli-mandatory-quality-norms-help-cut-import-of-certain-non-essential-goods/articleshow/104983140.cms

sectors, ultimately curbing the outflow of funds due to excessive imports, which contributes to the nation's trade deficit.

This strategic approach not only seeks to enhance domestic production capabilities but also addresses the adverse impact of excessive imports on the country's current account deficit. Maintaining compatibility with international benchmarks is essential to enhance the competitiveness of domestic industries and uphold Indian standards. Sectors like petroleum, gold, electronics (such as TVs), pharmaceutical raw materials, and edible oils have been identified for import reduction initiatives, particularly through production-linked incentive schemes.

Notably, the launch of the initial phase of the PLI scheme for the pharmaceutical sector resulted in a significant drop in pharma imports from US$9.1bn in FY22 to US$8.1bn in FY23. Concurrently, this sector's exports surged from US$20.7bn in FY20 to US$25.4bn in FY22, showcasing the potential success of such strategies in fostering domestic production while strengthening India's position in global markets.

India Proposes Ratio for Additional Seats on Dubai Airlines

India is pushing for a fairer share in air service agreements with the UAE, aiming to secure four seats for its airlines for every additional seat given to Dubai-based carriers. Exhausting the current seat quota, India seeks policy equality, prioritising its airlines over UAE counterparts for lucrative routes to Europe and North America.

Despite Indian carriers facing financial challenges due to COVID-19 without state support, the government aims to balance opportunities on medium- and long-haul routes, leveraging Air India's expansion plans.[3]

Food for Thought

India being a prominent player in the global economy and ranked as the third largest aviation services provider, has witnessed a growth rate nearly 2.5 times the global average over the past decade. Efforts to enhance the competitive edge of Indian airlines in international routes are evident, highlighted by recent initiatives such as Air India's procurement of wide-body aircraft and IndiGo's adoption of twin-aisle planes.

[3] https://economictimes.indiatimes.com/industry/transportation/airlines-/-aviation/india-seeks-four-for-each-extra-seat-allowed-to-dubai-airlines/articleshow/106277112.cms

Under the 2014 Bilateral Air Service Agreement between the UAE and India, a weekly seat capacity of 66,000 for flights connecting Dubai and Indian cities was established. However, Dubai's appeal for an increase in seat allocation targeting an additional 50,000 seats has created a lot of rumbles. Notably, the UAE has capitalised on its seat allocations by directing traffic to Europe and North America, where ticket prices command a higher value. Conversely, Indian airlines have maintained a focus on point-to-point services to Dubai. With 65 percent of international flights operated by Indian carriers heading to Dubai, a failure to expand capacity could result in significant losses for both Indian citizens and carriers, estimated at US$800-900mn.

This situation underscores the necessity for a more equitable policy that favours Indian airlines. India's pursuit of a 4:1 seat ratio, seeking four seats for its carriers for every additional seat granted to Dubai carriers, poses a potential disruption to the traditional Bilateral Air Service Agreement. While the Indian government has clarified its current lack of plans to revise the agreement with the UAE, expansion efforts for domestic carriers in international markets, encompassing increased seat capacity on short and long-haul routes, remain a priority. The expansion of Indian carriers' capacity will intensify competition in the Indian aviation sector, striving to effectively meet the growing demands of consumers.

B. Policies Promoting Competition

RBI introduces 'Forex Correspondents' for Exchange Services

The Reserve Bank of India (RBI) proposes a new category, Forex Correspondents (FxCs), to streamline foreign exchange transactions. FxCs, operating under a principal-agency model with Category-I or Category-II Authorised Dealers, aim to enhance the ease of doing business.

The proposed Forex Correspondent Scheme (FCS) seeks to expand foreign exchange services' reach, catering to individuals, tourists, and businesses. Notably, FxCs will not require separate RBI authorisation. The RBI invites stakeholder feedback on the draft Licensing Framework for Authorised Persons (APs) under the Foreign Exchange Management Act (FEMA) until January 31, 2024.[4]

[4] https://bfsi.economictimes.indiatimes.com/news/policy/rbi-to-introduce-forex-correspondents-a-new-category-of-money-changers/106305534

Food for Thought

By introducing a new category of money changers, FxCs, the RBI aims to improve the reach of foreign exchange reserves and reduce regulatory burdens. This initiative, announced on June 08, 2023, in the Statement on Development and Regulatory Policies, designates FxCs to act as agency models conducting money-changing business on behalf of Authorised Dealers with Category I and II. FxCs are not required to obtain a separate licence from RBI but will need to comply with RBI regulations. They are authorised to offer a limited range of foreign exchange services, including buying and selling foreign currencies and travellers' cheques for private and business travel.

Aligned with the country's progressive liberalisation policy for enhancing global integration of the Indian economy and digitising the payment system, this new category aims to facilitate ease of doing business. The introduction of FxCs significantly enhances competition and broadens opportunities within the financial sector. It enables wider accessibility to foreign exchange services, particularly in areas with limited banking infrastructure, enabling businesses and individuals in these regions to participate in international transactions, and fostering healthy competition in global markets.[5]

Additionally, the customer experience will be enhanced by FxCs involvement, facilitating more convenient and efficient access to foreign exchange services. This competitive landscape will encourage banks and financial institutions to prioritise innovation and customer satisfaction, resulting in improved service quality and the adoption of efficient technologies for foreign exchange services.

Single KYC for all Financial Services Soon

The Indian government, through the Finance Ministry, is set to introduce a unified Know Your Customer (KYC) system for all financial services, aiming to reduce compliance burdens for businesses.

Ajay Seth, Secretary of Economic Affairs, highlighted India's robust digital payment infrastructure, notably UPI, attracting global interest, with countries like the US and UAE seeking connections. He mentioned the positive economic impact of digital

5 https://www.linkedin.com/pulse/rbi-introduces-forex-correspondents-facilitate-ram-rastogi--hplyf/

payments and noted efforts to address inflation, particularly in food prices, through supply-side measures.[6]

Food for Thought

India's economic advancements and the recognition of its digital infrastructural model, particularly the UPI payment system, are being increasingly acknowledged by the global economy. The country's digital payment infrastructure, constituting around four percent of its economy, highlights the economic significance of these technological strides.

In a bid to alleviate the compliance burden on companies, the introduction of a single KYC for all financial services was announced by the Finance Minister. Following Singapore's lead, requests from the US and UAE governments to connect through India's digital payment system advocate for promoting competition in the Indian market. This also showcases the robustness of its financial ecosystem and its potential to influence global digital payment paradigms.

A pivotal step towards easing regulatory burdens on businesses is seen in the announcement of a unified KYC system for all financial services in India. Envisioning a uniform KYC process applicable across various institutions and purposes aims to streamline operations, reduce paperwork, and alleviate costs for businesses. This initiative promises to transform how identity verification functions in financial spheres, potentially revolutionising the ease of doing business.[7]

The unified KYC is anticipated not only to reduce redundancy but also to enable companies to expand services to a broader audience, potentially fostering increased market share and healthy competition among service providers. Consequently, this reduction in entry barriers could empower startups and emerging firms to focus on innovations and service quality, enhancing compliance.

In essence, the proposed single KYC initiative heralds a transformative era for businesses, while the global acknowledgement of India's digital payment prowess reinforces its

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6 https://economictimes.indiatimes.com/news/economy/policy/single-kyc-for-all-financial-services-soon-dea-secretary/articleshow/105845183.cms

7 https://economictimes.indiatimes.com/small-biz/sme-sector/ease-of-doing-business-union-budget-2023-24-makes-pan-the-common-identifier-for-businesses/articleshow/97515968.cms?from=mdr

prominence in the global financial landscape. Nevertheless, addressing inflationary challenges requires a flexible approach to sustain economic stability amidst market fluctuations.[8]

The Quickest Way to Get Defaulters to Pay Up?

Since the implementation of the Insolvency and Bankruptcy Code (IBC), creditors withdrew 26,518 cases worth Rs 9.33 lakh crore before formal adjudication, showcasing successful recoveries. This signals a shift in debtors' behaviour, driven by the fear of losing control under the IBC.

Withdrawn amounts exceeded recoveries from resolving 808 insolvent firms, constituting 31.85 percent of creditors' claims. Finance Minister Nirmala Sitharaman highlighted the IBC's role in pre-emptive default resolution, emphasising its strategic importance beyond formal applications.[9]

Food for Thought

A notable trend within India's Insolvency and Bankruptcy Code (IBC) reveals that over 26,000 insolvency cases, involving substantial defaults amounting to approximately Rs 9.33 lakh crore, have been withdrawn by creditors even before formal admission by the adjudicating authority. This intriguing development underscores the IBC's potential as a potent tool in the hands of creditors, seemingly prompting debtors to settle outstanding dues or instigate recovery actions without the necessity of initiating formal insolvency proceedings.

However, within this trend, the actual recovery from resolved cases remains relatively modest, constituting only about a third of the total creditors' claims endorsed by the NCLT. This raises pertinent questions about the efficacy of the resolution process under the IBC. While the code has undeniably induced a behavioural shift among debtors, accentuating concerns about the risk of losing control, it also gives rise to critical inquiries about the overall effectiveness and efficiency of the insolvency resolution mechanism.

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8 https://bfsi.economictimes.indiatimes.com/blog/strengthening-indias-digital-payment-dominance-through-g20-leadership/103512602

9 https://economictimes.indiatimes.com/news/company/corporate-trends/quickest-way-to-get-defaulters-to-pay-up-the-threat-of-insolvency/articleshow/105428106.cms

In a broader context, this evolving trend could significantly impact India's competitive landscape. A robust and efficient insolvency framework not only nurtures a healthier business environment by promptly addressing distressed assets but also fortifies investor confidence. A more effective resolution mechanism holds the potential to attract investments and enhance India's global competitiveness. However, the current scenario necessitates a thorough reassessment of the operational aspects of the IBC to strike a balance between safeguarding debtor rights and ensuring creditor recoveries, ultimately shaping India's standing in the global economy.[10]

City Gas Regulator Plans Sector Competition

The Petroleum and Natural Gas Regulatory Board (PNGRB) plans to introduce new regulations allowing multiple operators in monopolised markets for Piped Natural Gas (PNG) and Compressed Natural Gas (CNG). Targeting the end of exclusivity, the rules aim to prevent unfair location claims while ensuring service availability, and promoting competition. Facing past resistance, this move empowers consumers with gas provider choices.

Simultaneously, the government expands the gas share in India's energy with City Gas Distribution (CGD) bids. The Union cabinet's approval of new gas pricing guidelines links domestic prices to global crude rates, stabilising costs for CGD and CNG operators amid market fluctuations.[11]

Food for Thought

In the evolving landscape of India's natural gas sector, a potential turning point is marked by the imminent introduction of rules that would allow multiple operators in PNG and CNG markets. The move, initiated by the PNGRB, aims to break the dominance of single operators, introducing healthy competition and providing consumers with choices. However, the challenge is posed in maintaining a delicate balance, ensuring that existing companies are not adversely affected while simultaneously encouraging new players to serve both lucrative and underserved areas.

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[10] https://www.lawstreetindia.com/experts/column?sid=633

[11] https://www.magzter.com/de/stories/newspaper/Mint-Mumbai/CITY-GAS-REGULATOR-PLANS-TO-OPEN-SECTOR-FOR-COMPETITION

The regulatory effort, though promising, may encounter resistance, as seen in a rollback in 2021 due to pushback from incumbents. If successful, this initiative aligns with the broader government strategy to increase the share of gas in India's energy mix to 15 percent by 2030. As the sector undergoes reforms, a shift towards market-driven dynamics becomes crucial for sustainable growth. This not only fosters a competitive environment but also aligns with the government's emphasis on cleaner energy sources.

Simultaneously, the approval of new guidelines linking domestic natural gas prices to global crude rates adds another layer of stability to the sector. The move shields CGD and CNG operators from international price fluctuations, providing a structured framework with floor and ceiling prices. This regulatory evolution, coupled with ongoing bids for city gas distribution expansion, signifies a comprehensive strategy to enhance the accessibility, affordability, and sustainability of natural gas across diverse regions in India. The unfolding narrative reflects a pivotal moment, presenting an opportunity for a more dynamic and consumer-centric natural gas market in the country.[12]

Railways Speed Up Land Monetisation, Station Redevelopment

Indian Railways aims to expedite station redevelopment and land monetisation by proposing the recognition of the Rail Land Development Authority (RLDA) as an urban local body. The move, intended to accelerate projects, involves collaboration with state governments and the Ministry of Housing and Urban Affairs. Currently, under the Ministry of Railways, RLDA faces delays in development due to mandatory consultations with state and local authorities.

Recognising RLDA as an urban local body would grant flexibility, streamline development, and enhance its role in the National Monetisation Pipeline, targeting ₹6tn in government assets by FY25.[13]

Food for Thought

The proposition to recognise the RLDA as an urban local body is indicative of a strategic move by Indian Railways to expedite station redevelopment and land monetisation. Collaboration with state governments and the Ministry of Housing and Urban Affairs is

12 https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1914450

13 https://www.magzter.com/stories/newspaper/Mint-Mumbai/RAILWAYS-SEEKS-TO-SPEED-UP-LAND-MONETIZATION-STATION-REDEVELOPMENT

being pursued to overcome delays stemming from consultations with various authorities and to foster flexibility in the monetisation of railway land. The potential impact on competition in the infrastructure and real estate sector is a key consideration.

Granting RLDA the status of an urban local body could lead to increased competition among stakeholders. Streamlined processes may attract a broader spectrum of developers, creating a competitive environment for the development of commercial sites. The nationwide acknowledgement push situates RLDA as a significant player, with the potential to influence the competitive landscape in the race to harness India's extensive railway land resources.

As India endeavours for efficient land monetisation through the National Monetisation Pipeline, the enhanced role of RLDA as a local authority has the potential to reshape the competitive dynamics in infrastructure investments. The success of this strategy relies on achieving equilibrium between fostering competition, ensuring sustainable development, and meeting the ambitious targets of the National Monetisation Pipeline, presenting an area of keen interest for stakeholders and investors to be closely monitored.

Centralised Facility Streamlines Defunct Company Removal

Over 1,170 defunct companies were swiftly removed by the Centre for Processing Accelerated Corporate Exit (CPACE), the government's centralised facility, effectively cleansing India's corporate registry. The dissolution of inactive businesses, mandated by the Companies Act after a year or two of inactivity, is now centrally managed by CPACE. Dormant status is granted for closures, ensuring liability settlement while maintaining accountability for shareholders and managers even after their removal.

This streamlined process benefits entrepreneur, addresses investment concerns, and improves registry management. Incorporation is simplified through the National Single Window System (NSWS), consolidating approvals from multiple government departments, with streamlined operations under the Companies Act due to approval exemptions for disclosures.[14]

[14] https://www.livemint.com/news/india/centralised-facility-speeds-up-removal-of-defunct-companies-11701172026817.html

Food for Thought

An essential shift in India's corporate landscape has been observed due to the recent acceleration in expediting the removal of defunct companies from official records. This action has been marked by a significant increase in regulatory emphasis on refining the cleanup process, considering the substantial number of registered companies, exceeding 2.4 million, with about 1.5 million entities considered active. The intentional elimination of inactive firms, averaging over a thousand monthly in recent records, has adhered to the guidelines outlined in the Companies Act, specifically targeting businesses that have not initiated operations or conducted economic activities within specified timeframes.

Administered through the CPACE, this conscientious regulatory drive serves a dual purpose. Firstly, it systematically purges the corporate registry, addressing non-operational entities. Secondly, it introduces a provision for dormant status, allowing businesses seeking closure to manage their registration while settling financial obligations, and reinforcing accountability among shareholders and directors. Notably, this initiative ensures the enduring liability of shareholders and directors, even after their removal from official records.[15]

The introduction of this expedited exit mechanism has profound implications, alleviating the challenges associated with discontinuing operations for entrepreneurs. This has the potential to influence investment decisions by enhancing the attractiveness of entrepreneurial endeavours. Simultaneously, from a regulatory standpoint, this initiative augments corporate registry management and strengthens regulatory oversight. Furthermore, the integration of company and LLP incorporations within the NSWS streamlines processes, unifying approvals from various central and state government departments, and fostering a more inviting landscape for business operations by reducing bureaucratic hurdles.[16]

Overall, these regulatory advancements herald a transformative phase for India's competitive environment. The streamlined exit mechanisms, along with simplified incorporation processes and reduced regulatory complexities, collectively bolster India's

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15 https://www.livemint.com/news/india/centralised-facility-speeds-up-removal-of-defunct-companies- 11701172026817.html

16 https://www.livemint.com/news/india/company-incorporation-now-available-under-centre-s-single-window-approval-system-11698153125123.html

allure as an investment hub, fostering an environment conducive to business growth and productivity.

AAI's Aircraft Spacing Halved for Greener Flying

The decrease in aircraft separation in Indian airspace from 10 to 5 nautical miles is being implemented by the Airports Authority of India (AAI), aiming to boost airspace capacity and environmental efficiency. Quicker altitude adjustments will be allowed, aiding fuel efficiency and emissions reduction. Pilots will be able to ascend or descend sooner to reach the ideal fuel-saving altitudes.

Despite concerns about workload for controllers and exceptions for specific conditions, efforts are being made by the AAI to optimise processes for enhancing airspace capacity and promoting eco-friendliness in air travel.[17]

Food for Thought

A significant transformation is underway in India's aviation sector to enhance competition and meet the rising demand for air travel. One crucial measure involves reducing the lateral separation between aircraft from 10 Nautical Miles to 05 Nautical Miles, aiming to accommodate more air traffic and boost airspace capacity by 40 percent in major cities like Mumbai and Delhi. This strategic initiative is expected to streamline routes, shorten waiting times, and enable more direct and fuel-efficient paths, contributing to environmental efficiency through reduced carbon emissions.

The shift is driven by modernisation efforts led by the AAI. Investments in advanced navigation radars, the adoption of technologies like automatic dependent surveillance broadcast (ADS-B), and collaboration between defence and civilian authorities for airspace management have significantly enhanced surveillance capabilities.

With the projected tripling of air travellers in India to 52 crores by 2037, this transformation becomes crucial to meet the surge in demand. Coordination between sectors has already yielded tangible results, such as reduced flight times and operational cost savings, demonstrating improved synergy and efficiency.

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17 https://timesofindia.indiatimes.com/city/mumbai/as-aai-halves-space-between-aircraft-flying-to-get-greener/articleshow/106242769.cms

This strategic airspace management enhancement not only positions the Indian aviation industry for sustainable growth but also attracts investments reinforces competitiveness and aligns with broader sustainability goals. The positive impact on both operational costs and environmental considerations signifies a game-changing evolution in India's air traffic control, setting the stage for a more efficient and competitive future.

C. Policies Inhibiting Competition

Govt Likely to Miss 2023-24 Divestment Target

The government's target for privatising state-run companies this year is unlikely to be met due to various challenges causing delays and a lack of interest, particularly in the lead-up to elections. Significant obstacles such as bureaucratic inefficiencies have impeded progress, impacting major entities like IDBI Bank. Proposed stake sales in state-run banks and an insurance company recommended for privatisation by NITI Aayog have seen no advancement.

Additionally, the plan to privatise Pawan Hans has been abandoned, and the broader initiative for large-scale public sector reforms has stalled. As a result, the disinvestment process is now on hold, pending the formation of a new government for a potential restart.[18]

Food for Thought

The failure to achieve privatisation targets in state-run companies raises significant concerns about the competitiveness and efficiency of the Indian economy. A stalled privatisation process, attributed to bureaucratic hurdles and the impending general elections, has resulted in a missed opportunity to introduce competition and innovation into vital sectors. The lack of progress in privatising major public enterprises like IDBI Bank, Concor, BEML, and others not only impedes market competitiveness but also hinders the infusion of private sector expertise and efficiency.

This inertia in privatisation adversely impacts the dynamism of the economy, limiting the entry of private players and hindering advancements in sectors traditionally dominated by state-run entities. The shelving of plans to privatise state-run banks and

[18] https://timesofindia.indiatimes.com/business/india-business/govt-set-to-miss-target-for-divestment-in-2023-24-too/articleshow/106192281.cms?from=mdr

an insurance company, despite recommendations from government think tanks, underscores the challenges in enhancing competition in critical sectors.

Relying on small stock market transactions to meet disinvestment targets, instead of implementing substantial privatisation initiatives, highlights the absence of a comprehensive strategy to encourage private sector participation. This persistent trend signifies a missed opportunity to introduce market-driven forces that could drive innovation, enhance service quality, and foster economic growth.

The sluggish progress in privatisation not only affects the intended reform agenda but also raises questions about the government's commitment to cultivating a more competitive and vibrant economic environment. The delay in embracing privatisation curtails the infusion of fresh capital, expertise, and competitiveness, hindering the potential for growth and development in the Indian economy.[19]

Indian Tech Firms Approach Hiring Pause Amid Global Turmoil

The prominent 'FAAMNG' tech companies in India, comprising Facebook (Meta Platforms), Amazon, Apple, Microsoft, Netflix, and Google (Alphabet), have experienced a substantial slowdown in hiring, marking a 90 percent drop in active job postings in 2023 compared to the previous year. This pause in recruitment, amidst global economic uncertainties, indicates a cautious approach among tech giants, impacting the movement of tech talent, especially at experienced levels.

While industry experts anticipate a subdued hiring outlook for the next two quarters, stabilisation in the market has stemmed the exodus of talent, and companies are re-evaluating their recruitment strategies amid changing dynamics.[20]

Food for Thought

A challenging phase is evident as prominent 'FAAMNG' companies in India, including Facebook (Meta Platforms), Amazon, Apple, Microsoft, Netflix, and Google (Alphabet), experience a significant hiring slowdown. This trend, aligning with broader global

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19 https://www.adb.org/sites/default/files/publication/546876/adbi-wp1057.pdf

20 https://economictimes.indiatimes.com/tech/information-tech/big-tech-companies-in-india-near-hiring-pause-amid-global-turmoil/articleshow/106252582.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

economic uncertainties, reflects cautionary measures by these tech giants, resulting in a notable 90 percent drop in active job postings in 2023 compared to the previous year. The decision to stop hiring experienced people temporarily is causing problems for those who want to change jobs within the tech industry. It is making it harder for people to switch to better roles and progress in their careers. This could be a challenge for companies to stay competitive and come up with new and creative ideas.

The current situation of extremely low hiring in the Indian tech market represents a substantial departure from the usual high recruitment levels. This slowdown is anticipated to persist for the next two quarters, with a focus on utilising existing employees more due to reduced demand.[21] *Influenced by the global economic situation and the cautious investment strategies of top tech companies, maintaining the current hiring situation is deemed a strategic decision with significant effects on the industry's growth. This decision restricts the addition of new talent and diverse ideas to these tech firms, potentially impacting innovation and the development of new products.*

There is hope for a gradual increase in hiring in 2024, contingent on addressing the excess capacity from the previous year. However, this cautious optimism is linked to external economic factors such as potential interest rate cuts by the US Federal Reserve. Until these crucial changes occur, big tech companies will likely continue to proceed with caution, impeding the immediate rise in job opportunities. The stabilised workforce and the reduced exploration of alternative options by new talents indicate a smaller pool of job seekers, resulting in decreased competition for positions. This also reflects the transformation in hiring practices, becoming more cautious and selective than before.[22]

Bankrupt Firms Fetch Only One-Fifth of Value After 3 Years

Distressed firms in bankruptcy, according to the Insolvency and Bankruptcy Board of India (IBBI), realise only 41 percent of their estimated value within 330 days, dropping to approximately 21 percent if the resolution extends beyond 1,200 days. Longer delays result in more significant asset value losses and higher haircuts for creditors. Experts highlight sector variations and stress the importance of timely capital expenditure and technology upgrades.

[21] https://www.india.com/business/hiring-in-indian-it-services-industry-to-remain-muted-over-next-2-3-quarters-6558885/

[22] https://www.business-standard.com/industry/news/big-tech-firms-nearly-pause-recruitment-in-india-amid-global-slowdown-123122500117_1.html

As of September, the average time for a restructuring plan under the Insolvency and Bankruptcy Code is 653 days, with 808 cases undergoing restructuring, and the Centre aims for resolution in 300 cases in 2023.[23]

Food for Thought

The pivotal connection between the efficiency of bankruptcy processes and market competitiveness is underscored by the IBBI. Substantial erosion of asset value is inflicted by prolonged bankruptcy proceedings, impairing the ability of distressed firms to compete effectively post-resolution.

Data reveals that only 41 percent of asset value is realised by distressed firms within the initial 330 days of bankruptcy, plummeting to a mere 21 percent if the resolution extends beyond 1,200 days. Such delays not only result in significant asset value loss but also lead to higher haircuts for creditors, potentially dissuading their involvement in the distressed debt market.

The impact is further amplified by sector-specific nuances, with industries like steel facing less detrimental effects due to continuous asset demand, unlike sectors such as white goods or telecom, where timely technology upgrades are crucial for value preservation. Thus, a robust and expeditious insolvency framework is deemed essential to protect creditor interests and enable distressed firms to re-enter the market with the agility required for healthy competition.

23 https://www.livemint.com/news/india/bankrupt-firms-fetch-only-a-fifth-of-their-value-after-3-years-ibbi-11701016477909.html