FOREIGN DIRECT INVESTMENT, MARKET POWER OF TRANSNATIONAL CORPORATIONS AND IMPACT ON COMPETITION

AN ASSESSMENT BASED ON EMPIRICAL EVIDENCES

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A. Introduction

India is an attractive destination for foreign investors. Its huge market provides them with ample opportunities for investment. The foreigners can invest in our country in two ways either through portfolio investment or through direct investment.

**Portfolio investment** – A portfolio investment is a passive investment in securities, none of which entails active management or control of the securities’ issuer by the investor.

**Direct Investment** - According to IMF, FDI (foreign direct investment) can be defined as “investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of investor, the investor’s purpose being to have effective voice in the management of the enterprise” The debt crisis and the Asian financial crisis have showed that FDI was more stable in difficult periods than other forms of capital inflows.

This paper focuses on foreign direct investment as portfolio investment does not have any impact on market structure of an economy due to lack of ownership in management and control of the firm. The direct investment gives the investor ownership advantages. This can cause changes in the dynamics of the market. Transnational corporations (TNCs) can either infuse competition or push the local enterprises out of the market and establish market power.

**Competition and market power**

Market power refers to the ability of a firm (or group of firms) to raise and maintain price above the level that would prevail under competition. The competition among firms gives efficient outcomes and maximises welfare of the consumer and gives incentive to the producer to continue innovating so that he becomes more efficient in the production process. Ability of a firm to exploit market power can degrade consumer surplus and allow the firm with market power to extract supernormal profits. Competition among firms in a market is influenced by the degree of concentration of their output among a few players. Since competition cannot be measured directly, we can use alternative proxies like the level of mark-up, profit margin, the profit rate, productivity levels, etc. to estimate competition levels.

There have been some issues within developing nations regarding the inflows of FDI. FDIs are claimed to have an adverse impact on the competition in the domestic market. In this context, this paper makes an attempt to analyse different views on competition among firms due to inflow of FDI and a few case studies of FDI in major sectors of economies which have been referred to as emerging market economies. The empirical evidences from these nations reveal that the FDI experience of such economies exhibit increased competition among domestic firms which is beneficial for the economy especially the developing ones. This paper also discusses Indian experience of introducing FDI in service sector which also revealed increase in competition tendencies especially in telecom and IT services. The theoretical literature and empirical evidences lead to the conclusion that within a regulatory framework the FDI inflow will enhance competition.

I would proceed on to the theme of the paper after mentioning a few of the economic impacts of FDI inflow into the host country.

B. Impacts of FDI on host economy

FDI can have diverse impacts on an economy. We can categorise the impacts as

- Microeconomic impacts
• Macroeconomic impacts

Micro impacts – it can cause structural changes in economic and industrial organisation. The market can become either more competitive or a monopolistic one in which the TNC can exploit its market power to raise prices and make an adverse impact on the consumer.

Macro impacts - Some of the major impacts on overall economy can be categorised as following:

Learning by doing / imitation

They enhance the productivity through introduction of new technology which in turn benefits the host economy only. The developing economies which are capital starved can take advantage of the available technological spill overs to improve upon their competitiveness. The foreign capital can help us improve our technological efficiency within a short period of time without which it would have taken years to reach that level. According to the literature, these spill overs could occur due to both the “competition effect” – when national companies, facing competition from foreign corporations, have to modernize their production and management activities – and the “demonstration effect” – when national companies emulate the more advanced techniques of their foreign competitors.

Export base creation

They provide the host countries with the access to large foreign markets because they have an established brand name and well developed distribution channel. This leads to creation of an export base for the developing nations. They add to the foreign exchange and investment resources in a host economy.

Competition

Some of the TNCs engage in non-production functions like accounting, engineering, marketing, etc. these are high valued activities that promote manufacturing competitiveness and local capabilities (FDI, technology, development and competitiveness – Sanjay Lall). They can either boost competition tendencies or drive out local firms to gain market power. TNCs can help restructure and upgrade competitive capabilities in import substituting activities as well.

Efficient utilisation of resources

TNCs contribute positively to the efficient and productive utilisation of resources in the host economy. A direct investment in the country gives ownership advantages to the TNC and reduces the transaction costs which it would have incurred if it was located outside host economy.

C. FDI, Market Power and Competition - Theoretical framework

There is voluminous amount of literature available on assessing the impact of FDI on competition inside domestic market. Some theories talk about increased competition among firms with inflow of FDI while others do not agree with the proposition. However there has been no convergence between the two lines of thought. In this section I have reviewed the literature both in favour and against the proposition that FDI inflow will enhance competition and finally correlate the results from empirical evidences with theory.

i. Does FDI increase market power?

It was Stephen Hymer in 1970s who for the first time talked about the market power of TNCs. His analysis was based on the structural imperfections in the host economy. He said that these imperfections in the market gave
multinational enterprises an opportunity in terms of scale economies due to large scale of production, knowledge advantages, channelized distribution networks, product diversification and credit advantages. All these allow these foreign firms to close domestic markets and raise market power. The TNC has the ability to use its international operations to separate markets and remove competition. These firms raise the barriers to entry for the local firms and can lead to inefficiency within the market by abusing the dominant position within the market. They can increase the prices and affect the consumer adversely by reducing the consumer surplus available to them. This can be a competent argument for developing nations against FDI where the structural imperfections in markets are more than that in developed nations.

Neary says that liberalisation of direct investment in an economy can cause increase in mergers and acquisitions by TNCs. These firms reduce price competition in the market by buying their potential competitors in local market. This would not allow the domestic firms to benefit from the technology which these firms bring in. The result would be higher profits for these firms and higher price level in the market. This situation in market was referred to as “stagnationist” by Baran and Sweezy who say that the share of profits of TNCs rises along with an increase in their market power which reduces their incentive to invest and results in stagnation.

Kindleberg puts forward another thought which says that local firms are always better informed about local economic environment than foreign firms. For the direct investments to enter the economy foreign firms must possess certain advantages that allow them to make a viable investment. Again in developing countries which do not have advanced technology provide TNCs with an opportunity to take advantage of their superiority in this field and establish market power.

According to this line of thought FDI is capable of hurting developing economies. The developing nations lack strong institutions and regulatory framework to deal with such kind of abuse of dominant position by transnationals. However, the trends observed in the emerging market economies out of which many are developing nations reveal opposite results on FDI inflow and competition which will be discussed in case studies.

Reservations among developing nations against FDI

There have been certain reservations among the developing nations against the FDI inflows. It has been allegedly pointed out that these TNCs drive out the local firms in the market. They possess economies of scale which gives them an edge over other firms in the production process. They may establish a dominant position in the market and later to abuse of dominance. It is in accordance of the theories described above which support the argument of FDI being responsible for the increased market power in the market.

It has also been observed that TNCs reduce the availability of finance to the local firms. These firms have a good reputation in the market. They can easily access the funds and prevent local firms’ access to funds.

TNC entry into agricultural production (especially countries like India) can have important consequences for competition and market power in the relevant product and factor markets. Its impact in these respects should be seen in the context of the general tendency of TNCs to participate in markets that have a relatively high degree of concentration where number of firms in the industry is low. They are able to drive out the domestic suppliers easily and gain market power. This has been attributed to the technology intensity of the markets, which can result in high capital intensity, and the demand for differentiated products (potentially the result of branding). Both can prevent new market entries and lead to market imperfections that allow TNCs to capitalize even more on their technological advantages (World Investment Report97). Given these technological advantages TNCs can exploit the capital intensity of the market and become the sole producer in the market.

In spite of these reservations it is difficult for these nations to restrict FDI. This is because of two reasons;
- They do not possess advanced technological capabilities and huge capital is required to be invested in research and development. If the developing economies are able to raise their technological capabilities to the advanced levels the way Korea and Taiwan did, they could think of restricting FDI. However this seems an unrealistic phenomenon in the short run.

- It is often difficult to differentiate between crowding out of local firms and legitimate competition

However with time, the approach of these countries towards FDI has gradually undergone change and they have realised the need for opening up and liberalising foreign investment to promote growth and development.

**ii. Does FDI reduce market power?**

Another line of thought throws light on the positive aspects of FDI on competition.

According to a recent report by ICRIER on Indian retail sector, the inflow of FDI will enhance the competition between organised and unorganised retail and benefit the consumers. This report basically focuses on the need for introducing foreign investment in the retail sector in India where unorganised sector constitutes more than 90% of business. However this report narrowly focuses on retail sector. So drawing any generalised conclusion can be fallacious.

In an article by Paul Deng, he analyses how the entry of foreign firms could potentially alter the growth of domestic firms. The firms with advanced technology in the domestic market compete neck to neck with the foreign competitors and the inefficient firms are driven out of the market. He has termed this driving out of the technologically obsolete firms as “discouragement effect”. He says that the interactions within the foreign firms and local firms create a much needed dynamism within economy. This dynamism promotes the tendency to innovate and compete within market.

In another paper Sanjay Lall puts forward another argument appreciating the technological contribution of TNCs. He says, developing countries tend to lag in the use of technology. Many of the technologies deployed even in mature industries are often outdated. More importantly the efficiency with which they use technology is relatively low even if part of their productivity gap is compensated by lower wages; technical inefficiency and obsolescence affect the quality of products. TNCs bring in new technology and raise the efficiency with which it is used. They can stimulate technical efficiency in local firms, both suppliers and competitors acting as role models and intensifying competition.

Another group of studies by Helpman, Melitz, and Yeaple (2003) and Nocke and Yeaple (2005) reveal that the love of variety prevents any firm from absorbing the entire market share no matter how superior its technology or how low its price be even if it is far more efficient than its average rival. This means even if TNCs are technologically more efficient than local firms, the consumer would always like to consume diversified products and this prevents any firm from capturing entire market. Therefore, FDI coming into domestic markets cannot allow any firm to gain substantial market power.

Many theories suggest that technology plays a very important role in promoting competition among firms. The incentive to keep innovating comes from competition among firms to survive in the market. Innovation requires continuous upgradation of technological base. With TNC coming into the market, they aggravate the tendency of the local firms to compete and gain their share of market and thus promoting the competition in domestic firms from local as well as foreign firms.

**iii. Are TNCs good for consumer welfare?**

FDI (in a world with trade in goods) can result in increased mark-ups and reduced prices. When a cross border takeover transfers a superior technology to a local firm, the firm will become more efficient in the production
process than before while the marginal cost of the local competitors/ rival firms will remain unchanged. (Katheryn Niles Russ, University of California, Davis and NBER) This may result in higher mark – ups and the firm can end up passing some of the advantage to the consumers. The consumers from low income have found to be benefitted by FDI in retail (in a recent report by ICRIER.)

Another report by ICRA on FDI in retail also supports the argument that TNCs do help in raising the welfare of the consumer by providing them with greater product choice and better quality. So in the end the consumer is always better off than before. Whether this firm later engages in predatory pricing or abuse of its dominant position cannot be predicted. In the short run or medium run, consumer welfare does not suffer.

In the present scenario, in spite of India being the second largest producer of fruits and vegetables (about 200 million tonnes) is facing high levels of food inflation. With the advanced supply chain management that these firms bring in, it will also provide the consumers with a relief to the current persistent levels of high inflation through transformation of the way perishable commodities are acquired.(Columbia university)

FDI tends to offset the impact of market power by weakening the relative price effect associated with output changes and by increasing the flexibility of adjusting variable input. The relative price effect generally arises when the price of goods and services rises more quickly than it generally does. This can arise due to inelastic demand in the market. The advantage of a weak relative price effect is that the market would become less volatile and benefit the consumer.

### D. FDI, Market power and Competition – Empirical evidences

Policies on FDI and technology imports in developing nations have undergone rapid liberalization, to a greater extent than those on trade and domestic credit. Most liberalization has occurred over the past decade or so, particularly for FDI in the industrial sector, with the pace accelerating in the 1990s. Many of the latest changes are under international commitments under the Uruguay Round. However, the trend reflects a change of attitude on the part of host countries. There are practically no policy controls left on technology transfer, in contrast to the 1970s when there were extensive interventions by governments on licensing. (Sanjay Lall)

In this paper I have taken a few countries which have been recognised as emerging market economies (EMEs). The reason for taking these economies is that they have some similarity in one way or the other and have already had a head start in introducing the FDI. For simplicity of analysis I have taken FDI in the major sectors have been taken which receive bulk of FDI in these emerging market economies. The case studies aim at analysing the impact of FDI on competition in the major sectors of EMEs.

The EMEs which have been taken into consideration are

1. China
2. Chile
3. Indonesia
4. Brazil
5. Thailand
6. Russia

Except Chile all the economies in the list have opened up to 100% FDI in retail.

1. **China**
Paul Deng and Gary Jefferson (2010) find strong evidence that foreign entry increases the productivity growth of Chinese domestic firms on average, but the growth of individual domestic incumbents depends on their technological position relative to foreign competitors. (Productivity in domestic firms is taken as an indicator for measuring level of competition) They actually measure the effect of foreign entry on productivity growth of domestic incumbent firms. For domestic firms in the industries that are closer to technology frontier, a 1% increase of foreign entry leads to roughly 0.6% additional increase of TFP (total factor productivity) growth. (Here the growth in Productivity is taken as a proxy to measure the level of competition among firms. In the face of foreign entry domestic firms in technologically more advanced industries enjoy much faster productivity growth than the firms that are in technologically more backward industries.

The sectoral distribution of FDI and level of competition in China gives a similar picture. China receives a major portion of its FDI in manufacturing (60%) followed by retail (24%).

- **Manufacturing**
  Unlike the early arrivals of small and medium-sized and labour intensive firms from Hong Kong and Taiwan, the new entrants of large MNEs, equipped with modern technologies, mainly target China’s huge and under-exploited domestic markets. Therefore, the presence of FIE (foreign invested enterprises) firms has forced and will continue to press China’s domestic firms to improve their performance in order to prevent their market shares from shrinking even further. Such impacts of FDI on China’s domestic economy may be much more profound and impact on industry competitiveness in manufacturing. (OECD)

- **Retail industry**
  China introduced 26% FDI in retail sector in 1992 and 51% twelve years later. The retail sector has seen rapid growth since then. The TNCs have increased market consolidation and production efficiency has been enabled by rising investment in rural infrastructure. According to Chinese analysts, the changes in the efficiency and productivity were made possible by entry of foreign retail giants like Wal-Mart and Carrefour who changed the way Chinese managed their businesses. From farm procurement to logistics, supply chain management techniques and technology spilled over to the local firms. (The Hindu)

20 years since then, it is the Chinese local retailers who still dominate the market in retail industry. The largest retailers are the Chinese companies like- the Shanghai Bailian group, Suning, Gome and Dashang — all have managed to capture a market share higher than Wal-Mart in China. Wal-Mart entered the Chinese market in 1996 and has seen a fall in its market share from 8% to 5.5% since then. This means the introduction of FDI in retail does not provide advantages to the TNCs only and allow them to establish market power to reduce competition among firms.

However what needs mention is that government facilitated the local suppliers to grow and adapt by liberalising the FDI through a gradual process. This gave time to the local suppliers to learn and take advantage of knowledge spill overs. This explains the crucial role that government has to play while introducing FDI in Indian retail industry.

According to CEPII, after the introduction of FDI following phenomenon were observed -

- Only six sectors fell into the category of “non-competitive sectors”: tobacco, timber, petroleum and gas extraction, petroleum processing, coal mining, ferrous metallurgy which are basically included in heavy industries.
in four “competitive sectors”, FIEs overtook SOEs as well as collective enterprises as main producers and accounted for the largest share of output.

This easily demonstrates that FDI has certainly increased the competition in China. We have got ample learning opportunities from China. In the recent debate on introduction of FDI in retail sector in Indian retail industry, FDI may prove beneficial in the long run. The multinationals can help us by teaching us a better way of supply chain management. Apart from this they would invest in infrastructure development and warehouse construction which would prevent the perishable items from getting spoiled.

1. **Chile**

Chile is an interesting economy because in the last decade, services sector in Chile received the major bulk of FDI. This is similar to the case of our country which receives the maximum percentage of FDI in service sector.

According to a report by World Bank on the impact of liberalisation of FDI on Chile, the manufacturing in emerging market economies is constrained by cumbersome business environments; the service sector plays an important role in such nations. FDI plays an important role in enhancing the performance of service sector. FDI infuses competition in the sector and better quality services could be made available. The paper by World Bank addresses the following question: did the increased penetration of FDI into producer service sectors in Chile benefit total factor productivity (TFP) of manufacturing firms between 1995 and 2004?

Electricity and water transport and telecommunications, and business services represent about 60% of net FDI inflows into Chile during the 1996-2001 periods.

- **Telecom and electricity**

FDI is likely to increase competition in local markets resulting in price reductions as incumbent firms - e.g., in electricity and telecommunications sectors - no longer retain the rents they obtained from being previously monopoly providers. The available evidence for banking, electricity and telecommunications confirms price decreases for Chile (Stehmann, 1995; Claessens et al., 2001. In the telecom sector, Stehmann (1995) argues that FDI led to more competition. In the electricity sector, Pollitt (2004) shows declines in prices during the 1990s.

Second, FDI in service sector may lead to service quality improvements due to competition from the superior technological, organizational, and managerial know-how of foreign-owned service providers. FDI can also provide the necessary finance for major upgrades and the expansion of existing electricity and telecommunications networks improving the reliability of provision. UNCTAD (2004)

The evidence from Chile also implies an increased competition in the services sector. Since India also receives a bulk of FDI in services it would prove beneficial for the competition in the sector.

2. **Thailand**

The manufacturing sector has attracted the majority of FDI inflows into Thailand. It is, however, noticeable that the share of the service sector in total FDI has increased significantly in recent years. Thailand witnessed major waves of foreign entry into the service sector, especially in banking and retail, following the 1997 financial crisis. (Sakulrat Montreevat, a Thai economist, a fellow at the Institute of Southeast Asian Studies)

- **Banking**

The opening up of the banking sector has enhanced competition and benefited Thai consumers, because it has helped them obtain more convenient services at lower cost. These foreign banks have been among the...
pioneers in new banking activities, such as consumer-banking and e-banking services. Also, foreign-bank entry has acted as a catalyst for change in domestic banks, as they attempt to maintain market share and profitability. In addition, acquisition by foreign banks has altered the corporate-governance structures of all banks. As the local banks faced new competition from international competitors, they revamped their corporate management.

An analysis focused on the time period after the East Asian Crisis of 1997, when Thailand experienced a large increase in FDI inflows by Akinori Tomohara and Kazuhiko Yokota shows that, on average, FDI improves domestic companies’ productivity in the same sector as well as in upstream sectors, but does not affect the productivity of domestic companies the downstream sector.

- **Retail**
  100% foreign equity in retailing with no limits on the number of outlets was introduced in 1997 in Thailand. Since then FDI has helped its agro processing industries to grow at a tremendous pace. Competition increased once large foreign-owned discount-store chains broke onto the scene, their popularity spreading rapidly, due to their greater variety and lower prices. Out of profitability considerations, the foreign retailers expanded their operations by opening smaller stores in local neighbourhoods, directly competing with supermarkets and convenience stores, which forced local retailers to improve their management systems and marketing strategies. However, the number of family-run shop houses and department stores still operating has fallen.

3. **Indonesia**

Secondary and tertiary sectors have attracted bulk of FDI in Indonesia. (Manufacturing (close to 30%) and services (about 40% of total FDI))

FDI in manufacturing and services has increased competition in these sectors.

- **Manufacturing**
  Blomström and Sjöholm (1999), use the firm level, cross sectional data for Indonesia and provide evidence of positive spill overs of FDI on firm productivity in Indonesia.

- **Retail**
  Indonesia is another EME which has introduced liberalised policies and allows 100% FDI in its retail sector in 1990s. Even after several years of emergence of supermarkets 90% of the fresh food and 70% of all food is still in the hands of the traditional retailers. There have been no complaints of abuse of dominance in the retail sector, the local retailer Mahatri being the leader in the industry. The TNCs need to fight for their share of market in a competitive environment. Blomstrom (1994) finds positive impact on industrial competitiveness.

4. **Brazil**

Gonçalves (2003) proves that there is no evidence of faster productivity growth in the foreign companies rather their domestic counterparts show rise in productivity levels in Brazil based on a sample of 22,000 companies. Using data from 1997 to 2000, he points out that national companies actually exhibit greater productivity growth as a result of improved competition. In the same study, Gonçalves sought to check empirically the existence of productivity spill overs from foreign to national companies. According to Gonçalves (2003), these results show that, for the largest national companies in Brazil that compete directly with foreign companies in the domestic market, the positive spill overs associated with demonstration and competition effects were surpassed by the negative effects related to loss of scale and the shift to activities with a lower value added potential.
Retail
Research on the impact of big players on small retailers in Brazil indicates that since its opening up to the foreign investment in 1994, the traditional small retailers managed to increase their market shares by 27%. (according to a report by CUTS international) The rise in market shares came about when they were able to increase their productivity by adopting better technology and give a tough competition to the foreign firms.

5. Russia
In a paper by Eugenia Bessonova, he investigates the effect of the entry of foreign firms on the efficiency of Russian industrial enterprises using the panel firm level dataset for 1995-2004. The analysis of the competition structure of Russian industrial sectors reveals that domestic concentration ratios remain high at regional level. We find that foreign entry has positive effect on the productivity of most efficient domestic firms. The effect of foreign entry on productivity of inefficient firms is negative. Our findings show that positive effect from foreign competition appears to be restrained by barriers preventing exit of inefficient firms.

Retail
The process of liberalisation of FDI in retail started in 2000s in Russia. Opening up to 100% of FDI registered a big growth since then. Competition in the industry has improved.

Findings
The evidences from the EMEs which are emerging market economies which are somewhat similar to India in one way or the other show that FDI in their major sectors of the economy have exhibited improved levels of competition leading to better quality services along with lower prices. In almost all the cases the domestic firms benefitted from the technological spill overs from the foreign firms. They have learnt to improve their production capabilities to fight for a share in the market. TNCs were not able to wipe out the domestic firms completely and emerge as the sole producer in spite of superior technology, economies of scale and better distribution channels.

E. Case for FDI in India
In India we have also liberalised the FDI policy in the past decade. Services sector has received the greater proportion of FDI, the leading industries attracting FDI being telecommunications, automobiles and Information & technology. According to a report by ASSOCHAM 2012 on India’s experience with FDI: role of a game changer, following sectors showed increased competition effects when opened to FDI-

Telecommunications – “The liberalization process that took place and the subsequent policy initiatives has paved the way for influx of private players. The regulatory body overseeing the functioning of the sector is The Telecom Regulatory Authority of India (TRAI) and its main objective is to ensure a level playing field that encourages greater but fair competition so as to provide the consumers a better ambit of services at an affordable price. The Indian government has relaxed the limits on FDI into the sector considerably which has led to an increase of foreign capital into the sector. FDI helps in attracting large amount of funds, advanced technology and market competition which results in better services for the customer”

Automobiles – in 2002 the equity caps for foreign investment was lifted and since then the automobile industry has witnessed a healthy growth in inflow of investments. With rising competition to attract customers the companies now design their products suitable to consumer’s requirements. Better and diversified products due to competition effects add to consumer welfare.
IT/ITES – this sector has been opened to 100% FDI. This has become one of the sunshine sectors in India due to evolving better quality products as a result of competition. No evidences of a TNC accumulating market power have been found.

The introduction of FDI in our country in few of the sectors has proved to be a success. The foreign investment in other sectors which are still untouched can repeat the story given we do not compromise on the regulation.

F. Need for policy intervention

It has been experienced that in developing economies, weak bargaining and regulatory capabilities can result in unequal distribution of benefits and an abuse of market power by TNCs. The developing countries can face serious consequences unless competition law is enforced strictly. The way TRAI in telecommunications has kept a watch on anti-competitive tendencies, the same way we need strong institutions. The developing nations have weak institutions and structural market imperfections. The promotion of competition in markets under such circumstances becomes even more challenging.

Another issue that has been observed is that even the multinationals who do not possess market power can easily become dominant players by indulging in quashing the competition in market. This is possible because these firms have large revenues and deep pockets as compared to domestic investors. Many types of complaints have been made in developing countries in this respect. These include, for example, local dairy- and farm-products suppliers to large multinational retail chains, such as Carrefour and Tesco that were accused of abusing their dominant power to impose excessively restrictive conditions on local suppliers.

Since the ultimate interests of the transnationals and the economic interests of an economy differ, therefore we do require policy intervention. In India, competition commission of India plays a major role in restricting anti-competitive tendencies in the market. The commission is empowered to take legal actions against such moves and can even impose heavy penalties.

G. Conclusions

FDI has proved to stimulate economic growth and development in many of the countries. It not only promotes capital formation but also improves the quality of capital stock. In order to promote competitive markets developing nations must reduce restrictions on FDI. We need to learn from the experiences of successful countries. The ultimate motive should be to minimise the “bads” and maximise the “benefits”. The benefits from FDI tend to be maximized when foreign investors operate on an even and competitive playing field. This means they need to be treated just like domestic companies (“national treatment”). In addition, competition, free entry, customer choice and free exit, should determine who gains and who loses. A competitive and even playing field creates incentives to upgrade productivity throughout the economy; countries also need domestic actors capable of responding to these incentives. This implies that the domestic labour force must be capable enough of taking advantage of the skills upon which these firms have an edge. (World Bank)

Thus the government should act as a “facilitator” rather than a “provider”. We should try to create a conducive environment for the TNCs to operate and make investments in India more attractive. We can introduce FDI in our economy through a gradual process such that the local enterprises get time to adapt to the new competitive era and absorb the technological spill overs that these TNCs bring in along with them. The transnationals should also compete with the local firms for market share within our policy framework. There is no dilemma in allowing FDI into the domestic sectors. There is no doubt that government has a major role to play. The level and composition of FDI that should be allowed is a challenge that needs to be addressed. There could be policies that
can allow us to extract maximum benefits from foreign investments that outweigh the losses we suffer from them.

In India, a strong legal framework in the form of competition commission of India is available to deal with any anti-competitive practices including predatory pricing. Therefore, we should not be afraid of inviting foreign firms for investment.

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