

# Digital competition in India and Europe

Blog post by Chief Economist Dr Gregor Irwin, 6 November 2017

In New Delhi last week, I joined business and political leaders considering the prospects for the digital sectors in India and Europe. The differences and the similarities, in the outlook and the issues being confronted by policymakers in each market, are equally striking.

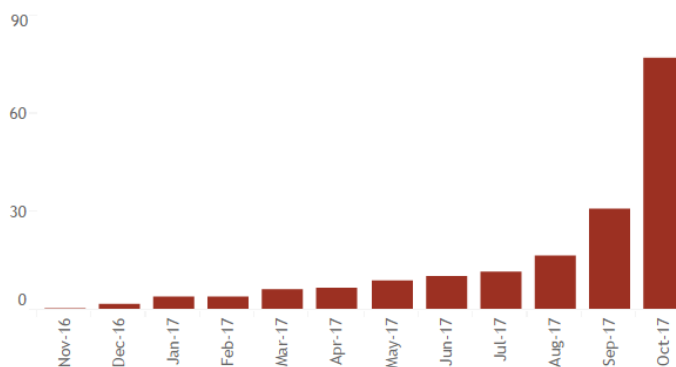
The differences are not hard to find. The European market is currently streets ahead in the widespread adoption of digital applications, particularly for sophisticated services in payments and other financial services, although less so in social media. But in India, the prospects for rapid growth are immense, with the potential to create a digital marketplace that may soon dwarf its European counterpart.

There were plenty of eye-popping statistics being traded. In the past few years, digital identities have been issued for 1.16 billion Indians; the number of people with bank accounts has risen to 1.1 billion; and over 1 billion Indians now have mobile phones, with most of them smartphones. This is a population that has just been primed for transacting online.

It has not happened by accident. It is largely a consequence of government policies to bring people and cash-based businesses into the formal economy. Some of these policies have been controversial, such as demonetisation, which in November 2016 saw 86% of cash withdrawn overnight to be replaced by new currency that was issued solely through bank accounts.

The merits of that policy are still being debated, but it is undeniably impacting on the way people shop and do business. The volume of transactions through the new Unified Payments Interface, which enables real-time cash transfers between individuals or traders with an account and a smartphone, reached almost 77 million in October, from negligible levels in November last year. For businesses, the cost of acquisition of new customers using digital channels has fallen dramatically. And the pace of digital innovation by both established companies and new tech firms has taken off.

UPI monthly transactions, millions



Source: National Payments Corporation of India

Indians and Europeans share the same fears about a lack of competition in the digital sector, however, and the failure of their firms to put up a decent fight against the dominance of the big US and Chinese online platforms. Just as Europe has slowly woken up to the fact that US tech firms dominate the strategic heights of the European digital marketplace, so too India is concerned that US or Chinese firms are set to capitalise on the market potential there, leaving Indian firms in the second tier.

Policymakers in both India and Europe are wrestling with the challenge of how to create an environment that leaves maximum space for innovation, while protecting consumers and the privacy of their data and ensures a level playing field for competition. In India, there is an added cultural dimension, with a concern in Delhi about a new form of colonisation through digital content.

Existing frameworks for competition policy are not designed for markets where the main source of competition is access to data and many services are ostensibly free. But ensuring fair competition - and addressing the dominance of US and Chinese firms - without resorting to protectionism, is probably the hardest and the single most important challenge facing digital policymakers. The good news for Indian policymakers is that they can probably afford to wait and learn from the successes or failures of their European counterparts. Policymakers in Europe don't have that luxury.