



Competition in Digital Markets

For Prelims: [Competition Commission of India \(CCI\)](#), [digital platforms](#), [competition law](#), [online ads](#), [targeted advertising](#), [regulatory framework](#), [Personal Data Protection Bill, 2023](#)

For Mains: Key aspects of Digital markets, Challenges Associated with the Competition in Digital Markets

[Source: IE](#)

Why in News?

Recently, at the 15th annual day celebrations of the Competition [Commission of India \(CCI\)](#), the Chairperson stressed upon the tendencies of digital markets towards market concentration leading to monopolistic tendencies.

What were the Key Highlights of the Event?

- According to the CCI Chairperson, the control of [digital platforms](#) over large datasets can create barriers to entry for new players, compromise platform neutrality, and lead to algorithmic collusion.
- [Attorney-General for India](#) also highlighted that the **monopoly of e-commerce** platforms over user data **"can be an area for scrutiny"** and the need for new ideas to balance the free market and social benefit, requiring legal innovation.
- For the future, the digital economy offers immense opportunities for innovation, growth, and consumer benefit but has **challenged traditional competition law frameworks** worldwide.
- In the context of digital markets, the **importance of tools like behavioural economics** to understand human preferences was also highlighted.

What is a Digital Market?

- **About:**
 - Digital markets, also called online markets, are essentially any commercial space where **businesses and consumers connect through digital technologies**.
- **Examples:**
 - **E-commerce Marketplaces:** These are online platforms where businesses **sell products directly to consumers (B2C)**, like Amazon and eBay.
 - **Digital Advertising:** This involves [online ads](#) displayed on websites, social media platforms, or search engines. Companies like Google Ads and Facebook Ads operate in this space.
 - **Social Media Marketing:** Businesses utilise [social media platforms](#) like Facebook, Instagram, or Twitter to connect with potential customers, build brand awareness, and promote products or services.
 - **Search Engine Optimization (SEO):** This involves optimising a website's content and structure to rank higher in search engine results pages (SERPs), increasing organic traffic.
- **Characteristics Leading to Monopolistic Tendencies:**

- Many digital markets exhibit certain characteristics, such as **low variable costs, high fixed costs and strong network effects**, that result in high market shares for a small number of firms.

What are the Challenges Associated with the Competition in Digital Markets?

- **Market Dominance and Anti-Competitive Practices:**
 - A few powerful players can control a large share of the market, stifle innovation, and limit consumer choice. This dominance can lead to **anti-competitive practices like:**
 - **Self-preferencing:** A platform **prioritises its own products or services** over competitors in search results or promotions.
 - Example: **Google allegedly favouring its own shopping results over other platform.**
 - **Tying and Bundling:** Forcing users to **purchase unwanted products** or services alongside desired ones.
 - **Example:** iPhones offer a smooth user experience when paired with other Apple products like iPods and Apple Music. This **tight integration** forces the users to stay within the Apple ecosystem, potentially limiting their options with other brands.
 - **Exclusive Deals:** Locking suppliers or distributors into exclusive agreements, **hindering competition.**
 - Example: A streaming platform like Hotstar, Jio Cinema etc securing **exclusive rights to shows, limiting viewer options.**
- **Network Effects and Winner-Take-All Dynamics:**
 - The value of a platform increases as more users join, creating a **snowball effect** that makes it **difficult for new entrants** to compete.
 - For **example:** Social media platforms like WhatsApp, Instagram etc. become more valuable with more users. This can lead to:
 - **High Switching Costs:** Users become addicted due to **accumulated data, network connections**, or sunk costs, making it hard to switch to a competing platform.
 - **Reduced Innovation:** Dominant players may have less incentive to innovate as they hold a strong market position.
- **Data Advantage and Privacy Concerns:**
 - Digital companies collect **vast amounts of user data**, giving them an advantage in **personalisation, targeted advertising, and product development**. This raises concerns about:
 - **Consumer Privacy:** The method through which user data is collected, stored, and used can be opaque, leading to privacy violations.
 - **Unequal Playing Field:** New entrants may struggle to compete with established players who have a rich data set to leverage.
- **Regulatory Challenges:**
 - The fast-paced nature of digital markets can make existing regulations ineffective. Regulators struggle to define and address:
 - **Antitrust Issues:** Defining and proving **anti-competitive behaviour** in complex digital ecosystems can be difficult.
 - **Determining a dominant firm** is also a substantial challenge.

What are Possible Solutions to Monitor the Digital Markets Competition?

- **Proactive Measures:**
 - **Designation of Systemically Important Digital Intermediaries (SIDIs):** Identification of dominant players with **significant market power** (based on user base, and revenue) and subject them to **stricter regulations**.
 - **Prohibition of Anti-Competitive Practices:** Explicitly **banning practices** like self-preferencing and exclusive dealing that stifle competition.
 - Example: A **platform can't prioritise its own products over competitors** in search results.
 - **Data Sharing and Interoperability:** Mandating **data sharing or platform**

interoperability to some particular extent to allow users to move data or services between platforms more easily.

- **Example:** Allowing users to transfer their online shopping cart from one platform to another.

▪ **Strengthening the [Competition Commission of India \(CCI\)](#):**

- **Enhanced Resources and Expertise:** Providing the CCI with additional powers, resources and personnel to effectively monitor digital markets and investigate potential anti-competitive practices.
 - **Example:** The **53rd Parliamentary Standing Committee Report** recommended strengthening the CCI to address competition concerns in digital markets.

▪ **Promoting Innovation with Data Protection:**

- **Regulatory Sandbox:** A [regulatory framework for startups](#) in digital markets should be established **to test innovative products and services** in a controlled environment with reduced regulatory burdens.
- **Transparency and User Choice:** Detailed regulations requiring platforms to be transparent about data collection practices and providing users with meaningful control over their data should be framed.
 - **Example:** The [Personal Data Protection Bill, 2023](#) aims to empower users with greater control over their personal data.

Conclusion

Digital markets offer a dynamic space for businesses and consumers to connect, but they also present unique challenges. The potential for monopolies, data privacy concerns, and a lack of innovation necessitate proactive solutions. With the increasing digitisation of the global world, it is imperative for India to take necessary steps to foster suitable conditions for startups.

Drishti Mains Question:

Q. Discuss key features of Digital markets. What are the challenges and possible solutions associated with the competition in digital markets in India?

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims:

Q1. 'Right to Privacy' is protected under which Article of the Constitution of India? (2021)

- (a) Article 15
- (b) Article 19
- (c) Article 21
- (d) Article 29

Ans: (c)

Q2. Right to Privacy is protected as an intrinsic part of Right to Life and Personal Liberty. Which of the following in the Constitution of India correctly and appropriately imply the above statement? (2018)

- (a) Article 14 and the provisions under the 42nd Amendment to the Constitution.
- (b) Article 17 and the Directive Principles of State Policy in Part IV.
- (c) Article 21 and the freedoms guaranteed in Part III.

(d) Article 24 and the provisions under the 44th Amendment to the Constitution.

Ans: (c)

Mains:

Q. Examine the scope of Fundamental Rights in the light of the latest judgement of the Supreme Court on Right to Privacy. **(2017)**

PDF Reference URL: <https://www.drishtiias.com/printpdf/competition-in-digital-markets>

