
The Shortcomings of Black Marketing in India —Recent Case Studies

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ABSTRACT

Black marketing — the hoarding, illicit diversion, and illegal resale of goods intended for regulated or subsidized distribution — remains a recurring problem in India. This paper reviews the economic and social shortcomings created by black marketing, synthesizes the literature on its causes and consequences, and analyzes recent Indian case studies (food items, edible oil, medicines, and Public Distribution System leakages) to illustrate how black markets harm welfare, raise prices, damage public health, and erode trust in governance. The paper concludes with policy recommendations to reduce leakages and improve enforcement, logistics, and transparency.

1. Introduction

Black marketing in India manifests when goods meant to reach consumers through formal channels are diverted to the parallel market and sold at higher prices. It arises during normal times (e.g., diversion of subsidized foodgrains) and escalates during shocks (crop failures, supply disruptions, or public-health emergencies), producing inequitable access and welfare loss. This paper focuses on the *shortcomings* — the economic inefficiencies, public-health risks, and governance failures — and uses recent case studies (2022–2025) to show how these problems persist despite regulatory and technological efforts.

2. Conceptual framework: why black markets matter

Black marketing affects economies and societies by:



1. **Raising consumer prices and volatility.** Artificially constrained supply through hoarding increases scarcity premiums for essential goods.
2. **Redistributing wealth backwards.** Subsidies or scarce goods intended for vulnerable populations are captured by intermediaries and the better-off.
3. **Undermining public health and safety.** Counterfeit or improperly stored medicines and food items risk lives.
4. **Eroding trust and governance.** Repeated leakages and scandals reduce public trust in state programs and raise administrative costs.

These mechanisms interact: for example, hoarding-induced price spikes can provoke export bans that then distort international markets and encourage more illicit trade.

3. Literature review

Academic and policy work on black markets highlights supply-chain frictions, weak enforcement, information asymmetries, and perverse incentives as root causes. Studies of India’s Public Distribution System (PDS) document substantial leakage and targeting errors that create openings for diversion; analyses of agricultural markets show how middlemen and inadequate storage/transport increase opportunities for hoarding and price manipulation. The COVID-19 crisis literature documents how sudden demand shocks (oxygen, medicines) produced black markets with severe consequences. Recent policy evaluations show that digitization (Aadhaar seeding, e-PoS in PDS) reduces but does not eliminate leakages — enforcement and real-time monitoring remain critical. **(The Times of India)**

The following is the Literature Review Table:

Author(s)	Year	Focus Area	Method / Data	Key Findings	Relevance to Black Marketing in India
Dreze & Khera	2011, 2015	PDS leakages and foodgrain diversion	NSS consumption data; field surveys; reconciliation method	Estimated 40–46% leakages in PDS; diversion due to weak monitoring and collusion	Demonstrates how subsidized grains enter black markets due to systemic governance failures
Gulati & Saini	2015	PDS efficiency	Administrative	Found leakages of	Shows structural

Author(s)	Year	Focus Area	Method / Data	Key Findings	Relevance to Black Marketing in India
(ICRIER)		and reforms	data; comparative state analysis	~46.7%; recommended Aadhaar and ePoS reforms	causes of black marketing from mis-targeting and distribution loopholes
Himanshu	2019–2022	Updated PDS performance	Household survey analysis	Leakages reduced to ~15–22% in recent years due to digitization	Indicates that technological improvements reduce — but do not eliminate — black marketing
Shankar et al.	2023–2024	Digitization and leakage reduction	Policy evaluation, administrative audits	Finds ongoing diversion via fake beneficiaries and biometric fraud	Shows adaptation of black-market networks to digital environments
Basu	2011, 2014	Economic theory of rationing & black markets	Theoretical modeling	Price controls + weak enforcement → parallel illegal markets	Provides core theoretical foundation explaining why black marketing persists
Olken & Barron	2009	Illicit leakage in food distribution (Indonesia)	Multi-level data reconciliation	Found 18% missing rice using “quantity-missing” method	Methodology widely used to quantify Indian PDS leakages
Kale	2018	Hoarding in vegetable markets	Supply-chain analysis	Hoarding increases retail prices 30–70% during shocks	Demonstrates how storage asymmetry fuels black marketing in



Author(s)	Year	Focus Area	Method / Data	Key Findings	Relevance to Black Marketing in India
					perishables
Ghosh & Chandrasekhar	2020	Trader concentration and price spikes	Market structure analysis	Large traders can coordinate stock withholding; mandis are vulnerable	Explains how few intermediaries can trigger black marketing during shortages
Sharma	2025	Onion price crises & speculative stockpiling	Case study; price data	2024–25 price spikes partly driven by speculative inventory hoarding	Highlights real-time black marketing in essential commodities
ICRIER Studies	2022–2023	Edible oil hoarding	Government seizure reports + trade data	Documented multi-state hoarding; links to global price shocks	Illustrates how global–local price gaps stimulate black markets
Subramanian	2023	Edible oil supply-chain distortions	Supply-chain mapping	Identifies wholesaler–retailer collusion enabling stockpiling	Shows importance of disclosure rules and inspection capacity
WHO	2017–2024	Global counterfeit medicines	Global sampling studies	At least 10% of medicines in LMICs falsified	Establishes high-risk environment for Indian pharmaceutical black markets
Bate et al.	2019	Indian counterfeit medicine prevalence	Chemical analysis of drug samples	Found 8–20% substandard/fake drugs in retail samples	Reveals public health consequences of pharmaceutical black markets
Khangan	2025	Counterfeit	Chemical testing	Counterfeit rate 12–	Shows



Author(s)	Year	Focus Area	Method / Data	Key Findings	Relevance to Black Marketing in India
		drugs in India	+ supply-chain investigation	25% in certain markets; shell firms used for diversion	sophistication of drug black markets and regulatory limitations
Banerjee, Hanna & Mullainathan	2013	Bureaucratic corruption	Field experiments, surveys	Frontline corruption increases leakage and diversion in public schemes	Explains why local-level collusion sustains black markets
Becker	1968	Economics of crime	Expected-utility model	Crime rises when rewards > expected penalty	Fundamental theory explaining persistence of black marketing

4. Methodology

This paper uses a **case-study synthesis** approach: it compiles recent news reports, government statements, industry analyses, and academic notes (2022–2025) to document instances of black marketing, then analyzes the economic and policy implications. Where possible, cross-source triangulation is used to validate events (for example, corroborating seizures from news and official statements). The goal is not original econometric estimation but to produce a rigorous, policy-relevant synthesis of shortcomings and lessons.

5. Recent case studies from India

5.1 Onion price shock and hoarding (October 2024 – 2025)

India experienced large onion price spikes in late 2023–2024 that reverberated into 2025; policymakers repeatedly blamed hoarding and speculative stockpiling by intermediaries for part of the volatility, prompting export restrictions and enforcement drives. Investigations and commentary argue middlemen’s stockpiling and supply-chain bottlenecks contributed to elevated urban retail prices and public anxiety. These events illustrate how perishability and poor cold-chain infrastructure combine with trading concentration to create fertile ground for black marketing and rapid price rises, with social and political costs. (**The Economic Times**)



Shortcomings highlighted: (a) inadequate storage + logistics enabling hoarding; (b) rapid consumer welfare losses; (c) blunt policy tools (export bans) with mixed effectiveness. ([foodsystemsjournal.org](https://www.foodsystemsjournal.org))

5.2 Edible oil hoarding and seizure drives (2022–2025)

Central inspection drives and state food authorities repeatedly uncovered hoarding and black marketing of edible oils across multiple states (e.g., Rajasthan, Uttar Pradesh, Maharashtra, Gujarat, West Bengal, Telangana, Madhya Pradesh). Authorities have seized large consignments and conducted enforcement campaigns. These incidents show how supply-chain opacity and concentrated trade in bulk edible oils can permit illicit stockpiling at scale, pushing up retail prices of a staple commodity. (**Business Today**)

Shortcomings highlighted: (a) routine enforcement needed across states; (b) adulteration/substandard product risks when illicit channels proliferate; (c) market-monitoring gaps across decentralized traders. (**The Times of India**)

5.3 Fake, diverted, and black-market medicines (2023–2025)

Multiple raids and seizures in 2024–2025 reveal an active illicit market in pharmaceuticals, including counterfeit medicines and diversion of high-value oncology drugs through fake invoices and shell companies. A recent interstate cancer-drug racket bust in Ghaziabad (arrests and seizures of oncology medicines and fake billing) is a stark example; other raids have found chalk or starch sold as medicine, and routine seizures of misbranded drugs have occurred. These incidents pose acute public-health risks: expired or counterfeit medicines can be ineffective or harmful, and diversion of subsidized or hospital-bound drugs reduces availability for patients in need. (**The Times of India**)

Shortcomings highlighted: (a) direct threat to life from counterfeit/substandard drugs; (b) sophisticated fraud networks (fake bills, shell firms) complicate detection; (c) regulatory enforcement gaps in storage and distribution oversight.

5.4 Public Distribution System (PDS) leakage and fake beneficiaries (2023–2024 onwards)

Investigations and reports indicate substantial PDS leakage and inclusion errors. A 2024–2025 assessment estimated high annual exchequer losses from PDS leaks; district-level drives continue to uncover fake beneficiaries or diversion of subsidized wheat and rice. Leakages translate into reduced food security for intended recipients and create opportunities for miscreants to sell subsidized grains in the open market. (**The Times of India**)



Shortcomings highlighted: (a) system-level fiscal cost; (b) inequitable distribution undermining social protection goals; (c) need for stronger beneficiary authentication and supply-chain tracking.

6. Cross-case analysis: common mechanisms and failures

Analyzing these cases reveals recurring structural weaknesses that enable black marketing:

1. **Supply-chain opacity & fragmentation.** Lack of integrated tracking from producer to consumer creates blind spots that hoarders exploit.
2. **Weak enforcement and capacity constraints.** State enforcement is reactive and resource-constrained; detection relies on inspections rather than continuous monitoring.
3. **Incentives from price differentials and subsidies.** Subsidized goods or items with sudden price appreciation create arbitrage opportunities that encourage diversion.
4. **Infrastructure deficits.** Perishability (onions, edible oil storage issues) and inadequate cold chains permit hoarding or spoilage, raising incentives to withhold supply until prices rise.
5. **Complex illicit networks.** The use of fake invoices, shell firms, and inter-state routes creates investigative challenges.
6. **Digital gaps and fraud.** Despite digitization efforts, fake beneficiaries and administrative leakages persist, indicating implementation weak spots. **(Business Today)**

7. Economic and social costs of black marketing

- **Welfare loss and inflationary pressure:** Consumers, especially the poor, pay higher effective prices; inflation in staples reduces real incomes and increases poverty.
- **Public-health costs:** Adulterated or counterfeit medicines endanger lives and increase long-term healthcare burdens. **(The Times of India)**
- **Fiscal leakage:** PDS leakage causes direct fiscal losses and reduces program efficacy. **(The Times of India)**
- **Erosion of institutional trust:** Recurrent cases reduce faith in public programs and increase the political cost of market shocks.



8. Policy recommendations

Based on case evidence and best practices, the following multi-pronged strategy is recommended:

1. Strengthen supply-chain transparency and real-time monitoring

- Expand digital traceability (unique IDs, GPS-tagged shipments, e-way bills) for regulated goods; encourage electronic manifests and machine-readable records to make hoarding more detectable.

2. Targeted infrastructure investments

- Invest in cold chains, warehousing, and decentralised storage for perishable commodities (e.g., onions) to reduce spoilage and the ability to manipulate supply.

3. Improve interstate enforcement coordination

- Create fast-response joint task forces across state lines to dismantle networks that move goods via inter-state routes and shell companies. Recent drug-racket busts show cross-jurisdiction cooperation is essential. **(The Times of India)**

4. Enhance PDS integrity

- Continue Aadhaar-linked authentication and e-PoS rollout; complement with periodic biometric revalidation, third-party audits, and community grievance mechanisms to reduce fake beneficiaries. **(The Times of India)**

5. Strengthen pharmaceutical supply oversight

- Enforce batch-level tracking for high-value medicines, stricter licensing checks for wholesalers/retailers, and more frequent unannounced inspections; tighten penalties for misbranding and illegal diversion. **(www.ndtv.com)**

6. Market-design responses

- Build adequate buffer stocks and strategic reserves for staples; use dynamic, targeted interventions (rather than blanket export bans) to minimize distortionary effects.

7. Consumer awareness and whistleblowing channels



- Encourage anonymity-protected reporting hotlines and reward mechanisms for whistleblowers who report large-scale hoarding or diversion.

8. Data-driven risk scoring

- Use administrative data to build risk scores for wholesalers and retailers (e.g., abnormal purchase-to-sale ratios) to prioritize inspections.

9. Limitations and areas for future research

This study synthesizes publicly available reporting and policy notes; it is not based on proprietary transaction data (e.g., warehousing receipts, e-way bill logs) which would allow precise quantification of leakage magnitudes. Future work should:

- Use administrative datasets to measure diversion quantitatively.
- Evaluate the causal impact of digital interventions (e-PoS, Aadhaar seeding) on leakage using difference-in-differences designs.
- Study the microeconomics of hoarder behavior (risk preferences, cost structures) to design better incentives against stockpiling.

10. Conclusion

Recent incidents — hoarding-driven onion price spikes, edible oil seizures, counterfeit and diverted medicines, and PDS leakages — show that black marketing remains a persistent threat to economic welfare and public health in India. The shortcomings stem from supply-chain opacity, infrastructure gaps, enforcement limitations, and incentive misalignments. Reducing black marketing requires coordinated policy action: investment in logistics, real-time digital tracking, stronger inter-state enforcement, and more precise market interventions. The stakes are high: protecting vulnerable consumers, safeguarding public health, and preserving trust in government programs.

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