POLITICS OF PRIVATISATION

Some lessons from India

Economic Freedom Network Asia
Kualalumpur, 11 Oct 2011

Barun Mitra

Liberty Institute, New Delhi

barun@libertyinstitute.org.in

www.InDefenceofLiberty.org

Expanding the Private Sphere

“Civilization is the progress toward a society of privacy. The savage's whole existence is public, ruled by the laws of his tribe. Civilization is the process of setting man free from men.”

- Ayn Rand

PSUs at commanding the heights

- Market failure,
  - private sector not mature enough,
  - not socially conscious enough, and
  - not capable enough for leading the charge for nation building

- Public Sector Units
  - Planned and directed by the state
  - Improving access goods and services
  - Providing employment
  - Social responsibility
  - Contribute to public exchequer

PSUs fall from the height

- Encompassed industries as diverse as airline, banking, bread, energy, engineering, hotel, mining, telecom, roads, water, etc
- Return on investment has been 2% per annum or lower
- Employment stagnated
- Quality declined, and shortages increased
- Rent seeking and corruption was pandemic
- Vested interests resisted reforms

Politics of change

- Growing fiscal deficit
- Rising Inflation and price
- Declining authority of political leadership
- Inability of PSUs to contribute
- Spreading political discontent
- Increased political competition - anti-incumbency
- Pressure to perform
- Not so much about how, but the demand to deliver performance
- Exploring policy options to improve performance
- Privatisation or disinvestment

Economic crisis as an opportunity

Fiscal crisis in the year 1991,

- need to liberalise the economy
- greater reliance upon market forces, and the private sector,
- attract foreign direct investment.

Liberalisation aimed at boosting economic growth and integration with the global economy

- Deregulation,
- Delicensing and decontroling business and industry significantly
- Lowering of protectionist barriers
- Recognition for the need for operational autonomy to PSUs

Making public policy politically viable

Privatisation and Competition

- Strategic sale
- Exclusion on grounds of national interest / security
- Disinvestment – dilution of govt equity
- Gradual dilution of govt holding
- Increasing control by pvt management
- Liberalising the sector
- Entry of new players
- Increased competition
- Diminishing significance of PSU
- Political viability of letting the PSU decay, die, or transfer

Major instances of Disinvestment (1)

Sr No	Year	Name of CPSE Disinvested	Amount Released (Rs. Crores)
1	1999-00	Bharat Aluminium Co. Ltd.	275.42
2	2001-02	Videsh Sanchar Nigam Ltd.	2275.19
3	2001-02	State Trading Corporation of India Ltd.	40.00
4	2001-02	Minerals and Metals Trading Corporation of India Ltd.	60.00
5	2001-02	HCI-Hotel Centaur Juhu Beach, Mumbai	153.00
6	2002-03	HCI– Centaur Hotel Mumbai Airport, Mumbai	83.00
7	2002-03	Hindustan Zinc Ltd.	6.19
8	2001-02	HCI-Indo Hokke Hotels Ltd., Rajgir	6.51

Major instances of Disinvestment (2)

Sr No	Year	Name of CPSE Disinvested	Amount Released (Rs. Crores)
9	2002-03	CMC Ltd.	152.00
10	2004-05	Indian Petrochemicals Corporation Ltd.	64.81
11	2005-06	Maruti Udyog Limited	1002.08
12	2001-02	ITDC (All hotels combined)	448.73
13	1999-00	Modern Food Industries (India) Ltd.	105.45
14	2000-01	Lagan Jute Machinery Company Ltd	2.53
15	2001-02	HTL Ltd.	55.00
16	2001-02	Paradeep Phosphates Ltd.	151.70
17	2001-02	IBP Ltd.	1153.68
18	2003-04	Jessop& Co. Ltd	18.18

Highlights of Public Offers

- CPSEs constitute 21.83% and 22.31% of the total market capitalisation of companies listed at BSE and NSE respectively (as on 30 September 2011)
- The CPSE with the highest market capitalisation is Oil & Natural Gas Corp.Ltd. at Rs. 2,27,319 crore (BSE) and Rs. 2,27,662 crore (NSE) (as on 30 September 2011)
- VSNL was the first CPSE to be divested by way of a Public Offer in 1999-00
- ONGC Public Offer in 2003-04 has been the largest CPSE FPO, raising Rs. 10,542 crore
- Coal India Public Offer in 2010-11 has been the largest CPSE IPO, raising Rs. 15,199 crore
- Total disinvestments proceeds from CPSE Public Offers in the Current Financial Year is Rs. 1144.55 crore (as on 10 October 2011)

Aviation Sector in India

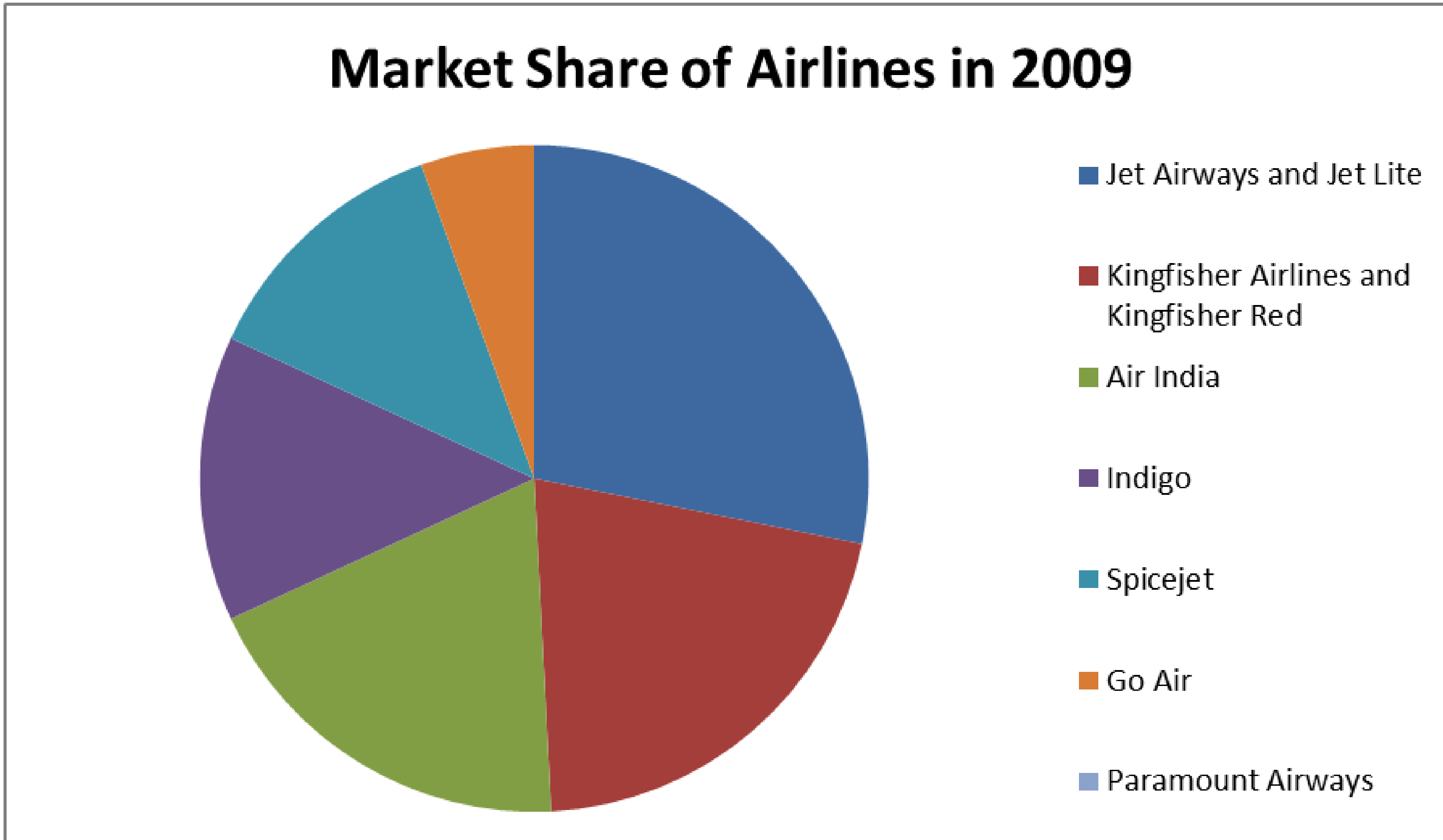
Structural Evolution in the Aviation Sector

- The Air Corporation Act on 28th May 1953 nationalized the airline industry in India.
- In 1986, private airlines were allowed to operate the Air Taxi Scheme.
- In March 1994, the Air Corporation Act was repealed and the air transport sector in India was opened to private players.
- In 1997, several steps were taken to remove the barriers to entry and exit from the sector. There was only a pre-entry scrutiny of applications.
- In 1997-98 the government approved foreign equity up to 40% and NRI/OCB investment up to 100%.
- In August 2003, Air Deccan, the first low cost carrier entered the domestic aviation industry.

Growth in Airline Passenger

Year	Air Travelers Per 1000 People
1970	4.87
1975	6.25
1980	9.60
1985	14.36
1990	12.78
1995	15.29
2000	17.02
2005	25.14
2010	53.17

year	Domestic Passengers (In lakhs)	International Passengers (In lakhs)	Major Airline Operators
1992-1993	22	78	Air India (1932), Jagson Airlines (1991), Vayudoot (1981), Jet Airways (1993), Air India Regional (1996), Blue Dart Aviation (1995), Deccan aviation (1997), JetLite (1991)
2002-2003	206.80	158.89	No New Players Entered
2004-2005	243.45	178.53	+Go Air (2004), Kingfisher Red (2003)
2006-2007	278.73	198.71	+Air India Express (2005), Club One Air (2005), Indigo (2006), Kingfisher Airlines (2005), Spicejet (2005)
2008-2009	319.12	221.64	No New Players Entered
2010-2011	365.36	246.16	+Invision air (2011), Jet Konnect (2009)


Market Share of Airlines in 2009
Jet Airways and Jet Lite
Kingfisher Airlines and Kingfisher Red
Air India
Indigo
Spicejet
Go Air
Paramount Airways

Automobile Sector in India

Structural Evolution in the Automobile Sector

Pre 1983

- Closed market, growth of market limited by supply.
- Outdated models, higher costs
- Automobile Industry Players: Hindustan Motors, Premier, Telco, Ashok Leyland, Mahindra & Mahindra.

1983-93

- Government of India (GoI)-Suzuki joint venture (JV) to form Maruti Udyog.
- Joint ventures with companies in commercial vehicles and components.
- Players: Maruti Udyog, Hindustan Motors, Premier, Telco, Ashok Leyland.

1993 Onwards:

- Delicensing of sector in 1993.
- Global major original equipment manufacturers (OEM) start assembly in India
- Imports allowed from April 2001; alignment of duty on components and parts to Association of Southeast Asian Nations (ASEAN)* levels.
- Growth of automobile component sector
- More global players, such as Volkswagen, BMW, Nissan, etc., set up manufacturing bases in India.

Automobile Sector in India

year	Cars produced in India	Existing Car Producers	Cars per 1000 people
1951-55	4611*	• Hindustan Motors Ltd. (1942), • Mahindra & Mahindra Ltd. (1945), • Tata Motors Ltd. (1945) (All Domestic)	0.012
1956-60	12,949*	No new players entered	0.035
1965	24790	No new players entered	0.056
1970-71	36,032	No New Players entered	0.065
1975-76	21,658	No New Players entered	0.039
1975-76	21,658	No New Players entered	0.039
1980-81	31,275	• +Maruti Suzuki India Ltd (1981) (Foreign)	0.045

*Five-year annual average; Source: ACMA (1986)

Automobile Sector in India… (2)

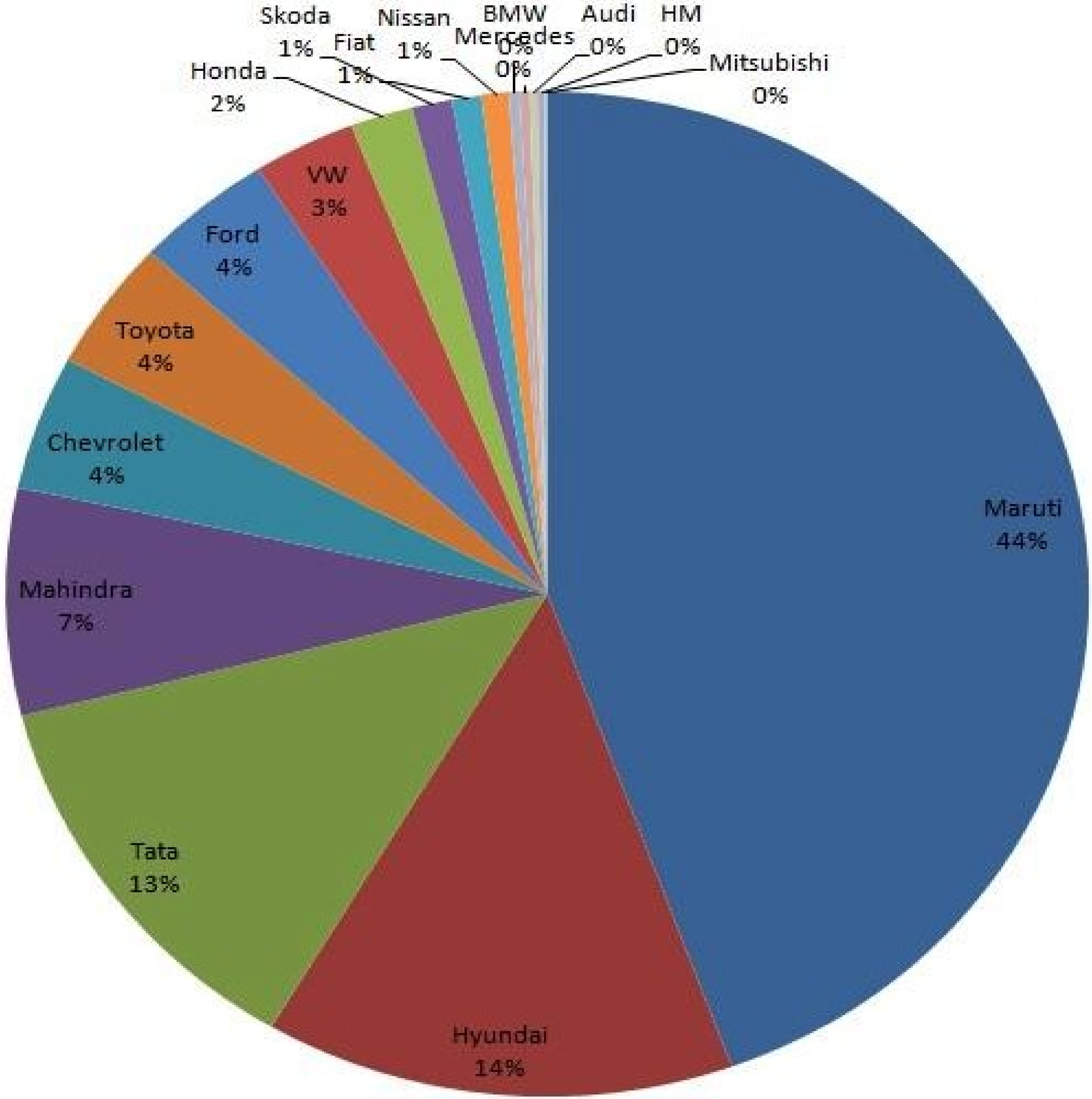
Year	Cars Produced in	Existing Car Producers	Cars per 1000 people
1985-86	102,804	No New Players entered	0.15
1990-91	181,818	No New Players entered	0.21
1995-96	348,146	• +GM India Pvt. Ltd. (1994), • +Mercedes-Benz India Pvt. Ltd. (1994), • +Honda Siel Cars India Ltd. (1995), • +Hyundai Motor India Ltd. (1996) (All Foreign)	0.41

Classification of OEMs into ‘domestic’ or ‘foreign’ is done based upon current shareholding pattern of the company. If more than 50% of shares are owned by an Indian company then it is classified as a ‘Domestic OEM’, and if owned by a foreign company then as a ‘Foreign OEM’. For a 50:50 JV and other uncertain cases, the classification is done based upon the perceived control.

Automobile Sector in India… (3)

Year	Cars Produced in	Existing Car Producers	Cars per 1000 people
1995-96	348,146	• +GM India Pvt. Ltd. (1994), • +Mercedes-Benz India Pvt. Ltd. (1994), • +Honda Siel Cars India Ltd. (1995), • +Hyundai Motor India Ltd. (1996) (All Foreign)	0.41
2000-01	517,907	• +Fiat India Pvt. Ltd. (1997), • +Toyota Kirloskar Motor Pvt. Ltd. (1997), • +Ford India Pvt. Ltd. (1999) • +Skoda Auto India Pvt. Ltd. (2001) (All Foreign)	0.50
2005-06	1,112,542	• BMW India Pvt. Ltd. (2006) (Foreign), • Nissan Motors India Pvt. Ltd. (2005), • Renault India Pvt. Ltd. (2005) (All Foreign)	1.08
2010-11	2,814,584	• Volkswagen India Pvt. Ltd. (2007) (Foreign)	2.32

Source: Based on SIAM (2008b), SIAM (2008h), company websites of respective automobile manufacturers and the website of Bombay Stock Exchange


Skoda
1%
Nissan
1%
BMW
0%
Audi
0%
HM
0%
Mercedes
0%
Fiat
1%
Honda
2%
Mitsubishi
0%
VW
3%
Ford
4%
Toyota
4%
Chevrolet
4%
Mahindra
7%
Tata
13%
Hyundai
14%
Maruti
44%

Telecommunication Sector in India

Structural Evolution in Telecom

Government Monopoly (1947-94):

- Government had monopoly over all telecom services in India.

Partial Deregulation (1994-99):

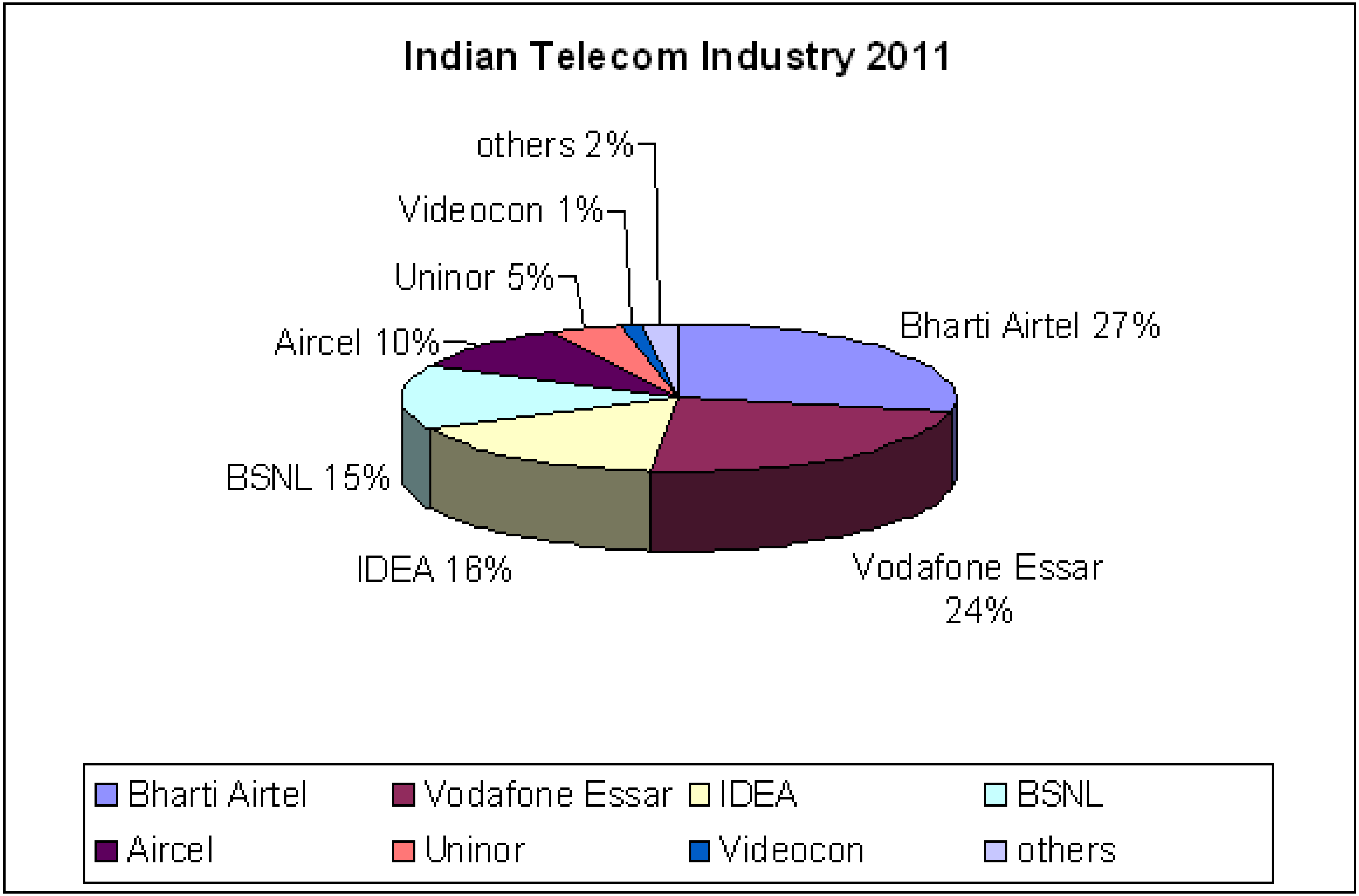
- 1994 National Telecom Policy opened competition in fixed wireline.
- In 1999 private sector was opened for wireless competition.

Greater deregulation (1999 onwards):

- Fixed fee model for basic and wireless services was dropped for revenue sharing model.
- Government owned public company was corporatized with a view to eventual privatization.
- MTNL and BSNL started wireless services.
- Government announced its policy to open the long distance sector for competition.

Expanding telecom access

Year	Wireline subscriber base (in million)	Wireless subscriber base (in million)	Tele-density % (subscriptions per 100 people)	Existing Service Providers
1998	17.80	0.88	2.18	MTNL (1985), Airtel (1995), Vodafone Essar (1994), Tata Indicom (1996), Idea Cellular (1995)
2000	26.51	1.88	3.31	+Aircel (1999), BSNL (2000),
2002	40.00	6.54	4.90	No New Players Entered
2004	41.09	33.69	7.04	+Reliance (2004)
2006	41.50	90.14	12.86	No New Players Entered
2008	39.42	261.07	26.22	+Virgin Mobile (2008)
2010	36.96	584.32	52.74	+Uninor (2009), Loop (2009)


Indian Telecom Industry 2011
others 2%
Videocon 1%
Uninor 5%
Aircel 10%
Bharti Airtel 27%
BSNL 15%
IDEA 16%
Vodafone Essar 24%
Bharti Airtel
Vodafone Essar
IDEA
BSNL
Aircel
Uninor
Videocon
others

Politics of Privatisation

- Ideology of privatisation
- Need for political mandate
- Political context in the country – Ronald Reagan, Margaret Thatcher in the 1980s
- In India, political ideologies are neither strong, nor distinct
- Increase in political competition
- Need to explore policies that will improve performance
- Demonstrate the capacity to meet the consumer demand
- If the PSUs can't, then allow the the private sector
- Improved performance of the private sector legitimises them
- Declining significance of PSUs, easier to let it decay or privatise

Food for thought

- How to make public policy ideas politically viable? The context which makes this possible?
- Will democratisation of society continue to demand performance? Is this a secular trend?
- Wil democratisation lead to emergence of political ideologies?
- As societies climb the economic ladder, will performance or ideology shape the political agenda?

Thank You!