

Privatization

Panacea to India's ills?

No doubt liberalization and globalization have brought far-reaching changes. For one, the licence raj has been de-regulated which has put the country on the path of fast track growth. The market is flooded with consumer goods and is thus open to competition. At the same time prices and inflation have gone up while there is widespread human degradation.

Article of Mr. Srinivasan Iyer published in One India One People in August 2000

The economic liberalization of 1991 was a bold decision by the erstwhile prime minister Narasimha Rao and his dynamic finance minister Manmohan Singh. It is a watershed in the history of India and has even been hailed as 'the second independence'. The age-old control regime was dismantled overnight, import duties were rationalized and a liberal trade policy was put in place to promote exports. The economy was thrown open to foreign investors and multinational corporations (MNCs) willing to tap the Indian market.

These reforms have set the nation on the fast track of growth and the Indian economy is today the fifth largest economy in the world. The nation also has one of the best purchasing power parity in the world. The Gross Domestic Product (GDP) has been growing consistently at about six to seven percent since 1991. India has emerged from the rubble of the Licence Raj to become a vibrant democracy. The world looks to India for software expertise. The evolutionary liberalization process has accelerated the growth of the economy, boosted our exports and attracted foreign investments like never before. India is turning into a global manufacturing base.

However, liberalization has its fair share of critics who point out that it has failed to generate employment and reduce poverty. A debate on liberalization and its effects on the Indian economy may do the world of good. An objective view of liberalization and an analysis of both its boons and ills would be required.

The Indian consumer did not have many choices in a closed economy. The manufacturers decided the product, the price and also the delivery terms. The government controlled the markets in its role as the nation's watchdog. A car was a luxury and a choice had to be made only between an Ambassador and a Premier Padmini. It took months and even years to receive the delivery of a vehicle. Television, refrigerators and air-conditioners were alien commodities in rural India. The conservative nationalized banks were the only source of finance. Technological gizmos like the cellular phones and computers were

The reforms of 1991 have ushered in a wide range of products for the Indian consumer. The entry of the MNCs has intensified competition bringing the prices of products down. To stay in the competition, it has become quintessential for Indian companies to upgrade the quality of their products, enhance the distribution network, reduce the delivery time-lag, improve the after sales service and above all provide value for money.

unheard of. The quality of the products weren't that good and after-sales services was poor. Leave alone consumer orientation, the Indian consumer was treated with little dignity. His complaints fell on deaf ears and the industry houses took him for granted. Liberalization is the best thing that has happened to the Indian consumers in the past five decades after independence.

The reforms of 1991 have ushered in a wide range of products for the Indian consumer. The entry of the MNCs has intensified competition bringing the prices of products down. To stay in the competition, it has become quintessential for Indian companies to upgrade the quality of their products, enhance the distribution network, reduce the delivery time-lag, improve the after sales service and above all provide value for money. The fast moving consumer goods (FMCGs), automobiles, computer, paints and a host of other industries are waking up to the needs of the consumers and their changing preferences. The products are not only designed with the consumer in mind but senior officials including the CEOs in some cases, visit the retail outlets to get a feel of what the customers want. The entry of the global majors has forced the Indian entities to introspect and change their ways. Cable TV and internet revolution has swept the country off its feet. Today more than 55 million homes have televisions and the number of households possessing a television set is growing at the rate of 25 per cent per annum. Discounts and freebies are being offered to lure the consumers, and companies have set up call centres to address consumer grievances swiftly. Finance companies and banks are bending over backwards to provide loans for consumer durables. Thanks to liberalization, the consumer has truly emerged as the king.

The MNC experience

Liberalization and globalization have opened up a world of opportunities for the Indian industry. Faced with a financial crunch, lack of adequate technical know-how and a shortage of managerial expertise, collaboration with the MNCs was visualized by the nation's corporates as a win-win scenario. The MNCs in turn also stood to gain from the co-ventures with local companies who had a better knowledge of the pulse of the Indian consumers and also a strong domestic brand following. In their endeavour to access the largely untapped and rapidly growing Indian market, tie-ups with Indian companies became a regular phenomenon.

However, quite a few mergers between the MNCs and Indian companies have gone sour. One doesn't have to look far for the reasons. The Indian companies used their 'MNC-collaboration' status as a ladder to project a global image, increase their local market share and to boost up the prices of their sagging stocks. But, for their part, they brought very little to the association in terms of value addition.

The MNCs too have been a victim of their myopic vision and insatiable greed. Rather than set up manufacturing facilities in India, many of them import their components and look at the economy with a burgeoning population only as a huge selling market. Thus, they pass on very little technical know-how and aim only at maximizing profits. Some of the MNCs bring in technology declared

<p>Between August 30 and November 10, 1991, 73 starvation</p>
--

obsolete in the parent country instead of introducing state-of-the-art technology. Another strategy among MNCs is to first test the Indian waters through a 50:50 partnership with an Indian entity. Once the government sanctions are obtained and the MNC is confident of penetrating the Indian market on its own strength, it raises its equity holding to 51 per cent and beyond to gain a controlling stake in the venture. An apparent excuse given is that the Indian company is not able to pump in adequate funds required for the success of the venture. A few MNCs take a different route altogether. In spite of having a joint venture with a local player, they spin off a 100 per cent subsidiary, which also enters into the same line of activity. This is nothing short of breach of trust. Foreign companies hesitate to nurture Indian managerial talent and insist on imposing foreign national CEOs of these ventures.

It is however, too premature to write off collaborations with MNCs. The Indian industry has all along operated in a closed economy and has to learn a lot about the way business is done globally. The MNCs are getting educated about Indian markets. The number of Indian managers at the helm in the MNCs are gradually increasing. What we are facing now may just be the initial hiccups.

Increasing inequalities

Socialists argue that the very premise of liberalization is based on capitalist ideas. Thus, consumerism and blatant exhibitionism of money flourishes in a liberalized environment but it has very little to offer to the large underprivileged sections of the society. The major beneficiaries of the economic liberalization have been the cities and the towns. Its benefits have not percolated to the suburbs and the villages. The much-hyped increase in employment opportunities due to the opening up of the economy has not happened. The heart of India – the rural masses – still yearn for basic health and education amenities. Two square meals a day are still a luxury for many. The disparity of income and wealth between the haves and have-nots is growing day by day. The frustration and dissatisfaction that is simmering among the poor may blow up into an agitation or even a revolt against the elite.

In a nation where 70 per cent of the rural population consists of marginal farmers and landless labourers, rising of economic liberalization has been seen in the cities and the towns. Inflation is driving many to bankruptcy. The post- 1991 reforms have led to sky-rocketing prices.

Between August 30 and November 10, 1991, 73 starvation deaths were reported in only two districts of Andhra Pradesh. In such a scenario, the Human Development Report of

deaths were reported in only two districts of Andhra Pradesh. In such a scenario, the Human Development Report of the UNDP sheds new light on assessing the development of an economy. The report states that the growth in Gross National Product (GNP) is not the lone indicator of socio-economic development. Due weightage has to be accorded to factors like fulfillment of basic human needs and elimination of poverty. The President K R Narayanan in his Republic Day address called for a check on the growing inequalities in the Indian society while the nation basked in The success of the economic liberalization.

the UNDP sheds new light on assessing the development of an economy. The report states that the growth in Gross National Product (GNP) is not the lone indicator of socio-economic development. Due weightage has to be accorded to factors like fulfillment of basic human needs and elimination of poverty. The President K R Narayanan in his Republic Day address called for a check on the growing inequalities in the Indian society while the nation basked in the success of the economic liberalization.

A need for channelization

Nine years later the government is still reeling under heavy debt. The national deficit at the end of this year is estimated to be to the tune of Rs.1,05,000 crore and the interest on the same would work out to Rs.88,000 crore.

Thus, 48 per cent of the government revenues would go towards repayment of interest. That leaves a pittance of five per cent of the total revenues to be spent on education, health care and housing. True, the coffers were literally empty in the pre-liberalization era but successive governments have done little to rectify the financial malady. The need of the hour is to drastically cut government expenditure and subsidies. The first step in this direction would be to downsize the government and excessive staff in government departments. (The salary bill of the central government is as high as Rs.33,000 crore!)

For decades, the government had invested heavily in the public sector units in spite of many of them running in losses. The government earns a return of only 1.6 per cent on an investment of Rs.2,23,000 crore in public sector units. In the decades immediately after independence when the economy was in its infancy, the government had a greater role to play. But now a stage has come when the government has its hands in too many sectors like power, shipping, telecommunications, etc. With thin financial resources it is able to do very little to make these units commercially viable. For instance, 23 per cent of the power generated is lost in transmission and distribution. There are no official figures available on the losses due to power thefts. In 1991, the government signed 196 Memorandum of Understanding (MoU) with companies for generation of power. Except for Enron and GVK, no other project has taken off within the time frame. With a fiscal deficit as high as 10 per cent of GDP the government has no choice but to divest its holdings in the public sector units.

The revenue generation from taxes is also not upto the mark. The country has a GDP of nearly Rs.20,00,000 crore. A direct tax of 10 per cent should yield at least Rs.2,00,000 crore. However, the present direct tax collection is around Rs.30,000 crore per annum in spite of an average tax rate of and agriculture and the service sector which account for more than 70 per cent of the economy should be taxed too, so that the burden doesn't fall on a few honest tax payers as is the case presently.

The way successive governments have implemented policies of liberalization is also subject to question. Was the whole exercise properly planned in the first place or was it done in a haphazard manner? Do we gain from the MNCs storming the cola, automobiles and consumer durable sectors or would the nation have been better off if they were allowed to foray only into the infrastructure projects? The politicians and the bureaucrats who have ruled the country for decades owe an explanation to the common man. Liberalization in itself, like atomic power isn't anti-poor. It has to be channelized

properly to maximize both economic growth and social welfare. It is not a case of underestimation of the gravity of the issues facing the country but what is urgently needed is the political willpower to implement the things that need to be done.