

# INDIA IS MAKING THE RIGHT MOVES WITH ITS MEGA PRIVATIZATION PLAN

Relevant for: Developmental Issues | Topic: Government policies & interventions for development in various Sectors and issues arising out of their design & implementation incl. Housing

One of the most ambitious plans to emerge from India's recently announced Union budget was the government's proposal to privatize state-owned companies in the coming years. This is an important step in India's programme of reforms to achieve long-term sustainable growth. As Prime Minister Narendra Modi put it recently, the government would be less involved in the business of business, and asset monetization and privatization will empower Indian citizens, enhance India's infrastructure, and increase economic efficiency. Since the 1980s, many countries have gone down the privatization path. Proponents of such an agenda believe it makes companies and sectors more efficient and competitive, to the ultimate benefit of consumers. Critics, on the other hand, argue that privatization can lead to job losses, and, in some cases, higher costs for the public. There is no single privatization model that fits all, but we have seen many success stories in other countries that demonstrate how privatization is beneficial to the long-term growth and sustainability of companies as well as the country, and the Indian government deserves to be commended for its plan. In Japan, the national railway system, Japanese National Railways (JNR), had been operating with big losses each year before its privatization began in 1987. This programme eventually broke the company up into six regional passenger rail companies and one freight rail company ('JR companies'). More than three decades later, JNR's privatization is widely viewed as a success.

The bulk of Japan's railway network operates without a government subsidy and the fares have remained largely unchanged. Before the covid pandemic hit, all three top regional JR operators were consistently profitable. Privatization has allowed railway operators to determine their capital investment and business development plans, with many Japanese railway firms expanding their operations into other areas, including real estate, supermarkets and hotels.

Another example of the benefits of privatization is asset recycling: the government monetizes existing infrastructure assets through their sale to the private sector, and then invests the proceeds in new projects or long-term investment funds. This is particularly important as countries around the world look to rebuild their economies after the pandemic. India has recently announced a national asset monetization pipeline to fund much-needed infrastructure and welfare schemes. Consider the example of Australia, which has been a leader in asset recycling. The country's asset-recycling initiative provided material top-up incentives from the federal government for state governments to re-invest asset sale proceeds in new infrastructure, and helped kick-start several major projects involving over A\$15 billion of new infrastructure spending, including the Sydney Metro train project.

Australian state governments have also used asset privatization to gain long-term balance sheet stability and offset debt. CPP Investments was part of a consortium to purchase a stake in the WestConnex toll road in Sydney when the New South Wales state government sold 51% of its holding in 2018. The sale generated A\$9.3 billion in proceeds for the government, A\$7 billion of which was used to seed a new long-horizon state investment fund to reduce state debt and finance projects for community services and facilities. The New South Wales state government is now looking to sell its remaining stake in WestConnex, the proceeds of which will also go into the state's investment fund and enable future infrastructure projects needed to speed up a post-pandemic recovery.

As noted earlier, one of the biggest concerns many have with privatization is that it could lead to job losses. Different research reports over the past 20 years have shown that business restructuring exercises after privatization did initially lead to job losses. However, once privatization plans were fully implemented, new entrants to these markets increased the demand for labour and ultimately lowered overall unemployment. By allowing the private sector to take over the heavy lifting, attract new capital and increase business efficiency, privatization also ensures that businesses are more sustainable, creating an environment where they can grow, invest and create jobs well into the future.

Another criticism of privatization is the likelihood of higher costs borne by consumers. However, privatization is often accompanied by market deregulation, which introduces market competition that results in lower prices. A case in point is the telecom deregulation done in many countries. In Hong Kong, for instance, the government fully liberalized its telecom market in 2003 after several years of deregulation. In the first few years of deregulation, customers saved an estimated total of over US\$3 billion on international calls as a result of competition. Today, Hong Kong is one of the most competitive telecom markets globally. According to the International Telecommunications Union, it offered some of the world's most affordable mobile service plans in 2020.

India, like many countries around the world, has been hit by covid, but has shown great resilience and is rolling out an ambitious vaccination programme. Its economic recovery will be bumpy and require investment. The privatization of state-owned companies over the years could provide the funds needed to rebuild the economy and allocate money to areas of effort where it is needed most.

*Suyi Kim is the head of Asia Pacific for Canada Pension Plan Investment Board (CPP Investments)*

Click here to read the [Mint ePaper](#) Mint is now on Telegram. Join [Mint channel](#) in your Telegram and stay updated with the latest [business news](#).

Log in to our website to save your bookmarks. It'll just take a moment.

Oops! Looks like you have exceeded the limit to bookmark the image. Remove some to bookmark this image.

Your session has expired, please login again.

You are now subscribed to our newsletters. In case you can't find any email from our side, please check the spam folder.

**END**

Downloaded from [crackIAS.com](#)

© **Zuccess App** by crackIAS.com