

BUSINESS ENVIRONMENT IN INDIAN PUBLIC SECTOR: AN ANALYZATION

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Abstract

Public sector enterprises (PSEs) have been one of the key drivers of economic development in several countries, including India. While many countries have gradually moved away from the PSE model of growth, in the year 2019, around 25 percent of the Fortune Global 500 companies were PSEs. As countries use PSEs to enhance their geo-strategic reach, it has raised concerns about the potential influence of government on these enterprises in destination markets and the emergence of an uneven playing field between PSEs and the private players. Therefore, the role of PSEs is being increasingly discussed in international forums such as the WTO and G20 and trade rules on PSEs are being negotiated in several bilateral/regional trade agreements. India is among the top eight countries in the world with a large number of PSEs that play a key role in meeting the country's geo-strategic interests and export targets. At the same time, several PSEs are loss-making units and are plagued by operational inefficiencies. In this context, this paper examines the role of Indian PSEs in expanding the country's geo-strategic reach and exports. It analyses the experiences of PSEs in select countries and presents the discussions and debates on PSEs in different international forums. Based on in-depth meetings with stakeholders, it identifies the challenges faced by the Indian PSEs and provides policy recommendations on how to prioritise and address them.

Keywords: PSEs, state-owned enterprises, geo-strategy, exports

India, Introduction Public sector enterprises (PSEs), also known as state-owned enterprises (SOEs), have been one of the key drivers of economic development in a number of countries (Kwiatkowski and Augustynowicz, 2015). Globally, these enterprises account for around 20 percent of investment, 5 percent of employment and up to 40 percent of domestic output (International Finance Corporation, 2018). In 2019, around 25 percent of multinational enterprises were owned, controlled or linked to governments according to the Fortune Global 500 company rankings. 1 The developing countries have a higher presence of PSEs among their top companies as compared to the developed countries. 2 With liberalisation in the 1980s and development of multilateral trade rules under the World Trade Organization (WTO) in the 1990s, many countries, especially developed countries, have gradually moved away from the PSE model of growth to encourage private investment and competition (Nguyen, 2016). There has been a parallel shift in governance from direct control to provision of more

autonomy to companies. The breakup of the erstwhile Soviet Union, the financial crisis in a number of Southeast Asian nations and the pressure on government exchequers due to the losses incurred by PSEs, have led to the privatisation of a number of PSEs.³ In spite of a drive towards privatisation, PSEs continue to play a key role in many developing countries in (a) economic development by ensuring implementation of government schemes and policies, and (b) enhancing the geo-strategic reach of countries by acquiring strategic assets through targeted investments. Today, they are mostly present in strategic sectors such as energy, minerals, infrastructure and other utilities. They help to ensure energy security, national security (for example, defence), supply public goods and services at concessional rates to targeted groups in the country and support governments in pursuing sustainable development goals (SDGs) [World Bank, 2014; Organisation for Economic Co-operation and Development (OECD), 2018; Greene, 2014; Barnes, 2019]. PSEs play a key role in international trade and in boosting investment flows, which is also linked to enhancing a country's geo-strategic reach. For example, the top eight countries in the world with the highest share of PSEs, namely China, United Arab Emirates (UAE), Russia, Indonesia, Malaysia, Saudi Arabia, India and Brazil, collectively account for more than 20 percent of the world trade (Kowalski et al., 2013). Among them, China has strategically pursued its global expansion plan through SOEs in its Belt and Road Initiative (BRI), which is a government sponsored programme to enhance regional connectivity between China and countries in Asia, Africa, Europe, South America and the Pacific (OECD, 2018). Over 80 Chinese SOEs are part of this initiative. Studies show that China alone has policy, WTO, G20, over 100,000 SOEs and a number of them are growing as leading multinational companies (Miner, 2016). As PSEs are increasingly operating in the global market, it has raised concerns about the potential influence of government authorities in these enterprises in destination markets and the emergence of an uneven playing field between these enterprises and private players (Bugeet et al., 2013). Therefore, the role of PSEs has been increasingly discussed and debated in international forums such as the WTO and G20. Trade rules on PSEs are being negotiated in several mega-regional trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Trade in Services Agreement (TiSA) and bilateral trade agreements such as the European Union (EU)-Mexico Trade Agreement and the United States (US)-Singapore Free Trade Agreement. PSEs in India In India, post-independence, PSEs have played an important role in development and have been responsible for creating a strong industrial base. After independence, the government followed a socialist model with a public-sector led industrial development – the Feldman-Mahalanobis model, which focused on developing a strong capital base through PSEs in core sectors such as railways, steel, power, oil, telecommunications, mining and transportation (Nayar, 2001; Hambrook and Hauptmann -Socrates, 1999). Studies show that Indian PSEs have contributed to the development of backward regions, environment protection, promotion of green and energy efficient technologies, capacity building, promotion of social infrastructure such as education and healthcare (Gupta and Arora, 2014). PSEs have presence in several sectors spanning both goods and services, and many of them are engaged in international trade. They have

helped to meet the country's energy and food security needs and have supported the implementation of government schemes and policies. In the early 1990s, due to a severe balance of payment crisis, India shifted towards a liberalised economy with a larger role for the private sector in compliance with the conditions that had been laid down by the International Monetary Fund (IMF) for a structural adjustment loan. A number of sectors including telecommunications, power, ports, airports and airlines, which were erstwhile public monopolies, were gradually opened up for privatisation in a phased manner. More recently, private investment has been allowed in strategic sectors like defence. With liberalisation, PSEs faced competition from domestic and foreign players (Chauhan and Giri, 2016). In this environment, some PSEs have grown while others have become loss making units. A number of PSEs have undergone disinvestment and the disinvestment process still continues till date.⁴ Among the various methods of disinvestment followed by the government for the PSEs,⁵ a large part of it comes from strategic disinvestment, where there is sale of a substantial portion of the government shareholding of a PSE (up to 50 percent or higher as determined by the competent authority) including transfer of management control (Kaushik, 2018). In November 2019, the government had identified 28 central PSEs for strategic disinvestment.⁶ In the Union Budget 2020-2021, government has proposed a disinvestment target of Rs. 2.1 lakh crore.⁷ However, with the global outbreak of coronavirus disease (COVID-19), some disinvestment proposals have been put on hold and for others the deadlines for submitting bids have been extended.⁸ In spite of these developments, PSEs continue to play an important role in India's exports and in enhancing the country's geo-strategic reach. In the Fortune Global 500 list of companies for 2019, India had 7 PSEs, which is the second largest number after China. Due to the important role played by Indian PSEs, the Honourable Prime Minister, Mr. Narendra Damodardas Modi, at the Central Public Sector Enterprise (CPSE) Conclave held on April 9, 2018, pointed out that by 2022, Indian PSEs should maximise their geo-strategic reach and minimise their import bills.⁹ He emphasised the key role of PSEs in the country's development and encouraged them to improve competitiveness, innovate and adopt technology, engage more in global trade (especially in exports and outward investments) and enhance value addition in India to make 'Make in India's successful. This is needed because unlike China, India has not been able to fully utilise its PSEs to expand its geo-strategic reach and exports. If India wants to engage in new global partnership forums such as the Indo-Pacific and G20, there is need to explore how it can use its PSEs to expand its geo-strategic reach.

2. Objective and Methodology

Given this background, the objective of this paper is to examine the role of Indian PSEs in expanding the country's geo-strategic reach. The paper examines the experiences of PSEs in select countries and then presents the discussions and debates on PSEs in different international forums. It provides an overview of PSEs in India, focusing on exports, investments and their international presence. It identifies external and domestic challenges faced by PSEs in expanding globally and in enhancing exports. The paper makes policy recommendations on how India can strengthen its geo-strategic reach and exports through PSEs, by addressing key issues and learning from global best practices. It also presents India's negotiating strategies and options in different international forums. The paper is based on

secondary information analysis and in-depth meetings with 30PSEs, different ministries and departments, and financial institutions such as Export Import (EXIM) Bank. Experiences of PSEs in Select Countries A number of countries have designed strategies to use their PSEs to increase their geo-strategic reach and overseas investment, thereby opening up trade routes for their private sector enterprises. While some countries such as Canada and Singapore have successfully used their PSEs to develop key sectors of the economy (such as the agriculture and modern services sectors, respectively) and in expanding their international presence, in others such as Brazil, these state enterprises have not been much successful (Haywood, 2016). Countries have also adopted various methods to improve governance and make their PSEs globally competitive. While some PSEs are fully-owned and controlled by the government, in others, government may hold a partial stake. It is, therefore, interesting to examine the experiences of different countries. In this context, the experience of six countries, namely, China, Singapore, Brazil, Indonesia, Russia and Saudi Arabia, have been examined in detail in terms of the role played by PSEs in their economic development, their exports, the key sectors in which PSEs are present and the different models of global expansion followed to increase their geo-strategic reach. These countries are among the top ten countries in the world in terms of the number of PSEs, with China holding the highest share of around 80 percent. It is interesting to look at the experiences of PSEs in these countries as they have different models of expansion and these countries are also a part of the WTO, G20 and the Indo-Pacific forum. Indian PSEs are competing with PSEs from these countries in the global markets. Table 1 gives an overview of the PSEs in these six countries mentioned above, across select indicators.

CONCLUSION

Indian PSEs still play a key role in enhancing a country's geo-strategic reach. However, they do suffer from certain inefficiencies, performance issues and non-transparency, some of which are also being discussed in various international forums such as G20 and WTO. Overall, the survey found that most of these challenges are related to company-specific issues and, therefore, there is a need for restructuring and transformation within these organisations. Some of them have already started the process. At the policy level, it is extremely important for India to streamline its processes and examine how other countries support their PSEs in global market expansion and in integrating into the global value chain. India can learn from innovative models such as 'Temasek' of Singapore to enhance the geo-strategic reach of Indian PSEs. The survey found that PSEs should be given more autonomy and made accountable. Global case studies show that the number of PSEs in India should be pruned down. They should focus on certain critical areas such as oil and gas and on certain objectives like energy security or mineral security. They are not needed in areas like consultancy services or software services where India has multinational players in the private sector, who can deliver the services more efficiently. Further, instead of treating the private sector as their competitor, a more collaborative model may be adopted by Indian PSEs, where they collaborate among themselves as well as with the private sector. In this context, India can

learn from China's experience where a PSEs new market opens the door for private sector firms, including start-ups. Partnerships with start-ups and innovative firms are few in India and this is an area where PSEs should focus on for their internal transformation and technology upgradation. Since PSEs invest in strategic and long-term projects, long-term political strategy and planning is needed for their success. They also should have a robust disaster management strategy and should be able to handle issues, such as the global outbreak of COVID-19. The expectations from the PSEs have to be defined and they should be given clear mandates and targets. Strategies have to be defined on how PSEs can help enhance India's geo-strategic reach and build the country's brand and image globally. These are areas that need further research and deliberation. Indian PSEs may also explore possibilities of collaboration with PSEs from other countries to leverage their mutual strengths. At present, their market knowledge or willingness to acquire that knowledge is low. All PSEs acknowledge the need to have a dedicated international desk focusing on key markets and to conduct market-specific studies where they can engage academic/research institutes with expertise in trade and investment. They also realise that specific funds must be allocated for such purposes. In the survey, they emphasised the need for data-driven, evidence-based policymaking. Trade and investment data for PSEs should be regularly published by the government by sectors and key markets. This will make PSEs more aware of market opportunities and trends.

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