



A Burst Of Privatization Looks Imminent In India

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Is Narendra Modi the incrementalist suddenly becoming Modi the radical reformer? In his first term as Indian prime minister, from 2014-2019, Mr Modi made a number of small changes but avoided sweeping liberalisation of the economy. The first budget of his second term, presented in July, promised more of the same.

That approach is suddenly changing. Last month the government slashed the corporate tax rate from 30 per cent to 22 per cent (plus surcharges), and to 15 per cent for greenfield investments in manufacturing made by April 2023. India is at last competitive with its Asian rivals; companies exiting China have mostly moved factories to Vietnam and Bangladesh but can now consider India.

Next, some of India's biggest and best public sector companies are about to be privatised. In his first term, Mr Modi privatised nothing. He sold minority stakes in many public companies to raise revenue, but kept management control. A halfhearted attempt to privatise Air India last year attracted no bids because of onerous sale conditions. That fiasco put privatisation on the back burner.

Today, a burst of privatisation looks imminent. Last week, a committee cleared the sale of government stakes in five companies. The matter will now go to a cabinet committee that is expected to clear it quickly, so that sales can be completed by the end of this fiscal year in March 2020. The star on the auction block, Bharat Petroleum, is India's sixth largest company by sales. The Container Corporation of India is a major logistics company specialising in moving railway containers. The Shipping Corporation of India is the country's biggest. The other two candidates are smaller and will probably be bought by larger public companies and don't constitute genuine privatization. But the first three companies are highly profitable and respected.

Meanwhile, Air India is to be put up for sale again, this time without the restrictions. The government may also take over part of the airline's huge debt to make the sale attractive.

Why has Mr Modi's approach changed? His sweeping election victory in May has given him the political capital to take risks and the opposition is demoralised and divided. His victory has also helped to silence opponents of privatisation within his own party, notably the Bharatiya Mazdoor Sangh trade union, and the Swadeshi Jagaran Manch, an industrial-policy affiliate that hates Indian companies being sold to foreigners.

In his first term, Mr Modi could easily have been outvoted in the upper house, which is indirectly elected by state legislatures. But having won many state elections in the past five years, his Bharatiya Janata party is now not far from a majority there. He has won additional political

capital through his takeover of Kashmir, supported by regional parties who gave him a two-thirds majority even in the upper house.

Mr Modi is reducing the government's domination of the economy in other ways. He has auctioned the operation of six major airports and, despite trade union protests, auctions are planned for 20 to 25 more. Rail passenger services have long been a government monopoly, but tenders are being prepared for 150 routes to be auctioned to private parties. The hope is to attract big operators from across the world.

This will supplement the government's "asset recycling". Since last year, it has been auctioning rights to operate, maintain and share toll revenue from existing infrastructure — roads, ports, power stations and transmission lines. Cash from old infrastructure is recycled into new. Last March, a sale of 680km of roads fetched Rs97bn

Another reason for Mr Modi's new radicalism is fiscal stress. To win elections he was forced to match the freebies promised by opposition parties. India has at least one state election every few months so the pressure to offer giveaways never diminishes. Mr Modi promised a grant of RS6,000 per small farmer before May's election and has now extended it to all farmers. He also has ambitious but costly plans to provide healthcare for all.

Only creative accounting can hide the fact that the current year's fiscal deficit will probably be more than 4 per cent of gross domestic product against the budgeted 3.3 per cent. The slowdown has badly dented tax revenue. Mr Modi is keen on fiscal prudence and his various forms of privatisation can help, apart from improving long-term efficiency.

India still needs reforms to bring down the cost of land, labour, capital, electricity and freight rates to the levels of its Asian rivals. The old Mr Modi was incapable of such radicalism. Might the new version have a stab at it?

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