Privatisation of Public Sector Undertakings –Opportunities and Challenges

The eminent American philosopher and cognitive scientist Noam Chomsky remarked

"A basic principle of modern state capitalism is that costs and risks are socialized to the extent possible while profit is privatized"

1. Abstract

The economic reforms in India are notable because of the development of private enterprises that are free from functionary management and the current wave of privatisation reflects changes in economic thinking and economic policies that have been gathering force for nearly two decades, privatisation programs are now being pursued in a larger number of countries than ever before. This essay is an effort to contribute to the discussion on how privatization of public sector undertakings (PSUs) or state-owned enterprises (SOEs) may impact the financial performance and efficiency of these enterprises. Moreover, in determining and comparing the significant differences among companies' financial performances and their efficiency levels, before and after privatization periods. Furthermore, analysis of how instead of privatizing companies, the government should renovate the public sector dynamically since it makes a crucial contribution to national investment and growth.

2. Introduction

India has a mixed economy in which both Private and Public Sectors exist especially in the areas of Banking, Telecom, Road Transport, Education, Healthcare, Manufacturing, and Education among others. Many Business analysts and experts diverge as right-wing and left-wing. The right-wing is in favor of privatisation and believes that privatization could speed up economic growth with the increase in competition while the left-wing finds that the privatization means ***"Bureaucracy selling Crown Jewels of the country"*** which could bring more problems like unemployment taking the economy backward due to its inherent issues.

Privatisation is also known as denationalization which is the process of transferring property from public ownership to private ownership and/or transferring the management of a service or activity from the government to the private sector. The top three attributes of privatization are as follows: **(1) Ownership measures** which refer to the transformation of the ownership of public enterprises to private owners, **(2) Organizational measures**: which relate to the limitation of the state control in public companies. These involve the employment of methods for the leasing and restructuring of the enterprises, and **(3) Operational measures** concern the way to improve the profitability and efficiency of public enterprises.

Reigniting this age-old debate, Prime Minister Narendra Modi said, ***"Government has no business to be in business"****. The government's focus should be on projects related to the welfare and development of the people. More and more government power, resources, and capacity should be used for welfare work. At the same time, when the government starts doing business, there is a lot of damage.*

The government has announced that **all PSUs in non-strategic sectors will be privatized, while the government has identified four strategic sectors – atomic, energy, space, and defence where there will be only one to a maximum of 4 PSUs** fully owned by Govt. For 2021-22 **Central government's efforts to raise ₹1.75 lakh crore** through strategic disinvestment of loss-making PSUs including BPCL, Shipping Corporation of India, Container Corporation of India, and Bharat Earth Movers. The **Department of Investment and Public Asset Management (DIPAM)** under the Ministry of Finance is the nodal department for the strategic stake sale in the PSUs.

3. Historical background of PSU in India

The driving factor behind the nationalization was when India became independent in 1947 and had to deal with several obstacles, such as massive poverty, high illiteracy, unemployment levels, a low GDP, and disease. As necessity is reportedly the mother of invention, India's necessity prompted the establishment of PSUs. The five-year plan led to a mixed economy where, the government manages to nationalize industries, such as public utilities, railways, and communications because these generate a revenue source. In contrast, **due to the high risk and low returns, information shortage, and reluctance on the part of several private enterprises**, the government took control of the economy.

India has its model for SOEs, taking into consideration unity in diversity. The central government owns enterprises with a partial funding arrangement from the private sector or equity market, but it controls the enterprises. In these enterprises, the business model involves 100% government decision-making, and the governments earn revenues or profits for their exchequer or disinvestment.

4. Reasons for Privatization

Under communism, govt takes over companies and under capitalism, companies take over the government. There are numerous reasons why governments turn to privatization.

If we take the **example of the privatisation of railways** [1]then India is following the Japanese model which is a great success that ensured high efficiency and ultimate benefit to the customer. **109 routes were identified by the Indian government where 151 private trains will run for 35 years. These routes are divided into 12 clusters** where service and punctuality were severe issues. All clusters will be auctioned to 12 different private players who will be completely responsible for their sector.

4.1 **Cost Reduction:** Governments often outsource operations due to the potential cost savings. Private sector service providers are often able to deliver the same services as the public sector but at a lower price. As per the 2019 budget, **50 lakh crores are to be invested by the government by 2030** for the redevelopment of Railways, and electrification, as India needs 20,000 trains to meet the future demand. As trains like Tejas and Vande Bharat would be run by private hence the manufacturing costs would be shared with private entities. And lastly, to **improve efficiency**, **private would also infuse fresh capital to upgrade the technology** in their respective clusters.

4.2 **Source of Revenue:** 12 different **Bids will fetch around 30 thousand crores** to the government and an agreement was made with the private company they will be paying fixed transport charges, energy charges, and share some portion of revenue.

4.3 **Quality of Service:** The Privatization of Indian Railways have removed some long-lasting problem like poor sanitation; pickpocketing, low security around stations, food poisoning, inconvenience to passengers, etc. without affecting cost, due to their flexible policies in management. The government assured that they would be monitoring the prices set by private entities.

4.4 **Expertise:** The first and foremost benefit of privatization of Indian Railways will be the **better infrastructure and will bring better maintenance of coaches, engines, and tracks** which will further help in reducing accidents and undesirable incidents. Secondly, there is a huge demand for **Indian LHB coaches** in African and South Asian markets but due to the inefficient manufacturing capabilities of the PSUs, we are not able to exploit the opportunity to export to the foreign countries.

4.5 **Transfer of Risk:** By handing over a project to the private players, the government transfers the responsibility and risk to the private player for an agreed sum of money. Now the private company has the risk of completing the project on time or else paying a penalty or bearing the losses on its own.

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[1] https://pib.gov.in/PressReleasePage.aspx?PRID=1635722

Similarly, since PSUs are making losses with the money of taxpayers, there needs to be better utilization of taxpayer's money. Today the country has a lot of underutilized and un-utilized assets under the control of the government. Under the **National Asset Monetization Pipeline,** the government targeted to monetize around 100 such assets like oil, gas, port, airport, and power. Of these, investment opportunities of **2.5 trillion rupees are expected**. When the government monetizes, the private sector of the country fills that space. The government needs to ensure that this tax revenue is explicitly and efficiently invested in the development of the economy.

Creative actions of privatization in India include: **(1)** deregulating—reducing regulations ; **(2)** contracting with the private sector to purchase a service (e.g. road construction); **(3)** establishing incentives to encourage the private sector to provide a service; **(4)** abandoning or shedding services; **(5)** reducing the demand for service; **(6)** establishing separate corporations—profit and non-profit authority; **(7)** supplying temporary help on the part of the private sector; **(8)** issuing waivers; **(9)** selling or giving away government-owned assets; **(10)** establishing franchises/leasing **(11)** subsidizing or making grants available to the private sector; **(12)** discontinuing subsidies to public entities providing joint funding; and **(13)** establishing public-private partnerships.

5. Advantages of Privatisation

Privatisation can address issues like income inequality, inflation, inefficiency, etc. that have been negatively contributing to the growth of India. A few major advantages are listed below:

5.1 Increased Productivity: Privatisation of a PSU can increase its efficiency because as compared to government, private enterprises are more profit-oriented. Thus, the management of a privately-run business will stress more upon cost-cutting to improve profitability.

Initially, **Videsh Sanchar Nigam Limited** (VSNL) was an independent government body that was later privatized under the TATA Group in 2022. Today, it is a multinational telecommunications company, known as **Tata Communication Private Limited**. After its privatization, the first major change was the improvement in the management system of the body by a great margin. The company provides services in operating landing stations and undersea cables and has more than 415 direct and bilateral ties with leading international service providers. **TCL expanded its presence in more than 240 countries** and territories around the world. Its network carries around 30% of the world's internet routes and connects its business to 60% of the world's cloud giants. It is said that the Network of TCL has so vast area that connects 4 out of 5 cell phone subscribers in the world**. If we compare Tata Communications with BSNL and MTNL, another government-owned entity, the losses of BSNL and MTNL narrowed to ₹7,441 Cr and ₹2,554 crores in**

2020-21 whereas TCL made a net profit of 1,254 Cr, we how can witness how privatisation helped the former stay afloat and thrive.

5.2 <u>Technology Improvement and long-term gains:</u> Before the privatization of BALCO **(Bharat Aluminium Company Ltd[2])**, the Government of India didn't have enough accumulated cash to make technological improvements in the company. There was a requirement of over Rs 500 crores for its basic improvements plus Rs 4000 crores for its modernization. Therefore, a 51% stake of BALCO was transferred to Sterlite Industries Ltd (SIL) which is a unit of Vedanta Resources. The new management proposed to invest Rs 6000 crores and assured to increase the production four times. Privatization of BALCO, was good for the improvement of production facilities in terms of machinery and infrastructure, ultimately resulting in more production. SIL had the experience of operating the largest copper smelter plant in India. BALCO which registered a turnover of Rs 898 crores in 2000, has escalated it to a whopping Rs 9863 Crores in the financial year 2020-21.

5.3 <u>Competitive Environment</u>: Another pet of privatisation is the competition in the market. The privatisation drive will provide the private players a level playing field with increased competition in the market which will eventually drive the PSU to perform better and increase their efficiency. PSU due to the increase in the competition will introduce innovative products that focus on specific consumer preferences keeping in view the risk assessment, risk improvement, product pricing, and lower service costs.

In 2002, **electricity distribution** was **privatized** in Delhi, The **Delhi Vidyut Board** [3]was unbundled and split into six entities and i.e. Delhi Power Company Limited (holding company), Indraprastha Power Generation Company, Delhi Transco Limited, BSES Rajdhani Power Limited, BSES Yamuna Power Limited (also called Reliance Energy) and North Delhi Power Limited (now Tata Power Delhi Distribution Limited). Of these five companies, **BRPL, BYPL, and NDPL are joint ventures between the Delhi Government and the private sector** where 51% of equity is with the private which handles the power distribution sector in Delhi.

Ever since privatisation Delhi DISCOMs have **saved the city and its consumers over ₹1.2 lakh crore** over the past 19 years. Of these, the Aggregate Technical and Commercial losses (AT&C losses) constitute the major part. Technical loss occurs due to resistance in the flow of electrons. On the other hand, commercial losses are governed by the laws relating to criminality – theft, collection efficiency hampered by corruption, and political interference. This was followed by

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[2] https://d2z1l9uefzbzxd.cloudfront.net/wp-content/uploads/2021/08/Balco_Financial_Statement_2020_21.pdf

[3] Diving into the Privatisation Push in India's Power Sector (thewire.in)

investments of around ₹19,000 crores made by the **Delhi DISCOMs to improve the distribution network in the national capital**. These are huge profitable ventures now **achieving global benchmarks in AT&C by affordable and reasonable pricing of electricity and improving the quality, security, reliability of power supply, and consumer service**. Delhi Government has put a cap on prices and introduced strong regulations on private players from increasing the cost of electricity beyond a certain limit. Comparatively to other Tier 1 cities electricity is cheaper in Delhi. For the customer also, it's a win-win situation, because we are witnessing a much better value proposition.

5.4 <u>Mitigation of the NPA problem and Capital infusion</u>: The most debated issue of the privatisation drive and its impact on the economy is the ever-increasing and never-ending burden of the Non-Performing Asset (NPA). The **banking sector is overburdened with NPAs and the majority of which is contributed by the PSBs which is majorly due to spending on welfare schemes and write-offs**. The financial health of the economy is badly affected by the rising NPA issue. Privatization of PSBs will not end the NPA problem, but will surely aid in effectively bringing it down. It will boost the economy by recapitalizing PSBs with the help of raising fresh equities thereby empowering the banks to resume lending, improve their performance and simultaneously privatise their ownership structure. **The influx of foreign investment along with the growing technology** will allow the private banks to take more risks to bring in better products, aggressive lending, development in the rural areas, and charge lower interest on loans. Also, speedy services via net banking and mobile banking particularly in rural areas, thereby developing the rural banking landscape.

5.5 <u>Burden of management on Govt</u>: The privatization of PSUs will reduce the burden of the Government by the optimum utilization of the resources available and will also help in generating additional financial resources. As a PSU **the accumulated losses at Air India [4]have swelled to about 69,575.64 crores** in the past decade. Air India, which is surviving on a taxpayer bailout, has never seen a profit since its merger with Indian Airlines in 2007-08. History has proved that attempting to integrate airlines have never been successful. The best airlines supported by the best aviation consultants never succeeded. Jet-Sahara, Kingfisher-Deccan, Air India-Indian Airlines the list is endless. About ₹2.5 lakh crore of taxpayer's money was directed towards keeping this enterprise afloat, and also losses of close to ₹20 crores a day. It was getting difficult for the government to manage and sustain it. Hence, the government decided to hand it over to the TATA Group of Companies. *The government was lucky to find Tata being so generous.*

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[4] https://www.hindustantimes.com/business/air-india-will-regain-its-lost-place-in-domestic-int-l-skies-101643408918435.html

Air India which began as Tata Airlines pioneered by the great Indian entrepreneur JRD Tata in 1932 was one of the earliest airlines in the world. Tata ran it successfully as a business, expanding it and naming it Air India in 1946, and later with international flights in its portfolio, it became Air India International in 1948. Nothing was wrong with Air India. Air India was nationalized in 1953. *The socialist idea was to take commanding heights of the economy into public ownership.* The experience of Air India is a perfect story of the disease from which India has not yet fully recovered. The government stated *"Air India will regain its lost place in domestic, int'l skies' as it's in the capable hands and future is secure now"*

5.6 <u>Revenue Generation</u>: Privatization could be an instant source of revenue generation for a government looking for funds to invest in some project or welfare scheme. Apart from this, it also has some **long terms benefits that the company provides like higher tax collection, GST, excise duty,** etc. **on account of increased revenue**, this was quite evident in the case of **Privatisation of Maruti**[5].

In 1981, the government have formed a JV with Japan's Suzuki Motor. **The government made handsome gains of around Rs 6,000 crore through various stake sales** in Maruti, the company has proved to be a multi-bagger even from there. **Maruti Suzuki still has a 50% market share**. As against a market cap of around Rs 24,000 crore in 2001, the company's current market cap stands at about Rs 2.15 lakh crore. The expansion of manufacturing capacity was all from internal resources, and today Maruti has cash reserves of about Rs. 38,000 crores. This was achieved despite competition from all the leading car manufacturers of the world, who came to India after 1993.

The Government has during this period received over **Rs. 1.5 lakh crores as excise duty and GST**. In addition, **income tax revenues amount to nearly Rs.29,000 crores**. Maruti has produced over 23 million cars and their operation and maintenance have created millions of jobs. Quality improvements and cost reductions have enabled Maruti to export cars to over 100 countries. The global competitiveness of Maruti is evident from its ability to export cars to Japan. Largely due to Maruti's growth a very robust component industry has developed in India. This **supports thousands of small and medium-scale manufacturers who are Tier 2 and Tier 3 vendors**. **Automobile component exports from India are over $ 11 billion.**

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[5] https://www.news18.com/news/opinion/opinion-towards-privatisation-this-is-a-maruti-moment-for-the-modi-administration-3441437.html

6. Disadvantages of Privatisation

Privatisation will not always work best. 'Best' cannot mean only the cheapest or most efficient but should mainly aim to enhance the conditions of the services which people get. Like there are two sides to a coin, with benefits there are some drawbacks as well.

6.1 <u>Natural Monopoly</u>: Privatization in some sectors where there is low competition may lead to a monopoly of a single private firm. Having a monopoly over a particular sector the firm gets a free hand to compromise its quality and also to fix higher price rates etc. to churn out larger profits.

Opening up the telecom sector to private operators is seen as a success, however, is also the source of the government's problem. The competition among private operators to get a foothold in the telecom market meant that on the one hand they bid huge sums to win limited licenses and scarce spectrum, and on the other joined a price war to win subscribers. In 2016 **Reliance Jio entered a predatory price war to quickly win and expand market share**, as did not have legacy problems like installing earlier generation technologies and disputed AGR dues[6] which led to falling average revenue per user (ARPU). The Supreme Court judgment —

***Union of India v/s Association of Unified Telecom Providers of India*[7]**

The final result of the Supreme Court verdict was that telecom operators in India jointly owed rupees **1 Lakh Crore** to the government. According to filings submitted to the Court, **Reliance Jio's total liability is just ₹41.35 Cr** since it entered the market just three years ago, a figure that Mukesh Ambani's RIL-backed Jio should have no issues paying. Meanwhile, **Airtel's** total liability is estimated to be **₹41,507 Cr,** while that of **Vodafone-Idea** is estimated to be **₹39,313 Cr.** With Vodafone-Idea threatening to throw in the towel, India's telecom business is headed for a private sector duopoly. In the latest development, I**ndia has been forced to postpone a 5G spectrum auction** that was supposed to happen this April. Neither Bharti Airtel nor Vodafone Idea is in a position to buy new spectrum licenses at the high prices the government wants to charge. Only Jio could realistically afford those rates.

If **Reliance does exploit its current position of strength to establish a near-monopoly position** in the market, there are several challenges it can pose. The least of them is a sharp rise in tariffs in the medium term, adversely affecting consumers. More important is the control that, Jio would establish over the flow of data. Reliance Industries is a conglomerate that has diversified into areas

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[6] **Adjusted Gross Revenue** is the usage and licensing fee that telecom operators are charged by the Department of Telecommunications

[7] https://www.xda-developers.com/india-reliance-jio-airtel-vodafone-idea-telecom-carrier-monopoly-uncertain-future-agr-judgment/

from e-commerce to providing various digital services, including cinema, news, music, and retail. If the **parent company has a monopoly over the pipe through which those services are delivered. Monopoly is no more a question of pricing to generate super-profits at the expense of the consumer**. It is the ability to stamp out the competition and prevent entry into sunrise sectors by using dominance in an existing one. That is the strength of platforms such as Amazon, Google, and Facebook. With control over the data delivery means, **Reliance will also acquire powers that can stifle the competition**. India desperately needs a U-turn. It is reportedly preparing a rescue package for stressed telecom companies and could offer relief to companies that owe licensing fees.

6.2 <u>Loss of Control of Government:</u> India in particular has witnessed corruption and unlawful ways of getting licenses and business deals even when privatizing. We have also seen a rise in lobbying and bribery that has put the practical applicability of privatization for a great outcome in question. The privatization mission lost its objectivity when the enterprises established for-profit maximization gave way to malpractices like selling government assets built with taxpayer's money at cheaper prices to private players.

A total of **six airports were opened for privatisation** [8]by the AAI in December 2018, and **Adani Group** was declared the highest bidder for all of them in February 2019. According to contracts signed between Adani Enterprises and the AAI for airports in **Mangalore, Lucknow, and Ahmedabad** in February 2020, the latter had to pay **₹74.5 crores, ₹147 crores, and ₹277 crores** for aeronautical and non-aeronautical assets at the three airports respectively. **Assets valued at ₹1,300 crores** at the time the Ministry of Civil Aviation had sought approval from the government's Public-Private Partnership Appraisal Committee (PPPAC), were **sold to Adani Enterprises Limited (AEL) for a mere ₹500 crores**. A comparison of these figures with the estimates has resulted in a deficit of 80% for Mangalore airport, 75% for Lucknow, and 28% for Ahmedabad.

6.3 <u>Formation of Cartels:</u> Cartels are created when a few large producers decide to co-operate concerning aspects of their market. Once formed, cartels can fix prices for members, so that competition on price is avoided.

In 2002 **Cement Corporation of India [9]was privatized** by selling all its plants to private players. The Competition Commission of India (CCI) in 2016 a preliminary investigation has found that **6 leading cement companies including Ambuja, UltraTech, and the cement association have**

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[8] https://www.thehindu.com/news/national/aai-assets-worth-1300-cr-at-3-airports-sold-to-adani-for-500-cr-claims-union/article36835561.ece

[9] https://www.business-standard.com/article/companies/six-leading-cement-companies-forming-a-cartel-under-cci-scanner-118021301275_1.html

formed a cartel that was penalized Rs 67 billion imposing a penalty of 0.5 times net profits. In these orders, cement manufacturers and their associations had been accused of using a common portal to manipulate prices. **Due to the artificially high price of cement, in turn, there is poor growth in the housing sector of India**

7. Are PSUs having natural death or they are assassinated?

PSUs contribute 20% of India's GDP, but systematically government has weakened PSUs over a period of time in four ways:

7.1 <u>Special dividend:</u> The government should keep the profits as reserves and let the company grow while it places pressure on PSUs to get the surplus dividend and thus depletes their cash reserves. In 2017, a study found that the government has been **extracting a much larger dividend income than what is warranted by the Companies Act** in order to reach a better fiscal target. The additional funds are generated from the productive operations of these dying out companies instead of using them for capital expenditure to update the production Technology. Due to this companies like **ONGC's cash reserves eroded 98% in just 1.5 year**

7.2 <u>Disinvestment loss-making company:</u> It's selling a country's economic wealth. "*If our child is weak we make him drink some nutritional drink rather than selling his organs".* The lack of support by the government to the PSEs at critical moments has left wide gaps in key industrial capabilities. With the **collapse of HMT**, India is forced to import 80% of its machine tools, the bedrock of manufacturing. The undermining of the PSEs by the government's **reluctance to support BHEL has flooded the Indian power sector with Chinese equipment**. Moreover, India is largely absent in emerging technologies like solar wafers, computer chips, or EV batteries. At a crucial juncture like the sale of Giants like BPCL, BEML, and Shipping Corporation of India. **Privatisation would undermine India's Atmanirbhar Bharat mission** as it compromises India's sovereignty and economic freedom technique in energy security and strategic posture.

7.3 <u>Bad purchases</u> - The government has driven India's most profitable company under mountains of debt, **ONGC was forced to purchase HPCL and GSPL** enterprises higher than 14% of actual value, and ONGC had to take an additional loan to purchase on which it had to pay heavy interest.

LIC is used as an investor of last resort in the past to support the market by buying shares of PSUs, LIC has 1.4 billion dollars invested in ONGC when it was listed and IDBI 13000 crores in 2014. It provided funding of **rupees 3,76,000 crore in many Infrastructure Projects** in 2018 when minority shareholding of the Central Government in 30 CPSEs were sold in bundles which was the worst decision till now and after which LIC solvency ratio is less than in the last 10 years which is dangerous. If one looks at the **solvency ratio** of **LIC the magnitude of the problem** becomes Apparent.

7.4 <u>Existential crisis:</u> In 2005 BSNL was one of the profit-making telecom companies with a profit of 10,000 Cr. Now, in contrast, it has more than 8,000 Cr loss. When other companies were getting 4G licenses then **why BSNL, a PSU which has lesser debt among all competitors were not given a spectrum license in time?** Bribery and lobbying are stated as one of the main reasons.

"You can't sell a strong profitable company but you can sell a company by making it bankrupt." BSNL[10], HAL, and Air India once India's pride is now not even able to pay their employees' salaries few questions we may need to ask:

(1) Were PSU given the autonomy they deserve? **(2)** Did we consider the exact impact of privatization? **(3)** Have we professionalized the management of PSU or kept government puppets as management decision-makers? **(4)** Is PMO interfering in the working of PSU? **(5)** Has the government taken any significant steps to improve the state of these PSUs or shown more interest in selling them? Answers are hidden somewhere in these questions. The **government should stop milking the PSUs the situation might improve.** If PSUs are treated like national assets then they can work towards the interest of society and earn profit as well.

If we take the latest example of the attempt to **privatization** of RINL **(**Rashtriya Ispat Nigam Limited) also known as **Vizag Steel Plant**[11]. The central government has taken a policy decision that 'Steel' is a non-strategic sector and all PSUs in that sector will either be 100% privatized or closed. In this connection, it may be noted that raw materials accounted for 51.55% of operating revenue **as the center had not allocated captive units which increases the raw material cost** in case of RINL in 2020-21 against 21.38% in the case of **Tata steel (100% captive source**), 26.28% in case of **JSPL (largely captive**), 32.99% in case of **SAIL (100% captive source**) and 40.63% in case of J**SW steel (35% captive source**). Despite this among major steel companies, **RINL is second only to Tata Steel**, and Jamshedpur in respect of energy intensity and is first in respect of specific water consumption. Waste heat recovery and solid waste utilization are comparable to or even better than peers. The power & fuel cost of the company in 2020-21 was 5.63% against 7.37% in the case of JSW steel which is a private company. In FY 20-21 **RINL achieved a record turnover of Rs 28,008 crores by selling a record 5.225 million tonnes**. Records have been established in all areas of production. It has been officially announced that RINL has achieved a

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[11] https://www.hindustantimes.com/india-news/visakhapatnam-steel-plant-1-year-on-privatisation-makes-no-headway-101643311320947.html

profit before tax of Rs 835 crore in the 2021-22 financial year. **Had the captive iron ore mine been there, profit would have been more.**

8. Why India must strengthen its PSU?

Fortune 500 global list [12]2020 revealed that Chinese firms had overtaken US-based firms. **China today had 124 firms on the Fortune list of which 94** SOEs compared to 121 from the US. In 2005 only 45 state-owned enterprises were on the list but now we have many. Today 28% of the world's largest and most powerful economic entities are state-owned and dominated largely by China SOEs like ZTE, Lenovo, and Huawei.

How this happened: The rise of SOEs in the global economy has been traced to the strategic vision in a plan to corporatize SOEs, by listing several on the stock market making them profitable in competitive in the global market. Simultaneously China set up 37 new SOEs in new emerging industries and technology. According to US Centre for strategic studies in 2019 China's investment through SOEs in the US was dollar 2.7 trillion and another one trillion dollars in Europe.

From British and France colonialism to the rise of the US everything was about money capitalization and that's what China is doing. **To become the global superpower that's true economic dominance not by guns or wars**. Chinese SOEs were given autonomy. Indian public sector undertakings divested not given any physical support and rather government in insisted taking larger dividends. This is contrary to China where SOEs are liberally funded to grow and become global government-promoted private sectors.

As the Indian govt readiness to privatize the most vital and significant PSUs like Bharat Petroleum a Fortune 500 company, BEMC, Shipping Corporation of India and a dismember of ONGC the Chinese may be happier to acquire these firms and these assets through a chain of firms they would control. **BPCL has 17 strategic oil reserves in 17 countries, these firms are important strategic assets to confront arising China more vulnerable to then Rafale Jets or leased Russian Submarines.**

Ola Snapdeal, Swiggy, Paytm, Zomato, Big Basket, Flipkart, Nyka, Unacademy, dream 11, Quickr, OYO, Policy bazaar, etc., all Indian companies have been invested by Chinese investment bankers directly or indirectly through shell companies. If India doesn’t want to hide behind the trial watch of western powers as it confronts arising China it must strengthen its public sector**. India needs to**

[12] https://fortune.com/2020/08/10/fortune-global-500-china-rise-ceo-daily/

imitate China's model in establishing new PSEs in strategic and emerging industries like semi-conductor which require patience and capital in greater risk.

9. Conclusion

PSU's played a major role in increasing capital formation in the accelerated growth of the country. The government may come and go but the economic institution's development phase needs to be permanent if we want the country to be a rising superpower then there has to be an ideological shift. This shift from public to private management is so profound that it will produce a panoply of significant improvements boosting the efficiency and quality of remaining government activities, reducing taxes, and shrinking the size of government. But before applying the rule of privatization, it must be though if these **problems can be removed without privatizing them. If the answer is 'Yes' then improving the services of PSUs is a better way than privatization.**

Whether privatizing a particular PSU will be beneficial in long run or not, depends entirely on the industry. For example, **Gujarat State Fertilizers & Chemicals Limited** between 1999 and 2001, was veering to the brink of a cash crunch. The **government's turnaround strategy** to restructure corporate debt helped in bringing down the interest cost and to switch from naphtha to natural gas for feedstock this reduced the input cost substantially. GSFC has never looked back since then from accumulated losses of Rs 657 Cr in 2001-02 to generating total revenue of 7817 Cr in 20-21. GSFC produces fertilizers, one of the important elements for agricultural sector which contributes 15% of GDP by employing more than 40 % of the population and raising productivity challenges, soil fertility issues. India can't afford to completely privatize and create a chance of monopoly/ cartels.

Switching to the **automobile industry** for example the outcome, one may think that if **Suzuki weren't allowed to take over Maruti**, the company would have suffered the **same fate** as the likes of **Premier Motors and Hindustan Motors** (ambassador car *"the King of Indian Roads").*

Privatisation will help in attaining this goal is a far more effective manner. Government resources will be hugely augmented and can be used to build infrastructure and provide social welfare. It is the responsibility of the government to give full support to the enterprises of the country which government trying its level best with the **Digital India mission, Bharatmala, Sagarmala projects, ease of doing business, credit linked capital subsidy for MSMEs, Invest India scheme**, etc. that leads to productive jobs in the economy, arising from higher manufacturing activity, will further increase the ability of people to support themselves. An equitable society cannot be created by giving doles and not creating wealth.

"Privatisation is a bitter pill but it is a pill that will cure"

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