India's Divestment Debate Needs Focus

by Ramtanu Maitra

After months of simmering discontent, the battle in India over divestment (privatization) of public sector units (PSUs) has been joined. After meeting with some of the strongest critics of the divestment policy within his government, Prime Minister Atal Behari Vajpayee stated on Oct. 2 that divestment of the public sector units would continue. From the sidelines, earlier in the day, K. Sudarshan, head of the Rashtriya Swayamsevak Sangh (RSS) party, charged that the economic policies being pursued presently are "at the behest of the World Trade Organization and the International Monetary Fund," although he did not name the Bharatiya Janata Party (BJP)-led government. Addressing a meeting in New Delhi on Oct. 2, Sudarshan held the present policies responsible for terrorism, because they rendered people jobless.

Interestingly, the divestment debate has spawned a new axis within the coalition government. The left-of-center grouping led by Defense Minister George Fernandes has joined hands with the RSS, often described as right-wing Hindu chauvinists, who once acted as the brain center of Vajpayee's BJP on the issue. This alliance is not ideological, but patently political: Both sides are looking for survival.

The BJP-led coalition has no choice but to resolve the issue quickly. What is missing, however, is a clear focus regarding divestment. It is true that most of the PSUs are not "crown jewels, but bleeding ulcers," as Divestment Minister Arun Shourie candidly puts it. But it is also true, that divestment of the PSUs by itself does not solve India's economic problems, and particularly not when the money earned, goes into reducing the revenue deficit, instead of creating new jobs.

The Opposition's Issues

Opposition to divestment centers on a number of issues. For instance, divestment opponents claim that the PSUs are deliberately undervalued to provide a bonanza to private-sector buyers. The Ministry of Divestment says various methods could be used—valuation of shares by the market, asset valuation, assessment of business potential, book building, etc—and the method that is appropriate in some cases, may not be appropriate in others. For instance, software companies have little real estate or other assets; but, given their growth potential, their valuation is placed very high, Shourie said. Shourie points out that the government will consider all options: "It is not a good idea to lay down some unvarying rule—for instance, that equity in profit-making PSUs should be offloaded only to the public. It is also not a good idea to lay down a general rule, or a percentage, of sale proceeds that should be earmarked for employees," Shourie claims.

Although divestment of the Bharat Aluminum Corporation (Balco), the India Petrochemical Corporation Ltd. (IPCL), and the Videsh Samachar Nigam Ltd (VSNL) was completed quite successfully last year and in the earlier part of 2002, despite pockets of protestations, the sell-off of Hindustan Petroleum Corp. Ltd. (HPCL) and Bharat Petoleum Corp. Ltd. (BPCL), announced in February, ran into heavy weather in August, when opposition was voiced on the grounds of national security.

The first shot was fired by the Swadeshi Jagran Manch (SJM), a think-tank that operates under the aegis of the RSS and promotes self-reliance as the anchor for economic policies. SJM threw its weight behind calls by a section of the government to stop the strategic sale of the two state-run refineries. "There should not be any strategic sale of HPCL and BPCL. The government has, as a matter of policy, decided to be present in the oil sector for national security," Swaminathan Gurumurthy, co-convenor of the SJM, told Reuters. HPCL and BPCL together held 40% of the $15 billion domestic oil market.

While the SJM criticism was expected, the pro-divestment lobby was rattled when the SJM joined hands with some of the Cabinet ministers and Defense Minister, George Fernandes, a self-proclaimed Socialist. Fernandes, who, as Minister of Industries, ordered Coca-Cola and IBM out of India in the late 1970s, went to the press, expressing his reservations on the sale of the two oil refineries. According to newspaper accounts, Fernandes had allegedly asked his Prime Minister for a thorough review of the divestment policy, to guard against a "rich getting richer" tendency and to prevent private monopolies.

Gurumurthy, a chartered accountant, said the strategic sale of state-run firms could create private monopolies. He urged the government to examine initial public offerings, in which the state's holding is brought down to less than 51%. "A private monopoly can be created by the market, but it cannot and should not be created by a government divestment action," he charged.

Soon afterward, two more senior Cabinet members, Minister for Human Resource Development Murli Manohar Joshi and Petroleum Minister Ram Naik, expressed similar reservations. The conclave was joined almost immediately by other ministers, such as Sharad Yadav, Uma Bharati, and S.S. Dhinda. It was clear at that point that the sale of HPCL and BPCL would get stuck.

Rescue Attempts

With Minister of Divestment Arun Shourie, a former World Bank executive, isolated, the Cabinet Committee on Divestment announced its decision to postpone the sell-off of public sector undertakings in oil for three months, during which time alternative suggestions and concepts would be sought. The Committee also suggested taking each bid for the procurement of PSUs on merit. Most observers wrote off Shourie, blaming him for "tactical errors." One critic pointed out that every single minister in the National Democratic Alliance (the formal name of the coalition government), who has a public sector empire to lose, formally swears by divestment, but informally works against it.

But, Shourie had not run out of support yet. A note prepared by the Prime Minister's Office questioned the Divestment Ministry's proposal for a blanket ban on PSUs themselves bidding for other government-owned companies. According to Vajpayee's office, a decision on whether to keep PSUs out of the divestment process involved "deeper conceptual issues" that deserved investigation. It was a slap on the wrist to Shourie's ministry, but it also demonstrated that the Prime Minister's Office continued to support divestment. Shortly thereafter, Commerce and Industry Minister Murasoli Maran made it clear that the government had not abandoned the divestment program, and said that divestment was one of the government's success stories, pointing out, "In my stint as Industry Minister, I created the Divestment Commission."

Finally, on Oct. 2, Prime Minister Vajpayee joined the battle. At an official function at his residence, Vajpayee said he was not averse to a "healthy debate" on divestment, but made it clear that he proposed to stand by his Divestment Minister. Furthermore, Vajpayee made his stand public in the presence of Deputy Prime Minister L.K. Advani, who, reportedly, was leaning toward the anti-privatizers.

Create an 'Infrastructure Development Pool'

There is no doubt that divestment will continue, even as a large section of the government passively opposes it. On Oct. 7, in an interview with the London *Financial Times*, Vajpayee confirmed that India's privatization process is "irreversible," despite the three-month freeze imposed in September. "As regards divestments, there is no going back," the Prime Minister added.

Also certain, is that the population will not welcome divestments indefinitely, unless they see some economic benefit emerging. People would like to see the money acquired through divestments, used to create jobs for the poor and improve their living conditions.

New Delhi must set up an "infrastructure development pool" where PSU divestment funds will be deposited, for financing projects that will create jobs through development of basic infrastructure. Such a pool would fund projects which are not financed through the Five-Year Plans. Channelling the money into the bottomless abyss of debt payments is far less productive economically—not to mention politically—though pressure from the monetarists inside and outside India to do just that, will be intense.

New Delhi must also come to realize that anti-poverty measures through targetted programs are doomed to failure. The road to eradication of poverty is through better railroads and roads, more reliable power, a more dependable rural water supply, more widespread health and education programs.