



PUBLIC SECTOR ENTERPRISES IN INDIA: ENHANCING GEO-STRATEGIC REACH AND EXPORTS

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Key Highlights

- India has the second largest number of PSEs after China. PSEs play a key role in India's exports and in meeting geo-strategic objectives.
- Around 40 per cent of the barriers faced by the PSEs is related to their own operational inefficiencies, 30 per cent is related to excessive government control and the remaining 30 per cent is due to barriers in destination market.
- There is need for internal restructuring of the PSEs. PSEs should be given more autonomy in decision making. A number of countries are in the process of restructuring their PSEs. India may learn from their success stories.
- India can work together with like-minded countries in international forums, such as the WTO, G20 and Indo-Pacific, to make PSEs self-reliant and enhance their exports and geo-strategic reach.

EXECUTIVE SUMMARY

Public sector enterprises (PSEs) have been the key drivers of economic development in a number of countries, including India. Globally, these enterprises account for around 20 percent of investment, 5 percent of employment and 40 percent of domestic output. The top eight countries in the world with the highest share of PSEs are Brazil, China, India, Indonesia, Malaysia, Russia, Saudi Arabia, and United Arab Emirates. Among them, China has the highest number of PSEs, followed by India.

PSEs are used by the governments to enhance their geo-strategic reach. This has raised concerns about the potential influence of governments in these enterprises in destination markets and the emergence of an uneven playing field between PSEs and private players. Therefore, the role of PSEs is being increasingly discussed in international forums such as the WTO and G20. Further, trade rules on PSEs are being negotiated as part of several regional

and bilateral trade agreements. Such discussions may have several implications for countries such as India, which has a large presence of PSEs. If India wants to enter into any agreement with the United States (US) or the European Union (EU), India may like to examine how PSEs are discussed in trade agreements/forums and then design its negotiating strategies/options.

Indian PSEs play a key role in meeting the country's economic development goals, geo-strategic interests and export targets. At the Central Public Sector Enterprise (CPSE) Conclave held on April 9, 2018, the Honourable Prime Minister pointed out that by the year 2022, Indian PSEs should maximise their geo-strategic reach.



In that context, the *objective of this paper is to examine the role of Indian PSEs in expanding the country's geo-strategic reach and exports. The paper provides an overview of PSEs in India, focusing on exports, investments and their international presence. It identifies some of the key barriers faced by Indian PSEs and makes policy recommendations on how India can strengthen its geo-strategic presence by addressing these issues and learning from global best practices.* The paper is based on secondary information analysis and in-depth meetings with 30 PSEs and their nodal ministries and departments.

EXPORTS OF PSEs: SECONDARY INFORMATION AND SURVEY

Indian PSEs are present across diverse sectors including energy, metals and minerals, and infrastructure. As on March 31, 2018, there were 339 central PSEs, out of which 257 were in operation. The PSEs have presence in over 80 countries and majority of them have been exporting both goods and services for over 10 years. In 2017-18, the exports were valued at Rs. 86,980 crores, which was a decline from Rs. 1,39,228 crores in 2012-13. Petroleum and crude oil accounts for over 60 per cent of the total foreign exchange earnings (see Figure 1).

Other key sectors are transport and logistics and consultancy services.

Out of a total of US\$276 billion overseas investment during the period October 2009 to October 2019, the share of PSEs was around 18 per cent. Mining and manufacturing accounted for 90 per cent of the total investments. Between 2010-18, the share of PSEs in total Greenfield investments was around 13.49 per cent, concentrated mainly in coal, oil, and gas.

Majority of the overseas investments of PSEs are in South Asia. Of late, Indian PSEs have been investing in countries like Myanmar, Vietnam, and Cambodia. They have a presence in the resource rich Commonwealth of Independent States (CIS) and are now targeting new markets in Africa. In the past, a number of PSEs were located in the Middle East, due to their large reserves of natural resources, but now they feel that the market is slowly getting saturated. Therefore, they are using their offices in the Middle East as a hub to expand to new markets such as Africa.

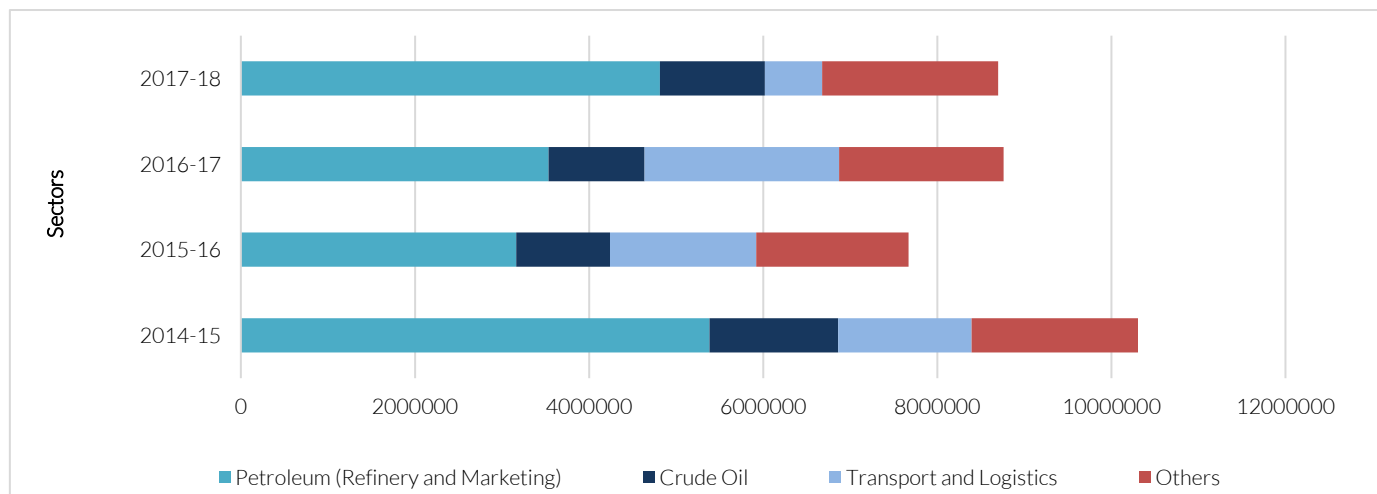
PSEs can venture into global markets through different routes such as the Ministry of External Affairs - Line of

Credit (LOC) (which is through the Export Import Bank of India), inter-government grants and capacity building programmes; subsidiaries, joint ventures, mergers and acquisitions; and competitive bidding. Among these, the least explored channel is competitive bidding.

CHALLENGES FACED BY THE PSEs

The PSEs face three broad challenges: (a) company-specific issues (b) domestic market related issues, and (c) external market related issues. Forty per cent of the barriers are related to the internal practices and business management of the PSEs, 30 per cent are due to lack of autonomy and excessive government control and the remaining 30 per cent of the barriers are related to market entry and operational barriers in foreign markets. Thus, PSEs acknowledged that their key issue is related to their own operational inefficiencies, which include lack of initiatives to implement better process and management practices, leading to lower productivity and losses; poor manpower allocation and employment; and lack of initiatives to fund research and promote innovations. They acknowledged the lack of market entry strategies, have limited funding for feasibility and

Figure 1: Sector-Wise Foreign Exchange Earnings from Exports of Indian PSEs (2014-15 to 2017-18)



Source: Compiled from Public Enterprises Surveys from 2015-16 to 2018-19, of the Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises

Figure 2a: Top 5 Company-Specific Issues

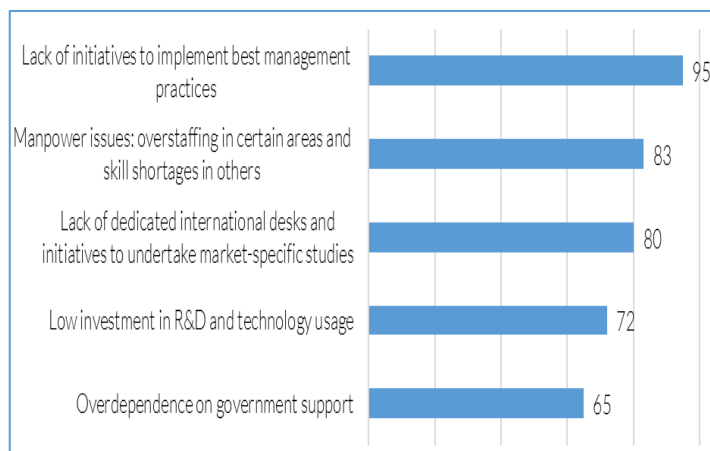


Figure 2b: Top 5 Domestic Market Related Issues

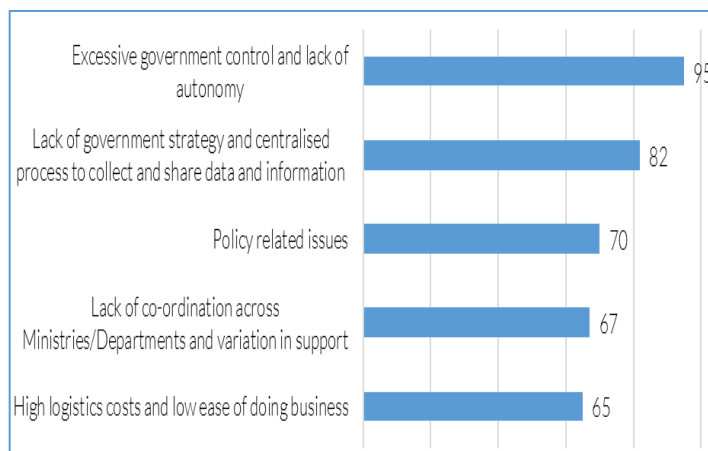


Figure 3a: Recommendations for the PSEs

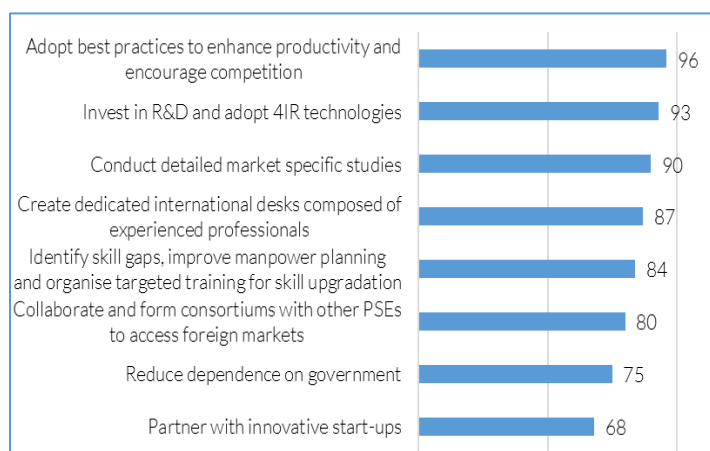
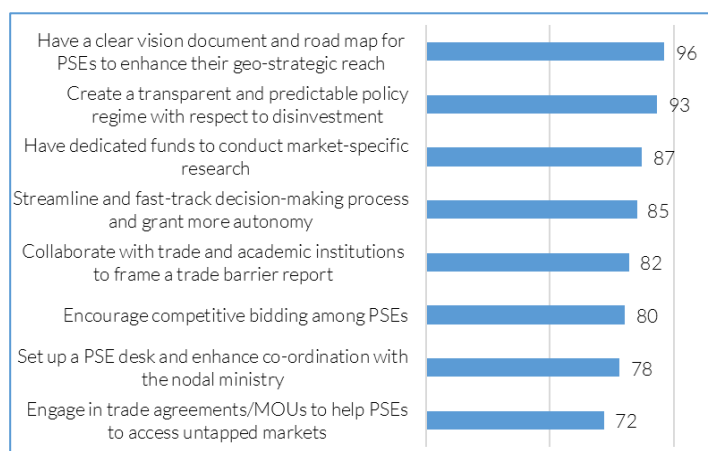


Figure 3b: Recommendations for the Government



Source: Compiled by authors

(Percentage of respondents)

Note: Multiple choice questions

market studies and many of them do not have dedicated international desks (see Figure 2a).

PSEs said that they are unable to take their own business decisions. Excessive government control, bureaucratic delays and cumbersome clearance procedures are key issues that render them uncompetitive *vis-à-vis* the Indian private sector (see Figure 2b). They also feel that they are at a disadvantage *vis-à-vis* PSEs from other countries like China, that offer significant financial support to their state-owned enterprises. China, unlike India, also has a clear strategy for international exports and enhancing its geo-strategic reach through projects like the Belt and Road Initiative (BRI).

The issues faced by PSEs in foreign markets include (a) market access

barriers such as foreign investment restrictions (b) discriminatory barriers such as preference for local firms (c) cumbersome regulatory processes and procedures, and (d) other barriers such as security risks, incidence of high corruption and bribery, strong competition from companies of other countries, culture and connectivity related issues. Unlike in the case of the private sector, investment decisions by PSEs are influenced by India's geo-political relationships, rather than their own business interest, leading to huge losses.

RECOMMENDATIONS AND WAY FORWARD

The recommendations for the PSEs and government are presented in Figures 3a and 3b, respectively. To improve efficiency, global

competitiveness, exports and geo-strategic reach, there is need for (a) significant internal restructuring and adopting global best practices; (b) technology adaptation and investment in research and development (R&D); (c) efficient manpower allocation, re-skilling and training; (d) gaining a better understanding of export markets through research, field visits and dedicated international desks; and (e) reduce dependence on the government by participating in competitive bidding and bidding in international markets by forming consortiums with other PSEs and innovative firms, including start-ups.

The government should give the PSEs more autonomy in adopting best technology and business practices. The decision-making processes should be fast-tracked by minimising paperwork

requirements. Strategies formulated by line ministries to promote investment and expand the geo-strategic reach of PSEs should be governed by an overarching vision and clearly stated geo-political objectives. The government should support its PSEs through multilateral engagement and strategic projects. It is also necessary for government to collect data and information, identify the market entry and operational barriers and address them. Since PSEs are increasingly being discussed in forums like the WTO, G20 and trade agreements, there is need for preparedness and understanding of the position and strategies of other countries. India may collaborate with

like-minded countries and develop a holistic strategy to address some of the concerns of its trading partners. A number of countries are in the process of restructuring their PSEs to make them globally competitive and ensure transparency. India may look at their experiences.

The number of PSEs can be pruned down; they can continue to exist in certain critical sectors to ensure energy security or mineral security.

Since PSEs invest in strategic and long-term projects, a long-term vision plan and roadmap is needed for their success. They should also have a robust disaster management strategy and should be able to handle issues that are

global (like the recent case of the outbreak of the COVID-19 (Novel Corona Virus)). The expectations from PSEs have to be defined and they should be given clear mandates and targets. There is need for data-driven policymaking and research should be conducted to support exports from PSEs. Specific funds have to be allocated for such purposes. Countries that support PSEs as part of their geo-strategic objectives, can work together in international forums such as the WTO, G20 and Indo-Pacific on the manner in which they can use PSEs to enhance exports, become self-reliant and enhance their geo-strategic reach.

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