

THE IMPACT OF PRIVATIZATION IN INDIA

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ABSTRACT: Privatization's impact is very huge and large in respect to country perspective. The impact of privatization is different in different countries and the way country's adopted privatization is also different. Every country adopted privatization to increase their income and enhance opportunity for their country's people. In India, there is a mixed economy, that's why the impact of privatization is huge and planned. Basically the reason to adopt privatization is to enhance profit for the country which directly affects the Gross Domestic Product (GDP), and Gross National Product (GNP) of the country. Privatization was an evaluation of the country for improving their economic condition. In India, Privatization was come in the year of late 1990s. Privatization extremely affects the growth rate of the country, and decrease the pressure on the public sector enterprises. The purpose to study about Impact of Privatization is to understand the nature of public sector enterprises and to understand impact on profit of privatization. Privatization always affects a country economy where it goes.

INDEX TERMS: Evaluation, Economy Growth, Gross Domestic Product, Gross National Product

I. INTRODUCTION

Impact of privatization and the meaning of privatization is different in different countries. It directly affects the country economy in respect to profit, way of work, and efficiency of the enterprises. Its impact is huge in public and private enterprises. Privatization of publicly owned operations is estimated increases in efficiency that can result from private ownership and business practices.

II. PRIVATIZATION:

Privatization means transfer of assets or service from public sector to private sector. Transfer of assets or services can be partial or full. Privatization is changing of ownership from public sector to private sector. Privatization is a way to provide authority of any public enterprises to private enterprises. Through privatization the relationship of public and private sector can be improved and these two different sectors can shake their hands to make their own profit which is also resultant for the country. The privatization come when a public enterprise could not provide services and profit on time then ownership can transfer to private firm. Privatization also referred to denationalization and destatization.

III. OBJECTIVE OF THE STUDY

The objective of the study regarding this research paper is written below:

- To study about the impact of privatization on Gross Domestic Product (GDP) and Gross National Product (GNP)
- To study about impact of privatization on economy

IV. METHODOLOGY OF THE STUDY

In this whole Research the methodology used, descriptive research. The research is based on secondary data, like published paper, literature review, through website and research paper. This research is based on secondary data and brief introduction about the impact of privatization and how it affects on different countries. The research included why they privatized and how they started to Privatized.

V. LITERATURE REVIEW

According to Khalaf Al-Taani, (2013) has research on privatization and state owned enterprise. This research paper basically on Jordanian Cement Factories, their research shown state-owned enterprises as relatively inefficient and often a drain on public treasury, in which economy is placed in the hands of private sector operators who have been known for their efficiency and competitive spirit, to evolve and be globally embraced. In any country the stability can be recognized through development of any economy. Privatization is an important phenomenon in both developed and developing countries. From last few years it could be seen that the effect of privatization is huge and impressive. Privatization is overall economic adjustment program in the aftermath of the economic crises that befell the country in the early nineties. In privatization of Jordan has been reported to have various objectives ranging from putting an end to the continuous depletion of public funds, which resulted from the treasury's support of loss making project to attracting foreign investments. More specifically describes in, article No.3 of the Privatization Law no. 25 for the year 2000 defines the objectives of privatization.

According to Md. Rizwan, Sohail Pasha, Humera Asrar Kashif, Hasan Siddiqui, Privatization should be considered as a useful tool to enhance the productivity and growth of a Nation. It initiated in 1991 in Pakistan, as they made this report on Pakistan scenario, and since the seven public sector banks have been privatized by the government of Pakistan. They understands that privatization come to existence to development of the economy and to increase profit of country.

According to Ahmed Fatima and Hira Yousaf, With the time Privatization is most polarizing issue that elicit some of the most emotive responses from its detractors and supporters alike. Privatization has been defined as transferring the right of the state to other agents to influence directly allocation of capital resources to non-state entities, to which the residual or net profit of sale accrue. The Planning Commission define as privatization as any shift of activities or functions from the state to the private sector; and more specifically, any shift of the production of goods and services from public to private sector.

According to Ahmed Kamaly, Sara El-Ezaby and Manal El-Hinaway, In Egypt privatization come to existence in 1991 to reform the economy and structural adjustment program. In Egypt , In the beginning of 90s Egypt started to liberalize its economy and to move towards market based economies system. Privatization as often advance as a necessary condition for this transformation. Privatization was in tandem with the one of reforms which did not trickle down to the majority of Egyptians, It is widely believed that privatization has been driven by corruption and is one of the main culprits behind many of the economic woes that inflicted on the majority of Egyptians.

Sana Siddiqui and Samreen Iodhi(2015) has estimate the significance of privatization and how it interrelated by liberalization. His study based on the economies (Eastern Europe and Russia) in this paper. The study revolving around the privatization and what are the major factors, that privatization grow more and more with the time. His studies also include that why most of the public companies move towards privatization.

James Ndegwa (2013) has study on positive impact of privatization on hardened firm budget and also extent of market liberalization. In their study, they covered all the factor related to privatization and profitability. He also focuses on the rate of return, equity, shares etc. and why privatization come and how profit gain by the companies after moving privatization.

According to Hassan Ali And Dr. Ayaz ul Haq, In this study about before and after effect of privatization on Pakistan. Pakistan would have been in great danger if it did not access to currency and banking. Multiple attempts have been made to stabilize the economy. There is a general perception that the profitability of banks in Pakistan has increased after their privatization. Only four banks privatized in Pakistan i.e. MCB, ABL, HBL and UBL in the history of Pakistan, to make profit. Since MCB and ABL were privatized in 1990's thus a lot of research work has already done on their profitability considering data of many years i.e. 10 year and 17 years after privatization. On the other hand , UBL and HBL were privatized in 2002 and 2004 respectively. By which, profit of these banks increase simultaneously.

According to Shankaran Nambiar, The privatization initiative in Malaysia was introduced at the correct juncture in the country's development. That is acceptable for privatization was in keeping with current economic thinking. The rationale of the privatization is based on the premise that governments should restrict themselves to governing and not venture into running businesses. The privatization comes because of inefficiencies of centralized planning and the crowding out of private investment. The proper conduct of privatization needs that efficiency and transparency should be considered in the implementation process. Otherwise outcomes might not be efficient and there will be an associated welfare loss.

VI. PRIVATIZATION AROUND THE WORLD

As we all know that the conversion of public entity to private entity is privatization to improve quality and production and whole observation and research is based on secondary data and the analysis is on before privatization and after privatization on profitability and state-owned capitalization. Governments never fear about the potential negative effects of privatization on employment, instead they acknowledged its positive impacts on employment and productivity.

AMUL, basically amul founded in 1948 and this is an **Indian** Company, which is a long journey of a Brand and profit is also increase simultaneously which is a good news for any organization.

After privatization, Amul exports and selling their products in US (1998) through Amazon, which is a great achievement, Singapore through Mustafa supermarket chain, in Lanka through Milk Foods Ltd and John Keels chain and also in UAE.

Amul awarded by “Best of All” Rajiv Gandhi National Quality Award in 1999.

Amul is India’s first dairy company to sell products in an International online auction and profit increase by 20% in global market.

Liberty shoe started in 1954, now it market runs over in 25 countries. Company enter into agreement for sale in 2000, in which sales of goods or taking on franchise basis the production facilities and acquire movable and immovable property including plant and machinery building etc. In 2004, board approves setting up of subsidiary company. In 2006, LIBERTY shoes hands with Pantaloons.

Japan Tobacco and Salt Public Corporation (JTSPC) recommended that the JTSPC made into a corporation. Initially government owned of its shares but the government would sell shares to the public. This is the monopoly on the growth and importation of tobacco and tobacco products. The PCAR recommended that the monopoly be phased out over time. Government privatization involved the maintaining of the monopoly in the growth of the tobacco but allowed for more opportunity for private companies to import tobacco and tobacco products. Here the government maintained the dominant ownership share.

In **Japan**, privatization comes in 1980 by the privatized three big companies to make more opportunity, to make more profit, and to maintain the market. JTSPC is one of them.

In **Russia**, privatization came for an ambitious program by the president Boris Yeltsin in early 1990’s. Which was the largest sell-off of the state-owned property in history, that enterprises were sold at a rate of about 800 a month and by the time it was complete 77% of Russia’s large and mid-size enterprises and 82% of the small ones were private. The 15000 privatized factories accounted for two third of industrial output and 60% of industrial work force. The 85000 privatized shops, small businesses, restaurants and service establishment represented 70% of the national total, which was a great extending towards privatization. Everything from sawmills to rolls of barbed wire was auctioned off. Tires are sold at a price that was equal to a month’s wage for a Russian worker and **MiG-29** jet fighters went for \$23 million.

In **Hungary**, privatization started In 1989. In this privatization, the properties could not be transfer freely but they have to be purchased on the market economy conditions. The Hungarian public entity had chosen a slower way of privatization instead of privatizing all at once. **BATA**, which founded in 1894. Beginning of rapid modernization they installed its first steam-driven machines. Bata, first ever sales agencies began in Germany in 1909. Slowly, they expend themselves to the world through privatization and globalization.

In **Tanzania**, started of 1980s at the time of economic reform including privatization , unemployment rate has increased in Tanzania. From the time 700,000 new job seekers join the labor market in Tanzania every year but out of 700,000 only 30,000 of them get employment. About 95 enterprises went to Tanzanians, and 69 of them to indigenious. But until recently many of buyers of these 69 enterprises were still unable to meet even the minimum conditions necessary to sign memorandum of understanding on the sales.

In **Malaysia**, at the time of 1970s, the motive of many involve in the preceding expansion of public sectors. After looking back to the public sector in Malaysia, this was necessary to consider the changing political circumstances. At the time of colonial period, the public sector grew primarily to provide infrastructure and services. At the time of 1960s, many state governments of Malaysia set up state economic development corporations (SEDCs) to enable agricultural and industrial development. The first Bumiputera Economic Congress in 1965, private companies were set up to facilitate Bumiputera Economic Empowerment Economic Empowerment. The most notable included bank Bumiputera in 1965 and Perbadanan Nasional (Pernas) in 1968.

In **UAE** (Abu Dhabi), Abu Dhabi National Oil Company (ADNOC) has embarked on a major shake-up plan to privatize its services businesses, venture into oil trading and expand partnerships with strategic investors, its chief executive said on Monday. In UAE, the partial privatization plan marks a major shift by the state energy company that was founded in 1971. It aims to make ADNOC more competitive and commercially focused, operating in way that is more akin to other state-owned controlled peers.

In **Switzerland**, partial privatization came in 1997. Swisscom AG is a major telecommunication provider in Switzerland. The Swiss Confederation owns 51 percent of Swisscom AG. According to its own published data, Swisscom holds a market share of 60% for mobile, 67% for broadband and 33% for TV telecommunication in Switzerland.

In **Sri Lanka**, Privatization started during the year of 1989. By the mid-1994, 43 enterprises in the industrial sector and 92 bus depots in the public transport sector had been privatized and by 1997, the number rose to 75, with several plantation companies and large-utility oriented industries such as telecommunications and gas being privatized.

As we seen lots of example, and now in different countries privatization came in different time which indicates that the privatization come according to the development of the country. And some of the countries adopt privatization partially and some of as whole. But in each and every country privatization means to increase profit, to increase production, to increase sales which affect directly to the GDP and GNP accordingly.

All the countries firstly start slowly through liberalization then privatization and after that globalization, but these all phase come according the country development.

Many of the countries adopted complex privatization, at this time government not want that any private sector affect or open their working condition. The biggest example of this kind of privatization is china till now no private organization entity allowed to open their secrets.

The main issue is also there that some of countries not adopting privatization may be the reason behind it that they can handle all economies and work in their country or maybe they understand privatization is not for their country.

VII. DATA AND SOURCE OF DATA

This study has been done through the secondary data, which has been collected from secondary data. The collected data has been taken from Google through the search of GDP and GNP rate under the duration of 1980 to 2000. The result analysis has been done on the data of 21 years, which are before privatization and after privatization scenario. The data collection period is ranging from year 1980 to 2000. In this analysis, there are comparisons between the years of before privatization and after privatization.

Data Comparison, Before Privatization and After Privatization

Year	GDP (in crores USD)	GNP(in crores PPP dollars)
<u>Before Privatization</u>		
1980	18,959.41	29,461.34
1981	19,688.35	34,087.1
1982	20,423.44	37,291.78
1983	22,209.03	41,555.08
1984	21,587.82	44,698.94
1985	23,658.91	48,514.29
1986	25,335.24	51,934.96
1987	28,392.7	55,490.24
1988	30,179.1	62,749.64
1989	30,123.37	68,905.65
1990	32,660.8	97,382.58

<u>After Privatization</u>		
1991	27,484.23	1.01 Lakh
1992	29,326.24	1.09 Lakh
1993	28,419.37	1.18 Lakh
1994	33,301.45	1.28 Lakh
1995	36,659.96	1.41 Lakh
1996	39,978.69	1.55 Lakh
1997	42,316.04	1.64 Lakh
1998	42,874.1	1.76 Lakh
1999	46,434.44	1.95 Lakh
2000	47,469.16	2.06 Lakh

In above data, the data comparison is based on Indian economy, there is compare of GDP and GNP after privatization and before privatization, the analysis is based on 20 year of the data where years taken from 1980 to 1990 and year after privatization which taken from 1991 to 2000. GDP growth rate is after privatization, last ten years was 46% increase in compare to before privatization. As well as the growth rate of GNP, after privatization was approx 100% compare to the data from the year 1991 to 2000.

VIII. FINDINGS

A country should adopt privatization if the public firm is not cost effective, efficient in work and quality based. As India economy is mixed economy, where adaptation of privatization is good to improve firm status as well as country status because it affects GDP and GNP rate of the country. After Privatization country growth is continually increasing as well as the purchasing power parity increasing simultaneously. If gross domestic product affecting by privatization, it means that the privatization affects everything which directly or indirectly linked with GDP.

IX. CONCLUSION

The Privatization is more common in India as the ownership of lots of public enterprises transfer to private hands. Basically privatization adopted for increase profitability, efficiency and completion of work under the given time. Privatization also increases the employment in the country and help to increase trade in different countries.

On the basis of GDP and GNP comparison of the country, we can say the impact of privatization is positive in India as the growth rate increases accordingly. The Gross Domestic Product (GDP) is a monetary measure of the market value of all the final goods and services produced in a period of time (often annually). As well as Gross National Income or Gross National Products is the total domestic and foreign output claimed by residents of a country, consisting of Gross Domestic Product, plus factor incomes earned by foreign residents, minus income earned in the domestic economy by nonresidents. If GDP of any country increases it means the country is increasing the amount of production that is taking place in the economy and the citizens have a higher income and hence are spending more. So we can see that after privatization the growth is higher than before, which reflect that the affect of privatization is positive in Indian economy.

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