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Lessons from India

The Economy Of India Is Blossoming, Thanks To Privatization And Reduced Barriers To Foreign Investment. Canada Could Learn From Her Example

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Air Canada recently announced that its flights to India would be cancelled and aircraft redeployed to China. Today, an Indian private-sector airline, Jet Airways, begins flights from Delhi to Toronto.

Why can't Air Canada make a profit on its flights from Toronto to India, given the large expatriate population in the greater Toronto area, while Jet seems confident that it can? The answer lies in the differences between the burgeoning Indian private sector and Canada's moribund conglomerates.

Canada has enormous barriers to foreign investment in domestic air travel, which has killed competition and resulted in a cozy duopoly between Air Canada and WestJet. Compared with Americans, Europeans and Indians, Canadians pay exorbitant fares to travel by air.

Air Canada derives most of its revenue and traffic from Toronto, and yet maintains headquarters in Montreal, which barely ranks fourth in terms of traffic. Similarly, Canada's largest telecom company, Bell Canada, is headquartered in Montreal despite deriving most of its revenue from Ontario.

This irrational arrangement, designed to appease French-Canadians, victimizes Canadian consumers. Air Canada and Bell are able to survive and prosper behind a wall of protectionism, which allows them to appease Quebec and exploit Canadian consumers. Airlines can make irrational decisions like this because they are protected from competition, which can only be provided by well-capitalized foreign firms.

While British Airways is pushing for an open-skies agreement with the United States, which would award both sides rights to fly domestically between the other nations' cities, Canada opposes such an agreement with the United States, which would benefit consumers by allowing much-needed domestic competition.

A similar pattern can also be found in other sectors. Canada's five largest banks have all mandated aggressive gender-equality targets and implemented unofficial quotas for female management positions. They have shamelessly subsidized these social-engineering programs through sky-high fees levied on their captive customers. As in airlines, protection from foreign competition ensures that Canada's big banks routinely reap record profits while charging extortionate fees and providing poor service. In 2002, an international research paper found that such fees in Canada were the highest by a large margin.

The situation is even worse in telecommunications. Recent reports indicate that Canadians pay more and receive poorer service compared with Europeans and Americans. Telecom in Canada is dominated by Bell, Rogers and Telus, all of which oppose foreign investment and maintain their

cozy oligopoly. Canada only recently implemented local-number portability, which allows consumers to switch carriers while keeping their number -- Americans and Europeans have had this freedom for years. Recently, Research in Motion chief operating officer Don Morrison stated that high Canadian data charges were inhibiting BlackBerry adoption rates here, while Andrew McLaughlin, a director at Google, also bemoaned exorbitant Canadian rates. Lawrence Surtees, analyst at IDC, explained that high telecom prices are holding back innovation.

Until recently, like their Canadian counterparts, Indian public-sector firms also hid behind barriers and shamelessly exploited consumers. However, liberalization and privatization is gradually injecting rationality into Indian business, with spectacular results in certain sectors that have been opened to domestic and foreign competition.

In India, airlines now are open to 49% foreign investment (compared with Canada's 25%). The number of airlines has increased and fares have plummeted: Indian air travellers enjoy freedom and service that Canadians can only dream of. Best of all, unlike state-owned Air India, the management of private airlines is staffed by professionals and not political appointees, who are bent on fulfilling government social agendas.

Indians also pay the world's lowest mobile fees and enjoy crystal-clear service nationwide. This is a result of a free market where 10 mobile firms aggressively compete for customers. The Indian telecommunications sector is the world's fastest-growing, with more than 200 million subscribers. The previously woeful public-sector international carrier, VSNL, was bought by private firm Tata. Tata, which also recently bought our failed international carrier Teleglobe (which Bell Canada foolishly tried to rescue, with disastrous results), is now one of the largest owners of international optic-fibre networks. This is an example of a dynamic private Indian firm rescuing both a hopeless public-sector dinosaur in India, and a Canadian private firm shielded by an array of competitive barriers.

In the steel industry, Canada's Algoma was recently acquired by India's Essar. Algoma's woes are partly the result of its location in Sault Ste. Marie, far from industrial markets (an attempt to prop up Northern Ontario). Earlier, Dofasco was acquired by Mittal Steel, the world's largest steel company, owned by the Indian Mittal family.

As Canadians, we should reject failed business models, while adopting the characteristics of successful systems. Failed models include current Canadian government regulations and barriers that shield corporations from market forces. The Indian public sector, with its discriminatory quotas and protectionism, is also an odious model to avoid at all costs. Both of these systems are inferior to merit-based private-sector environments, such as the one which has spawned global Indian titans.

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