DEREGULATION & PRIVATISATION

A. DEREGULATION:

1. Introduction:

Deregulation or liberalization means to lessen the government's dominance over the private sector i.e. the reduction of the role of the state as regulator, facilitator and welfare provider. It means that the main object is to decrease the government's intervention. In other words, it implies a greater role to the market forces to determine important economic parameters like foreign exchange, prices, what to produce, how mush to produce, for whom to produce and when to produce with minimum government's intervention.

2. Deregulation in Pakistan:

Many steps have been taken by the government of Pakistan to deregulate the public sector industries in order to facilitate the desirous investors and business circles. The steps are to remove bottlenecks and to encourage the investment in those areas in which the investors were reluctant and hesitant to invest because of certain barriers and hurdles.

The government of Pakistan has taken the following steps:

I. Changes in foreign exchange regulations:

II. Relaxation of no objection certificate:

III. Declaration of negative areas:

IV. Introduction of green channel:

B. PRIVATISATION:

1. INTRODUCTION:

Privatisation is mainly aimed at maximization of output as well as profits with special references to industrial sector and satisfaction of all concerned. Thus, privatisation is an economic movement for rolling back the public sector and enhancing the status of private sector with the objective of maximum output or production.

Historically speaking, Thatcherite Britain had taken lead in implementing with success the policy of privatisation of industrial units in economy. In Britain, a large number of public enterprises and corporation have already been privatised. The possibility of privatizing some huge public sector enterprises cannot be ruled out.

From Britain, the idea of privatisation has swiftly traveled to other western European countries such as France, Italy, Spain, Germany and Turkey. Thus the idea of privatisation was becoming popular in the world irrespective of the differences of ideology. At present, nearly 70 countries of the world are following this idea.

From solid waste pickup to charter schools, privatisation has invaded every service that falls under the local government umbrella. Now one of the phenomenon's leading authorities, E. S. Savas, has published "Privatisation and Public-Private Partnerships," a book that takes a look at the changing face of privatisation, the pros and cons of outsourcing and the elements that have influenced privatisation from the beginning.

"Early attacks on privatisation were based on the mistaken assumption that it was antigovernment; it was not," he notes.

"Privatisation is more a political than an economic act," Savas notes. Like any political move, privatisation has its sources of opposition, and it is important for

governments to consider the big picture before proceeding with an action that likely will change their entire operations.

2. OBJECTIVES:

1) To discipline the nationalised industry by subjecting them to market forces.
2) To respond to the failure of government administration in controlling and monitoring the performance of units.
3) To decrease the political interference by ministers in the management affairs.
4) To reduce government investment, relieving it to maintain law and order.
5) To increase revenue and decrease public borrowing.
6) To increase share ownership.
7) To create competitive culture.
8) To increase entrepreneur's efficiency.
9) To ease the administrative and financial burden of government.
10) To reduce the size and presence of public sector.
11) To increase rate of growth.
12) To raise money in order to reduce foreign debt.

3. SCENARIO IN PAKISTAN:

Pakistan seems to have entered into a new phase of economic activity where the privatisation deals have become the in-thing. The sweetest of them all was that of the PTCL sell-off. After the deal was done, the terms were sweetened to keep the buyer from walking away. The KESC deal also carries a lot of sweeteners. The candy-coated steel mills deal has been annulled by the Supreme Court.

Time and again, the privatisation of state-owned enterprises has triggered criticism. The latest disinvestment of 75 per cent of public shares in the Pakistan Steel Mills has led to a barrage of complaints relating to the lack of transparency and the indecent haste with which the transaction was conducted. The Supreme Court has been approached on the matter.

Almost half of the remaining 40 units in the public sector are scheduled to be privatised during the current financial year. But the prospects of even half of these units coming on the block any time soon have become highly doubtful in view of the Supreme Court judgment reversing the sale of the Pakistan Steel Mills and the aftermath of KESC sell-off.

No doubt, the Council of Common Interest (CCI), a constitutional requirement (and one of the main conditions set by the Supreme Court in the PSM case for safeguarding national interests in the privatisation process) has been met. Still, privatisation seems to have become uncertain.

Despite selling off over 150 state-owned enterprises and collecting about Rs. 400 billion (over 75 per cent of these funds were raised during the last four years), the country's external debt that stood at $37.8 billion by end June 2001 has now gone up to over $39 billion.

From an accounting perspective, this is happening because we are not working towards balancing the two sides of the money equation. While it is easy to raise funds by selling off assets, it has been difficult for the government to control its extravagant and unproductive expenditure. Thus while we sell our assets to raise foreign currency resources to pay off national debts and deficits, we also incur new ones — in the areas of trade, current accounts and budget — as a result of poor economic management.

The Privatisation Ordinance 2000 stipulates that 90 per cent of the proceeds will be spent on the reduction of debt and 10 per cent on alleviation of poverty. The government has realised more than Rs. 270 billion from privatisation proceeds since

2000 and in the same period the domestic debt has increased by Rs. 670 billion and foreign debt by Rs. 520 billion.
Hence, privatisation proceeds have been probably utilised for current expenditure in direct violation of the statutory provisions of the Privatisation Ordinance 2000.
The prospective buyer, local as well as foreign would now think more than twice before even taking a look at the list of units to be privatised. And because the risks associated with buying a privatised unit is perceived to have gone up sharply, the offered prices may also be proportionately lower, perhaps even much lower than the ones the government could afford to accept. All this is likely to persuade the government finally to take a fresh look at the content and direction of its privatisation policy and also take some decisive steps to remove the loopholes from the privatisation process that promote corruption.

4. HISTORY OF PRIVATISATION IN PAKISTAN:

It was in 1978 that General Ziaul Haq introduced the privatisation process in Pakistan. Now that another military ruler, General Musharraf, is holding the fort, the process has gained momentum.
Many financial writers want us to believe that the process of privatisation was initiated in 1991 and not in 1978. The Privatisation Commission website also misinforms the public that privatisation began from Jan 22, 1991 in the country.
In 1978, General Ziaul Haq handed over Ittefaq Foundry to the Sharifs of Lahore without inviting any bids. In fact, two other nationalised units, Nowshera Engineering in the NWFP and Hilal Ghee in Multan, were handed over to their original owners. Subsequently, a Transfer of Managed Establishments Order 1978 was enacted as a law to provide legal cover for this imperial gesture of kindness.
In 1985, the Committee on Disinvestment, Deregulation and Privatisation was constituted with the then president of the Federation of Pakistan Chambers of Commerce and Industry, Aziz Zulfikar as its head. It had a few sub-committees that did some preliminary work. In 1988, the Benazir government also formed a privatisation committee and made a French consultant prepare a report on the subject. A small number of PIA shares were offered to the public for the first time as a modest beginning towards privatisation.
After obtaining ownership of the Ittefaq Foundry without getting involved in any hassle of bidding in 1978, Nawaz Sharif's business empire went on expanding with every passing day and his political power also grew by the day. After becoming prime minister in 1990, Nawaz Sharif himself initiated the privatisation process as per policy of his government. The first entity on his government's hit list was the Muslim Commercial Bank. The whole process was done in indecent haste. Advertisements for inviting bids for 26 per cent of the shares of the MCB appeared in newspapers in the third week of December, 1990. Bidders were not allowed any due diligence. Only 11 days were given to the bidders as the last date of submission was December 26. Five bids were received and were opened in the conference room of the State Bank of Pakistan by a bidding committee that was headed by the then Governor of State Bank of Pakistan, I.A. Hanfi.
Abdul Qadir Tawakul was the highest bidder who offered Rs56-a-share. The total payment came to Rs838.8 million. Tawakul was refused and his offer was turned down on the ground that the colour of the money he was offering was a bit black. Tawakul made a lot of noise and threatened to take the case to the highest level of the judiciary. But, bankers say, he was promised and later given two billion rupees bank loan to withdraw from the race. Tawakul obtained the loan entirely on bogus documents and is now in jail because of it.
Privatisation in Pakistan has remained a controversial matter, if not a dirty game. Three of its chairmen, retired Lt-General Saeed Qadir (1990-93), Naveed Qamar

(1994-96), and Khawaja Asif (1997-1999) were put in jail for one reason or another after the dismissal of their respective governments.
A study of the Asian Development Bank found “very little impact on the employment,” to quote a privatisation website. The ADB surveyed 21 privatised entities and found five were in a poor condition, six were roughly neutral and 10 showed some economic benefits.
From 1991, Pakistan has to date privatised as many as 143 public sector enterprises including seven banks, one major telecommunication corporation, one major power utility, 12 energy sector units, five newspapers, as many hotels, one advertising agency about 100 industrial units of various kinds.
Since January 2001, it has unloaded its shares in as many as 14 enterprises through the stock exchanges. This gigantic exercise spread over 15 years has earned for the state a paltry sum of $7.28 billion, the bulk of which (about a little over $5 billion) has come in the last seven years with more than half of these proceeds having been contributed by one single sale (PTCL).
Major public enterprises still on the block and awaiting the hammer to fall include the Oil and Gas Development Corporation Limited, Pakistan State Oil, Sui Southern Gas Company, Sui Northern Gas Company, power distribution units of Jamshoro and Faisalabad, the NIT, Pakistan Petroleum Limited, the Karachi Shipyard, National Construction Company, Peco land and the Printing Corporation of Pakistan.
Total proceeds from privatisation since 1991 to this day amounts to Rs395.24 billion. Out of this sum, transactions worth Rs217.91 billion were finalised in the last eight months. Under the law, 90 per cent of privatisation proceeds are for debt clearance and 10 per cent for poverty alleviation. “We instantly remit every paisa of privatisation proceeds to the finance ministry,” a spokesman of the Privatisation Commission replied when asked if he could give a breakdown of how the proceeds were being spent.

5. ARGUMENTS IN FAVOUR OF PRIVATISATION:

The major argument for privatisation is that to privatise a company which was non-profitable when state-owned, means taking the burden of financing it off the shoulders and pockets of taxpayers, as well as freeing some national budget resources for something else.
Privatisation has its supporters as well as critics. Proponents of Privatisation argue that Privatisation sets in competition and efficiency.

6. ARGUMENTS AGAINST PRIVATISATION:

Critics argue that Privatisation of key public institutions, especially those involved in basic services, make these services vulnerable to profit making. Private companies, driven by profit, have no moral responsibility to ensure access of basic services to the poor. While the government owned Karachi Water Supply would have responsibility to provide water to all, the privatized Karachi Water Supply has no such obligation. The poor thus are more easily excluded.
Globally speaking, since early 1980s the Reagan and Thatcher era, we have witnessed greater acceptance of Privatisation processes across the world. The international development institutions have been promoting these policies in the developing countries. Pakistan, much has a history of importing finance ministers and advisors from Washington, has clearly bought into these policies. In the words of PM Shaukat Aziz, “The economic policies of the government is governed by the principles of deregulation, liberalization and privatisation.” But, the country is witnessing many negative aspects of the Privatisation Process.
The key problem with privatisation is that the process of privatizing state assets is rarely clean and publicly accountable and is marred with corruption. Assets are often

sold below the market price due to connivance between the bureaucrats' incharge of the process and the bidders; also there is little public accountability of the bidders. In the absence of a transparent market system, privatisation leads to ownership of assets by a few very wealthy people at the expense of the general public. Where free-market economics is rapidly imposed, a country may not have the bureaucratic tools necessary to regulate it.

Most economists argue that if a privatised company is a natural monopoly, or exists in a market, which is prone to serious market failures, consumers may be worse off when the company is in private hands. This seems to have been the case with rail privatisation in the UK and New Zealand; in both countries, public disaffection has led to government intervention.

It also needs to be remembered that the privatisation process raises problems of unemployment given the dismissal of a large number of employees that accompanies this process. Private companies often start overhauling of public enterprises by dramatically cutting back on the number of employees. If many big state institutions are being privatised simultaneously, as is the case under the current government, then this can only serve to worsen the unemployment problem.

7. CONCLUDING REMARKS:

Since its inception, privatisation has come under severe criticism because instead of creating employment, the process has done just the opposite. Besides, some economists believe that privatization has also led to massive corruption in many a case.