

REVIEW OF PRIVATIZATION POLICIES WITH SPECIAL REFERENCE TO PAKISTAN**Umar Hayat**

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ABSTRACT

This paper intends to explore the background of privatization and nationalization undertaken by the Government of Pakistan since its inception along with its critical evaluation. In Pakistan the trend of privatization has different magnitudes. The trend was shifted from nationalization to privatization and vice versa. The economy moved with the global movement and paradigm shift of major neighboring countries. The global movement from socialism to capitalism after 1990's has a strong repercussion on the economy of Pakistan. Privatization as a tool for enhancing revenue of the state was also used in different phases in Pakistan.

KEY WORDS: Privatization, Nationalization, Financial Sector**INTRODUCTION**

Before the integration of Russian block, the World was bifurcated into two parts. One was the capitalistic block headed by USA and western European countries whereas the second block was led by the USSR and other East European countries, which followed the communist philosophy of working economy. The Russian's framed the Nationalization policy, whereas the capitalist's followed the privatization policy. Russia and other socialist countries i.e. Tajikistan, Uzbekistan, Turkmenistan, Chechnya, Bulgaria, Poland, Yugoslavia, East Germany, Czechoslovakia and Romania kept the economic resources in state hands and managed the economic activities and their control. The capitalistic world composed of USA, Britain, West Germany, France, Belgium, Netherlands and other West European countries disowned the national enterprises and were kept in private hands (Mohsin, 2002).

The role of Government in Privatization policies developed considered Industrialization was much important for economic growth since its inception. For about last twenty years, industrial output was increased and economic growth took a positive momentum. During 1960 Pakistan was considered as a model of growth for other developing economies. However, the expansion did not lessen poverty trap.

During 70's and 80's policy makers gave much attention to distribute income equally. During 90's Government had a paradigm shift and focused on privatization to uplift the structure of the economy (Mirza, 1995).

At the time of independence, Government locked various Institutions to play an important role in the development process. State ownership was implemented only for military weapons, electricity, railroad operations and telecommunication sectors. The disturbance caused by separation of the economy from India, banning of some import items and the termination of trade with India necessitated the motivation of private investors. Government gave much attention to liberalize industrial policies in order to encourage private investors. Some of the manufacturing units were established in the hand of Government. The policies of Government during 1950's and 1960' has encouraged the workers for industrialization. A small group of people have dominancy on the industrial resources of the economy, most of whom were the Migrants (*Muhajirs*) who were largely traders and migrated to Pakistan during time of independence. These *Muhajirs* initiated with trading firms, many of which got the status of industry with the help of Government policies during 50's. By having much of capital, the *Muhajirs* accounted major part of manufacturing industry during early stages of independence. In late 60's, a debate about considerable inequalities and income distribution of wealth and economic power problem provided a state of dissatisfaction of economic conditions. Figures showed that during 1960's 50 big industrial groups owned 45% of the nation's industrial assets and more than 60% of private owned enterprises. The same industrial group also possesses seven of the eight major commercial banks. The speech delivered by Dr. Mahboob-ul-Haq, the Chief economist of planning commission in 1968 stated the concentration of wealth in few hands. He was of the opinion that the country's economic growth has no significant effect to uplift the living standard of the common person and the trickle down approach to development had only concentrated wealth in the hands of few industrial families. According to him interruption of Government is required to correct the tendency rather than accumulation of wealth in few hands. In response to his recommendations, Government took effective measures between 1968 and 1971 for settlement of minimum wage rates and tax reforms. However, implementation was not up to the mark (Levine, 2003).

It was 1971, when Zulfikar Ali Bhutto after coming into power made vital developmental strategies compared to his predecessors. The economic planning and research created many inconsistencies in decisions. In 1972, he publicized a major act regarding multiple exchange rate system and also devalued the rupee by 57%.The act greatly encouraged exports and controlled prices in economy. Devaluation

also caused a serious problem in terms of trade between the industrial and agriculture sector. However, devaluation helped agriculture sector, particularly firms which have major market surpluses, displacing labors and tenants resulted by mechanization, many of whom migrated to urban areas to seek jobs in industries. In 1972, during Nationalization process Bhutto Government nationalized 32 major manufacturing plants. Iron & steel, motor vehicles, chemicals and cement are some of the industries which were affected. Life insurance companies, shipping companies and oil distributions firms, private banks and cotton ginning were some others which were nationalized. Between 1971 & 1973, nationalization resulted a drop of 50% in private investment. Private capital went into real estate and to manufacturing sector especially to small scales industries. Industrial outputs slowed considerably during 1977. During Bhutto's Government, public sector expanded broadly. Furthermore, the public companies were created for diversified operations and functions. Nationalisation policy faced a lot of hurdles from capitalists. Investment in public sector industries rose surpassing the private investment in 1976 (Mahboob, 1990). Bhutto supported and strengthened the long term projects within country which can cherish long term benefits in prosperity. Some of the projects were Highways on west bank of the Indus River, Highway tunnel in the north, steel and iron plants. After 1977, military Government of General Zia-ul-Haq supported the privatization policy which went on till late 1990's for achievements of economic growth (Hassan, 1992).

TRENDS AND PROSPECTS OF PRIVATIZATION IN PAKISTAN

Privatization policies are one of the determinants of the socio economic and political development of an economy. Like other developing economies, Pakistan's economic goals related to efficiency and production is through better utilization and distribution of properly allocated resources of private enterprises. Privatization is breeding competition which further increases the efficiency. Pakistan's policy of privatization of public enterprises also embarked on the claims which urged for the return on national budget and Government is giving a review to the policies of privatization of public enterprises due to arrival of deficit situation and increase of demand on national resources.

PRIVATIZATION POLICY UNDER PAKISTAN PEOPLE'S PARTY GOVERNMENT (1988-90)

Under leadership of Benazir Butto, the Pakistan People's Party (PPP) government decided to continue with the privatization programme initiated by the previous government. For this purpose, Rothschild & Sons was in April 1989 commissioned by Pakistan Government. The task was to prepare and develop privatization programme. In response to their privatization report in August 1989, the Government assigned a committee of finance ministry in order to refine the privatization programme. Analytical

recommendations of finance ministry proposed that public participation and policies which are immediately converted into practical implications, social welfare increment and management of Government transformation into regularization of foreign investment. Financial analysis report took under consideration Habib bank, Muslim commercial bank, International air lines, sui-southern gas, and Pakistan state oil. The aim of selling these State Owned Enterprises (SOEs) was to channel the savings of several thousand private investors into capital market, which has currently an extremely narrow base of capital. During early 1990, stock market showed a remarkable progress but still need more improvement. The recommendations of privitisation report were to start privatization programmes with PIA and Sui-southern gas. In May 1990, Government offered 10% of PIA's share at rate of 12.5%. Government tried to achieve its manifesto and policy target but political powers and military didn't supported the policy fulfillment (Pulley, 1996).

PRIVATIZATION POLICY UNDER THE REGIME OF ISLAMIC JAMHORI ITTEHAD (IJI) GOVERNMENT

In November 1990 Islamic Jamhori Ittehad came in power. The main focus was given to privatization programme which began in 1990. This was considered to be one of the most important components of economic reforms in the country. The major focus was given to reduce the persistent losses of state owned enterprises and to provide liberal environment, intensely needed for economic growth.

Objectives of privatization programme under IJI Government were as follows:

- To have efficient utilization of resources and reduce deficit in budget
- Creating liberalization policies
- Improvement in profit level of SOE's
- To facilitate private sector with financial constraints.
- Reduce political intervention in economic affairs
- To have sound capital market
- To provide financial safety to employees
- Provide attractive foreign investment environment.

The main areas where privatization was needed were financial institution, Telecommunication and infrastructural sectors. The Government identified 18 State Owned Enterprises for privitisation and announced timeframe to sell it under the different forms of privatization. The Government also took the responsibility of social rehabilitation of exploited labors. Yellow taxi scheme and various other trainings were launched to provide self-employment for those workers who were suffering from unemployment. Various analysts from related departments were hired to evaluate the agenda of privatization. Members

of privatization commission reviewed reports of the analysts. After having clearness from members of privatization commission, reports for final approval were placed before federal cabinet (Aziz 1996).

PRIVATIZATION IN THE FINANCIAL SECTORS

Muslim commercial bank and Allied bank of Pakistan were privatized. MCB was considered as the first bank which was privatized under IJI Government. In response of privatization programme of MCB, four bids were received in 1990, and for some technical reason the evaluation committee did not recommended the highest bid. The evaluation committee recommended third highest bidder Ismail national group for this transaction. Rejection of highest bidder led to controversy between state bank Governor and federal Government. On April 1991, the agreement was signed with Mansha group and subsequently the management was transferred in April, 1991 after necessary payment. A total share of Rs.110 million was offered to public which was considered 25% of total shares. According to privatisation commission report the offered bid was not even covering the furniture of the bank. The situation was different in case of ABL, the employees decided to buy it from Government. In July 1990 about 7500 employees of ABL collected a sum of Rs.500 million for privatization proceeds. In addition to investment banks, the Government also granted permission for eight more banks to be privatized. In September 1994, IJI Government added three new banks to be divested. The purpose of privatization was to promote savings and investments in the best interest of the economy (Ministry of Finance, 1991-92).

IJI Government advertised another one hundred units in 1990 for privatization whereas conditions were relaxed in some cases. Within one month of acceptance, bidders were required to pay in cash 26% of bid value. A total of 240 bids were received for 90 units. In case of Roti plant the bid was higher than the reference price (Ministry of finance, 1992-93).

In case of some units bids were not received. In order to privatize these units the Government relaxed terms and conditions in this regard. The Government took a bold step for economic reforms, deregulations, liberalization and access for foreign investors. Economic reforms, especially privatization programme led to a boom in early 1990's because of which Government announced various forms of incentives to foreign investors. It was about 69 public units which were privatized. Al-Ghazi tractors Pak Suzuki motors, MCB, Pak-China fertilizers, and Khyber vegetables Gee mills were successful examples of privatization programme, in terms of profit (Wahab, 1995). MCB has increased Rs.6.2 million cash deposits over the first six months after the bank was privatized. ABL is another example of improvement after privatization proceeds. The chairman of ABL announced that the bank deposits increased by 200% after privatization.

The achievements were due to the following factors

- Facilitated provision of efficient services and awareness about the customers.
- Employee's ownership plan has resorted efficient utilization of staff.
- Motivational forces and team work has achieved profitability (Peria, 2001).

PRIVATIZATION TRENDS TOWARDS PUBLIC UTILITIES

The PPP Government succeeded in privatization of a 10% share of PIA. The intention of Islamic Jamhuri Ittehad Government wanted to sell Pakistan Telecommunication Corporation, Water and Power development authority, Pakistan railways, which were four leading monopolies. The Government provided friendly environment to foreign investments. Build own transfer and lease scheme was launched to attract foreign investors. Telecommunication was also developed by privatization process. Privatization of Railways also contributed to the development of transport sector in the country. Some of the best routes of railways were already sold and which were in loss were also about to be sold. Four private airlines Aero Asia, Shaheen International, Bowja, and Hajweri were licensed for operations (Pulley, 1996).

PRIVATIZATION POLICY OF PPP GOVERNMENT (1993-96)

Benazir Bhutto reconstitutes the privatization commission on Nov, 1993, the cabinet committee on privatization, in order to proceed the economic reform program. The commission decided on the following categories for privatization. Category (A) small scale industries, Category (B) Large scale industries and Category(C) Utilities and services. The schedule was

- Category (A) through bidding
- Category (B) through stock market
- Category (C) through strategic investors

In case of large scales industries, it was announced that 26% would be retained in managerial control. However in some specific enterprises they will be offered to private investors. Following are the main principles which were constituted by the privatization commission which must be followed for privatization programme and policies:

- Process of privatization must be transparent.
- Discourage monopoly control
- Process of prequalification in case of Banks privatization.
- Financial analysts will participate in the process
- Competition in privatized enterprises

- Privatization must be beneficial for major portion of the economy
- The overall objectives of the programme were:
 1. Improvement in efficiency and competition of 111 entities proposed to be privatized.
 2. To decrease financial burden on the state.
 3. Stock market must get strength by increased numbers of shareholders.

Until Oct, 1993 about 118 state owned enterprises were identified by the commission and 69 among those were sold through bidding (Privatization commission report, 1994).

PRIVATIZATION POLICY OF MILITARY GOVERNMENT (1999-2005)

President Rafiq Tarar promulgated privatization commission ordinance on 28 Nov, 2000. Following are the salient feature of the promulgation:

1. Proceeds of privatization are expected to meet the Government debt for poverty reduction.
2. Expeditor's mechanism is required for resolution of disputes.
3. Previously established privatization commission was dissolved.
4. Commission is responsible for assets, rights, power, authorities and privileges, own property movable or immovable, bank balance, reserves, investments and other interest and rights, in or arising out of such property , liabilities and obligations.
5. Chairman, Secretary Members and other staff of previous commission were allowed to continue under the new ordinance, 2000

Commission shall:

- Provide guidelines on privatization policies to the cabinet
- A comprehensive privatization programme for approval of the cabinet
- Approval management, planning and implementation is to be done by cabinet
- Facilitate legislation, which is approved by cabinet, on behalf of concerned ministry in connection with privatization
- Provide channels of implementation of privatization activities including restructuring deregulation and post privatizations matters
- Facilitate legislation, which is approved by cabinet, on behalf of concerned ministry in connection with privatization.
- Provide channels of implementation of privatization activities including restructuring deregulation and post privatization matters.
- Operational decision exercised on privatization matters.

- Deregulation, regulatory issues including licensing and tariff rules and other related issues pertaining to privatization programmes approved by cabinet.
- Provide directions and instructions to the privatized managements.
- Publicized privatization programmes activities.
- Proposed a regulatory frame work including strengthening of regulatory authorities, to the cabinet for fair and independent regulations of each sectors under the preview of privatization programmes.
- Advising the federal Government and selection process of the chairman of regulatory authority.
- Advised the federal Government to discourage monopolies in process of privatization
- Appoint consultants, advisors, lawyers and other staff.
- Approve and take decisions to implement pre-privatization restructuring.
- Invite application for the privatization and ensure why it's possible for participation.
- Evaluations of bids according to criteria.
- Advised measures to the federal Government for improvement of public enterprises till their privatization
- Assist in the implementation of federal Government policies on deregulation and advise the federal Government on deregulating the economy to maximum possible extent.
- The general management and administration of the affairs of commission shall vest in the board of privitisation commission. It shall consist of chairman, secretary and six other members (Privatization commission ordinance, 2000).

CONCLUSION

The basic aim of different privatization policies under various regimes is to achieve economic and social development. The main economic goals are to increase productivity and efficiency through effective utilization of available resources by private sector. Most of the difficulties faced by the public sector enterprises are beyond their control. Almost all of these are heavily overstaffed because of political compulsions. Job creation in public corporations and decisions to expand or modernize the machinery or technology of the enterprise are difficult to push through the bureaucratic channels and then price policy is seldom within the control of the enterprise or in line with market condition thus privitisation was considered the viable solution. Sales and marketing strategies are naturally limited due to procedural limitations of the public sector. In order to solve these problems privatization was considered to be a serious solution.

Under Pakistan People's Party Government (1988-90), according to privatization committee report,

privatization should be done through public participation, offered opportunities to reduce borrowing requirement of Government and to attract foreign Investors. The report for privatization program recommended starting privatization with Sui Southern and Pakistan International Airlines. The Government tried its level best to start privatization program but constraints didn't allow the policy to implement.

In 1990 Islamic Jamhuri Ittehad Government headed by Nawaz Sharif tried to accelerate the pace of economic development by starting privatization of state owned enterprises. Under the agenda for privatization the main targeted areas were Industries, Banks and telecommunication sector. The Government also intended to undertake labor rehabilitation program for surplus labours. The process for valuation of units to be privatized was done by independent consultants and by chartered accountants. After clearing the report from commission that was placed before the cabinet for approval. The report assigned 115 units for privatization and the expected income from these units was projected about Rs30 billion, but only 69 units were privatized which resulted in an amount of Rs3.95 billion.

After IJI Government tenure, the newly elected Government of PPP headed by Benazir Bhutto reconstituted the privatization commission (PC) and the cabinet committee on privatization (CCP) in order to recognize and accelerate the economic reform program. The newly constituted PC and CCP decided that privatization should be transparent, efficient and for the benefit of all people. A total of 31 units were offered for privatization out of which 13 were privatized. Income received after selling these units was Rs863.9 million.

Under military Government run by General Perviz Musharaf gave the same tempo to privatization program, in order to enhance economic growth and alleviate poverty. Until 2005 the Privatization commission has worked successfully and privatized about a huge units in various sectors.

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