CHAPTER - V

"CONCLUSION"
The State has been central in the development regime of the developing countries. Historical legacy and the political imperatives made the State to be a key player in the economy of these countries. However, for various reasons they are not the subjects of the study here. The State led development regime if not failed at least perceived to have failed to perform. The so-called ‘failed State regime’ obviously needs to be changed. The redressal of State failure is being sought by bringing market into the central. Privatisation as one of the components of market led economic regime has got importance in the 1990s. In case of the GCC countries too, the State has been a dominant economic player. The rentier nature of economy further added to the centralised character of the State even at the inadequacy of the private sector.

Privatisation theory argues that its primary objective is to promote economic efficiency leading to optimal allocation of resources, and mobilise new investments to reduce the financial burden on the State.

Broadly speaking privatisation programmes in the developing countries have been initiated under two kinds of pressures: Internal pressure, and external pressure. Internally the State has been facing the pressure of fiscal crunch, and balance of payments crisis. After 1980, most of the developing countries have been undergoing financial difficulties in terms of financing government expenditures. Increasing deficit budgets were common in these countries. The cause when these countries went to international financing. Bleak development aid situation and export markets have contributed to financial crisis, and aggravated the deficits in the balance of payments. Many developing economies were forced to either reduce their domestic expenditure part or to search for new source of revenue.
Since 1990 onwards the GCC countries started facing major structural challenges managing their economies. The biggest challenge faced by the GCC countries was the declining oil revenues; and these countries’ oil export contributes around eighty percent. Any variations of oil price in international markets will have a serious effect on these countries. Other challenges are; high population growth rate around 3 to 4 percent annually maintained by these States, increasing defence expenditure, budget deficits and providing higher subsidies on electricity, water, fuel and health care services. These challenges have obviously affected economic growth of the GCC countries. To overcome the structural dimensions of the crisis the GCC economies were compelled to think of promoting and influencing privatisation programme particularly for the promotion of the non-oil sector.

GCC economies are rentier economies where the Government’s revenue consisting largely on external rent, i.e., oil revenues. The rent constitutes major part of economic activity in these States. Declining oil revenues in the international market is a major concern for these countries. Oil constitutes primary sector of the economy as more than eighty percent of the revenues comes from this sector. During the oil boom period, i.e., 1973-1983, the GCC countries have received massive oil revenues, and invested in various developmental projects. The oil boom period started declining in the 1984 onwards due to lower oil prices in the market. This lower oil prices led GCC States economies to face problems in the 1990s; most of the developmental projects were delayed and started showing higher deficit budgets. The rentier nature of the economy not only made these countries dependent on oil revenues but also depressed the growth of the non-oil sector. Thus making the oil rent the only source of State revenue. Privatisation thus has been initiated to address these problems. Other factors also contributed for the economic slow down, like population growth. The annual population
growth was 3 to 4 percent, which is the second highest growth rate in the world after the Sub-Saharan African countries. Another factor concern for the economy is that the GCC countries are providing highest number of subsidies to maintain welfare State. Consequently, high volume of subsidies went to the financing of water, electricity, and health care services. The fiscal burden of the enormous size of subsidies further added to the fiscal crisis. Privatisation thus has been initiated to address these problems.

Saudi Arabia started privatisation process in the sixth five-year plan period (1996-2000). The Kingdom is the largest oil producing country in the GCC region; around seventy percent of the Government revenue comes from the oil sector. In the last two decades, i.e., 1980s and 1990s Saudi Arabian economy started facing major challenges to overcome these problems. In August 1999, the Kingdom Crown Prince Abdullah set up a Supreme Economic Council (SEC). Prince Abdullah is the chairman of this Council. The main function of this Council is to implement and monitor economic reforms under the privatisation programme. The Kingdom identified some of the public utility sectors for privatisation; they are, power and water, telecommunications, airport, port, industrial sector.

Kuwait privatisation programme started in the 1990 onwards. This program is conceived as a part of the structural adjustment of the public sector of the economy. It involved the redefining the role of disengaging it from these activities, which are best done by the private sector with overall objective of achieving economic efficiency. Some of the public utility sectors have been identified for the privatisation, like, power and water, telecommunication, airport, port and construction.

In the United Arab Emirates, privatisation process has been given top priority in the Dubai’s Strategic Development Plan 1990-2030. Under this plan special importance
of privatisation is emphasized. The Government considered privatising the non-oil sector as a policy option to the efficiency of services. The UAE has passed a separate Privatisation Law Committee for Water and Electricity in 1997. Under this Committee the main objective was to develop and implement privatisation process in the power and water sector. This sector has been subdivided into three core activities, production, transmission, and distribution.

Bahrain, Qatar, and Oman are not rich with oil reserves though Qatar, and Oman have vast reserves of natural gas. Bahrain is the smallest country among the GCC countries; it has a limited oil resources and almost run out of its oil production. But oil has been the mainstay of the economy accounting for almost seventy percent of the total exports. Bahrain economy faces the crisis most acutely. The Government has announced economic reform policies; under these policies privatisation got important role in the non-oil sector like, power and water, telecommunications, airport and industry. The Government is committed to an active policy of privatisation, which will mobilise private sector savings. The total volume of companies' privatisation reached US $ 2 billion. Privatisation programme invited foreign investors in the power sector, and it was committed to take a sizeable portion of the equity in the range of US $150 million to US $200 million.

Qatar is the wealthiest nation among the GCC countries. Its per capita income around US $30,000. Though oil has been the mainstay of the economic activities, it is moving to produce natural gas on which the future of the economy is going to be derived. Qatar implemented a clear-cut policy of economic reforms in the 1995 onwards. At that time a change of leadership was taken place. A new leader of Emir Hamad initiated highly publicised programs of political and economic reforms involving liberalisation and steps towards democratisation. These programmes are
one of the main central planks of Emir Hamad rule and he has aggressively used these reforms as a means by which to assert Qatar’s autonomy and distinctiveness from GCC neighbors. The new economic reform has evolved around three important themes: greater participation of the private sector, freedom of expression, and democratisation process. These policies have been introduced by Emir Hamad who has created a political climate towards economic reforms in the country. Qatar has a great advantage to invite foreign investors to invest here. The country is located in the hub of being a peninsula, which gives it longer shorelines and more maritime access routes to the world. This makes the country more competitive as a center of international investment.

Oman is also not very rich with oil reserves whereas it has a vast natural gas reserves but the economy still depends on oil as the maker of economic activities in the State. It accounts for seventy-eight percent of the total exports and thirty-seven percent of GDP. In 1993 Oman has introduced privatisation program in the non-oil sector. Oman took leading role in implementing economic reforms and measures to encourage greater role of the private sector. Oman is ahead of other GCC countries in implementing privatisation programme. The main focus of this process to reduce national economy dependence on public spending, to provide more competitive environment and improve efficiency.

The Oman Government emphasised the privatisation process. Its commitment was declared as “1998 was the year of the private sector participation”, which has played leading role in Oman’s efforts to develop new strategy. The Oman Government has included privatisation as a key focus in Oman’s Vision-2020. This vision plan included following policies; preserving the achievements of the past 25 years, development of human resources and upgrading Omnis’ skills and competence needed for generating and
managing technological change, creating stable-macro economic framework, encouraging the establishment of an effective, and competitive private sector, and providing appropriate conditions for the realisation of economic diversification. The new vision entailed calls for the privatisation as the driving force of the Omani economy. Diversification, development, and training of Omani human resources made Oman able to compete in the global economy.

Privatisation experiences in the GCC countries suggest that each country has followed different methods and strategies in dealing with the private sector. Privatisation experience in Saudi Arabia shows that it performed well in the telecommunication sector. The creation of Saudi Telecommunication Company (STC) has created mobile revolution in the Gulf region. The telephone lines in the 1991 were 12,34,000, which reached 38,48,274 in 2001 and GSM were increased 1,375.9. The telecom coverage area has reached ninety-eight percent throughout the Kingdom, and estimated investment was between US $ 25,000 to 35,000 million during 1998-2008.

Kuwait privatisation performed well in the power and water sector. Before privatisation the country’s total power production was 5,230 MW; when private sector was invited into this sector the production capacity has increased to 7,630 MW. The two main power sectors have invited privatisation process, one at AL- Zour South of 240 MW station, and another at Shuiaba of 100 MW station.

The UAE privatisation performance went well in airport privatisation; it has been one of the fastest growing sectors among the GCC countries. The private sector participation in the Dubai’s International Airport upgraded the standard to top class in the world level. Its passenger services satisfaction puts it in the first position both
in leisure and business travelers. Dubai airport expansion programme include 30 million passengers a year by 2010; this expansion plan is the biggest in the region.

**Bahrain privatisation** performance reached advanced stage in the telecommunication sector. Privatisation process in the Bahrain Telecommunication Company (Batelco) hosts one of the most profitable and successful implementation of privatisation programme in the Gulf region. Its net profits increased to million Dinars (US $ 33.9 million) in 2001. The mobile call charges were reduced by up to 26 percent and monthly rental charges were also reduced by up to 40 per cent. Mobile customers have been increased ten fold of around 3,00,000 in 2002 and the Bahrain’s people have 46 percent of mobile phones.

**Qatar privatisation** performance succeeded well in the telecommunication sector. The Government has created Corporation, Qatar Telecommunications (Q-Tel), which achieved record level revenues that announced to QR 1,205 million, an increase of 12 percent.

Q-Tel has ensured that is the one of the most advanced telecommunication sectors in the Gulf region. Its services are comparable to those found in developed countries. The Q-Tel network system is hundred percent digitalised; its customer service centers, and new billing systems have been improved. This enabled to maintain distinguished position as a progressive company both in the country and the global level.

**Oman privatisation programme** performed well in the power and water sector. Oman is the first GCC country to introduce privatisation programme in the power sector. The AL- Manah power plant is selling electricity to the national grid owned by the public sector and managed by the Ministry of Electricity and Water under 20 years
power purchasing agreement. Privatisation process invited other public utility sectors: they are; airport, port, construction, and telecommunication.

Privatisation involvement in the GCC States has provided some of the concerned issues, which have started reducing the deficit budgets. The total expenditure for the GCC countries was projected to increase from US $ 89 billion in the 1999 to US $ 95 billion in 2000. The total revenues were expected to increase from US $ 73 billion to US $ 78 billion. In the year 2000 the GCC countries have achieved to reducing deficit budget, and they presented surplus budgets.

Privatisation in the GCC States started reducing the loss making State-owned enterprises in order to regain fiscal control and macro economic stability and improving efficiency of these enterprises.

Privatisation is expected to reduce public debt service with the aid of the financial resources mobilised through sales. Public debt services in some of the GCC countries have been increased like, in Kuwait, up to US $ 12.4 billion, in Qatar up to US $ 6.6 billion, and in Bahrain up to US $ 3 billion in 2001. Private sector participation would reduce debt services to allow more capital to be made available through investments.

Privatisation is likely encouraging flow of foreign investment, particularly in those areas where foreign technology or expertise is an essential ingredient. Privatisation has a lot of advantage to increase employment opportunities optimising the use of national work force, and ensuring the equitable increase of individual income. Developing the nation’s human resources is the basic elements of national development; already GCC States were facing unemployment problem so it would be better to utilise private sector to absorb national work force in the private companies.
Privatisation process will increase Government revenues from returns on participation in activities to be transferred to the private sector, and public sector to be privatised for open competition. The Government receive sustainable income from privatised project whenever possible.

Despite the implementation of economic reforms in the GCC States, the role of the private sector is still facing some problems. First of all, political will is very much limited. Second concern is that providing employment opportunities to the nationals is a serious concern of these countries. The nationals working in the private companies are very less; the non-nationals occupy majority of the work force.

In the GCC countries existing education system is not adequate to provide human resources; the nationals lacks technological skills, and education pattern is more concerned about Islamic Studies and Social Science subjects. Another hurdle is that the private companies are not interested to recruit nationals; they say nationals are demanding higher salaries and less work hours, and recruitment of nationals in the private sector should be disastrous for us. But the GCC Governments have taken major steps to recruit nationals compulsorily in the private companies; they passed separate Bill, "Localization Bill." Despite passing these laws recruitment process is not succeeded. The non-nationals occupy still majority private sector jobs. The GCC countries have to give more importance to recruit nationals in the private companies.

The second obstacle for the private sector development is that the GCC countries stock markets have not developed as much, comparatively as other developing countries do have. Stock markets play important role for privatisation success. It generates more funds through distributing shares to the citizens. The significant contribution is that it mobilises savings and attracts foreign investments in order to
provide additional financial resources to meet national growing demands. In the GCC countries stock markets can play major role in coming years.

The role of the ruling families has been important in the privatisation process of the Gulf countries. These ruling families have significant contribution in the private sector. Majority of the shares in the private companies owned by these families; they are lobbying to get investment in the private sector. The common people do not have any decision-making role in the privatisation process; they have a small percentage of shares in the Stock Exchange Markets. Thus, it is a fact that the ruling families have already invested in the non-oil sector. In Saudi Arabia Bin Laden Group is having major shares in the construction sector. Kuwait ruling AL-Sabah families have a major role in infrastructure sector. In the UAE the ruling AL-Nahyan and Maktoum relatives have major role in public utility sector. Bahrain King relatives have got major share in shipping industry. Qatar ruling AL-Thani family members invested in infrastructure sector. Oman ruling Bin Said families have major role in power and water sector.

Privatisation experience in the GCC countries shows that the private sector role is limited. One decade of experience, i.e., 1990 onwards, speaks that the privatisation process in the GCC countries is confined only in the non-oil sector. Moreover, private sector activities in the GCC countries are concentrated only in few economic sectors such as water and power, telecommunications, construction, industry, roads, and airports. The share of these sectors in total gross domestic product was less than the share of the oil sector. This has limited the participation of the private sector in the economy in general. The opening up of the oil sector is expected to boost the participation of the private sector. It seems that the private sector is likely to be open for the oil sector, which is expected in coming years.
The role of the private sector in the GCC region plays a dominating role in the non-oil economy. Its performance has already achieved tremendous success in sectors like, the telecommunication sector; its efficiency has been improved and greater competition has been developed in all the GCC countries. Power and water sector are also running commercially successful; its production capacity has been increased, and it reduced summer peak hour demand. Airport privatisation competition has increased its passenger services comparable to developed world. The GCC countries have committed to implement privatisation programme successfully under the new economic reform policies. The role of the private sector in the economy is increasing year by year. In the coming years privatisation process might be invited for the oil sector.

Privatisation in the rentier economies of the Gulf has been so far a mixed result. Though the plans have been adequately conceived, to some extent they are implemented but there are issues structural in nature to be overcome to optimise the gains of privatisation. The study underlines that the political consolidation, which oil rent provided is now sought by the ruling families by taking over the command of the private sectors. This could bring new deviations and distortions affecting the very rationale of the privatisation process. Privatisation does not mean reflecting of public monopolies by private monopolies. It ought to generate a competitive ambiance so that the resources could be used be optimally utilised. On thus score the GCC experience has yet to provide evidence. However in defence of the GCC it could be analysed that the process is still in transition.