CHAPTER – I

"PRIVATISATION AND THE RENTIER ECONOMY"
The role of State and market in an economy is defined by a number of factors including history. The developing economies pursued the economic model with the State having control over the commanding heights out of economic and political imperatives of their development stage. In the context where colonisation thwarted the national course of evolution leading to under-development of social economic formation and institutions creating grounds for market led growth, the choice became confined to the State dependent growth. The State in fact acquired the developmental role normally undertaken by the entrepreneur class. In other words, inadequate growth of market institutions, underdeveloped entrepreneurship made it necessary for the State to be the active agent of change and development. In both inward and outward looking economic regimes, i.e., import substitution and export promotion, the State has been having primary role. The economic clout of the State contributed in political dominations of the State. The nexus between the politics and economies of State domination created distortions into the system making it unsustainable. The State became more a patron in distributing resources for political dividend than economic needs. One of the serious consequences of these developments was the fiscal crisis of the State.

Faced with acute crisis of resources, the State when approach the international lending institutions-IMF and IBRD for rescue, it was advised to bring corrections in the economy by undertaking structural adjustment policy and reforms. The package among other recommendations emphasised the need to restrict the size of the 'overdeveloped state' and promotion of the private sector. The rational for privatisation is thus emerged for the economic reform. This chapter examines the privatisation of the developing countries and, outlines the major issues of privatisation in the context of rentier economies. Oil exporting countries are characterised as the rentier economies because they are totally dependent on earnings from hydrocarbon.
Privatisation means, transfer of ownership right from the public sector undertaking into a private firms through different techniques, i.e., build-own-transfer (BOT), and build-own-operate (BOO) etc.¹ According to Webster's New Collegiate Dictionary, (1983), the term “privatisation” implies “taking back of the State power from the production of goods and services and at the same time transfer of ownership from the public sector to the private sector.”² In the Literature on the West Asian Economies it is referred as reducing the State intervention in the economic activity in general.³ Conceptually, privatisation needs to be understood not only in the structural sense of who owns a firm, but in the substantive sense of how for the operations of an enterprise are brought within the country of market forces.⁴ It is observed that privatisation process covers a wide continuum of possibilities. The following figure provides a diagrammatic representation of it.

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Figure 1.1: Continuum of Possibilities in Privatisation

Ownership Measures

1. Total De-nationalization
   - Management Buy-out
   - Co-operation
   - Special Share

2. Joint Venture

3. Liquidation

Organisational Measures

4. Changes in holding company structure

5. Changes within monolithic structure

Operational Measures

6. Leasing

7. Competition

8. Restructuring

9. Contracting Out

10. Incentives Rewards

11. Investment Criteria

12. Pricing Principles

13. Targets

14. Resort to Capital Markets

15. Rationalization of Government Control

The past two decades, especially the 1990s, have witnessed private sector involvement in the production of goods and services in the developing countries so far with the public sector. Greater private sector participation in the economy has occurred not only in the management and financing of State-owned enterprises (SOEs), but it has substantially transferred the State-owned assets to the private sector. The transfer of SOEs has taken place in public utilities sectors, such as power, water and telecommunication.\(^5\) The main cause of the privatisation getting important role in the developing countries has been the economic slowdown in most developing countries in the 1980s promoting the need to rethink the prevailing macro-economic policies, which were public sector oriented, highly protectionist and became non-sustainable. The expanded role of the State through the public sector led to the over extension of its role; the expansion of the public sector on the one side, and declining available resources, on the other side, contributed to the economic slowdown. Most of the developing countries implemented economic reform policies with the aim of achieving more liberalised and deregulated economies and building a new regulatory and institutional frame work as part of drive to transform their economies.\(^6\) Under these conditions privatisation programme got important role in the developing countries.

Privatisation as a process could have different types, like the following:

1. **Partial Privatisation**: This type of privatisation will follow the government, which may be reluctant to initiate privatisation because of the fear that it will lose control over crucial aspects of national industrial development. It is possible to over come this fear by demonstrating that government's interests can be protected after divestment by a variety

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of devices. It involves through joint venture participation by public and private sector on a 50:50 basis but it does not involve complete privatisation process.

(2) Mass Privatisation or Voucher: Mass privatisation (also called voucher or coupon privatisation) is widely used in transition economies. Mass privatisation is based on population-wide distribution of voucher or certificates free of charge or for a nominal fee; usually these vouchers are distributed to all adult citizens. The rationale behind this type of privatisation is that ownership of assets of the means of production was considered to be belonged to the people as a whole, represented by the State. Advantage of Mass privatisation lays the speedy transfer of assets from the State to individual shareholders. This has also helped to lessen the uncertainty of sales, and reduce the effects such as of asset stripping. “People’s Capitalism” has been introduced through this method by creating wider share ownership. This type of privatisation supports the development of capital markets.

(3) Management Contracting Privatisation: Management contracting as a means of rescuing State-owned enterprises (SOEs), which are chronic money losers, has come into increasing favor in the developing world as pressures to reduce subsidy costs rise and greater efficiency is demanded of the enterprises. In its simplest form, a management contract is an agreement by a firm to provide management control and opening functions of a company in return for a fee. The goal of management contract is to produce cost effective and profitable operation. Management contracts universally have three elements—the owner, the managing firm, and the personnel who are assigned as employees of that firm to carry out the responsibilities required under the contract.

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9 L. Gray, n. 7, pp. 73-74.
Contracting out Privatisation: This form of privatisation, the most common one especially at the State and the local level, is the contracting out the functions, where the government finances a service but hires contractors to provide it, on behalf of government, to certain individuals or groups. This includes not only commercial services, but also basic human services. One benefit claimed for this type of privatisation is that it gives greater flexibility to government by not having to keep a costly function in-house. It also said that contracting out invites competition and therefore enables a public manager to have a greater opportunity of finding a more innovative or less expensive service. Many municipality services have entered into contracting out privatisation process.

Small Scale Privatisation: It aims to eliminate State (Municipal) monopolies in the fields where relatively small scale, for example, shops or workshops are active and they would be sold or leased strategically.

Large Scale Privatisation: Large and very large SOEs are converted often having their monopolies, broker and under go division into smaller companies before being sold to private sector.

Privatisation definition relates to its objectives and methods. “Privatisation can be defined in terms of three kinds of rights: ownership rights, operating rights and development rights.” However, in general, there are several methods that have been used by many countries.


They are given below:

(1) Sale of State-Owned Enterprises Shares through the Stock Market: This is the most widely used method in privatisation; particularly developing countries have developed an active domestic market. The main advantage of this method includes promoting transparency, wider participation of the public in the programme, and contributing for the development of the stock market, which would also contribute to increase in the in-flow of foreign private capital;

(2) Sale to Strategic Investors: This method is widely used when the main objectives acquire new technologies, production techniques and new export markets. This will carry out open building to ensure transparency;

(3) Sale to Employees and Management: This method is applicable for small companies; there is no urgent need for the in-flow of new technology. However, only a small number of SOEs are privatised through this method;

(4) Public Auction: This method involves open public auctions, and the sale goes to the highest bidder, which can ensure a high price for the firm. It is a simple method and performed fairly. It is applicable to small companies where there is no need for comprehensive restructuring;

(5) Mass Privatisation: This method's main objective is to carry out a comprehensive privatisation process in a short period of time where the domestic capital is limited. The main idea for the State to provide vouchers at minimal prices or free of charge is that the holders of these coupons are allowed to exchange them for shares in the privatised SOEs.

In the GCC countries these methods were used in implementing privatisation programme. However, the main methods were sale through stock market and sale to a
strategic investor; these methods, build-own-transfer (BOT), build-own-operate (BOO), and build-own-operate-transfer (BOOT), were widely used in infrastructure sector privatisation.

Privatisation has become part of economic strategy of the developing countries. The main factor prescribed to go for privatisation process was the debt crisis of the early 1980. Other factors included are macro-economic instability, low economic growth, fiscal burden of State enterprises, and balance of payment crisis etc.  

Broadly these factors could be classified as two pressures, i.e., (i) Internal pressures, and (ii) External pressures. Internal pressures include (i) fiscal crunch (ii) balance of payments (BOP) deficit. Most of the developing countries were undergoing financial difficulties in terms of financing Government expenditures. Persistent large deficits in Government budgets were common to most developing economies. On the external front, the bleak development aid situation and export markets have contributed to financial crisis have aggravated the deficits in BOP. Many economies were forced either to reduce their domestic expenditure plans or to search for new sources for revenue. External pressures for privatisation are identified from, (i) IMF structural adjustment policies (ii) pressures from foreign investors’ eminent institutions (the World Bank and Asian Development Bank), and other development financing agencies, and (iii) export obligations. The influences of international financial institutions were prominent in most developing economies. Distinction between internal and external pressures becomes important in terms of the strategies of privatisation and enhancement of Governmental capacity to plan and implement them.

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Over three decades of national independence in the developing countries, enterprises owned by the State have produced a staggering burden of subsidy cost for their governments. State-owned enterprises borrowing on the international market added substantially to the overall national debt. The World Bank (1983) also highlighted the developing countries problems, i.e., the budgetary cost of SOEs in the developing countries shows that budgetary payment of non financial SOEs averaged than three percent gross domestic product (GDP), and some countries much more: for example, in Zimbabwe, more than ten percent: in Sri Lanka, eleven percent: in Tanzania, five percent etc. At the same time these countries Governments have provided the high subsidisation. Growing demands of national revenues for increased public services and new infrastructure facilities further added urgency to the search of relief.

Official estimates of expenditure on subsidies were often unrealistic; these subsidies continued to be paid for political reasons when they could no longer be justified on economic grounds. Most of the developing countries spent their revenues providing subsidies only.

To remove these burden developing countries opted for privatisation process in the 1980s. Private investment has become the most important source of finance for these countries. The share of private investment in aggregate flowing to these countries increased from just six percent in 1980 to about forty percent in 1993. This boom in private investment has been the result of widespread macro economic stabilisation and liberalisation.

Many developing countries want to improve their international competitiveness and were keen to provide a more attractive business climate for private economic activity;

15 L. Gray, n.7, p.3.
one particular important component of this liberalisation effort is a strong move towards reducing the size of the public sector. Privatisation process in the developing countries is also illustrated for following objectives are:

1. Promoting Economic Efficiency

The public sector has been facing the problem of efficiency in developing countries; it was analysed that the privatisation will provide greater economic efficiency. It will promote better utilisation of resources and remove inefficient and non-competitive PSEs.

2. Competition

Absence of competition has been the typical feature of developing issue of privatisation, which will provide greater competition in the market. Economists have recognised that competition is the single most factor that determines the efficiency of an enterprise. Leading to many distortions, it is agreed that the absence of competition in the PSEs leads to the less efficient production of goods and services.\(^\text{17}\)


Developing the nation’s human resources is basic element of national development, therefore the privatisation programme will attach particular importance to it, and it attract the enterprises of new direct investments to help absorb the national work force.\(^\text{18}\)

4. Foreign Participation

Privatisation is likely to bring foreign participation; hence, it expands the

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\(^{17}\) G.Ganesh, n.8, p.52.

opportunities available to the firm. Majority of the PSEs in the developing countries faces financial shortages, and involvement of foreign participation will increase potential revenue from the privatisation process.\textsuperscript{19}

5. Extent of Divestiture

The fifth issue of privatisation will take the divestiture form; which specially applies for foreign investors. A full divestiture constitutes, i.e., transfer of 100\% of ownership and control to the foreign buyers. Most of the countries for security point of view do not give 100\% permission to the foreign investors. Only partial divestiture, i.e., anything less than 100\% of transfer, take place in wide spread participation of the foreign investors. It helps in determining a fair price for the enterprise in an unknown environment, and thus boosts future revenue of the Government when the remaining shares are sold.

6. Liberalisation Policies

The chances of success are greater when privatisation is part of a more general liberalisation process, i.e., where privatisation is not delayed in the hope that a well-functioning market would develop but it is used to help create that market through enlarging the number of participants who have direct stake in ensuring that market function well.\textsuperscript{20}

7. Development of Capital Markets

In privatisation process capital markets are playing very important role in implementing a successful privatisation. The Government has an important role in

\textsuperscript{19} Ibid., p.54.
\textsuperscript{20} Ibid., p.57.
encouraging development of capital markets; this would generate competition and cost efficiency would result in privatisation leading to benefit for consumers.\textsuperscript{21}

8. Labour Factor

In privatisation process labour factor will play important role. Privatisation theory suggests that at the short-run period, job loss and wage cuts are likely to occur under the new management, but in the long-term period, employment opportunity will be increase and greater economic efficiency will be taken place.\textsuperscript{22} The time frame of analysis is relevant.

9. Transparency

The most important ingredient in privatisation is transparency. It should include studies to inform decision makers and the public about the reasons for divestiture, creates credibility and dispels doubts regarding shady deals.\textsuperscript{23} These were the issues involved in the developing countries privatisation programme.

In the context of privatisation debate it was widely believed that in the 1960s, and 1970s, governments in the developing countries increasingly intervened in their economies, hoping to accelerate the development process by investing key industries such as, raw materials, telecommunications, finance, transportation and heavy industries. In most cases however the performance of these SOEs were disappointing.

Soft budget -constraints combined with an emphasis on political goals, such as providing employment and subsidised goods and services, all too often resulted in many SOEs being glossily inefficient.

\textsuperscript{21} Ibid., p. 58.
\textsuperscript{23} G. Ganesh, n.8, p.61.
As a result most of these enterprises were typically loss making which made them a significant burden on an already strained public budgets and hindered the process of economic development. To overcome these burden developing countries engaged in privatisation activities. A World Bank study lists a total of 456 privatisation transactions in sixty-four developing countries during 1980-87 periods.24

In most developing countries, the performance of public enterprise sector was declined. Main aim of these originally established PSEs was to generate public savings for investment and growth, and to achieve social and redistribute goals, which were perceived to perform poorly. The public enterprise sector has lost credibility on these main areas; (i) Economic performance, (ii) financial performance, and (iii) distribution performance.

They are:

1. Economic Performance

Poor economic performance does occur in the PSEs. There was a lot of political interference in the public sector enterprises resulting in the most common cause of inefficiency. In many developing countries the PSEs were all important instrument for political patronage; senior staffs were frequently political appointments with lack of industrial management skill: employment, purchasing and pricing decisions subjecting to political intervention; the boundaries of Government and enterprise control were ill defined and continuously shifting.25

The absence of clearly defined objectives and limited operational autonomy given to the PSEs inevitably has an adverse impact.

24 Ibid., p.247.
2. Financial Performance

In the developing countries PSEs have frequently failed to generate investable surplus and instead have created a budgetary burden for the public sector. The PSEs deficits have financed either by borrowing from the domestic market and international financial markets or by the Central Governments transfers. This borrowing has accounted for one-third of all international borrowing by the developing countries, and hence sixty percent of the deficit was financed from the Central Government and the banking system, the remaining fifteen percent caused by other domestic borrowings.26

IMF has given top priority to improving public enterprises' financial performance in the name of stabilisation programme; under which ninety-four developing countries had got fund-supported adjustment programmes. During the period 1980-84, it was found that sixty-eight of the programme included policy recommendations relating to non-financial State enterprises, aimed mainly at improving financial performance.

3. Distributional Performance

PSEs in developing countries were expected to pursue social objectives, i.e., subsidising particular consumer group, assistance to certain regions, and creating employment opportunities.27 In many developing countries PSEs are seen as an important instrument to promote income redistribution.

While economic theory would suggest that distributional objectives should be pursued through the use of the fiscal system, in practice policy makers typically operate in “Second-best” environment in which limitations on the use of tax and subsidies measures require them to peruse their redistribute goals by employing

26 Ibid., pp.108-110.
27 Ibid., p.114.
other, less direct instruments. The PSEs is therefore frequently used to create employment to assist employees through payment of higher wages and to benefit consumers by subsidising the price of public enterprise outputs. The empirical evidence appears to support the view that PSEs have failed to realise their redistribution goals, and in some circumstances, have produced perverse results. These were the characteristics faced by the developing countries during the 1980s period. During this period privatisation was advocated primarily as a means of improving the performance of the public enterprise sector.

So far as developing countries are concerned the move for privatisation grew rapidly from 62 in 1988 to 868 during 1993. Overall, for a total of 93 countries, 2,655 transactions were recorded during this period, which generated total sales revenue for the Governments of US $ 271 million.

The following figure shows the privatisation process in world wide between 1988-1993.

Figure 1.2: Privatisation World Wide, 1988-93

By Number of Transactions


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28 Ibid., p.115.
Sales in industrialised countries accounted for a substantial part of the total revenues realised from privatisation. Industrialised countries sales amounted to US $175 billion, compared to US $96 billion in developing countries. (See figure 1.3).

Despite the dominance of industrial countries in large-scale sell-off, the privatisation efforts in the developing world were impressive. During the period as a whole, in developing countries privatisation grew more rapidly in terms of number of transactions and of the proceeds generated; the sales volume from only US $26 billion in 1988 to a peak of US $29 billion in 1992. Over the period as a whole, Latin America, Eastern Europe and to some extent East Asia dominated privatisation.

The following figure shows the extent to which Sub-Saharan Africa, South Asia and Middle East and North Africa lagged behind the leaders.

Figure 1.3: Privatisation in the Developing World By Region, 1988-93

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Privatisation process involved in most of the developing countries on continent wise is as follows:

Latin American and Caribbean: The Latin American and Caribbean region was the strongest privatisation among all regions in terms of sales volume. During 1988-93, 561 publicly own entities worth US$ 55.2 billion were sold, representing about 58 per cent of all privatisation revenues in the developing world. In Mexico, whose privatisation programme accelerated rapidly, the Government, sold 194 enterprises, generating US$ 26.5 billion in revenue. Argentina was another strong privatisation country in the region. By 1993 the Government had sold 106 enterprises, generating almost US $17 billion in revenue, while simultaneously reduced the country’s external debt by about US$ 17 billion through debt equity swaps. Peru’s privatisation programme between 1991 and 1993 the Government sold twenty-eight enterprises for about US$ 350 million. Brazil

privatised twenty-seven companies between 1988 and 1993, which gained revenue of US$ 6.9 billion.

Europe and Central Asia: The most active privatiser in Eastern Europe and Central Asia was Hungary, which sold 164 enterprises for US$ 4.3 billion between 1988-93. Hungary's largest privatisation transaction ever in the region in 1993 by selling 30 percent of its telecommunications to Matav Company for US$ 961 million. During Czechoslovakia privatisation programme in late 1990 about eighty enterprises were sold directly generating US$ 2.6 billion in revenue. Poland was the third largest privatisation in the region selling 154 enterprises for a total of US$ 1.4 billion between 1990 and 1993. Bulgaria, Croatia, Estonia, Lithuania, Romania and Slovenia have also established privatisation programme.

East Asia and Pacific: East Asia and the Pacific was the only region that showed an increase in privatisation revenues in 1993 when the total reached US$ 7.5 billion up from US$ 5.2 billion in 1992. The most intensive privatisation in terms of revenues from sales was taken place in Malaysia, the Philippines and China. Malaysia's privatisation sales generated US$ 5.8 billion in revenues. The Philippines sold sixty-three enterprises for US$ 2.8 billion. In 1993, China has sold shares in sixty-one State owned companies and collected US$ 4.1 billion.

South Asia: Privatisation in South Asia amounted to a value of US$ 1.6 billion from eighty-three sales during 1992. India dominated the region, sold forty-seven companies for US$ 2.9 billion in 1989 to 1993. In Pakistan and Sri Lanka regions also other privatisation programmes were followed.

31 Ibid., p.251.
North Africa and Middle East: Privatisation in North Africa and Middle East were minor in terms of value and number of transactions but grew rapidly in 1993. Tunisia, the first systematic privatiser in the region, was joined by Egypt and Morocco in showing relatively strong sales of SOEs in 1993. Overall, however, only fifty-four transactions worth US$ 740 million were recorded for the region during 1988-93.32

Sub-Saharan Africa: Sub Saharan Africa showed some interest in privatisation activity in 1993; the region collected almost US$ 1 billion from the sales of 200 enterprises between 1988 and 1993.33 Nigeria dominated the region with total revenues of US $ 740 million. Ghana, Kenya, Togo and Zambia invited privatisation programme that showed varying degrees of success.

The following figure shows average privatisation value of the region, and table shows privatisation in developing countries.

Figure 1.4 Average Privatisation Value by Region 1988-1993


32 Ibid., p. 252.
33 Ibid., p. 253.
Table 1.1: Privatisation in Developing and Transitional Economies By Region and Year 1988-96  
(Us $ Million)

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Source: Ravi Ramamurti "Why Haven't Developing Countries Privatized Deeper and Faster?" World Development (Great Britain: Pergamon), Vol.27, No.1, p.139.

These are the privatisation programmes taken in continent wise. The privatisation process in the developing countries showed tremendous success in the last two decades and it has reduced the burden of public debt, and improved the efficiency in the PSE’s performance.

According to the World Bank context, the Bank is sole supporter of privatisation programme, and will continue to support in the future. The poor performance of PSE’s has prompted many Governments to seek the assistance of the World Bank in PSE’s reform. A prime objective of the Bank’s involvement was the promotion of economic efficiency.34

Further, the Bank’s main intention to provide financial assistance to the developing countries was, as one of many means, to help Governments and their business. Governments may promote privatisation for a number of legitimate reasons, for reducing the budgetary burden of PSE’s, stimulating the growth of popular capitalism, developing local entrepreneurs, building up local markets, encouraging foreign investment and raising revenues. These were all goals the Governments have attempted to achieve through privatisation programme.\textsuperscript{35}

Since the early 1980s, the World Bank has provided assistance to the Governments in approximately 30 countries in all regions of the world; the majority of which were the Sub-Saharan Africa. The Bank was also involved in privatisation efforts in many developing countries such as, Brazil, Argentina, the Philippines, Morocco, Panama, Jamaica, and Turkey etc. Privatisation assistance always takes place in the context of macro-economic policy reform, i.e., in the liberalisation of trade regimes, pricing reforms, demand management, and elimination of monopolies, with specific regard to privatisation. The nature and extent of Bank assistance vary from case to case.

Foreign participation in the developing countries under the privatisation programme has showed tremendous success in recent years. First of all, participation of foreign investors in privatisation programme is politically sensitive issue. In most countries, larger public enterprises are often considered to be national treasures, and plans to privatise them have often aroused domestic political opposition. However, involvement of foreigners may bring a number of benefits.\textsuperscript{36}

First, it raises the degree of competition in the sale-off process by increasing the number of bidders. This generally results in higher price being paid for SOE’s, as well as better

\textsuperscript{35} Ibid., p. 665.
\textsuperscript{36} Paul Cook, ed., \textit{Privatization in Developing Countries, Volume. II}. (UK and USA: An Elgar, 2000), p.258.
terms for other aspects of the sales contract, such as future investment commitments or agreements with labour force. Second, foreign investors typically are an important source of investment finance and management skills. A major reason for privatising the SOE’s is that the enterprise is uncompetitive. Foreign investors can bring expertise needed to make capable of competing with world market standards. They also bring the financial resources needed for technological improvements.

Developing countries have encouraged foreign participation in their countries' privatisation programme. The participation of foreign investors was generally strong and increased over the time. During 1988 and 1993 period, 2,279 privatisation activities in developing countries involved 671 foreign investors. In terms of sales volume, foreign investments amounted to US $ 33 billion or almost 35 percent of the total revenue generated by privatisation.\textsuperscript{37}

Foreign Direct Investment was the main mechanism through which foreign investors participated in this programme. During the period 1988-93 as a whole, US$ 22.5 billion entered developing countries through FDI’s in SOE’s, as the following figure shows the FDI’s entry into privatisation during 1988-93.

\textsuperscript{37} Ibid., pp. 258-263.
Globalisation era has also given major boost to privatisation process. It was the globalisation of the economy that made privatisation imperative and desirable in more than 100 countries worldwide.

The globalisation process has to be understood in terms of the internationalisation of production to harness differential endowments for the domestic benefits of the country or region concerned. Information and rapid means of communication also play an important role in this process. Multinational and transnational corporations have encouraged this type of thought and practice, requiring an environment in which capital technology, and inputs and outputs can have a free flow of across borders. \(^{38}\) Privatisation can be proved to be a boon in terms of joint ventures between multinational corporations (MNC’s) and State-owned enterprises (SOE’s) across the world.

Privatisation got political acceptability at the global level, primarily because of the rise and efforts of the ‘new rights’. \(^{39}\)

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\(^{39}\) Ibid., p.13.
The globalisation of the economy in the wake of innovations in science and technology, and rapid means of transport and communications provided the perfect match to the privatisation. Privatisation and globalisation helped in changing the old definition of core and periphery. It was evident that globalisation of capital was dominant phenomenon in the world economy. In spite of the fact that capitalism had global features since it’s beginning, the current phase of its transformation is unprecedented in many respects. Never before did the entire world lay as open to spread of capitalism as fluid and mobile to reach the remotest corners of the globe.\(^{40}\) Even the most inward looking societies have opened up for capitalist intercourse and capital was globally sought after as never before.

Privatisation has proved successful in many countries with different environment, different political structures, varied sectors and varied size of public activity, while there had significant failures in some cases. It was not possible to describe all the experiences in all the countries, but it was possible and worthwhile to take up case studies that bring out typical methods employed in the process.

Privatisation had made to meet a range of objectives in countries around the world. The first decade of privatisation as largely a matter of learning had experimented in the developing world. The concept itself was revolutionary, and the results are beginning to show. Many governments have accepted upon privatisation the panacea that would solve all their economic ills; money-losing SOE’s would be sold to the highest bidder. Profitable firms would be retained for their contribution to development. Privatising proved to be effective much more than expected level.

Privatising was only one of many rates to greater prosperity in the developing world but it is central to freeing the developing countries from the economic disasters, so many

have experienced in the past decades. It can help to rejuvenate the tarnished dream of national development through industrialisation, which was the goal of so many of the early nationalist leaders of Asia and Africa. At the same time it can help to realise the new dream of individual independence in a modern society, which becoming the goal of the current generation in the developing world.

**Privatisation and the Rentier Economy**

A rentier economy means, the rent is generated externally and constitutes the main source of the State revenue. The State finance plays a more central role in determining the pace and nature of its evolution. Hazem Bahlawi rightly describes, “It is important to add here that the rentier nature of the new State is magnified by the tribal origins of the States. A long tribal tradition of buying loyalty and allegiance is now confirmed by an etat providence, distributing and benefits to its population.”

According to Adam Smith, “Rent is separated from the other sources of income; wages and profit. ‘Rent’, it is to be observed,’ enters into the composition of the price of commodities in a different way from wages and profit. High or low wages and profits are the causes of high or low price; high or low rent is the effect of it.”

Classical Economists, Malthus and Marx had said about rent and rentiers (mainly Landlords). Rentiers were unproductive, almost anti-social, sharing in the produce without so to speak, contributing to it. An increase of rent is the effect of the increasing the wealth of the country and of the difficulty of producing food for its augmented population. It is symptom, but it is never a cause of wealth.

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A rent is not merely an income for the landlords but a reward for ownership of all national resources.

The general perception of the rentier economy is that some one, who doesn’t participate in the economic activity, receives without losing a share in the produce and at times, a handsome share. A rentier is a member of special group who does not earn his income; merely apportioned a nice slice of the produce. Rent is to be remembered as not a special peculiarity of some countries, it is rather, a general phenomenon known in all economies. While in most countries rent constitutes a small fraction of income receipts, and pure rentiers are either non-existent or very few. But in the GCC countries it is quite different; rent plays a dominant factor.44

Oil revenues are perceived in the Gulf States as property income, benefit to the whole society. In the GCC countries not more than one to three percent of total manpower engaged in oil production, its GDP contribution adding sixty percent. Oil revenues are perceived as windfall profits, a gift of God, AL-Khir in these States.45

The rentier economy’s major characteristics are:

i. A rentier economy when there is a rent predominates: there is no such thing as a pure rentier economy.

ii. A rentier economy heavily verses a substantial external rent: the externalities of the rent origin is crucial to the concept of the rentier economy.46

iii. In this economy only few are engaged in the generation of this rent, the majority being involved in the distribution of utilisation of it.

44 Ibid., 26.
45 Ibid., 27.
46 Hazem Beblawi, n.42, pp. 49-52.
iv. In the rentier economy the government is the principal recipient of the external rent.

In the GCC countries oil revenue is the principal source of the State income; its financial relations between the State and society went a qualitative change. Earlier the State, which used to be financially dependent on the merchant class, when the oil revenue started growing up it increasingly became autonomous. The oil boom period 1973-74 provided these States an enormous financial power that it became hegemonic too. To consolidate the position the traditional merchant class got replaced with new merchant class under its own patronage. The oil revenues in the seventies made the economic and political assets with no corresponding liability. Enormous oil revenue has changed these countries’ size and share in public expenditure. Its revenue went up from US $ 9.2 billion in 1972 to US $ 54.8 billion in 1974; it touched the peak of US $148.5 billion in 1980. This huge oil revenue provided the State with a distinct leverage to pursue a policy of public expenditure to restructure the social formation as well as to earn legitimacy without sharing the power. This high profile public expenditure policy provided a “Welfare State” in these States.

The rentier State became a prime mover of the system. It not only underwrote the consumption pattern of society but also participated in a big way infrastructure, meeting welfare needs provided subsidies. The State also became the leading employer. The rentier character of the economy encouraged high level of consumerism and undermining the productive sectors of the economy.

“The anti productive bias both influences the economic behavior and distorts economic choices. Economic behavior is biased in a rent dominated economy by individual or even

corporate group to increase the share of circulating income.\textsuperscript{48} The economic choice of the rentier State is determined for the purpose of allocating rent to different segment of society, and it is likely to express its performance for policy regime which aims at maximising rent.

The rentier economy not only undermines the development of the productive sectors of the economy but also encourages the class of entrepreneur whose has not been risk taking or constructive destruction but obtaining contract and distributing to subcontractor or the middlemen, a sponsorer.

Eighties onwards the continuous decline in oil prices reduced the State revenues, thereby State expenditure policy was moderated; the economy found itself in the recession with no endeavour from market to make recovery. The State and market, thus, do not have competitive relationship for resources or power; hence there is no dilemma between the State and market.

In the GCC countries' societies the pressure for regime change has not come from the market forces, the latter has been relatively less sensitized to the crisis of the State. In the rentier societies, the market is not likely to face any point of conflict between the State and market at least in the short-run. It is only when the State will be forced to change the financial relations with society by mobilising resources from within, then the issue of accountability or sharing of power may become a point of tension.\textsuperscript{49} The high prices, which gave the State autonomy in the seventies, have been on decline in the eighties, touched its lowest level in the 1986. Continuous decline in the oil prices have affected the fiscal strength of the rentier economies. But public expenditure policy did not come down; it maintained its expenditure policy, without disturbing the State - society

\textsuperscript{48} Ibid., pp. 9-10.
\textsuperscript{49} Ibid., p.11.
financial relations, either drawing from reserve fund or from abroad investments. The rentier nature of the State motivated it in favor of not using only fiscal instrument to transfer the incidence of the crises on the society. The State expenditure was maintained at a prevailing level to maintain its expenditure policy; the State has increased its production capacity more than its prescribed OPEC quota to mobilise the necessary revenues. The decline in oil rent widened the budgetary gap forcing the GCC countries to go for public borrowing in the beginning of eighties. Ironically, ‘the financial conflict’ has led to financial sudden disastrous making it difficult for the Gulf countries to sustain their public expenditure policy. The 1990s witnessed continued decline in oil revenues, which resulted in increased deficit budgets in these countries, and governments unable to invest in developmental projects. Privatisation policy in one option has got important role in the GCC countries. It involved especially in the non-oil sectors, and that will reduce deficit budgets of these States, and this process will generate more financial resources to the governments. Privatisation programme in the GCC countries is expected to provide a more competitive market-oriented economies, greater efficiency and competition.

The second chapter deals with the country wise privatisation programme. Here three countries have been taken Saudi Arabia, Kuwait and the UAE. In this Chapter, the study will focus on how privatisation takes place, what are the areas these governments identified, what procedures they have taken for implementing it, what was the privatisation performance, and finally what was nature of restraint to privatisation programme.

50 Ibid., p.12.