# Privatization in Developing Countries: Formal Causes, Critical Reasons, and Adverse Impacts

## M. Shamsul Haque

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## Introduction

In the realm of public policy, one of the most unprecedented global features in the last quarter of the twentieth century has been privatization. During the past two decades, governments all over the world introduced various forms of privatization irrespective of their economic contexts, political orientations, and ideological positions. This current trend represents almost a reversal of the traditional postwar policy orientation based on the assumptions of welfare state, planned development, and public-sector-led economic growth, which became entrenched in both developed and developing nations during the period between the 1950s and 1970s (Esman, 1991:457). In advanced capitalist nations, the emergence of a state-centered economic approach reflected the problem of market failures and the growing demand for citizenship rights such as a decent living standard, adequate education and health care, and minimal social equality, whereas in developing countries, this approach became the pivotal policy option to ensure national development, wealth redistribution, employment generation, and economic self-reliance (see Clarke, 1994b:417; Martin, 1993:16-18). In developing nations such as Taiwan, South Korea, Singapore, Malaysia, Thailand, Indonesia, Brazil, and Mexico, beyond the conducive external factors such as foreign aid, foreign market, and foreign investment, the state sector played a crucial role in accelerating socioeconomic development (see Leipziger and Thomas, 1993:8-15).

However, this tradition of state-led policies, programs, and performance came under challenge posed by various critical issues—especially the growing dissatisfaction among citizens with bureaucratic inefficiencies, the diminishing performance of public enterprises, the declining public confidence in government institutions, the deteriorating situation of inflation allegedly caused by public sectors deficits, the rise of neoliberal critique of state intervention, and the advocacy for market-driven remedies, and so on (see Clarke, 1994b:399; Esman, 1991:458; Fuhr, 1994:104). This challenge to the established state-centered policy perspective was reinforced further by the collapse of major socialist states and the worldwide triumph of market ideology (Haque, 1999). As a result, the period between the early 1980s and the late 1990s saw the

proliferation of market-centered policies in countries all over the world. In developing nations, the market-oriented policies such as deregulation, privatization, liberalization, and rationalization, were adopted or imposed largely under programs known as stabilization and structural adjustment. Among these policies, however, the privatization of public assets, programs, and services, has been one of the most influential and noticeable changes in the recent history of policy reform. Such a crucial policy shift—rationalized on various grounds and caused by various national and international factors—has serious economic, political, and social implications for developing nations. In this regard, the article attempts to address the following issues: (a) the concepts, forms, and extents of privatization; (b) the rationales and causes of the current privatization measures; (c) the adverse implications of privatization for various social groups and classes; and (d) the potential policy alternatives for overcoming such adverse outcomes brought about by privatization. It is necessary to mention, however, that the emphasis of this article is on Asian, African, and Latin American countries that have adopted various forms of privatization in recent years. Moreover, the main focus of the article on the adverse or critical rather than favorable impacts of privatization on developing societies, because in the prevailing literature, there is no dearth of arguments endorsing privatization and glorifying its outcomes. Thus, there is a need for more critical studies on this policy issue.

## Privatization in Developing Countries: Concepts, Forms, and Extents

In the current literature, there is considerable diversity in the interpretations of privatization owing to varying practical experiences, expert opinions, and academic views in this regard. Thus, Daintith (1994:43) mentions that “Privatisation is coming to mean all things to all men (and women) as it is adopted in different countries as a conveniently topical and attractive label for a wide variety of steps in economic and social policy.” However, while a narrower definition of privatization denotes mainly the divestiture of public assets to the private sector; a broader view of privatization tends to encompass processes such as denationalization, deregulation, liberalization, contracting out, competitive tendering, user charges, cuts in public provisions, increases in private ownership, and so on” (see Hartley and Parker, 1991:11; Martin, 1993:11; Murie, 1994:105). A simpler definition is offered by Cowan (1990:6) for whom privatization is a process of transferring assets, organizations, functions, and activities from the public sector to the private sector. For others, the direct transfer of public ownership and control to the private sector represents a more classic mode of privatization; whereas the leasing and franchising arrangements between the public and private sectors can be considered as partial privatization; and reforms in subsidies, tariffs, taxes, and regulations may be viewed as factors catalytic to privatization rather than privatization as such (De Walle, 1993:4). However, it should be understood that contemporary privatization in developing countries has been adopted as one of the main components of the so-called structural adjustment program that

incorporates not only privatization, but also other complementary policy measures such as the deregulation of pricing and marketing, liberalization of trade, reduction in import tariffs, and exemption of foreign investors from taxes and labor codes, and so on (Martin, 1993:76).

An effective mode of analyzing and understanding privatization is to examine its various forms. For some scholars, privatization may take the following major forms: (a) divestiture or the transfer of ownership and management to the private sector; (b) sale of shares through tender or capital markets; (c) transfer of management to the private sector without change in ownership; (d) introduction of production contract while retaining procurement and marketing functions; (e) profit-sharing with employees; (f) outright liquidation; and (g) reduction in bureaucratic control without change in ownership (see Ahmed, 1995:186; De Walle, 1993:7-8). For Daintith (1994:45), there are six major forms of privatization—change in ownership (from the public to private sector), change in public activities or assets (in the terms of their reduction), change in legal status of public provisions (such as liquidation), change in economic status of the public sector (from direct producer to indirect provider), and change in competitive environment (by withdrawing monopoly rights of public enterprises). Jiyad (1995) offers an exhaustive list of various forms of privatization under two major categories—the divestiture and non-divestiture options. The divestiture option includes the direct sale (full or partial) of public assets to private investors, public share offerings on stock markets, sales to investment or mutual funds, sales to employees or management teams through ownership plans or employee buy-outs, public auctions, and liquidation followed by the sale of assets. The non-divestiture option, on the other hand, covers management contracts, leasing and operating concessions, commercialization or corporatization, joint ventures, and contracting out. In various degrees, most of these forms of privatization were adopted in developing countries during the past two decades. For instance, between the 1980s and 1990s, the forms of privatization adopted in Malaysia, South Korea, the Philippines, Thailand, and India varyingly included the sales of assets, leasing, sales of equity, management buy-out, and corporatization (Dhiratayakinant, 1995; Mohamed, 1995; World Bank, 1995b). Even a relatively uncommon mode of privatization such as management contract, has been adopted in many developing nations in various sectors (see World Bank, 1995b).

The extent of privatization in developing countries has also been unprecedented, which is evident in the list of countries adopting various privatization measures, the number of privatization transactions, the monetary value of privatization, and so on. In the developing world, almost all countries have undertaken various forms of privatization mentioned above. Some examples of the privatized state enterprises include telecommunication in Chile, Jamaica, Turkey, Malaysia, Mexico, Argentina, Barbados, Peru, and Venezuela; power generation and distribution in Mexico, Korea, Malaysia, Chile, Turkey, the Philippines, and Argentina; airlines in Argentina, Mexico, Chile, Brazil, Pakistan, Honduras, Panama, Turkey, Venezuela, Malaysia, the Philippines, and Thailand; roads and transports in Argentina, Togo, and Peru; and gas distribution in Argentina and Turkey (World Bank, 1994a, 1994b). The

extensive scope of privatization in developing countries is also evident in its all-pervasive nature affecting so many economic sectors or activities, including electricity, water supply, oil and gas, mining, telecommunication, television, highway, airlines, tourism, cement, printing, shipbuilding, coal, steel, automobile, sugar, food processing, plantations, hotel, ports, highway, fertilizer, textile, tobacco, mass transit, banking, insurance, paper plant, and tourism (Dhiratayakinant, 1995; Kelegama, 1995; Mani, 1995; Salleh, 1995; World Bank, 1995b).

In terms of quantity, between the periods 1980-87 and 1988-93, the number of privatization transactions increased from 108 to 367 in Asia, from 210 to 254 in Africa, and from 136 to 561 in Latin America (World Bank, 1995b:27). Despite the fact that Latin America and the Caribbean account for almost 70 percent of privatization transactions in the developing world (Cook and Kirkpatrick, 1995:42), specific examples in Asia and Africa would show how deep-rooted privatization has become in each developing country. In Asia, by the mid-1990s, Malaysia privatized 357 projects, including many large companies in energy and telecommunications; by June 1993, the Philippines disposed of 310 (out of 419) non-performing assets and 78 (out of 122) state enterprises, and more assets and enterprises were already listed for privatization; by July 1993, Sri Lanka privatized more than 33 percent of state enterprises in the industrial sector; and similar extensive degree privatization could be witnessed in Bangladesh and Pakistan (see Ahmed, 1995; Kelegama, 1995; Rahman, 1996; Sader, 1993; World Bank, 1994c). During the period 1988-93, the total value of privatization transactions was $19.7 billion in Asia, $3.2 billion in Africa, and $55.1 billion in Latin America (World Bank, 1995b:28). These examples and figures related to the sectors, transactions, and values of privatization demonstrate the scope and depth of such a venture in Asia, Africa, and Latin America.

## Privatization in Developing Countries: Formal Rationales and Critical Reasons

During the recent two decades, privatization has been rationalized by its advocates, policy makers, and international agencies on various grounds ranging from economic efficiency to income distribution. However, these relatively favorable explanations of privatization often conceal more substantive critical reasons behind the adoption of such a policy. Underlying the officially pronounced justifications of privatization, there are vested interests, political motives, ideological agenda, and hegemonic objectives. Therefore, it is not only necessary to explain the "formal" (official) rationales of privatization, it is also essential to examine the "critical" (hidden) reasons behind the policy.

*Formal Rationales*

In general, privatization has often been undertaken in the name of increasing economic efficiency, streamlining expansive public sector, reducing government borrowing, widening share ownership, lessening deficits, enhancing competition, encouraging market forces, generating government revenues, expanding customers' choices, and improving service quality (Asmerom, 1994:381; Pitelis and Clarke, 1993:7). Some scholars tend to classify the major rationales of privatization in terms of the following four categories: (a) *the efficiency argument,* which accuses state enterprises for inefficiencies and prescribes privatization for better outcomes; (b) *the property ownership argument,* which makes the assertion that public ownership is discouraging to managers in public enterprises to work efficiently since they have no stake in them; (c) *the distortion argument,* which blames government intervention for creating distortion in resource allocation; and (d) *the fiscal argument,* which considers excessive government as the main cause of budgetary deficits (see Jiyad, 1995).

These rationales for privatization are echoed in the recent privatization initiatives undertaken by governments in advanced industrial nations as well as developing countries. In the developed world, the Thatcher government aggressively pursued privatization policy in the U.K. based on arguments that it would improve efficiency, reduce public borrowing, widen share ownership, enhance people's power, and in the long run, ensure the well-being of everyone (Rentoul, 1987:4; Okumura, 1994:78). In the U.S., the primary objectives of privatization were to improve economic performance, reduce federal deficit, promote economic recovery, and reinforce popular capitalism by expanding share ownership (Clements, 1994:94-95). Similar rationales have been sought in Japan where privatization was adopted to streamline the size of the government, reduce the role of the state, and enhance efficiency and competition (Krauss, 1995:130-131).

In the developing world, almost the same set of the privatization rationales has been presented by the contemporary regimes and donor agencies—especially under the stabilization and structural adjustment programs prescribed by the International Monetary Fund (IMF) and the World Bank demanding or suggesting market-oriented reforms to balance trade and budget deficits, devalue currencies, cut public expenditures and subsides, rectify public sector inefficiencies, reduce state intervention and trade controls, privatize or liquidate public enterprises, and so on (Jiyad, 1995). In line with, and as a central component of, this market-centered program, in many Asian, African, and Latin American countries, privatization was adopted with a view to reverse financial losses allegedly incurred by state enterprises, eliminate waste and inefficiency, generate funds for new projects, mitigate inflation, ensure fair

allocation, and reduce external debts (Jiyad, 1995; Musa, 1994:356; Philip, 1994:364-365). For instance, in Asian countries such as Brunei, Indonesia, Malaysia, the Philippines, Singapore, Sri Lanka, and Thailand, the main rationales of privatization include the following—to improve efficiency, reduce fiscal burden, enhance economic growth, improve equity or welfare, stimulate stock markets, promote the private sector, accelerate competition, and diversify economic activities (Kelegama, 1995:144; Salleh, 1995:119; Toh and Low, 1991:96).

*Critical Reasons*

There is no doubt that some of the aforementioned rationales of privatization in developing countries reflected their prevailing economic problems—such as external debt, adverse terms of trade, fiscal deficits, and outward transfer of resources (Cominetti, 1994:49). However, it must be noted that these countries suffered such economic and fiscal crises for decades during the postcolonial period, and many of them adopted state-centered nationalization rather than market-biased privatization as the pivotal policy framework to resolve various socioeconomic problems. It was only since the early 1980s that they began to reverse the policy orientation toward extensive privatization discussed above. Beyond the official rationales of privatization, there are major critical factors (external and internal) behind this recent policy shift.

*First,* it is necessary to emphasize that in most countries, the current state policies, including privatization, usually reflect the prevailing state ideology (Clements, 1994:102), which has been characterized as "neoconservative", "neoliberal" or "new right" position holding promarket assumptions, and advocating market-friendly policies such as privatization, deregulation, free trade, subsidy cuts, market-driven interest and exchange rates, direct foreign investment, and secured property rights (Bashevkin, 1994:277; Pereira, 1993:19). It has already been pointed out by some scholars that in advanced capitalist nations such as Canada, the U.K., and the U.S., privatization has been an *ideologically charged phenomenon*, which emerged not due to its inherent strength as a policy alternative, but due to its endorsement by the neoconservative political leaders and intelligentsia believing that the private sector is superior to the public sector (see Donahue, 1989:4-5; Peters, 1991:385; Wise, 1990:147). More specifically, the prominent political leaders of the 1980s, including Margaret Thatcher in the U.K., Ronald Reagan in the U.S., and Brian Mulroney in Canada, allegedly had such neoliberal or neoconservative ideological predispositions (see Bashevkin, 1994:277; Martin, 1993:2).

Following the lead of these industrial nations, many developing countries have undergone similar ideological shift in the nature of the state affecting government policies and programs since the early 1980s. However,

the ideological shift in favor of a neoliberal position in these countries is relatively exogenous in origins—including the appointment of British-trained and American-trained neoliberal economists in influential policy positions such as presidential advisers, and the worldwide advocacy of neoliberal policies (especially privatization) by international agencies like the World Bank, the International Finance Corporation (IFC), the IMF, the U.S. Agency for International Development (USAID), the Commonwealth Secretariat, and the United Nations (McGowan, 1994:33-34; Philip, 1994:366). In addition, the so-called "Washington consensus"—which is based on the new right or neoliberal principles; named after its geographical origin in Washington; and endorsed by the U.S. Treasury, the Federal Reserve, multilateral agencies, the finance ministries of the G-7 countries, and the chairmen of most important commercial banks—had considerable impacts on developing countries (especially in Latin America) to embrace neoliberal perspective in their state policies (see Pereira, 1993:19). There were also means such as conferences and workshops organized by the global capitalist forces to convince the leaders of developing countries to adopt promarket policies.[1] As a result of such external pressure and influence, in the case of Latin America, even the political leaders with populist origins and mandates—including Carlos Menem in Argentina and Alberto Fujimori in Peru—embraced this neoliberal policy option. Similar trend of ideological shift can be observed in many Asian and African countries (see Haque, 1998). It is this neoliberal ideological shift in the nature of the state in developing nations that motivated many political leaders to adopt privatization, and provided an ideological context to legitimize such a policy.

*Second,* beyond the ideological influence on top policy makers, there were various sources and forms of external pressure, largely based on a hegemonic global economic structure, which led to the proliferation of privatization in developing countries. Especially for Latin American countries, the endorsement of neoliberal approach, to a great extent, was due to intensive international pressure exacerbated by their huge external debts (Pereira, 1993:26). It has already been pointed out by some scholars that unlike the experiences of advanced capitalist nations, the craze for privatization in developing countries went beyond ideological conviction, and was considerably shaped by international agencies and multinational banks (Pai, 1994:161; Pitelis and Clarke, 1993:6). The major part of the capacity and opportunity of these international organizations to shape the policy preferences of developing countries, and the vulnerability and powerless of these countries to swallow such outside policy prescriptions, was based on the burden of external debt and dependence. Institutions such as the World Bank, the IMF, the IFC, the USAID, the Asian Development Bank, and the Inter-American Development Bank played a crucial role in convincing or influencing top policy-makers in the debtor countries to undertake market-centered reforms, especially privatization (Haque, 1999; Pitelis and Clarke, 1993).

In addition, the new loans offered since the early 1980s by these international institutions to developing countries (both the existing debtor countries and the new borrowers), have been associated with various loan conditionalities, particularly the stabilization and structural adjustment programs with privatization and deregulation as the central policy components

(see Veltmeyer, 1993:2080; Whitfield, 1992:8). Today, most developing countries asking for foreign assistance from the World Bank and the IMF are required to introduce these programs and policies (Sarkar, 1991). This trend is not unrelated to the fact that international donor agencies themselves have undergone significant changes in terms of their policy preferences. Until the end of the 1970s, most of these institutions provided foreign aid and technical assistance to developing countries undertaking state-centered development plans and policies. However, by the early 1980s, they began to attack the state sector for its alleged inefficiency, blame planned development as the main cause of backwardness, discourage government intervention in economic activities, prescribe various promarket reforms (including privatization), and require these reform initiatives as preconditions for foreign assistance (Babai, 1988:254). During the period 1980-1991, the World Bank provided foreign loans of $41.5 billion in relation to structural adjustments (Fuhr, 1994:102-103).

This transition in the policy preferences of international finance and aid agencies has largely taken place under the hegemonic dictates of the global economic powers, especially the U.S., that have often used these organizations for realizing their own foreign policy agenda (Babai, 1988:275; Sarkar, 1991:2309). It has been pointed out by some scholars that the recent market-centered ideological agenda of the U.S. involved strategies such as the deeper subordination of developing countries to the U.S.-led global economy; the weakening of economic challenge to the U.S. posed by the Newly Industrialized Countries; the prescription of market-oriented reforms (privatization, deregulation, liberalization) for these and other developing countries to reduce their economic strength based on state intervention; and the use of various international agencies to influence or pressurize these countries to adopt such reforms (see Bello, Cunningham, and Rau, 1994:3; Martin, 1993:10; Haque, 1999). In fact, a directive was given to the U.S. foreign aid officials that they must encourage less developed countries to adopt free market principles and move away from state intervention (see Clarke, 1994a:1). In short, the option for privatization in developing countries has not been inseparable from the hegemonic global agenda pursued by advanced capitalist nations through various international financial agencies providing foreign aid, technical assistance, and policy guidelines.

*Finally,* privatization has also been reinforced by the vested political and economic interests gaining considerably from such a policy. In developed nations themselves, the leading political parties have tried to gain public support and win elections by using the privatization rhetoric aimed, especially, at conservative voters. For instance, in the U.K., Margaret Thatcher was quite successful in launching privatization as an effective campaign issue in order to weaken the opposition and bring the Conservative Party to power (Dobek, 1993:27). In fact, after the 1979 election, Thatcher publicly stated that the idea of privatization helped her win many votes (ibid., p.31). This recent trend of the political use of privatization can be found not only in other Western nations but also in developing countries. In certain Asian and Latin American countries,

privatization programs have often served the interests of political power holders (see Fuhr, 1994; Haque, 1999).

Another vested interest behind privatization comprises of various consultancy firms or groups that gained considerably by providing market-oriented policy advices and guidelines to developing countries. Many of the so-called "experts" on privatization—including economists, accountants, and lawyers associated with large banks, management consultancies, bilateral aid agencies, and international financial institutions—have been engaged in advising Asian, African, and Latin American governments and influencing their state policies based on a market-centered approach. As Martin (1993:84-92) points out, the new commitment of international agencies to privatization has been a good news for various management consultancy firms employing or using many American and British policy makers—including private firms such as Analysis Groups Inc., Arthur Young & Co., Rothschilds, Cooper & Lybrand, International Phoenix Corporation, Ferris & Co Inc., Salmon Brothers, and Equity Expansion International—which received contracts worth millions of dollars by prescribing and designing privatization programs for developing countries and transitional economies. In this regard, Chapman (1990:2) makes the following comment:

> Ironically, as the century draws to a close, the British, the Belgians and the French are back in Africa and Asia, not as colonialists, but as highly-paid professional advisers, invited to produce reports on how privatization, including transnational ownership of state enterprises, can revitalize depressed and bankrupt economies.

However, a more direct evidence of various vested interests behind privatization in developing countries is their economic gain made from the privatization process itself: many local business firms and international corporations and investors have made windfall profits by purchasing the privatized assets sold at nominal prices, which is often known as the "garage sale" of public enterprises (Ramanadham, 1995:8). There are many Asian, African, and Latin American countries that experienced such undervaluation or underpricing of public enterprises privatized during the recent decades.[2] In Latin America, the main supporters and beneficiaries of such market-oriented policies have been the business elites in mining, manufacture, finance, and trade (see Jain, 1994:4). For instance, in Mexico, about 37 businessmen controlling 22 percent of gross national product, have been the main buyers of the privatized assets; and in Chile, a few private companies bought 110 banks, and many privatized companies were sold at scandalous prices to the military elites (see Martin, 1993:100-101). In Asian countries such as India, Pakistan, Malaysia, and the Philippines, the major advocates of and gainers from privatization have been the large business firms, the bureaucratic elites, the members of the ruling parties, add the relatives of political leaders (see Briones, 1995:88; Cook and Kirkpatrick, 1995:45; Jain, 1994:5). Another vested interest gaining from privatization in the developing world includes transnational corporations or

foreign investors. In alliance with the local elites, many foreign (Western) investors have been able to possess the best of the privatized assets in developing countries, and increasingly, transnational corporations have become more dominant in basic sectors such as energy, water, transport, and telecommunications in these countries (Martin, 1993:11, 95). During 1988-92, the average share of foreign investors in privatization operations was 8.8 percent in South Asia, 8.4 percent in East Asia and Pacific, 28.8 percent in Latin America and the Caribbean, and 36.7 percent in Sub-Saharan Africa (Cook and Kirkpatrick, 1995:42).

In short, the rationales of privatization based on government or official explanations—including economic efficiency, market competition, growth expansion, financial balance, revenue generation, resource allocation, and so on—may have some validity in certain cases, especially in advanced capitalist nations. But in the developing world, beyond these formal rationales of privatization propounded by government sources and international agencies, there are many critical reasons behind privatization programs. These critical reasons not only include the global ideological transition and propagation based on neoliberal beliefs, they also include the relatively coercive means of imposing privatization and other related policies on developing countries as preconditions for receiving foreign loans. Underlying such ideological manipulation and policy imposition, however, there are major vested interests—including international agencies, consultancy firms, technical experts, political parties, top bureaucracies, business elites, foreign investors, and transnational corporations—endorsing, advocating, and gaining from the recent privatization programs adopted in developing countries. These critical reasons, often overlooked in the existing literature, should be taken into account in analyzing and understanding privatization.

## Adverse Impacts of Privatization in Developing Countries

Among the national and international policy circles, there is not only a dominant tendency to portray privatization as one of the most desirable policies and to present its objectives or rationales in favorable terms (discussed above), there is also an inclination to view its results or outcomes mostly as beneficial. Due to this current trend of privatization-biased rhetoric, this section examines more critical implications of privatization for various social groups and classes with special reference to developing countries. *First, in terms of internal economic implications,* the privatization period hardly saw any significant improvement in the developing world in terms of eradicating poverty, reducing unemployment, accelerating economic growth, overcoming trade imbalance, and reducing external debt and dependence. During the 1980s, a decade when privatization programs were massively launched in many developing countries, the situation of poverty worsened in most cases (Durning, 1990:139; Vivian, 1994:2). In Africa, the number of people in absolute poverty increased from 270 million in 1986 to 335 million in 1990; in Latin America, the percentage of population in poverty rose from 41 percent in 1980 to 62 percent in 1992; and in Asia, the

percentage of people living below the poverty line remained high even in the high-performing economies, such as 39 percent in Indonesia, 27 percent in Malaysia, 58 percent in the Philippines, 16 percent in South Korea, and 30 percent in Thailand (see Dixon, 1995:202; Sharma, 1994:202; Veltmeyer, 1993:2084;).

This increased levels of poverty in developing countries has not been isolated from their worsening condition of unemployment and declining wages caused by the privatization-related issues such as retrenchment of public employees, withdrawal of minimum wage legislation, price increases caused by market competition, and subsidy and welfare cuts (Veltmeyer, 1993:2084). Ramanadham (1993) mentions that the privatized enterprises are more likely to retrench workers, introduce capital-intensive technology, involve foreign investors demanding lower wages and lay-offs, and thus worsen unemployment. In the case of Africa, between the periods 1970-80 and 1980-91, the annual average growth rate of employee earnings declined from 2.7 to 0.1 percent in South Africa, 4.1 to -2.3 percent in Egypt, and 1.6 to -0.3 percent in Zimbabwe, although it improved slightly in Kenya and Zambia (UNDP, 1995:176-177). In Latin America, the situation of unemployment worsened,[3] and in terms of the annual growth rate of employee earnings, between the periods 1970-80 and 1980-91, there was a decline from 8.1 to -1.0 percent in Chile, 3.3 to -1.7 percent in Equador, 1.2 to -3.0 percent in Mexico, 4.9 to -5.3 percent in Venezuela, 5.0 t0 -2.4 percent in Brazil, and 0.0 to -6.4 percent in Bolivia (ibid.).

Similarly, during the privatization period, the figures related economic growth rates in developing countries have not been hopeful—in many cases, the average growth rates under the state-centered policy option (during the 1960s and 1970s) were considerably higher than the growth rates achieved under the current market-centered approach.[4] Even the high-performing Asian countries such as South Korea, Taiwan, Singapore, Hong Kong, Thailand, Indonesia, Malaysia, and the Philippines, which had unprecedented economic growth during the 1970s, experienced economic downturn under structural adjustment programs (such as deregulation and privation) introduced since the mid-1980s (Bhalla, 1993:294; Udayagiri, 1994:215). The situation in Africa got much worse during the privatization period—the average annual growth rate of real GDP decreased from 6.2 percent in 1970-80 to 2.4 percent in 1980-85 to 1.3 percent in 1990-93 (ECLAC, 1995:34). In Latin America, the average GDP growth rates declined in most countries except Chile.[5] The situation of external debt and dependence has also worsened for most developing countries during the privatization period since the early 1980s.[6] In addition, privatization has failed to improve the balance of payment situation for most developing countries[7] except few cases such as Brazil, South Korea, Nigeria, and Singapore. Between 1987 and 1993, while the overall trade balance increased from -$94.26 billion to $22.44 billion for developed nations, it declined from $24.62 billion to -$98.36 billion for developing countries (United Nations, 1996:94).

*Second*, *with regard to adverse social implications,* privatization is likely to worsen the situation of social inequality in developing countries—it is because when the profit-making state enterprises are privatized, the incomes usually shift from the public exchequer representing all tax-paying citizens to

few affluent investors, and thus creating adverse distributional effect (Ramanadham, 1993). Based on the prescriptions of the World Bank and the IMF, it has become a common trend in various countries to reduce social benefits and credit facilities for the poor, which has caused an increase in poverty (discussed above), and expanded the income gaps between have and have-nots (Huston, 1995:6). Thus, in Malaysia, privatization has allegedly been used to enhance the wealth of certain groups associated with the government; in Sri Lanka, it is the high-ranking officials in cities who have made their fortunes by possessing shares of privatized enterprises at extremely low prices; In India, market-biased policies have benefited mainly the richest 10 to 15 percent of the population; in Chile, under such policies during 1979-89, the income of the richest 10 percent households increased while the income of the poorest 40 percent decreased; and in South Africa, the legacy of apartheid is being sustained through privatization that tends to perpetuate the economic power held by a certain section of the white population (Clarke, 1994a; Cook and Kirkpatrick, 1995; Ghosh, 1991; Kelegama, 1995; Veltmeyer, 1993). The figures available for the privatization period of 1980s, show the existence of serious economic inequality in countries such as Nicaragua, Honduras, Guatemala, Peru, Panama, Brazil, Chile, Mexico, Indonesia, Thailand, Malaysia, South Korea, India, and the Philippines (see World Bank, 1995a:220-221).

Another critical social implication of privatization is the erosion of citizens' entitlements or rights to basic social services such as education, health, transport, and housing; and the diversion of resources allocated for these services to other provisions such as tax reliefs and business subsidies that benefit the business sector (see Martin, 1993:2). As the contemporary regimes have reduced or eliminated food subsidies and social welfare programs under the pressure of international agencies, the living standards of poorer classes have fallen in many countries in South Asia, Latin America, and Sub-Saharan Africa (Sarkar, 1991:2308; Smith, 1991:33). After almost a decade of market-oriented reforms, it has been observed that in 1990, the public expenditure on health as a percentage of GDP was less than 3 percent in Kenya, South Korea, Zambia, Nigeria, Ethiopia, and Mali; less than 2 percent in Malaysia, Pakistan, Sri Lanka, Bangladesh, India, Thailand, Yemen, Uganda, and Ghana; and about 1 or less than 1 percent in Egypt, Indonesia, the Philippines, Thailand, Morocco, Zaire, Sudan, and Somalia (see UNDP, 1995:170-171). In the education sector, between 1985 to 1991, the government expenditure (as a percentage of GDP) declined from 5.2 to 4.7 percent in Panama, 3.1 to 2.7 percent in Colombia, 3.9 to 2.7 percent in Ecuador, 2.8 to 2.0 percent in Peru, and 3.0 to 2.0 percent in Venezuela (United Nations, 1994:222-224). Similarly, adjustments in social spending in the 1980s adversely affected the housing sector in 14 out of 22 Latin American cases (Cominetti, 1994:55-57). However, due to the relatively weaker economic performance in Africa, the recent expenditure cuts have harsher impacts on public health and education, especially in poorer African countries (Sharma, 1994:202).

*Finally, in terms of critical political implications* of privatization, there has been a concern that this market-biased policy may be antithetical to democratic institutions due to the diminishing public support for such a policy

that has negative effects on various state-run social programs (Przeworski, 1993:132). Citing examples such as Brazil, Peru, Argentina, and Bolivia, it has been pointed out by Pereira, Maravall, and Przeworski (1993:199) that the pursuit of economic efficiency through neoliberal policies (including privatization and deregulation) may worsen poverty, reinforce political discontent, and debilitate democracy. In fact, these neoliberal policies have usually been initiated from the above and guided by "decretism" (presidential decrees) and "mandatism" (ruling party's decision without consulting opposition parties), which may have compromised the basic prerequisites of democracy such as popular debate on state policies, care for public dissatisfaction with policy outcomes, dialogue with opposition parties, and so on (ibid., pp.9, 208). In addition, since privatization policy in developing countries has often been prescribed or imposed by international agencies such as the World Bank and IMF, the people in these countries have very limited power to make these outside agencies answerable to them for the final policy outcomes (Martin, 1993:1).

Another political implication of privatization has been the increased power of "organized capital" while diminishing the power of the working class (especially the trade unions) as a political force—especially due to the transfer of resources and decisions from the public sector to the private sector, and the portrayal of labor unions as the causes of disorder in market operations (Clements, 1994:90-99; Rentoul, 1987:2). During the postwar and postcolonial periods, the working class acquired certain political rights to influence state policies in their favor, which has eroded under privatization due to the transfer of assets and policy measures to business enterprises. According to Dobek (1993:36), in the case of the U.K., privatization became an instrument to weaken trade unions and win election by the Conservative party. Similarly, in Latin America, the legislations related to market-centered reforms were introduced by various governments to weaken the power of trade unions (Sainz and Calcagno, 1992:19). In addition, the overwhelming concern of government's privatization policy for economic efficiency, may compromise its other important goals such as ethnic and gender equalities in society, and may worsen the problems faced by women and minorities (Clements, 1994:91; Peters, 1996:108). In other words, the context of privatization dominated by the culture of efficiency, is likely to marginalize concerns such as the political and administrative representation of weaker race and gender in developing countries.

Moreover, the aforementioned adverse impacts of privatization—including the growing unemployment and poverty, declining living standards, and diminishing working-class power—are likely to exacerbate the problem of political violence and instability, which is a common problem in the developing world. In many countries, market-biased reforms under the stabilization and structural adjustment programs, which led to the abolition of food subsidies, cutbacks in social services, and redistribution of

income against the poor, have intensified widespread riots and violence (see Kurzinger-Wiemann, 1994:184; Sarkar, 1991:2309). For instance, following the market-led reforms in the 1980s, the number of strikes increased considerably in countries such as Brazil, Chile, and Venezuela (Heredia, 1993:276; Pereira, 1993:43).

The above findings regarding some of the recent economic trends related to the level of poverty, unemployment, income, growth rate, and external debt, go against the existing market-biased studies on privatization that tend to present an overwhelmingly positive economic picture based on few isolated cases that hardly represent the economic realities in the developing world as a whole. Although the concurrence of the above negative economic trends with the adoption of privatization programs may not necessarily mean that there are causal relationships between the two, at least such a concurrence implies that the current economic indicators are not in favor of making generalization that privatization has been economically successful in developing countries. However, with regard to adverse social and political implications, it can be safely concluded from the above analysis that the principles and processes of privatization are likely to worsen the condition of social inequality, cause the erosion of citizens' entitlements, and marginalize the concerns related to ethnic and gender issues.

## Concluding Observations

In this article, it has been discussed that beyond the officially pronounced rationales, there are various critical reasons behind the adoption of privatization in developing countries during the recent two decades. These critical factors that influenced many regimes in developing countries to adopt this policy, have often been overlooked by the contemporary policy advocates. It has also been pointed out that the oft-cited economic success stories presented by market-biased governments and international agencies are not empirically well grounded, and these isolated cases cannot be considered a common picture for all developing countries. In fact, as examined above, most developing countries have experienced adverse economic, social, and political outcomes during the period of privatization since the early 1980s. In this regard, it is necessary to contemplate some alternatives policy measures to address such critical conditions.

*First,* given the aforementioned gap between the rhetoric and reality related to privatization, it is essential to reveal and transcend its "ideological" tendency, and reinstate its status as a "rational" policy (Haque, 1999). This ideological nature of the policy can be detected in the interpretations that privatization implies a "revolt of the rich against the poor, and represents a "great illusion" in which freedom is undermined (Rentoul, 1987:35; Clements, 1994:102). In this regard, one needs to undertake a more critical approach in

order to reexamine some of the major claims made by the privatization advocates—that the private sector is more efficient than the public sector, that the process of privatization increases market competition, and that the divestment of public-sector stocks increases people's share of ownership (see Clements, 1994; Haque, 1996). However, a closer and more critical scrutiny of experiences in various countries suggests conversely that there is no guarantee that private enterprises are always more efficient, that many of the privatized enterprises were already profit-making before they were divested, and that the very cause for creating public enterprises was market failure rather than government failure (Pitelis and Clarke, 1993:5; Rentoul, 1987:25). Similarly, privatization may not enhance competition, because often the state enterprises are sold as intact monopolies, and because of the increasing concentration and merger within the private sector itself (Clements, 1994; Rentoul, 1987). With regard to people's ownership of privatized shares, the experiences of advanced capitalist nations (e.g., Japan, the U.K., and the U.S.) demonstrate that it is usually the affluent class and large corporations that have been the main beneficiaries from such a venture (Clements, 1994; Okumura, 1994; Rentoul, 1987).

*Second,* beyond the adoption of a critical approach to privatization, there is need for searching alternatives. One relatively neglected issue is the potential transformation of public sector enterprises for improving their performance before they are privatized. Although fundamental reforms in the public sector might overcome the problems of inefficiency and mismanagement, very few attempts have been made in this regard (Whitfield, 1992:4). It is possible to discover various means to make the public sector more efficient and responsive without sacrificing its framework of public accountability and ethical commitment (Clarke, 1994a:20). An important alternative to restructure the public sector is to decentralize its activities and responsibilities to local institutions, grassroots organizations, and self-help groups, which might reduce inefficiency and mismanagement associated with the central government, and diminish the dominance government agencies and private corporations over societies and peoples in developing countries. In adopting any public sector reform, one must not forget the reality of such state and market domination in society. In this regard, Peters (1996: 89) suggests that "although efficiency is important, the protection of the basic rights of citizens is even more important for a functioning democracy."

*Finally,* in this age of anti-state and marker-biased atmosphere, there is a greater need to objectively analyze and understand the crucial role played by the state. One should remember some of the achievements made by the welfare state in eradicating poverty, unemployment, homelessness, disease, and illiteracy in advanced industrial countries (Clarke, 1994b:400). On the other

hand, during the period 1950-80, many developing countries practicing state planning, experienced much higher rates of economic growth than those in developed nations following market principles (Bello, Cunningham, and Rau, 1994:7). The state played a critical role in promoting economic growth and deepening industrialization, especially in some of the highest achievers in Asia such as Singapore, South Korea, and Taiwan (Chee, 1992:62). Thus, a more cautious approach has to be taken in assessing the role of the state, especially when it has become a common trend among academics and practitioners to demonize the state and glorify the market.[8]

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## Notes

[1]For instance, the conference organized by the USAID in 1986 was basically an international strategy to promote privatization—the conference was attended by 500 representatives from 46 countries (mostly from the developing world), and

the speakers included merchant bankers, international agency personnel, and management consultants (Martin, 1993:63).

[2]Among Asian countries, in Malaysia, the undervaluation of the share prices of Malaysian Airlines System, Malaysian International Shipping Corporation Bhd, Telekom Bhd, Otomobil Nasional, etc., led a loss of government revenue amounting to $3.73 billion (Salleh, 1995:139). In the Philippines, the government sold non-performing assets worth 28.5 billion pesos, but only 30-50 percent of the transfer value was recovered (Halligan and Turner, 1995:123). In India, the underpricing of public enterprise shares caused an average of 256 percent loss in government revenues from such transactions (Mani, 1995:201). In Sri Lanka, in many instances, about 10 percent (in some cases nearly 50 percent) of shares of privatized state enterprises has been given to their employees free of charge (Kelegama, 1995:144).

[3]For example, the percentage of unemployment increased from 5.3 percent (1985) to 7.3 percent (1989) in Argentina, 18 percent (1985) to 19 percent (1990) in Bolivia, 3.4 percent (1985) to 3.7 percent (1990) in Brazil, 3.2 percent (1985) to 14 percent (1991) in Nicaragua, 12.3 percent (1985) to 13.8 percent (1994) in Panama, and 5.3 percent (1985) to 8.9 percent (1994) in Peru, although the situation improved somewhat in Chile, Ecuador, El Salvador, Mexico, and Uruguay (ILO, 1995:415-420).

[4]Between the periods 1965-80 and 1980-91, the average annual growth rate of GNP per capita declined from 1.7 to -1.5 percent in Argentina, 1.7 to -2.0 percent in Bolivia, 9.9 to 5.6 percent in Botswana, 6.3 to 0.5 percent in Brazil, 3.3 to 0.7 percent in Costa Rica, 2.8 to 1.9 percent in Egypt, 2.3 to -0.1 percent in Gambia, 3.0 to -1.8 percent in Guatemala, 5.2 to 3.9 percent in Indonesia, 3.1 to 0.3 percent in Kenya, 3.2 to 0.1 percent in Malawi, 4.7 to 2.9 percent in Malaysia, 3.6 to -0.5 percent in Mexico, 4.2 to -2.3 percent in Nigeria, 3.2 to -1.2 percent in the Philippines, 0.6 to -3.4 percent in Saudi Arabia, 4.7 to 1.1 percent in Tunisia, and 2.3 to -1.3 percent in Venezuela (UNDP, 1994:182-183).

[5]For instance, between the periods 1970-80 and 1980-93, the average GDP growth rate declined from 1.2 to -1.8 percent in Nicaragua, 5.8 to 2.9 percent in Honduras, 4.5 to 1.1 percent in Bolivia, 5.8 to 1.7 percent in Guatemala, 9.5 to 2.4 percent in Ecuador, 6.5 to 2.8 percent in Dominican Republic, 4.2 to 1.6 percent in El Salvador, 5.4 to 3.7 percent in Colombia, 3.5 to -0.5 percent in Peru, 8.5 to 2.8 percent in Paraguay, 5.7 to 3.6 percent in Costa Rica, 4.4 to 1.3 percent in Panama, 3.5 to 2.1 percent in Venezuela, 8.1 to 2.1 percent in Brazil, 6.3 to 1.6 percent in Mexico, 3.1 to 1.3 percent in Uruguay, and 2.5 to 0.8 percent in Argentina (World Bank, 1995a:164-165).

[6]Among the large debtor nations, between 1980 and 1993, the total external debt increased from $20.94 billion to $89.53 billion in the case of Indonesia, $8.29 billion to $45.81 billion Thailand, $29.48 billion to $47.20 billion South Korea,

$20.58 billion to $91.78 billion India, $9.92 billion to $26.05 billion Pakistan, $17.41 billion to $35.26 billion the Philippines, $8.93 billion to $32.53 billion Nigeria, $7.44 billion to $19.14 billion Cote d'Ivoire, $20.91 billion to $40.62 billion Egypt, $9.71 billion to $21.43 billion Morocco, $2.19 billion to $10.44 billion Nicaragua, $6.94 billion to $17.17 billion Colombia, $9.38 billion to $20.32 billion Peru, $29.34 billion to $37.46 billion Venezuela, $71.01 billion to $132.74 billion Brazil, $12.08 billion to $20.63 billion Chile, $57.37 billion to $118.02 billion Mexico, and $27.15 billion to $74.47 billion Argentina (see World Bank, 1995a:200-201).

[7]Between 1970 and 1993, the balance of payment worsened from -$376 million to -$2,298 million in the case of Indonesia, -$296 million to -$6,959 million Thailand, $2 million to -$2,100 million Malaysia, -$705 million to -$3,688 million Pakistan, -$138 million to -$3,590 million Philippines, -$37 million to -$935 million Tanzania, $107 million to -$471 million Zambia, -$76 million to -$828 million Ghana, -$73 million to -1,402 million Cote d'Ivoire, -$43 million to -$853 million Nicaragua, $2 million to -$693 million Bolivia, -$8 million to -$689 million Guatemala, -$333 million to -$2,220 million Colombia, $146 million to -$2,217 million Peru, -$98 million to -$2,216 million Venezuela, -$95 million to -$2,418 million Chile, -$1,098 million to -$23,393 million Mexico, and -$160 million to -$7,363 million Argentina (World Bank, 1995a:194-195).

[8]In this regard, Massey (1993:126) makes the following point: "At the end of the day, the freedom enjoyed by the private sector, indeed the private sector itself, is contingent upon a strong state enforcing the preconditions necessary for a free market."

Privatization in developing countries: Formal causes, critical reasons and adverse impacts. In A. Farazmand (Ed.), Privatization or public enterprise reform? (pp. 217â€“238). Westport: Greenwood Press. Google Scholar. Filipovic, A. (2005). Impact of privatization on economic growth. Issues in Political Economy, Volume 14, August 2005. Henig, J. R. (1989).Â  The Impact of Privatization in Cote dâ€™Ivoire. Privatization Committee Report. Boston Institute for Developing Economies, Boston, Mass. Kayizzi-Mugerwa, K. S. (2002). Privatization in Subâ€"Saharan Africa: On Factors Affecting Implementation. The situation in developing countries, LDCs, LLDCs and SIDS in particular, is of special concern. The spreading of the virus to these countries will further weaken an already fragile macroeconomic picture, where debt accumulation has outpaced the growth of income even before the crisis. In addition, in some of these countries, the required hygiene and sanitation standards and social distancing measures are hard to implement.Â  School closures have a wide range of adverse impacts on children and young people, including interrupted learning and forgone human interaction, which is essential to social and behavioural development. When schools close, many children lose the meals provided at school and a zone of safety. This impact on their nutrition. While migration could have adverse impacts on some countries and on some migrants, the overall policy stance should not undermine the rationale of, or resist the pressures for, greater human mobility. Finally, it is also worth remembering that, while brain drain may aggravate the shortage of skilled workers in some sectors in some countries, emigration may not be the fundamental reason for actual or anticipated shortages in the first place. Thus, tampering with mobility may not even start to address the structural problems facing some developing countries. Increasing wages, improving working c