RIVATIZATION has taken different techniques in different countries. While the forms vary, the goals and objectives remain unquestionably the same. Environments may differ, depending upon stages of economic growth and specific characteristics of economics, but the purpose of privatization is essentially the promotion of higher economic efficiency and competition.

The superiority of market force in allocation and use of resources and for catering to the concrete needs of the society is acknowledge everywhere in the to-day's world. Heavy drag of Public Enterprises" or "Nationalised Units" on the public exchequer and their importance to generate economic surpluses have prompted privatization moves on a global scale. Even the erstwhile "Socialist Economics" are now fast turning towards privatization as the means for efficiency, improved production performance, management skill formation, and the technological transformation. The pace of economic deregulation and de-control has indeed been the fastest one in East European economics.

Viewed in this context, privatization in Bangladesh cannot be viewed as an isolated process, having no linkage with the contemporary global economic situation. One has to look at it as a part of the international initiative.

The changed economic poltcy perspective in Bangladesh has an essential relevance to the unfolding economic situation in the world at large. What started in the early eighties as the transfer of nationalised

Privatization and Holding Company Operations

jute and textile mills to their units under the operation are tradeable on the floor of the former Bangladeshi owners later took the shape of selling exchange after the allotment of the same has been made. The off the enterprises and units, public offerings in the primary which were earlier taken over by the government in the capital market (meant for direct subscription by the ineuphoria of "Socialism" imvestors) have thus strengthmediately after the indepenened the operational base of dence, to the highest bidders. the secondary capital market This was the phase of disinwhich is the stock exchange vestment which was followed by "de-Nationalisation". And since the late eighties, a new form of privatisation-divest ment - has taken shape, lead-

A review of the holding company scheme and operations there under is certainly necessary at this stage. Thought four or five years time-period provides only alimited framework for any critical assessment about the

outcome of its operations, yet

it does, of course, offer sub-

stantive ground for an evalua

tion of the related course of

privatization in terms of its

stated goals and objectives.

view of the reported govern-

ment move under the forth-

coming Fourth Five Year plan

to give a new thrust of privati-

zation though the holding

company scheme to help over-

come the continuing stagnat

ing situation and the financial

arises here whether the basic

goals of privatization under the

holding company scheme have

been served in any meaningful

The question naturally

losses in the public sector.

This is an imperative need in

An Analysis

Public policies in developing economies need to help promote the necessary conditions for

economic growth. And the necessary elements here are savings and capital, educated people,

operational way through the units so divested. If the purposes have in essence been served then further moves under the same should indeed be accelerated. If the actual operations and the avowed goals reflect discrepancies or incongruities, then a sober reflection is needed to identify the causes of reasons thereof.

Discrepancies of incongruities, if any, in the course of actual operations of the hold-

entrepreneurs and organisation, technology and a well functioning state.

ing company scheme in rela-

tion to its stated objectives,

cannot however be viewed as

any irrevalence of privatisation

to the needs for improved and

optimum economic operations.

It only reflects some structural

flaws in the form or technique

As noted earlier, privatiza-

tion techniques can be varied

and flexible enough to adapt to

any kind of economy while

promoting efficiency, optimiz-

ing output, and generation

productive employment. That

is the reason that privatization

programmes are advancing in

When pursuing a privatiza-

all kinds of economic systems.

tion plan, it is first and fore-

of privatization.

Khurshid Alam most necessary to remember that privatization is a political process that has economic consequences, not the other way round. The means of privatization are extremely important.

> Transferring ownership to the investors at large for widening the base of industrial democracy or "People Capitalism" is of course a very useful strategy to promote the cause of democracy and equity.

Creating democracy of owner-

ship in terms of the asset sales

- the transfer of enterprises

from the government to the

private sector -is critical.

Elaborate strategies can be

evolved under appropriate

forms or techniques of privati-

zation to avoid any concentra-

tion of wealth in a relatively

few hands as a result of di-

vestment operation. In the sale

of securities, one can make

sure that individual groups -

clients and customers of the

related units and enterprises.

workers and employees or any

other groups are allocated

portions of the sale.

Restrictions can also be en-

forced so that no individual or

no institution can hold more than a fixed percentage of the shares of a company. There are indeed a variety of ways to make the initial public offer-

The essential purpose of privatization is to make the socicty more competitive. This gain can help create more investment, more wealth and ultimately more jobs and employment in the overall economy. Privatization can create dynamic activities and opportunities. It is important for government to set regulations, designed to ensure competition for the newly privatized

entity so that is does not be-

come a monopoly and allow in-

have been quite strong in the

industrial countries over the

recent years. Hardly a week or

a month has gone by without

some evidence of sale of state

enterprises by such countries

as France, UK, Italy, Sweden,

Federal Republic of Germany.

It has also happened in Japan.

ture is for reinvigorating a

poorly run state enterprise.

Privatization is aimed at

bringing with it more dynamic

widely is one of the basic pur-

Spreading ownership more

management.

The motivation for dives-

The divestiture phenomena

efficiency to continue.

equity sales to the general population. Once the political decision is made for divestments, key questions revolve then around financial matters for getting the correct valuation of assets, putting the assets up for sale at the right price and developing the facilities of the capital market. Besides the question how the divesture is carried, out, the issue relating to how the equity ownership can be broad-based also assumes a critical importance particularly in the developing economies. This is more so because capital markets in such economies are usually thin and potential buy ers are few in number.

Economic policy environ-

poses of privatization through

ment is also a related factor for consideration while making an assessment about the operation of the privatization programme. In the industrial countries, a state enterprise that is privatized finds "a home that is well-defined, a legal system i. e. well-structured, many other private firms already in existence, a reasonably competitive situation controls over prices and input that are not excessive and relatively open access to the international economy". But the situation in the developing countries is not necessarily the same. Here it is more likely that a restrictive legal framework exists for the companies to operate in. This includes laws that govern who can be hired and fired, a high degree of protection especially in the industrial sector, constraints

relating to access to credit policies, inflexibility of wages and prices structure etc. This kind of environment obviously creates special problems.

It is almost impossible for the privatization programme to take firm roots along its avowed policy goals and objectives if political leaders and public officials are still mired in the old ways of thinking. Public officials, mostly bound by traditional concepts of government that are insufficiently sensitive to the need for economy and responsiveness, must change their attitude. A new concept, combining equity in broad-basing capital ownership, dynamism and vigour in management practices, and more competitive and more congenial environment, needs here to be articulated politically first of all.

One must note here that public policies in developing economies need to help promote the necessary conditions for economic growth. And the necessary elements here are saving and capital, cducated people, entrepreneurs and organisation, technology and a well functioning state. Without these key clements fostered and promoted, it is certainly not possible for any economic programme including privatization to attain the desired degree of success.

Khurshid Alam in the President of Bangladesh Centre for Economic Growth and former Chairman, Dhaka Stock Exchange Ltd.

Oil Sheiks Must Keep the Barrels Rolling

ing to the sale of 49% of the

equity of the public enter-

prises to the private sector.

This is the holding company

operation, a new variety of pri-

Under this operation, about

ten units, belonging to various

sector corporations, have been

divested. The general public

have subscribed 34% of equity

capital of the related units fol-

lowing the public offering of

the same. The employees have,

in general, a reserved quota of

15% equity ownership in the

In most cases, this reserved

units under the holding com-

quota are yet to be subscribed

and there is apparently no

time frame for related sub-

scription thereof. The Sector

Corporations as the holding

companies of the divested

units still retain 51% of their

scheme, as the latest tech-

nique of privatization in

Bangladesh, has a direct bear-

ing on activities in the stock

exchange. The public issues,

i.e. stock and shares of the

The holding company

pany scheme.

equity capital.

The old debate about whether to sell more oil at lower prices or cut production and boost prices is about to be replayed at the Organisation of Petroleum-Exporting Countries (OPEC) meeting in Geneva. The new variable this time, reports Gemini News Service, is the effect of the Gulf War on Iraq and Kuwait, and the expected drop in production in the world's largest oil producer...the country they used to call the Soviet Union. by Mohammed Aslam

producers are to play a decisive role once again in determining pricing and production levels in the Organisation of Petroleum-Exporting Countries (OPEC). And since they want prices to remain stable to pay off their Gulf War debts, that could mean no oil bargains this winter.

iraq and Kuwait are still out of the picture and the uncertainty gripping the Soviet Union — the world's largest producer, though not an OPEC member - means that other countries in the 13-nation organisation hold greater responsibility.

In the face of higher demand for oil during the last three months of this year, the Gulf states are being pressed

Armas, of Venezuela, says Iraq and Kuwait may remain out of OPEC's output accords for another year.

The remaining OPEC members (Algeria, Ecuador, Gabon, Indonesia, Iran, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, Venezuela), particularly the Gulf producers, have been pumping more oil than usual to meet the shortfall of four million barrels a day caused by the Gulf War.

Meeting demand was easy enough in the middle of the year, but with winter coming on there may be a need for changes in pricing policy. Since the Arab Gulf producers - and Iran - have the greatest surplus capacity, meeting extra demand will fall to them.

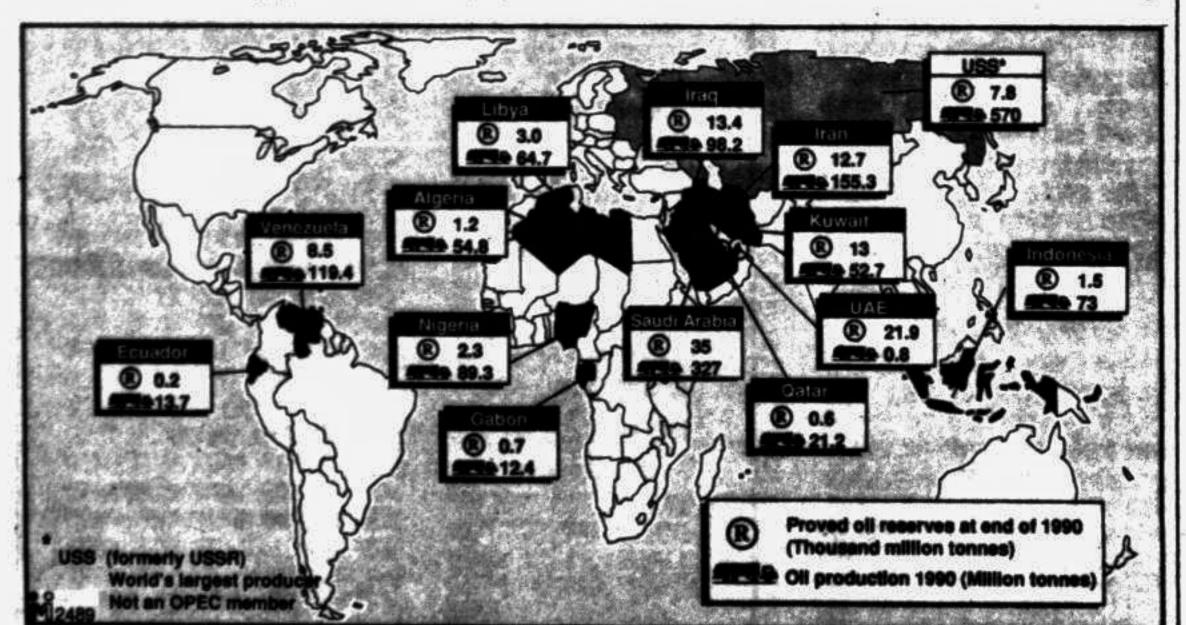
Any producer should wel-

pump more.

In August, the group's crude oil production soared to 23.69 million barrels a day - a 17month high - as exporters geared up for winter demand. World demand is projected to be around 23.7 million barrels a day in the last three months of 1991 and 25 million barrels in the New Year.

This means OPEC members will have to maintain at least their August production levels and produce more if they want to replenish their stocks in preparation for the New Year.

The OPEC reference price now is \$21 a barrel and most member states — particularly the Arab Gulf countries - will want to keep prices pegged at that level in order to meet their cash crunch following



to keep the international oil market stable, so the focus when OPEC meets in Geneva will be on pricing policy and whether to boost production.

Ever since OPEC was formed in 1960 as a forum for discussion among major oil producers, pricing and production have been the theme of almost every conference.

The difference with the agenda now is that the OPEC meeting is the first since the Gulf War at which producers will be able to discuss increased demand for oil as the northern hemisphere heads into winter and with three important exporters -Iraq, Kuwait and the Soviet Union - probably unable to meet their commitments.

Iraq is allowed by the United Nations to sell only limited quantities of oil to cover emergency humanitarian needs. Kuwait has remained a token exporter, although nearly half the 732 wells set ablaze during the war have now been capped.

OPEC chief Celestino

come the prospect of selling more oil, but the complicated process also means keeping a delicate balance between supply and demand to keep control of prices.

This meeting will no doubt see the usual tussle between members who want to lower prices and increase production - for quick cash - and those who prefer to boost prices and limit production.

Iran is reported to favour production at low levels to raise prices. Saudi Arabia, on the other hand, has consistently opposed high prices so as to maintain OPEC's share of the world market and prevent hardship in developing countries. Another reason for sticking to moderate prices is to cool the drive for alternative energy source.

At its last meeting, on June 5, the 13 oil ministers agreed to stick to a 22.3 million barrels per day output in the third quarter of the year. That represented a compromise between those wanting production cuts and those pushing to the Gulf War. The six Arab Gulf Co-operation Council states - Saudi Arabia, Kuwait, United Arab Emirates (UAE), Bahrain, Qatar and Oman - hold over half the world's proven crude oil reserves of 996 billion barrels and in April produced nearly half OPEC output (although Oman and Bahrain are not

OPEC members). Since August 1990, when the war pushed prices to \$40 a barrel and earned producers tens of extra oil billions, prices have fallen back to around \$19 a barrel.

That cut the trade balance of OPEC states from about \$72 billion in 1990 to a forecast \$46 billion in 1991 — against a \$171 billion surplus in 1980.

The balancing act continues in Geneva, but this time there are new weights not only on the scales, but also on the minds of the OPEC ministers - GEMINI NEWS

Mohammed Aslam is on the staff of the Khaleej Times, Dubai, and was formerly with the Times of India.

Japanese-Brazilians Flee Hyper-Inflation

T P to half a million Brazilians of Japanese origin have left for Japan in the past five years, fed up with the deteriorating economic situation and high inflation.

The ancestors of these Japanese came to Brazil at the end of last century to work on the coffee plantations or in commerce, pushed out of Japan by the harsh economic conditions of that time.

They have made an enormous contribution to the improvement of living conditions in Brazil, and their leaving is symptomatic of the deep crisis which has penetrated Brazilian

Go to any university campus here and you will be surprised at the number of students of Japanese origin, far more than the proportion of the racial group in society as a whole would indicate.

Go to the wholesale fruit and vegetable markets and you will notice that the people delivering the food from the farms are mainly of Japanese origin. Japanese market gardeners grow almost all the fruit and vegetables produced in Brazil and they have broadened a diet which used to consist of rice, beans and bananas out of all recognition. Brazilian fruit is now exported world-

If you visit a doctor or go into hospital, the chances of being looked after by Japanese doctor or nurse are again very high.

There is a large oriental quarter in Sao Paulo, packed with shops and restaurants, but these days the old dynamism has gone and the shopfronts and streets are as tired looking as the rest of Brazil.

Almost on the day that President Fernando Collor, 47, celebrated his first year in of fice, figures detailing Brazil's economic performance last year were revealed. 4.6 per cent less was produced in 1990 as in 1989, while industry made 8.1 per cent fewer

More than a million jobs have disappeared in the past year and with the population growing by three million a ear, the average Brazilian now had 6.5 per cent less to spend than in 1989.

Not every Brazilian has been equally hard hit by the economic difficulties of the past decade. Statistics show that the richest 10 per cent are 30 per cent better off now than a decade ago, the poorest half are 10 per cent worse off.

The economic textbooks tell you that inflation always favours the rich, who can make their capital grow fast by taking advantage of opportunities to speculate, while it hurts the poor, who live from hand to mouth and have to pay whatever prices are asked.

An immensely powerful lobby has come into existence over the past 20 years which knows very well how to turn inflation to its own advantage and it has gradually become powerful enough to sabotage every attempt to bring it under control.

Immediately after taking of

The Brazilian Government has just announced that its ambassador to Washington, Marcilio Marques Moreira, a former banker, is to become economy minister. His job will be to enable Brazil to escape from the current price freeze without an explosion of inflation. As it is, many citizens are escaping from Brazil itself, fleeing from inflation and a poor economic performance. Among them, reports Gemini News Service, are hundreds of thousands of Japanese-Brazilians. by Patrick Knight

fice a year ago, Collor took what seemed to be the most drastic action possible in the effort to halt inflation. Bank and saving deposits of more than about \$1,000 were confiscated for 18 months. The idea was that by cutting off the oxygen sustaining the financial markets, which gave speculators a return of up to 10 per cent a month, inflation would collapse like a burst balloon.

Although the state sector was the main borrower on the financial markets, the government would be able to use the confiscated money to finance itself while it put its house in order. But the calculations reckoned without the delaying

power of the public sector. Pampered for as long as anybody can remember and with jobs used as a bait for votes by politicians, the public sector has long been living far beyond its means.

Things were made worse by the injections of foreign capital which entered the country in the 1970s. Civil servants and executives siphoned off much of the money to pay themselves far more than their equivalents abroad, while perks doubled or tripled their

An acquaintance in the telephone company who has a chauffeur driven car, owns

several flats and stays at the T AVING made a global success out of the L L obscure Chinese gooseberry by changing its name to ktwifruit, New Zealanders now face a hard task to keep their

share of the world market. After the kiwifruit industry's meteoric growth over the last two decades, many New Zealand growers are finding it increasingly difficult to make a good income from the furry

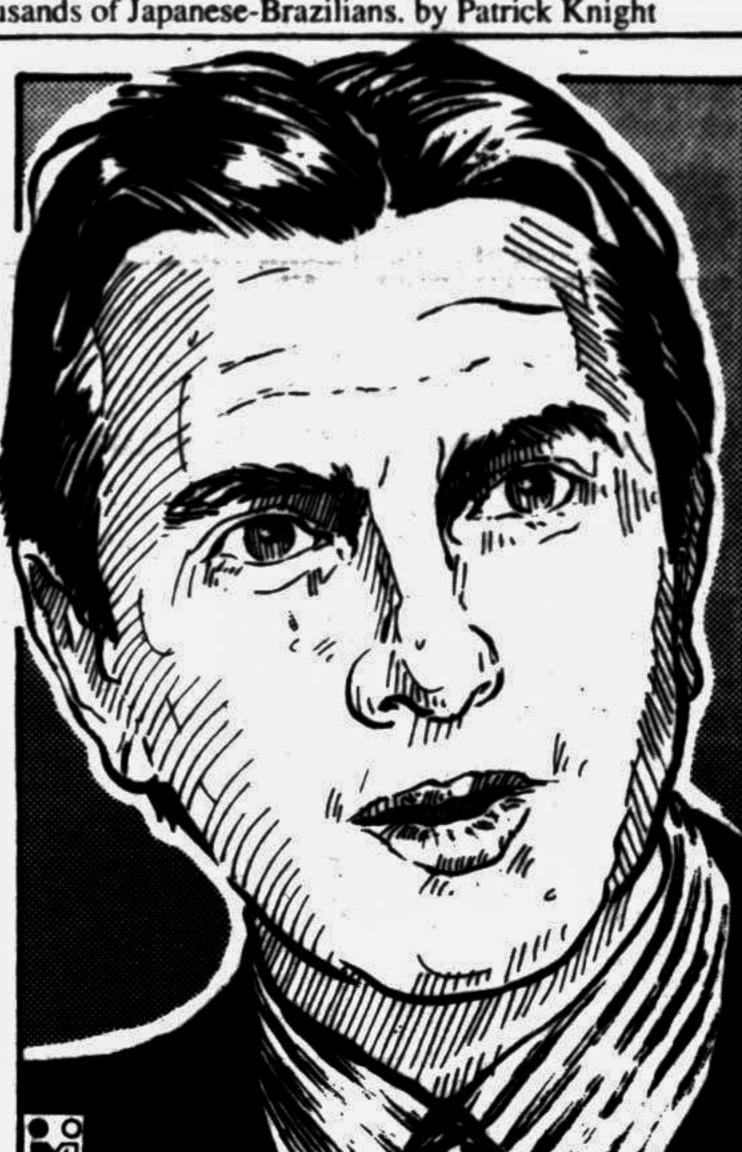
brown fruit with green flesh. The Kiwifruit Marketing Board says there has been a drastic drop of about 65 per cent in retail prices in all markets over the last ten years. And the New Zealand industry cannot afford to see these erode further.

The strength of the New Zealand kiwifruit industry worth about NZ\$700 million (US\$400 million) — is being sharply affected by increased competition, particularly from Chile and Italy.

First brought to New Zealand from China in the early 1900s, the fruit was originally called Chinese gooseberry. Twenty years ago the name was changed to kiwifruit, after New Zealand's flightless bird, the kiwi.

It was launched on the world market in a massive promotion campaign. New Zealand spent seven to eight times more on promotion than all other producer countries did and all benefitted from that, says Bruce Honeybone, chairman of the Kiwifruit

Marketing Board. The campaign was a great



Kiwifruit: NZ Boom is Over

by Derek Round

success for New Zealand. New Zealand was the biggest producer of kiwifruit in 1985, contributing about 58 per cent of the 190,000-tonne world production.

But the success also attracted other countries to become kiwifruit growers. Over the last ten years, New Zealand's share of global production has declined from virtually 100 per cent in the early 1980s to 36 per cent in 1990, and is likely to drop to about 25 per cent.

Italy, which produces 35 per cent of the world's kiwifruit crop, is expected to produce 40 per cent by 1995. It has boosted production by 75 per cent to over 270,000 tonnes, compared with New Zcaland's 280,000 tonnes.

Chile is likely to be selling 40 to 50 million trays of kiwifruit on world markets in two years' time. There have also been significant increases and the United States.

in production in Japan, France New Zealand's Kiwifruit Marketing Board, which has the sole right to export to all countries except Australia, has

indicated the 1991 crop

should earn growers about NZ\$6 (US\$3.40) a tray. But growers say they expect only about NZ\$5 (US\$2.85), barely

covering production costs. This year the Kiwifruit Marketing Board is spending NZ\$30 million (US\$17 million) on promotion, with individual fruits carrying a sticker with "the world's finest" logo on it. The Board believes it is vital New Zealand gets premium prices for the fruit to give growers an adequate re-

Last year the Kiwifruit Marketing Board sold over 33 million trays of kiwifruit in Europe, its biggest market which takes over half the export crop. The Board says it is continuing to increase sales and expand markets, especially in Taiwan, South Korea, Hong Kong, Singapore and the Middle East.

"This marketing effort is only dampened by the high tariffs and import duties into Taiwan and Korea and the high cost of containerised shipping," says Murray Higgs, the Board's chief executive.

Japan remains the largest single market, taking about 16 that his equivalent in India rides around on a bicycle. The "Collor Plan" would only work if the public sector's

best hotels, was amazed to find

appetite for money could be curbed. But it has proved far more difficult than Collor anticipated to force public sector companies to knuckle under.

While the public sector has prove as difficult as a loaded supertanker to change direction, speculators have found all sorts of loopholes in the freeze. Half the frozen money has been released by one means or another, which meant that by the end of last year, inflation was back up to almost 10 per cent a month

In a desperate attempt to hold it, the economic team did what it vowed it never would impose a new price and wages freeze. But this, the seventh or eighth such freeze in five years is not working and a return to hyper-inflation in predicted.

Many economists estimate that it will take at least five more years of increasingly tough medicine for Brazil's economy to become stable enough to contemplate growth. Internal savings are at their lowest levels for many years, while foreign investors say they won't consider investing again until inflation is really under control.

But with powerful groups such as banks with a vested interest in keeping inflation high, prospects are gloomy. Meanwhile, Air Japan has added a fifth weekly flight to the Sao Paulo-Tokyo run, and is now considering a sixth.

- GEMINI NEWS

million trays in 1990, or a quarter of New Zealand's total kiwifruit exports.

Mr Higgs notes that "while New Zealand pioneered the kiwifruit industry, we are not exempt from facing protectionist measures in the coun-

tries in which we sell." New Zealand growers have been hit in the United States with an anti-dumping petition filed by California growers who claim New Zealand seriously hurt local producers by dumping fruit on the American market late last year at prices well

below the cost of production. The incident involved the diversion of a single shipment from Japan to California after it had been rejected by the Japanese while still on the wa-

But the Kiwifruit Marketing Board chairman, Mr Honeybone, denies New Zealand is trying to undermine local producers. The real villains in terms of escalating erop volumes and price cutting are the Italians and Chilcans," he says.

The feeling is that because of seasonal differences New Zealand complemented California growers and ensured the American consumer could enjoy ktwtfrutt all year round.

A Harvard University marketing expert, Professor Michael Porter, says time is running out for the New Zcaland kiwifruit industry. The long-term answer is to develop new varieties, he says.

-Depthnews Asia