

Innovation through privatization in the south Asian Economies

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ABSTRACT

Privatization is the strategic weapon for innovation and performance of both micro as well as macro level economies. There is a lot of debate, writings and papers on this issue for the Asian Economic Region, but, hardly a historiography based on data that portrait research questions on a specific period is found in the context of economic innovations through privatization. In this context, a few researchable questions answered based on data-based historiography would unfurl a new horizons of knowledge for innovations of economies through privatization. The authors in this paper attempted to explain the privatization as the grand strategies for innovation of macro economies based on data-based historiography and comparison.

Key words : Innovation, Tender, Auction, Public offer

Globalization is the contemporary economic as well as global environment has resulted in significant changes to individual nation in terms developmental strategies for economic upliftment undertaken by national governments (Nguyen, 2009) for innovation. Privatization is such strategy which resulted in significant changes to individual nations in terms of economic development. At macro level, privatization is considered as an economic innovation strategy that leads to structural change and economic performance. Privatization, in its broader sense, stands for policies to reduce the role of the state, assign larger role for the private sector pursuing the logic of the market in all economic decisions. Viewed in this perspective departure from the policy of reservations of certain economic activities for exclusive development by the public sector (de-reservation) implies a reduction in the relative position of the state sector and larger role for the private sector. The entry of new private sector enterprises could introduce competition where public sector enjoyed monopoly. The existing public enterprises (PSEs) would be forced to go commercial and respond to the market discipline. In 2006, 48 developing countries carried out total 249 numbers of privatization transactions valued at a record US\$104.9 billion (Kikari and Phipps, 2008). The data showed that privatization in its various forms continued in a broad range of countries and sectors, particularly infrastructure and banking. Initial public

offerings were prominent, especially in China, India, and Pakistan. In South Asian economy, ownership reform in public sector enterprises (PSEs) initiated since 1991 has as yet been quantitatively modest.

While the slow pace of the reform can be perceived as an opportunity, there is perhaps merit in carefully reviewing the policy in light of economic theory, and comparative experience (Nagaraj, 2005). State-owned enterprises in South Asian region are extremely inefficient due to rent seeking by politicians and workers, protection from competitive forces, and the absence of market-based incentives for workers. As a result, they are a significant drain on government resources throughout the region. For example, between 1991 and 1999, the Government of India invested Rs.612 billion in SOEs and earned dividends of Rs.179 billion, an average return of 3.4% (Department of Disinvestment, 2001). Gupta (2008) stated that work evidences explained the partial privatization has led to an improvement in the operating performance. Some of these economies have made more progress than India. For example, the Government of Pakistan has privatized several financial institutions, a key infrastructure sector. Strong evidence from the privatization of Bangladeshi jute mills that SOEs are used by politicians to dole out jobs. In particular, there is more surplus employment of white-collar workers than of low-wage workers in these firms. The policy resolution further stated that the government should withdraw from sectors that are inefficient and non-strategic, and in which the private sector has developed expertise. It also argued for partial divestiture in SOEs "in order to provide further market discipline to the performance of public enterprises". Thus, privatization is the strategic weapon for economic innovation and performance at both micro

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