

## Effects of Privatization on Economic Performance in Pakistan

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**Abstract:** Privatization is an initiative that is finalized upon the selling-off of the State Owned Enterprises (SOEs). It is also felt when the Government of a certain country is to contract out the State Services. Pakistan as a developing country of the world, enjoys a pride of its geographical importance, does not stand as a nation that participates unduly in privatizing the government assets. Rather despite the government urge, some unforeseen incidents that happen today in Pakistan are not to attract foreign investors to have a desire of executing investment in SOEs. The aim of our study is to focus upon the effects of privatization, either acceptable or not, on an economic growth of Pakistan and on the other macroeconomic indicators. The data has been collected from various sources, catering the time period of 1992 to 2008. In because of the insufficient authentic statistics available on the revenue obtained by the sale of SOEs in Pakistan, the analysis brought forward through this article is in the form of Figures, Descriptive Statistics, and Correlation Matrix and by the Elaboration of Year Wise Percentage Changes recorded on the selected variables. The study found consistent gradual rise, over the period of time, in the rate of GDP/Economic Growth, while drifts of privatization remained unsteady.

**Key words:** Privatization • State Owned Enterprises • Gross Domestic Product (GDP) • Gross Capital Formation (GCF) • Inflation • Unemployment

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### INTRODUCTION

Privatization is not a matter of today life [1]. Rather the thing is all sort of debate on bringing up the social controls over the commanding of the industry is certainly something that is generally accepted as of its feature of reinvention of new governance. By and large it is considered to be as program at its own on experimentation, innovation and not the least a wish to achieve something, probably money out of the selling of the SOEs. All of the efforts used in earlier days to improve the social institutions, look modest in the eyes of today's world. In recent days, the whole theme has been changed and perhaps the government of all the countries perceive as their political victory when privatization results in their tenure reflects the economized use of the scarce resources available with them. This further energizes the upcoming governments to focus seriously on experimentation of

selling out the government enterprises that surely are to enable them laying-off monopolies and cartels in various business fields and in various departments of the government.

In general, privatization is defined to be as "A policy impulse which seeks to change the balance amongst the private and that of the public responsibilities in the policies of the government" said Smith [2]. Pakistan did participate in bold experiments of privatization of its public sector organizations and banks but still it is not at forefront. Possibly there is much more to learn from the international evidences of the same. The conclusion is that privatization is still to have its critics [3-6].

Privatization and its philosophy is to take the government towards a thinking that the state is to be confined to perform its obligation in context of setting the regulations only and rest of all the economic activity i.e. the ownership of the industries and the enterprises

should be kept relying upon the private sector. There is found controversies between the thoughts of rendering the public enterprises to the private sector for making a progress.

In accord of the privatization commission of Pakistan, Privatization is processes of disposing off/selling the property of the government through a cautiously created mechanism for obtaining the best possible price of an asset. There are few things that can affect the revenue extraction i.e. the nature of the asset being privatized, the proportion of the shares of a public sector organization being disposed-off before the bidders and whether the currently intact management is to be transferred or it is to be exclusively dependent upon the bidder to arrange the employees through a certain criteria<sup>1</sup>.

The objective of our study is not less than scrutinizing the elements that help us know and understand whether privatization promises and promotes sustainable and equitable patterns of social and economic progress? This is something essential and worthy of executing research upon why do certain patterns of economic and social indicators enforce the countries like Pakistan to take cursory attention in stepping into the game of privatization.

In an upshot of a precise introduction of the prominence of privatization, Section 2 is to bring up a theoretical insight over the term privatization. Section 3 represents the process of privatization since from last 2 decades till 2011. Section 4 gives an over view of the literature. Section 5 guides about the data source(s), and methodological issues. Section 6 in the row interprets the results of the study. Last section deals with the conclusion and policy suggestions.

#### **Theoretical Insight upon the Concept of Privatization:**

Privatization is not a hot topic in current days, rather has always been much in discussion and extremely controversial. It has always been seen discussed among the government of state, city and a country. Such discussions might not be as complex and conclusion less as they are now a day because of the unclear knowledge of the fact that “what actually does privatization mean”. When it is said that the government is to turn over its asset to the private sector what does it actually mean? That is either it is being done to let private sector provide a service? Or it is an action of the

government to produce a service? Is the government is to withdraw itself from its role as a buyer and or as a seller? [7].

Bailey [8] expressed his view that before going for privatization it is necessary to look into some socio economic issues. Firstly that the Private sector may give rise to hidden monopolies as it always attempts to show-off as sole vendor to the public for a particular product or attempting for building up cartels. Secondly it is to be noted that even an asset has been privatized government still has to regulate it in respect of providing public safety and other necessary measures. Thirdly when the government retires from its control over some of the SOEs, it does not enable the government to enjoy economies of scale any more. Thus losing the perceived proportion of capital gain and optimum resource utilization. Lastly it will surely let the government feel, in short span of time that the role of the state has been quite narrow and the government is to lose its grip on the economy.

**Origination of the Concept:** 1970's is an era of time when almost all the Developed (Western) and Less Developed Countries (LDCs) of the world started imagining the signs of international dependence. This was a time when neoclassical<sup>2</sup> free-market counterrevolution began to emerge. The concept of privatization started dominating at slower pace in the less developed countries and the western economies during 1980's and 1990's. Nevertheless the conservative government ascendancy in USA, Britain, West Germany and Canada gave invitations to neoclassical counter revolution in economic theory and policy thus favoring freer markets and privatization of public corporations.

In the developing countries, there was a call for dismantling of public ownership, statist planning and government regulations of economic activities. In this context, neoclassical economists obtained votes in their favor from world top two international financial organizations i.e. International Monetary Fund and The World Bank. Simultaneously there was an erosion of international organizations such as International Labor Organization (ILO), The United Nation Development Program (UNDP) and the United Nation Conference on Trade and Development (UNCT&D) who represented the slogans of LDCs. That was a time when the doctrine of

<sup>1</sup> This information is extracted from the website of the Privatization Commission of Pakistan.

<sup>2</sup> Lord Peter Baver, Deepak Lal, Ian Little, Harry Johnson, BelBalassa, Julian Simon, JagdishBhagwati and Anne Krueger are the prominent figures of Neo Classical school of thought.

Neoclassical were to gather momentum at high pace who believed that the extensive role of the government slower downs the pace of economic growth and development.

**The Significance of the Privatization Idea:** Privatization has gathered, within its own, greatest significance as it is a belief of the term inventors. Neoclassical, the one who flourished the idea of privatization enabled the acceptance of the idea of free market economic system to penetrate in the masses for the promotion of exports, free trade, making foreign investors feel attractive in bringing up investment and above all eliminating the price distortion in factor, product and financial markets. Hence both economic efficiency and growth is seen all the way around. Neoclassical believed that reasons behind the backwardness of slow movers like LDCs are not the predatory actions they took after 1<sup>st</sup> world war rather are the market inefficiencies, state and corruption linkages and lack of economic incentives.

**Bench Marks Worldwide:** Since from 1980 to 1992 more than 15,000 enterprises got privatized in this world. Wherefrom 11,000 were in East Germany (Former). Amongst LDCs benches, 450 enterprises privatized were in Africa, 900 in Latin America and 180 in Asia.

**Privatization Theory and Experience (In View of the LDCs):** Most of the research indicates a wide element of paradoxes on account of the outcome of privatization. In case of the LDCs, the results are not clear except very few of the positive results in the row. It has been commonly observed that privatization breaches the gaps between haves and have not<sup>3</sup>. It is perhaps obvious because most of the assets privatized are lent to the small groups elites. The sequel of that became visible in the mid of 1970's when because of the extensive depreciation in Asian currencies, led the foreign investors to take initiatives of taking their investment to such economies.

This later resulted in enriching both domestic and foreign investors of same calibers. But when public monopolies are converted into the private monopolies, hundreds and thousands of the workers lost their jobs.

**Privatization Issues:** Privatization is not something flaws less and un-defected rather evidences do show that it raises complex issues. Questions arise are like of feasibility, needful financing, the structure and composition of legal property rights, the economic and productive performances of public officials and bureaucrats in response to private business elites (domestic and foreign).

**Privatization in Perspective of Pakistan:** The efforts of gaining the revenue, supporting the budgetary deficit and of raising funds for the necessary take up of the developmental and non-developmental projects through the process of privatization began after the establishment of the Privatization Commission back in the year 1991, January the 22<sup>nd</sup>. At its first sight, the Privatization Commission was to restrict the government to industrial transactions. However during the second time of the formation of the government by Mian Muhammad Nawaz Sharif, perhaps in 1993, the Privatization Commission was expanded to power, oil and gas, transport (aviation, railways, ports and shipping), telecommunication and banking and insurance. During 1991 to 2011, Privatization Commission completed 167 transactions of worth Rs. 476.421 billion.

During current year, the Privatization Commission of Pakistan secured sum of Rs. 237.058 millions on account of the balances proceeds of Wah Cement Company and HBL (IPO) out of which Rs. 2.515 million were remitted to the State Bank of Pakistan. The composition of Rs. 476.421 billion that the Privatization Commission of Pakistan secured on selling of 167 units can be viewed in Figure 1.

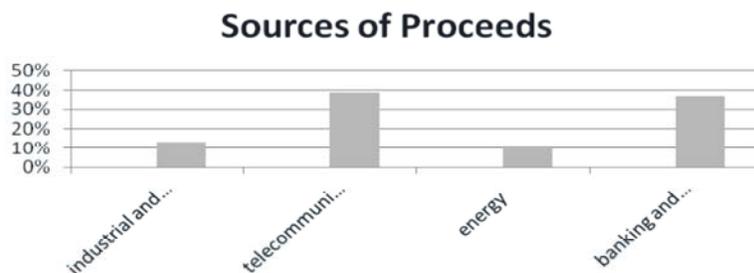


Fig. 1:  
Source: The Privatization Commission of Pakistan.

<sup>3</sup> Todaro, M. P. (2001), Development Economics, Ed. 7<sup>th</sup>, Addison-Wesley.

### Distribution of Proceeds

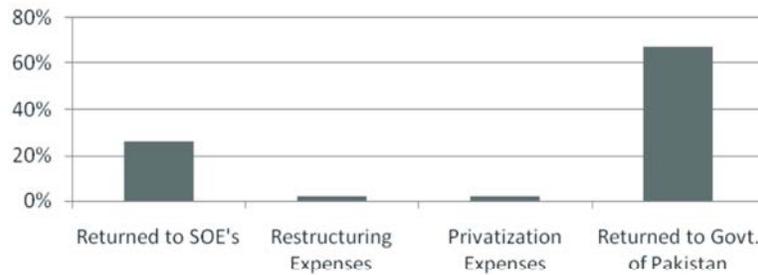


Fig. 2:

Source: The Privatization Commission of Pakistan.

The Federal Government received about 67% of the total amount, 26% was returned to the legal entities the share of which were sold, 5% of the amount was spent for the golden handshakes and rehabilitation and privatization-related expenses were composed into 2% of the total earned revenue. It is evident in Figure 2.

It is something that is to be noted here that all the transactions were settled in local currency. Whereas 66.3% of the earnest money was received in the form of foreign exchange in context of KotAddu Power Plant (KAPCO), oil and gas concessions, United Bank Limited (UBL), Habib Credit and Exchange Bank (HCEB), Habib Bank Limited (HBL), Karachi Electric Supply Corporation (KESC), Pakistan Tele Communication Limited (PTCL), Oil and Gas Development Company Limited (OGDCL). Sum of the transactions of rupees to the Government of Pakistan's treasury is summarized in Table 1.

**Appraisal of the Literature:** As argued by an economic historian, Gershenkron [9] found that for the nations who start to be in the race of making development are required to set the government responsible of delivering the goods and services to the public instead of the provisioning of the same from private sector side. That is a reason why the private sector in such volatile sort of economic set up is supposed to be quite inexperienced and shy in embarking upon the process of industrial growth.

Building up belief in you that private sector is to let the industrial growth flourish sharply is not true all the time [10]. The analytical results show that in changing the title of the ownership of a production house, it is not only do a sufficient condition for gaining productive efficiency nor is necessary for the achievement of rapid growth targets.

Table 1: Number of privatized transactions (Rs. in million)

Sector	Sale proceeds 1991 to Jun 2011	
	No.	Amount
Banking	7	41,023
Capital Market Transaction	22	133,124
Energy	14	51,756
Telecom	4	187,360
Automobile	7	1,102
Cement	17	16,177
Chemical	16	1,643
Engineering	7	182
Fertilizers	7	40,281
Ghee Mills	24	842
Rice	8	236
Roti Plants	15	91
Textile	4	370
Newspapers	5	270
Tourism	4	1,805
Others	6	159
<b>Total</b>	<b>167</b>	<b>476,421</b>

Source: The Privatization Commission of Pakistan

Megginson [11] investigated that there are manifold ways and means of raising funds for numerous needs. Amongst all of these, privatization is treated as one of the most attractive. It may be because of the fact that it ensures the gain of strength in timely flow of revenue receipts and the development of a sound base for the prosperous capital market in current and future endeavors.

Economic growth is radically effected by the variations that result in the holding of business, industry and production by the private sector. It is quite meaningful to discuss the controversies that exist among the panel of researchers when they are to say something about the relationship among privatization and that of its impact on an economic growth. It is found that impact of privatization in the developing economies of the world is not positive on the level of their growth perhaps in the short run time period [12].

Haskel and Szymanski [13] studied that Inflation and unemployment are considered as most vivid in their effects upon an economy. It must be viewed that whether the government's urge for the privatization is to take the economy towards unemployment and or inflation. They found from their research that whenever government urges to go for commercialization, it mostly results in declining rate of employment. However wage settlements remain the same. Megginson [11] argued that the government always thinks of the private sector as more efficient in meeting up the production targets. But it is not well thought that how much this aspiration about privatization is contradictory and conflicting among the panel of economists.

In the view of theoretical economics, private sector is much more vibrant in achieving the desired goals like that of economies of scale, productive efficiency, technical efficiency and the realization of export targets. On the other hand the public sector organization are seemed to work not for the same intentions rather most of the times it is observed that they stand just for numerous political motives, injecting lots of unneeded employees just to be in the good books of their nears and dear ones [14].

There must be an opportunity cost involved in privatizing the SOEs i.e. private sector improves the state of art infrastructure involved in the production process and proves to be as capital intensive. This is to be appreciated as it reduces per unit cost of production, which in-turn not only do depresses the product prices in local market rather also improve the product penetration in an international market, consequently increasing the exports. On the contrary it significantly depresses the employment rate [15].

Economic growth as one of the fundamental fields of macroeconomics is at large affected by privatization, said Easterly [16] and Filipovic [17]. Privatization does affect the fiscal standing of an economy. Easterly 2001 argued that privatization is not to finance the expenditures of the new government rather it should be taken as a source that permits the countries to pay the gigantic portion of their debts. This in turn surely enables the country to experience hype in the level of future investment. Privatization helps in reducing the vicious cycles of over-borrowing and the persistent rise in the national debt of a country [18]. This happens as focus shifts from political to economic goals. Poole [18] found that countries like China and Cuba too have started taking care of the concept of privatization. Over the last 10 years period, world-wide shift of public sector to private has brought up business of \$468b for the governments of the developing economies of the world.

**Section 5:** This section gives information about the source of the data, methodology and descriptions on the selected variables.

**Data Source:** Secondary mode of the data has been used in this research paper. The data covers the time period from 1992 to 2008. In search of achieving realistic results, more than one no. of sources have been followed i.e. Hand book of statistics on Pakistan economy (2010), The World Bank (The World Bank Outlook) data on Pakistan and Privatization Commission of Pakistan.

**Methodology:** In our study, we have used manifold strategies to find out the desired relationship among the macro economic variables opted in our research area.

Firstly we have plotted the relationship of variables by the use of figures on each and every variable and its consistency to our independent variable i.e. Privatization. Secondly there has been usage of descriptive statistical insight on the variables. In which there has been described Mean, Median, Maximum, Minimum, Standard Deviation, Skewness, Kurtosis and Jarque-Bera (test of normality). Thirdly we have found degree of correlation between the variables. Lastly there has been used a stratagem which enables to derive an idea about percentage change(s) amongst the variables picked in our area of study.

#### Details to the Prefix Used for Variables Used:

1. PRIV Revenue got from selling SOEs (State Owned Enterprises)
2. SVG Saving as percentage of GDP
3. UNEMP Unemployment
4. LABFRC Labor Force Participation
5. HCR Poverty
6. LIT Rate of Literacy
7. GDP Gross Domestic Product
8. GCF Gross Capital Formation
9. CPI Inflation

#### Description of the Variables and Their Economic and Theoretical Rational

**PRIV:** In our study, we have chosen PRIV as the only independent variable. This we have done in order to dig out the impact of privatization over the macro economic performance of Pakistan and to try gather around a comprehensive level of understanding about the economic and theoretical rational of the concept.

**SVG:** Saving is an important source for the future investment. But it is important to note that more is an economic growth, more is the level of saving. Keynesian Psychological Law of Consumption clearly states that when income increases, consumption follows it but with a lesser proportion. It means rate of saving rises.

It is quite unfortunate that it is an unlikely habit in Pakistan. Therefore is responsible for such a bleak economic performance. As per the statistics of Ministry of Finance Government of Pakistan, rate of saving in Pakistan for the year 2012-13 stood at 10.7% of GDP. Private Sector heavy investment may bring up a dramatic change in such habits as it is evident in capitalist countries of the world. One can conclude here that privatization of SOEs bring up boost in economic activity which increases the National Income and later result in proliferating rate of saving.

**UNEMP:** Unemployed labor force is self-driven in a fast track towards a state of hunger and famine. Megginson [11] argued that private sector raises the level of investment through numerous channels that depresses rate of unemployment in host country. On the contrary it is investigated by Haskel and Szymanski [13] that commercialization takes the economy towards unemployment. Therefore the concept of creating and not creating job opportunities is something that cannot be left aside from the idea of privatization.

**LBFR:** It is mandatory to use labor and capital both for the production. Targeted rate of economic growth and the achievement of good standing of macroeconomic indicators are possible if powerful labor force is deployed in different fields of production. Private sector has been seen employing the distinct feature of labor that can have the courage of accepting the target oriented challenging jobs. Public and private sector both are the major sources of employing the available labor force that for instance help them keep the good pace of production in their respective capacity.

**HCR:** Developing an understanding about poverty requires a review of proper definition of it. Nonetheless there is no faithful definition of poverty available. Poverty is a result of unclear and inconsistent economic and political scenario. Some economists believe that income inequality that poverty produces is desirable and acceptable [19]. Field [20] said it is brutally damaging.

**LIT:** High rate of literacy and low scaled poverty are the key determinant of an economic growth and development. It is unfortunate that the Government of Pakistan devotes less than 3% of her GDP on education and because of hyper-inflation, inconsistent political policies, lake of proper access to pure drinking water and mismanaged schemes of residencies, poverty stands at 23%. Here private sector can contribute in enchanter rate of literacy and eradicating poverty pressures. If there is a matter of economic growth measurements then rate of literacy is not something that is not to be taken into the concerns. When it is believed that privatization improve the state of position of a particular economy (economic and social), there must also be found its impacts over the rate of the literacy.

**GDP:** Gross Domestic Product is a key indicator of inspecting an economic performance of a particular country. It is important to realize that countries where role of Government is stronger and large, private sector has always found shy in taking investment initiatives [9]. However private sector participation is of unique importance in attaining future economic growth and industrial boom [10].

**GCF:** As per The World Bank National Account Data and Over Seas Employment Corporation of Pakistan's National Accounts data files, former recognition of Gross Capital Formation is Gross Domestic Investment. Generally it includes in itself an addition to the fixed assets of an economy and in that of the level of her inventories. Assets that are fixed in nature include plant, purchases of equipment, machinery, the construction of the roads, building up of the schools, offices, hospitals, private residencies and last but not the least industrial and commercial buildings. Goods pledged in go-downs and in firm's ware-houses are mentioned in the bracket of inventories. They are of greatest significance as they are used to meet temporary or unforeseen fluctuations in the sale of a product

GCF in Pakistan for the year 2011 stood at \$27,485,420,000 (current US \$). Over the past 51 years GCF statistics in Pakistan have had a variation between \$36,139,570,000 in 2008 and \$428, 392, 400 in the year 1960<sup>4</sup>. In order to attempt investigating the relationship between GCF and PRIV utterly in less developed countries of the world, Abdou and Moshiri [17] found that there have been different impacts of privatization

<sup>4</sup> This information is extracted from the website of index mundi and can be viewed at <http://www.indexmundi.com/facts/pakistan/gross-capital-formation>.

over the formation of the capital. However their research indicated that privatization is neutral in respect of future investment decisions.

**CPI:** Inflation and Privatization always have a relationship. It is evident by the research brought forward by Adam and Mengistu [22] that inflation, equitable and inequitable distribution of income, institutional setup and an infrastructure of a government has always been a core determinant of Privatization. If focus is on quality then there will undoubtedly be a sharp rise or at least a gradual hype in the price level of the economy. But here it must be realized that “Is rate of rise in price level is in line with the creation of additional jobs for the labor”. If yes then it will be fully adapted inflation. If not then it would perhaps be an economic growth or what so ever else, but at the cost of inflation.

**RESULT AND DISCUSSION**

The existent section illuminates the results of the study in descriptive mode. In our catch of information, we have described descriptive analysis in a diversified manner in order to investigate the trends and patterns of different macroeconomic variables, in line with that of the privatization, in depth. First section educates about the drifts and arrays of macroeconomic indicators through the time series graphs. Secondly we have inferred the basic statistics i.e. Mean, Median, Maximum, Minimum, Standard Deviation, Skewness, Kurtosis and Jarque-Bera. In order to know the strength of relationship among the macroeconomic variables, we have estimated zero order correlation matrixes. Finally we have also analyzed the variations among the selected variables, over the period of time, through percentage analysis.

**Clarification of Trends and Patterns/Graphical Analysis:**

The inclinations of privatization, over the period of time, are explained in Figure III. The study underpins that in early 1990’s movement in privatization has been very slow and that continued in the same acceleration till the fiscal year FY2000. However it changed dramatically during FY2001-02. This is a sequel of the consistency in the economic growth of Pakistan during the same period. It is not hard to have a belief on this reasoning as economic growth has always been a prominent host for inviting private sector into the economic play card. In the later years there has been mixed patterns of growth in privatization with a gradual fall in the same since from the year 2006 that continued till 2008. This fall in the revenue extracted by selling the SOEs is mainly due to unclear economic patterns and the end of the tenure of the government of those days which never let the private sector to fell interest in investing in the SOEs.

Patterns of SVG appear in Figure IV has been volatile and unclear throughout i.e. since Fy1991 to FY2000 with a sharp descend since from FY2006 to FY2008. During FY91 to FY00 the pattern on account of the rate of saving is the result of unforeseen collapse of the governments of two no. of democratically elected Prime Ministers i.e. Mian Muhammad Nawaz Sharif in 1993, 1999 and Benazir Bhutto as in 1996 that mainly destroyed the consistency of the economic policies. Economies like of Pakistan, unfortunately, are falling in such bracket of economies where the trends in saving are very unresponsive on account of the majority of the population.

Trend line of unemployment, as shown in Figure V makes it clear that unemployment during course of time sicne 1991 to 2001 have had a gradual rise in raising rate of unemployed labor force. It is consistent to rising poverty pressures on the other end. FY2000-03 shows

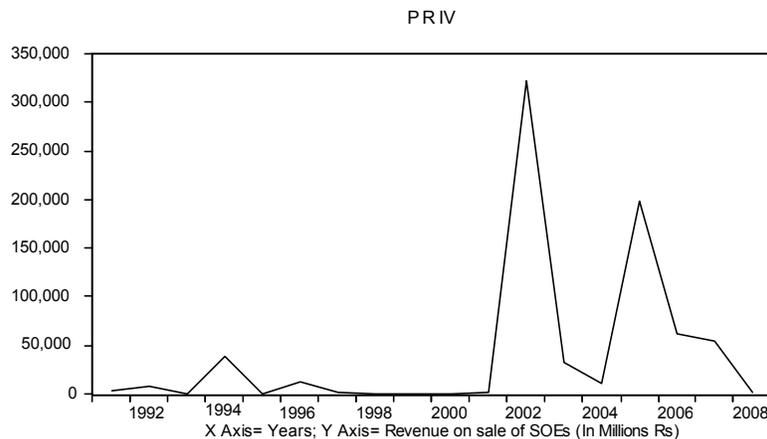


Fig. 3:

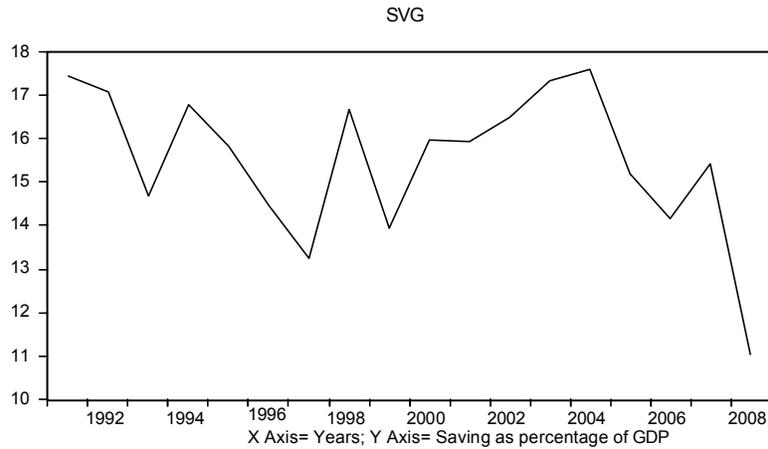


Fig. 4:

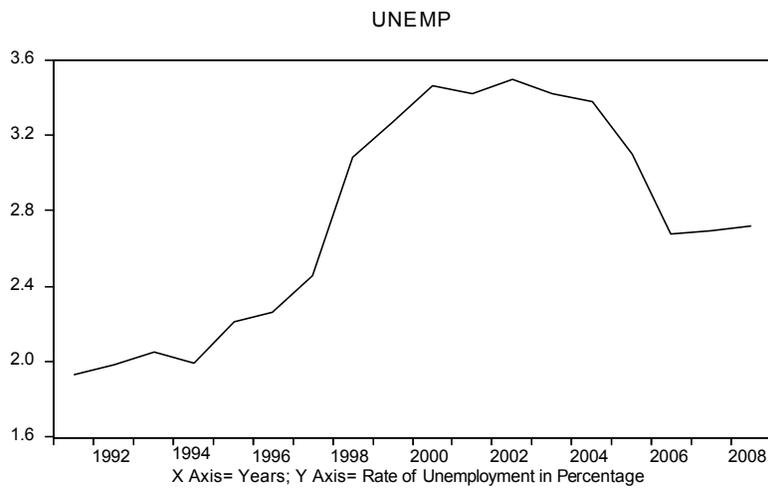


Fig. 5:

stagnant rate of unemployment and gradual fall in the same during FY2004-05. This fall again is in response to that of highest economic growth rate achieved during the same period of time. However again during end of 2007 and early 2008, it started rising again because of unclear economic patterns.

Figure VI reveals the follow-up of labor force participation rate. Its trend shows gradual upward/positive movement throughout the period that is once again a consequence of slow but sure rise in GDP growth rate.

Figure VII portrays HCR (poverty) that maintains a position in line with that of the footings of unemployment and inflation. Rising unemployment rate resulted in bringing up rise in poverty as is evident since from FY1994 to Fy1998. However FY1992 to FY1994 and FY1999 to FyFY2004 show falling poverty pressures. The reason for the former is the arrival of the private

sector force in the nation building and later is due to the consistency in the economic policies after the collapse of the democratic government back in the year 1999. After FY2004 to Fy2008 once again it is seen increasing. It is not hard to get it confirmed because the same year shows uneasy theme on account of other macroeconomic variables as well.

Movement of the trend line of LIT is shown in Figure VIII. Over the period of time, rate of literacy departed from less than 36% to higher than 56% gradually. If it is to relate to GDP and GCF patterns then it becomes clear that rise in economic growth and rate of investment makes the people aware of the benefits they can avail, perhaps they well educated.

Growth and trend of GDP, throughout the period that is catered in our research, is clear in signifying consistent gradual rise in GDP growth of Pakistan, is shown in figure IX.

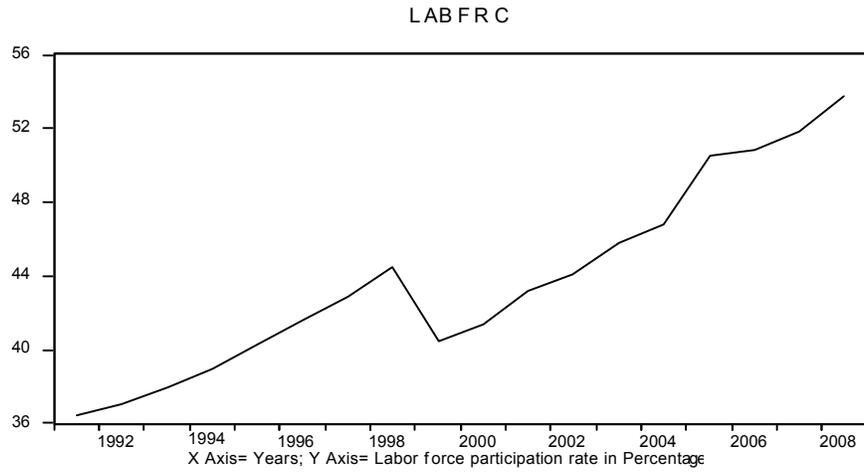


Fig. 6:

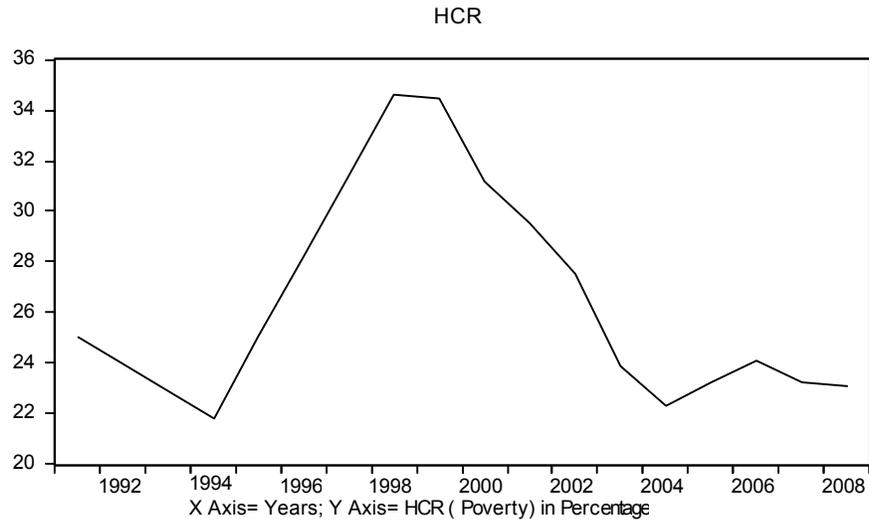


Fig. 7:

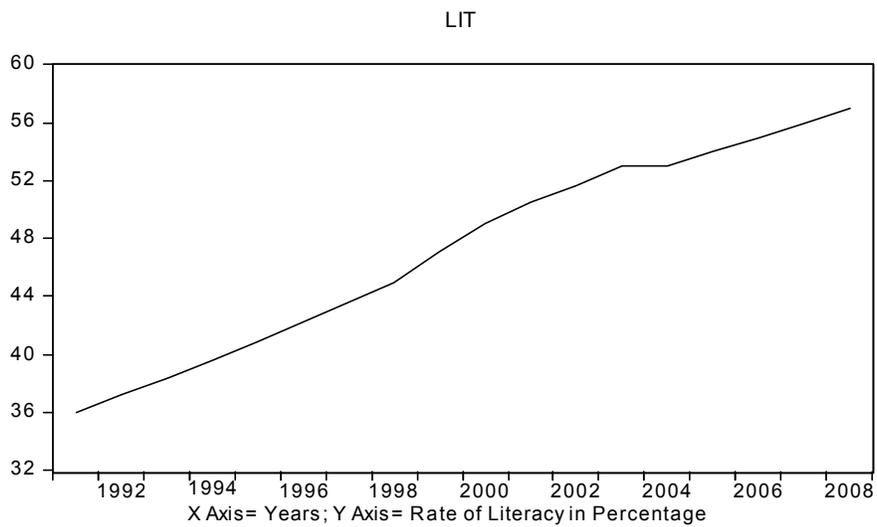


Fig. 8:

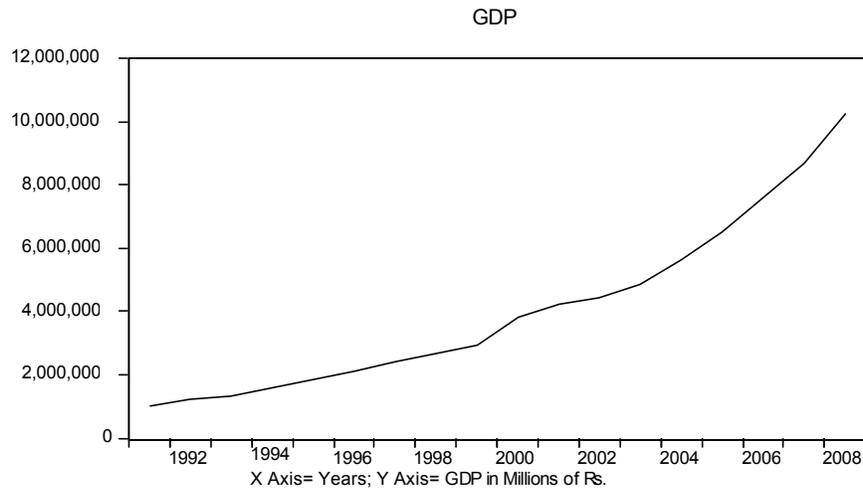


Fig. 9:

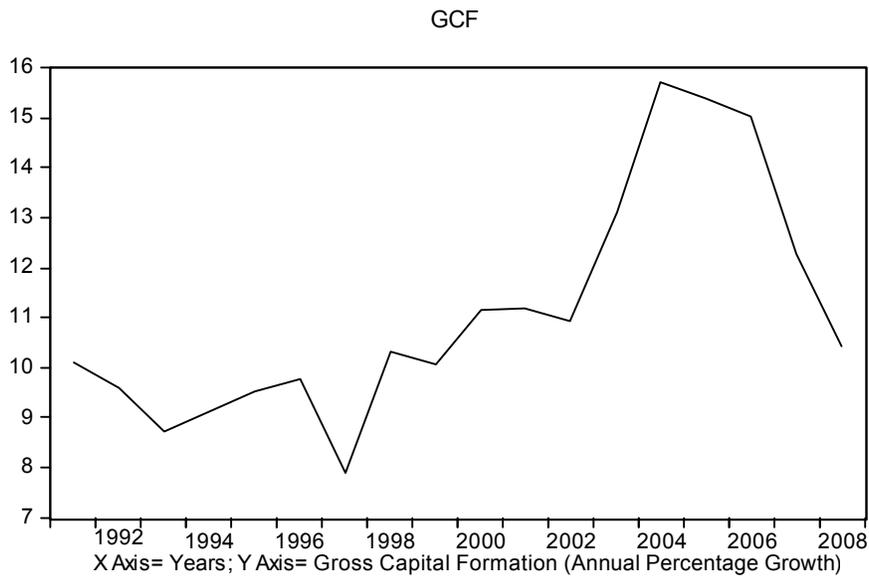


Fig. 10

Figure X indicates over the year movements in GCF that makes it clear that since FY1991 to Fy2004 there has been a positive upward, except a sudden sharp descend in FY1996, unsteady growth. However after Fy2004 it shifted toward the descend that is the consequence of vulnerable economic conditions and rise in the rate of inflation, falling currency value, disturbed law and order situation and lots of incidents of terrorism in Pakistan those days and hereafter.

Pattern of changes on account of CPI (inflation) are underpinned in Figure XI. The drifts show that inflation rate had a fall during FY1996-2003. It is surely a result of appropriate economic policies, controlled aggregate

demand factor and rising rate of economic growth. However FY2004 is a start of a sharp rise of inflation. Perhaps it was acceptable back in the same year as economic growth of Pakistan reached at 6.5% in Fy03 but in later years till FY2008 it certainly became a big challenge for the government. As per the precise conclusion drawn on this state of position, it was a reason of wide demand and supply gap which appeared when economy reached full employment level with no more capacity of further production. But on the other end continued printing of notes/heavy flow of (M1&M2) and dampened interest rate announced by State Bank of Pakistan are big reasons for that.

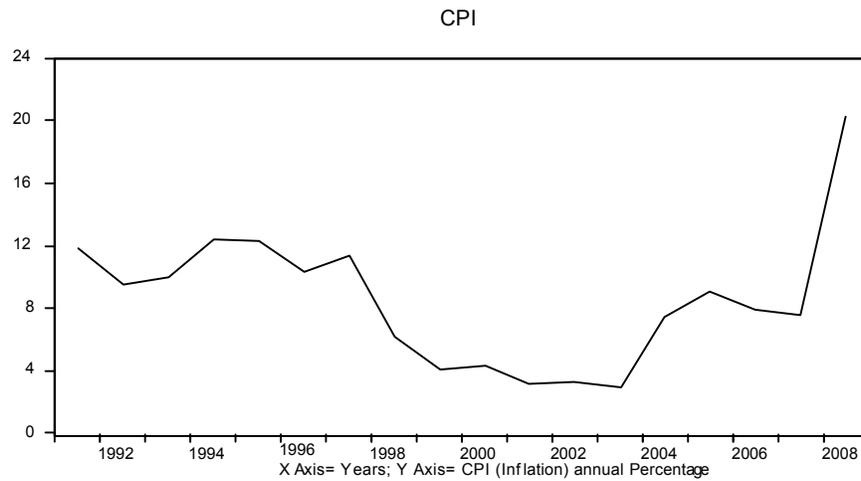


Fig. 11:

Table 2: Descriptive statistics

	PRIV	SVG	UNEMP	LABFRC	HCR	LIT	GDP	GCF	CPI
Mean	41553.56	15.52	2.75	43.78	26.41	47.17	4067823.	11.17	8.56
Median	5767.35	15.89	2.71	43.05	24.55	48.05	3382245.	10.37	8.49
Maximum	322761.30	17.61	3.50	53.72	34.60	57.00	10242799	15.71	20.28
Minimum	210.20	11.02	1.93	36.39	21.80	36.00	1020600.	7.88	2.91
Std. Dev.	84779.25	1.72	0.59	5.22	4.19	6.96	2731996.	2.31	4.37
Skewness	2.53	-0.96	-0.10	0.44	0.81	-0.17	0.84	0.85	0.81
Kurtosis	8.31	3.63	1.47	2.16	2.30	1.62	2.68	2.65	3.89
Jarque-Bera	40.32	3.07	1.79	1.15	2.36	1.52	2.19	2.29	2.58
Probability	0.00	0.22	0.41	0.56	0.31	0.47	0.33	0.32	0.27

**Interpretations of the Results on Descriptive Statistics:**

Portrayals of descriptive statistics have been told in Table 2. An average flow of the receipts on the sale of State Owned Enterprises, for the selected period is Rs. 41553.56 (in Million) with standard deviation of 84779.25. The average rate of saving and unemployment, in percentage, stood at 15.52 and 2.76 with standard deviation of 1.72 and 0.59 respectively. An average rate of growth of labor force participation and HCR (poverty) in percentage, rate of literacy in percentage and of Gross Domestic Product in (Millions of Rs.) hoisted at 43.78, 26.41, 47.17 and 4067823. Whereas mean of Gross Capital Formation and Consumer Price Index (measure of inflation), in percentage of GDP, appear as 11.17 and 8.56 in that order.

Skewness is a measure of symmetry/asymmetry. Table 2 makes it clear that saving, unemployment and rate of literacy are left skewed rest of all the variable exhibit right skewed direction of movement. Kurtosis is an appropriate term that highlights the flatness and peakness of the data relative to that of the normal distribution. Statistics of Kurtosis represent that privatization, saving and CPI (inflation) is leptokurtic, as it is sharper than the normal distribution. Rests of all of

the variables are platykurtic distribution, as they are flatter in compliance with the normal distribution with that of wider peak.

Jarque-Bera is a test of normality. The hypothesis is developed as; Null hypothesis show that there is no problem of abnormality on residuals and alternate hypothesis show the problem of abnormality. The statistics show the acceptance of null hypothesis, except at PRIV, on account of all the variables elected in the study.

**Clarification of the Interdependency on the Selected Variables:**

The strength of relationship between the variables chosen in our research is evident in Table 3. A precise look upon the table makes it obvious that LABFRC, GDP and LIT are highly correlated with each other. GCF with LABFRC and GDP, LIT and CPI with UNEMP, LIT with GCF are also strong in their relationship with one another. Set of variable which are moderately correlated among each other are PRIV with UNEMP and GCF, SVG with LABFRC and GDP, UNEMP with rest of all except that of LIT, GCF with HCR and CPI. Rests of all the values suggest weak correlation of the variables among each other.

Table 3: Correlation Matrix

	PRIV	SVG	UNEMP	LABFRC	HCR	LIT	GDP	GCF	CPI
PRIV	1.00								
SVG	0.12	1.00							
UNEMP	0.34	0.08	1.00						
LABFRC	0.28	-0.43	0.45	1.00					
HCR	-0.15	-0.13	0.38	-0.22	1.00				
LIT	0.35	-0.29	0.73	0.96	-0.92	1.00			
GDP	0.24	-0.44	0.44	0.96	-0.29	0.92	1.00		
GCF	0.32	0.20	0.53	0.65	-0.34	0.71	0.63	1.00	
CPI	-0.27	-0.51	-0.67	0.10	-0.42	0.21	0.12	-0.30	1.00

Table 4: Analysis of per year percentage change amongst the core variables:

Years	GCF	SVG	LIT	HCR	LABFRC	GDP	UNEMP	PRIV	CPI
91-92	-4.78	-2.28	3.33	-4.27	1.86	18.69	2.59	127.84	-19.36
92-93	-9.24	-13.97	3.23	-4.46	2.23	10.75	3.54	-92.54	4.89
93-94	4.43	14.31	3.13	-4.66	2.77	17.25	-2.93	6424.75	24.01
94-95	4.35	-5.67	3.28	14.68	3.35	18.61	11.06	-99.46	-0.20
95-96	2.73	-8.59	3.18	12.80	3.32	13.63	2.26	5738.53	-15.96
96-97	-19.30	-8.58	3.32	11.35	3.16	14.53	8.85	-86.47	9.66
97-98	30.93	25.99	3.21	10.19	3.73	10.27	25.20	-87.28	-45.25
98-99	-2.59	-16.30	4.67	-0.29	-9.00	9.74	6.17	117.57	-33.48
00-01	10.94	14.53	4.03	-9.57	2.20	30.21	5.81	-15.28	5.41
01-02	0.27	-0.22	3.06	-5.45	4.42	10.03	-1.16	174.79	-27.90
02-03	-2.24	3.44	2.18	-6.78	2.11	5.77	2.34	30087.18	4.51
03-04	19.99	5.21	2.71	-13.09	3.72	9.50	-2.29	-90.10	-11.43
04-05	19.80	1.50	0.00	-6.69	2.32	15.69	-1.17	-67.23	155.47
05-06	-1.97	-13.65	1.89	4.04	7.86	15.23	-8.28	1799.88	21.74
06-07	-2.41	-6.94	1.85	3.88	0.55	17.28	-13.55	-69.23	-12.60
07-08	-18.35	8.88	1.82	-3.73	1.97	13.77	0.37	-11.80	-4.07
08-09	-14.95	-28.49	1.79	-0.43	3.75	18.10	1.12	-97.52	166.97

**Explanation on Percentage Changes Year Wise:**

The amplification and enlightenment upon the percentage change(s) in the variables opted in our research is expressed in Table 4. The Privatization Commission of Pakistan got established back on the 22<sup>nd</sup> day of January 1991<sup>5</sup> in the tenure of the Pakistan Muslim League (Nawaz Group) headed by Mian Muhammad Nawaz Sharif. The vision and objective behind the establishment of the Commission was to favor free-market economic principles, the ownership of the private sector in the economy and to make the foreign investors feel free and decide to invest in Pakistan.

Associating the extent of the revenue obtained on the selling of the SOE's in Pakistan back in the year 1991-92, it postures negative relationship with poverty and inflation. This is the endorsement of the economic theories that "privatization brings up descend in poverty and reduces the rate of rise in the price level of the economy". It is not hard to believe that when private sector steps in, it brings a rise in the production of the

desired goods and services and additional supply of products into the markets thus dampening the price level. Connecting privatization with Gross Capital Formation, it exhibited negative impact on the same as well as on the rate of savings. However it is clear that privatization brought up increase in GDP (an absolute indicator of economic growth) [10-12, 16] literacy and labor force participation.

As a sequel of unexpected end of the episode of the Govt. of Mian Muhammad Nawaz Sharif on 18<sup>th</sup> day of April 1993, the revenue from the sale of SOE's in Pakistan fell by -92.54% for the year 1992-93. It contributed into the rising rate of inflation, unemployment, reduced the rate of saving and of gross capital formation by 4.89%, 3.54%, -2.28% and -9.24% respectively. It is further noticed that rise in the rate of literacy, fall in the extent of poverty, hype in the labor force participation rate and rise in GDP appeared in the same year. This shows the continuity of the policies designed by the previous government but was executed by the newly elected one.

<sup>5</sup> This information is imported from the website of The Privatization Commission of Pakistan.

On 19<sup>th</sup> day of October 1993, Benazir Bhutto elected as prime minister and Pakistan People's Party came into forming the government and remained in the same capacity till November 5<sup>th</sup>, 1996. The statistics of 1993-96 show rise in the magnitude of privatization in the year 1993-94 and 1995-96 but negative change in 1994-95. In this era of time macroeconomic variables like of GCF, GDP showed positive growth as investigated by Megginson [11]. Whereas socio-economic indicators like literacy showed positive change, poverty (HCR) showed positive inconsistent trend as compared to its positions in 1991-92. Labor force participation kept on increasing consistently throughout.

In the Era of 1996 to 98, the government formed by Pakistan Muslim League (Nawaz Group) on 17<sup>th</sup> day of February 1997. In this time, privatization, in percentage change, appeared in -86.47% and -87.28% but with a consistent rise in GDP. This shows that either GDP growth did not accurately follow the trend of privatization or privatization is not to effect GDP growth significantly as already found by Naqvi and Kemal [10]. During the same time rate of literacy and poverty kept of rising. On the other side labor force participation also rose up. This might be a translation of undisrupted gradual rise in the economic growth, which is evident from the rise in the GDP. Sharp decline in the rate of inflation also recorded during the year 1997-98. In relation to the rise in labor force participation rate, the rate of unemployment rose up consistently during the same period. The reason behind is the sharp rise in the rate of population growth that remained higher than 3% annual. This resulted in increasing the rate of unemployment however the labor force participation rate kept on rising gradually. This government remained into being till October 1999.

Since from the period of October 1999 to 2002, there was not restored democracy in Pakistan. Trends in the sale of SOE have remained positive exclusive of the year 2000-2001. This remained accompanied with rising trends in GDP, labor force participation, rate of literacy, fall of the extent of poverty and sharp decline in the trend of rising prices on the tail years<sup>6</sup>. This makes it obvious that social sector development is something unique in its trend when compared to the privatization. New government formed by new party i.e. Pakistan Muslim League (Quaid-e-Azam) on 10<sup>th</sup> day of October 2002 and remained in the government till 2008.

The time period of 2004-2006 is considered as a state of position of take-off for Pakistan economy. This seems obvious as GDP have had a consistent change of 15%.

However looking into the observations of privatization, it is clear that revenue earned from the sale of SOE's remained negative but GCF increased during the first two years of the government. The statistics further show a rise in the rate of saving which is a sequel of consistent rise in the volume of GDP. Rate of literacy and labor force participation showed positive growth. Perhaps on the other side poverty declined sharply with a rise fall in inflation, which later increased by 155.47% in the year 2004-05.

In result of the rising challenges on account of political, economic, security, law and order, natural disasters and the assassination of the Benazir Bhutto (party head of Pakistan People's Party), the government formed by Pakistan People's Party in 2008 could not retains the previous patterns of privatization. The observations show decline in the extent of the revenue from the sale of SOE's by -11.8% and -97.52%. This led the economy to bear high inflationary pressures that rose up by 166.97%. This in turn resulted in increasing unemployment and reducing rate of saving and gross capital formation. However as expected, GDP, HCR (poverty), rate of literacy, labor force participation rate showed the signs of economic progress and the development.

## CONCLUSION

The conclusion drawn from this research promptly highlights that privatization of SOE's is extremely useful tool of extracting additional revenue that is later used by the state on various task accomplishment. However expert opinions are required for making it fruitful [23]. Countries like Yemen go for privatization of SOEs because of getting independent from the problems like of economic reforms, fiscal deficits and vulnerable state of position of SOEs [24]. As found by Lashgarara and Hossseini [25] that extended role of the Government is always criticized. The authentic data that is available on the revenue obtained from the sale of SOEs in Pakistan is from 1991-92. However the tool of time series graphs, descriptive statistics, correlation matrixes and year wise percentage changes in selected variables have been used in analyzing the impact of privatization over the economic growth and on other macroeconomic indicators of Pakistan, since from 1992 to 2008. We have found that more that 60% of the revenue got from the sale of SOEs is kept by the Government of Pakistan [26].

<sup>6</sup> The result acknowledges the conclusions of Megginson (2005); Easterly (2001); Filipovic (2006) and Poole (1996).

Government of Pakistan has completed 167 transactions of the dispose- off of SOEs worth Rs. 467.421 Billions. As far as analysis on year wise changes found on account of the variables opted in our study is concerned, the results show unexpected effects on the economic growth patterns in FY93, FY94, FY95, FY96 and FY02-03. Economic growth is found rising at an unsteady patterns and it is concluded that privatization appeared to be as least effective to an economic growth. For instance privatization is controversial on the panel of researchers in realizing its positive effects on the economic growth [27]. From past researches too, it is felt that privatization does not have significant role in economies of Less Developed Countries [28-31].

It is suggested that Government of Pakistan must realize that although privatizing SOEs is a prompt tool of enhancing the revenue of the state. Yet it must be noticed that once SOE is sold, government could neither enjoy revenue receipts and economies of scale from that asset nor does have a grip on such assets. It must be considered that the process of privatization should be transparent so that it better help the government in achieving the desired objectives of nation building and financing of its ongoing projects. However as privatization has insignificant effect on a gradual positive trend of economic growth, it is advocated that if government feels necessary to privatize the SOE should then have an attempt of partial transfer of the ownership rights of SOEs.

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