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Public sector enterprises

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September 05, 2012

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Public Sector Enterprises (PSE) are a serious concern in Pakistan, as the national exchequer has to provide Pak Rs 245 to 300 billion (the real figure is still anyone's guess) every year to keep them afloat and yet they don't provide the quality of services expected of them. Not only is a rupee saved a rupee earned, but if you also take into account their underlying potential to instead contribute revenues, the recurring burden on the economy appears even more colossal.

With elections around the corner, every party is busy unleashing its own economic plan and as to be expected, their strategy to deal with the PSE appears right at the top. Upon close scrutiny, however, one finds that the comprehensive details on how they perceive the future role of the PSE in the Pakistani economy, what plans do they have for resurrecting them, whether they plan on retaining them or disinvesting from them and in case of disinvesting what method of disinvestment would they be undertaking and, most importantly, their formula on an ideal mix that they believe will optimise national growth through a combination of state capitalism and private sector entrepreneurship, seem to be missing.

[China will continue to support Pakistan against coronavirus: Wenbin \(https://nation.com.pk/09-Feb-2021/china-will-continue-to-support-pakistan-against-coronavirus-wenbin\)](https://nation.com.pk/09-Feb-2021/china-will-continue-to-support-pakistan-against-coronavirus-wenbin)

Post-2008's financial crisis in liberal capitalism has been rendered more serious by the rise of a potent alternative: state capitalism, which tries to meld the powers of state with the powers of capitalism. It depends on the government to pick winners and promote economic growth. But it also uses capitalist tools such as listing state-owned companies on the stock market and embracing globalisation. Elements of state capitalism have been seen in the past, for example, in the rise of Japan in the 1950s and even of Germany in the 1870s, but never before has it operated on such a scale and with such sophisticated tools as being witnessed today.

State capitalism can currently claim the world's most successful big economies for its camp - most notably, Russia, Brazil, India, UAE and above all China. Over the past 30 years, China's GDP has grown at an average rate of 9.50 percent a year and its international trade by 18 percent in volume terms; and in this success, the Chinese state-led enterprises have played the dominant role.

[Six injured as Myanmar police disperse protests in capital: report \(https://nation.com.pk/09-Feb-2021/six-injured-as-myanmar-police-disperse-protests-in-capital-report\)](https://nation.com.pk/09-Feb-2021/six-injured-as-myanmar-police-disperse-protests-in-capital-report)

China's obsession with going out in search of raw materials has been growing for almost two decades and the Chinese corporations have been busy striking deals across the world, often in difficult places that are shunned by the West, in order to lock up supplies of oil and other raw materials.

State capitalism has been at the heart of all this activity. State companies have funded four-fifths of the foreign direct investment. China's state-owned banks haven woven a web of soft loans to support this activity. And government bodies such as Eximbank, China's foreign aid bank, have made no bones about their enthusiasm for tying foreign aid to commercial advantage. One of China's favourite tools is oil for infrastructure. China offers to provide poor countries with schools, hospitals and the like (usually financed by soft loans and built by China's infrastructure giants) in return for a guaranteed supply of oil or some other raw material. Eximbank supplied a \$2 billion low-interest loan to help China's oil companies build infrastructure in Angola.

[PDM will hold march towards Islamabad under all circumstances: Bilawal \(https://nation.com.pk/09-Feb-2021/pdm-will-hold-march-towards-islamabad-under-all-circumstances-bilawal\)](https://nation.com.pk/09-Feb-2021/pdm-will-hold-march-towards-islamabad-under-all-circumstances-bilawal)

Brazil is the most interesting model of the state-capitalist examples: a democracy that also embraces many of the features of capitalism. It has spent most of its modern history in pursuit of state-driven modernisation. A survey in the early 1980s showed that it had more than 500 state-owned enterprises. Brazil launched a privatisation drive in the 1990s to deal with hyperinflation, surging deficits and general sclerosis. But more recently, it has moved in a new direction. The government has poured resources into the handful of state champions, particularly in natural resources and telecoms. It has also produced a new model of industrial policy: replacing direct with indirect government ownership through the Brazilian National Development Bank and its investment subsidiary; and swapping majority for minority ownership by acquiring shares in a broad spectrum of different companies.

Still a balanced assessment of state capitalism has to allow for three caveats. First, that there is no clear dividing line between state-owned and private companies. Post-2008, we have seen the US government bailout a number of big American private sector corporations.

[Federal cabinet approves increase in government employees' pay: sources \(https://nation.com.pk/09-Feb-2021/federal-cabinet-approves-increase-in-government-employees-pay-sources\)](https://nation.com.pk/09-Feb-2021/federal-cabinet-approves-increase-in-government-employees-pay-sources)

Second, ownership is not the only thing in play. Some of the problems, and the successes, of state capitalism have more to do with rapid development than with state ownership.

Third, everything depends on context. It is quite possible for state capitalism to work well in some areas and badly in others (e.g. consumer goods). It is also possible for it to boost growth at one stage of development and impede it at another.

To address the prevalent issues in the PSE and carve out a winning combination, any government in Pakistan will need to devise its own fresh strategy that blends the state's resources with professional-cum-honest management turning weaknesses into strengths. For example, a good learning model to study is, how Bangladesh has set up public-private partnered management structures in not only their state-run companies, but also in their decision making corridors.

Policy making is done based on national interests, rather than under the influence of the powerful ruling feudals, pressure groups, lobbyists or politically-influential players. Even their much talked about textile vision is not the brain child of any one person, but evolved through the input and consensus of all stakeholders. Numerous textile associations play their due role by the weight assigned to the value of export revenue they command. The government after taking input from all stakeholders takes its decisions through a dedicated policy making board (comprising of competent, well reputed and experienced private sector professionals and bureaucrats), which determines solely on long-term development goals of the industry and on maximising Bangladesh's social and revenue returns!

[KP Law Minister resigns after horse-trading video goes viral \(https://nation.com.pk/09-Feb-2021/kp-law-minister-resigns-after-horse-trading-video-goes-viral\)](https://nation.com.pk/09-Feb-2021/kp-law-minister-resigns-after-horse-trading-video-goes-viral)

For us to turn around these invaluable, perhaps irreplaceable, assets will require more than mere entrepreneurial skills. The national leadership will also have to demonstrate political will, a firm resolve and maturity to undertake management solutions, which will first have to grapple with the entrenched elements of indiscipline, crime, nepotism, insecurity and corruption before going on to address the business challenges facing a portion of these corporations. On the other hand, the easy way out of purely thinking in terms of privatising, these public sector enterprises may not be a good idea in Pakistan, at least for now!

In underdeveloped countries or in countries at an earlier development stage, privatisation can in fact often be counterproductive - influence, rent seeking and corruption go on to make a deadly combination that prevents a fair spread of the fruits of a privatised transaction. With the result that the government and people both are short-changed while only a few gain.

[Supreme Court orders to resolve Pakistan steel mills issue \(https://nation.com.pk/09-Feb-2021/supreme-court-orders-to-resolve-pakistan-steel-mills-issue\)](https://nation.com.pk/09-Feb-2021/supreme-court-orders-to-resolve-pakistan-steel-mills-issue)

As explained above, nearly all BRICS member countries are the modern examples of how to effectively use the state's muscle through its large enterprises to access international markets. China does more than 60 percent of its global business through its state backed corporations. More importantly, other than their monetary significance, the PSE, if managed properly, have an extremely significant role to play in promoting nationalism, restoring the nation's pride, serving as an anti-trust (market equilibrium) mechanism, capping inflation, maintaining supply side security and in keeping the nation gelled together.

Finally, to view them solely in the light of the underlying ROI may not be fair! For example, to expect that the postal service operations will be making a profit in inner Balochistan or to try and calculate the return on defence spending in absence of war would be foolhardy. Not only are the PSE difficult to replicate or recreate (once sold or closed), but their absence would also further dent an already cracked national pride. The real challenge is to resurrect them through introducing in them professional management structures and by weeding out the entrenched mafia.

[Corps Commanders Conference reconfirms Pakistan's support to Kashmiris \(https://nation.com.pk/09-Feb-2021/corps-commanders-conference-reconfirms-pakistan-s-support-to-kashmiris\)](https://nation.com.pk/09-Feb-2021/corps-commanders-conference-reconfirms-pakistan-s-support-to-kashmiris)

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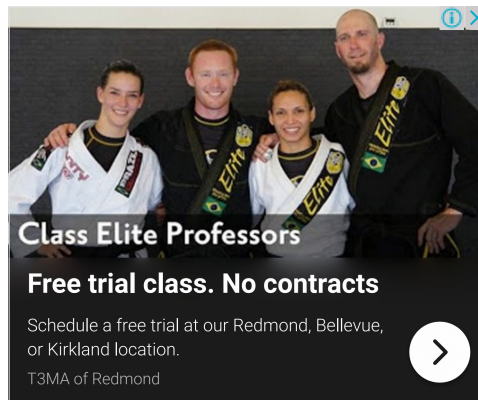
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