The Role of Privatization in Stabilizing the Economy of Pakistan and Its After-Effects

Pasha, Yasir

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CHAPTER # 1

1.1 INTRODUCTION

Privatization is a very broad term--but most simply, privatization is the transfer of assets or service delivery from the government to the private sector. Privatization runs a very broad range, sometimes leaving very little government involvement, and other times creating partnerships between government and private service providers where government is still the dominant player.

As dictionary defines it,

- A federal agency decision to change a government-owned and government-operated commercial activity or enterprise to private sector control and ownership. When privatizing, the agency eliminates associated assets and resources (manpower for and funding of the requirement).

As Government Executive put it,

- Merely defining "privatization" is difficult. In its purest form, the term refers to the shifting of the production of a good or the provision of a service from the government to the private sector, often by selling government-owned assets.

- The broader definition of privatization also includes a wide range of public-private partnerships, such as voucher systems. Even the creation of federal corporations, quasi government organizations and government-sponsored enterprises is often filed under the general category of privatization. In such organizations, though, it is often difficult to tell where government ends and the private sector begin.

In this report I will be discussing about the privatization done in Pakistan and its role in stabilizing the economy of Pakistan along with the after affects of privatization.

THE EVOLUTION:

Governments all over the world were confronted in the seventies by the problems inherent in state ownership. Because state-owned companies have no profit motive, they lack the incentive that private companies have to produce goods that consumers want and to do so at low cost. An additional problem is that state companies often supply their products and services without direct charges to consumers. Therefore, even if they want to satisfy consumer demands, they have no way of knowing what consumers want, because consumers indicate their preferences most clearly by their purchases.

The result is misallocation of resources. Management tends to respond to political, rather than to commercial, pressures. The capital assets of state businesses are often of poor quality because, it is claimed, it is always easier for governments to attend to more urgent claims on limited resources than the renewal of capital equipment. In the absence of any effective pressure from consumers whose money is taken in taxation, state industries tend to be dominated by producer interests.

Privatization began against this background of steadily poorer performances from state industries. The privatization movement started in Great Britain in the early 1980s when then Prime Minister Margaret Thatcher started to sell state-owned assets such as the British Petroleum and British Telecom. In the pattern that has been repeated around the world, this sale was linked with the deregulation of the British telecommunications industry. By allowing other companies to compete head to head with British Telecom, deregulation ensured that privatization did not simply replace a state-owned monopoly with a private monopoly.

The Telecom sale demonstrated the government's desire to satisfy the various interest groups involved in public-sector operations. The previous management became the new board of the private corporation. The workers were given an allocation of free shares and were allowed to buy more from a reserved block on a basis that offered free matching shares. The telephone-using public was offered a choice if they bought shares: a share bonus if they held their shares for three years or reductions on their telephone bill. Rural dwellers were satisfied by a requirement that the new company continue its remote country services. Urban dwellers received assurances about the number of pay phones.

Special services to the disabled were to be continued. In short, the government "bid" for the support of virtually every group that might have objected. This pattern was to be repeated and refined in subsequent privatization deals. The Thatcher government could take this tack because the private sector performed so much better than the state sector that the gains could be shared among many groups while still leaving a huge bonus for the government. Not only were subsidized losses converted into taxable profits, but also the revenue from the sales accrued to the public treasury.

Other countries were anxious to share these advantages for their own state industries. Foreign privatization ranged from massive sales in advanced countries such as France and Japan to the sale of hundreds of small enterprises in developing countries, such as Bangladesh.

By the beginning of the nineties, hardly a country in the world did not have a privatization program. Many countries learned from the experience of the early leaders. These included the techniques of writing off past debts, allocating shares to workers, splitting monopolies into competing elements, and establishing new regulatory agencies to calm public fears about the behavior of the newly privatized operations.

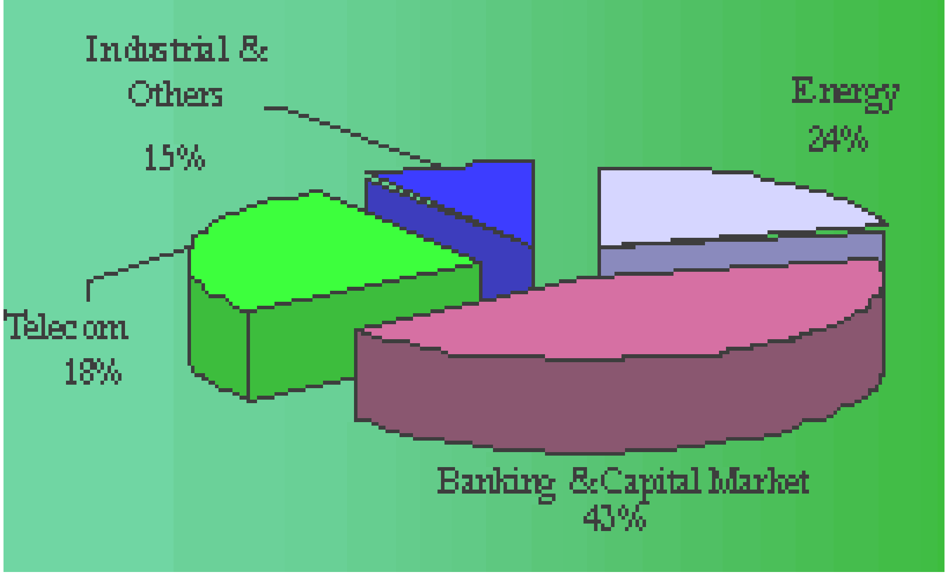
In Pakistan privatization efforts began in earnest after the creation of Privatization Commission on January 22, 1991. Although the PC mandate initially restricted to industrial transactions, by 1993 it had expanded to also include Power, Oil & Gas, Transport (aviation, railways, ports and shipping), Telecommunications and Banking and Insurance. During January 1991 to June 2003 the Commission completed 132 transactions for Rs.101.027 billion.

PRESENT STATUS:

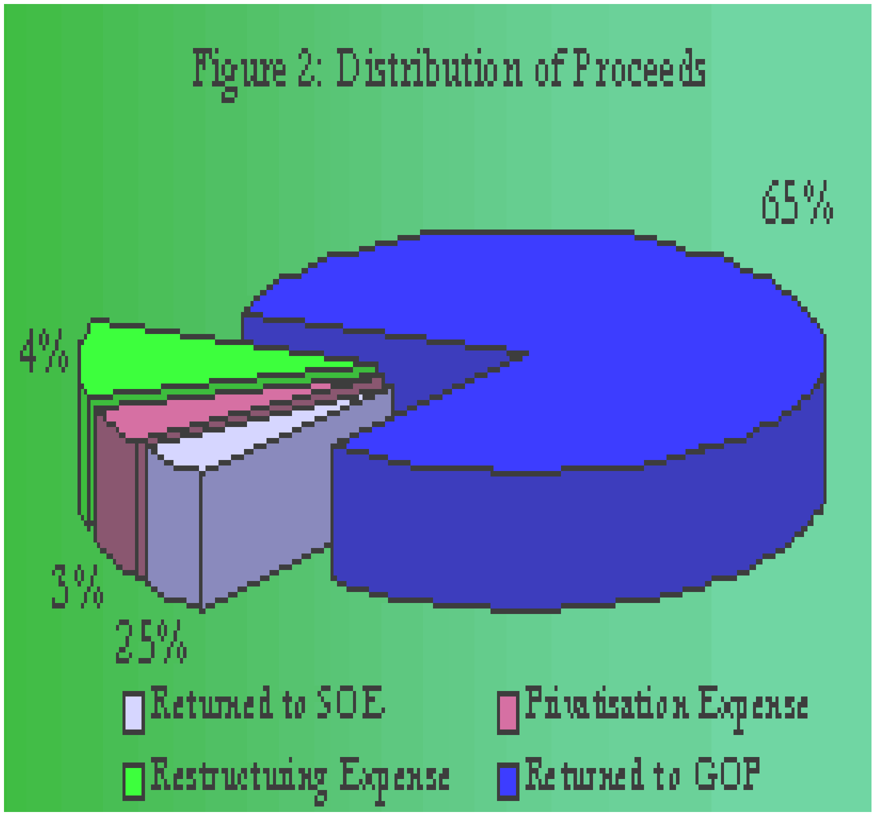
During the financial year 2003-2004, the Commission has successfully completed privatization of 8 transactions including privatization of Habib Bank Limited, AC Cement Rohri, Thatta Cement Limited, Kohinoor Oil Mills, and Capital Market Transactions (OGDCL, SSGC, POL, ARL, DG Khan Cement and NBP). The total sale proceeds realized during the year amounted to Rs.33.252 billion, which is 49.7% higher than the previous year. Out of the sale proceeds received during the year, the Commission has remitted Rs.11.212 billion to the Government of Pakistan for debt retirement and poverty alleviation program and Rs.12.573 billion to SBP and ICP for sale of their shares in different entities. Additionally, an amount of Rs.1.786 billion has been paid to the different banks in settlement of the liabilities of the GCP units absorbed by the Government of Pakistan at the time of their privatization.

The Commission during period from July 2004 to April 25, 2005 has realized Rs.33.797 billion from sale of GOP shares in PIA, PPL, KAPCO, Falleti's Hotel and 10% additional shares of Kohat Cement, Dandot Cement Ltd. By 25th April 2005, the Government of Pakistan had completed or approved 147 transactions at gross proceeds of Rs.168.080 billion. The sources of the proceeds have been shown in the figure 1.

Figure 1: Sources of Proceeds



About 65% of the gross proceeds were transferred to the Federal Government, 25% was returned to companies on whose behalf shares were sold, 4% was used for restructuring expenses associated largely with golden handshakes and rehabilitation, and 3% was used for PC's privatization-related expenditures (Figure 2).



While almost all the transactions were settled in local currency, about 51.4% of the proceeds have been received in foreign exchange from transactions pertaining to 2nd tranche of PTCL vouchers, Kot Addu Power Plant (KAPCO), Six Oil & Gas Concessions, Habib Credit & Exchange Bank, United Bank Limited and Habib Bank Limited. The table provides the number of transactions privatized and the table provides detail of each transaction.

(Rupees in Million)

Table : Number of privatised transactions

	1991 to Jun 2003		Jul 2003 to Jun 2004		Jul 2004 to April 25, 2005		To Date	
Sector	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**
Banking	6	18,614	1	22,409			7	41,023
Capital Market Transaction	11	9,727	3	9,707	3	12,266	17	31,700
Energy	12	20,904			1	20,240	13	41,144
Telecom	2	30,558					2	30,558
Automobile	7	1,102					7	1,102
Cement	11	7,557	2	1,049	1	75	14	8,681
Chemical / Fertilizer	17	10,198	1	6			18	10,204
Engineering	7	183					7	183
Ghee Mills	21	756	1	81			22	837
Rice / Roti Plants	23	326					23	326
Textile	2	87					2	87
Newspapers	5	270					5	270
Tourism	3	594			1	1,211	4	1,805
Others	5	155			1	5	6	160

RECENT PROGRESS:

During the period from November 26, 2002 to April 25, 2005 privatization proceeds of Rs.75.110 billion have been realized from 22 transactions. The Privatization Commission in order to ensure participation of the small investors and benefit from the privatization program also sold GOP shareholding in NBP, POL, ARL, DG Khan Cement, OGDCL, SSGC, PIA, PPL and KAPCO through Capital Market. Some of the major transactions completed are:

- Sale of 51% of GOP stake in HBL for Rs.22.409 billion
- Sale of GOP shareholding in POL, ARL and D.G Khan Cement through Stock Exchange for Rs.5.862 billion.
- Divestment of 30% shares of Bank Al-Falah for Rs.620 million.
- Sale of Management Rights of ICP-SEMF for Rs.787 million
- Divestment of 13.2% shares of National Bank of Pakistan for Rs.1.386 billion
- Sale of Associated Cement, Rohri for Rs.255 million
- Sale of (5%) 215,046,420 ordinary shares of Oil & Gas Development Company Limited (OGDCL) through Capital Market for Rs.6.848 billion.
- Sale of Thatta Cement for Rs.794 million
- Sale of 10% shares of Sui Southern Gas Limited for Rs.1.731 billion through Capital Markets.
- Sale of shares of Kohinoor Oil Mills Limited for Rs.80.7 million
- Sale of 5.8% shares of PIA for Rs.1.329 billion through Capital Market
- Sale of 15% shares of Pakistan Petroleum Limited (PPL) through Capital Market for Rs.5.655 billion
- Sale of the Falleti's Hotel, Lahore for Rs.1.211 billion
- 10% additional shares of Kohat Cement for Rs.40.8 million
- Sale of 20% shares of Kot Addu Power Company through Capital Market for Rs.5.282 billion.
- Sale of International advertising (Pvt.) Ltd. for Rs.5.177 billion
- The transaction of KESC for Rs.20.240 billion has been approved for privatization. The proceeds are awaited.

1.2 STATEMENT OF PROBLEM

As talked earlier in the introduction that almost all the countries are using the strategy of privatizing their state-owned enterprises, which are in loss to make them profitable entities. So as Pakistan is doing this from 1991 but at the beginning the pace was slow but from last 3 years we have seen the significance increase in the efforts of Privatization Commission of Pakistan and government is consistently arguing about the betterment of country's economy. So the problem statement of this research project is as follows:

"The role of privatization in stabilizing the economy of Pakistan and its after effects".

BASIC OBJECTIVES OF STUDY ARE:

- Historical background of Privatization (*already discussed in introductory part).*
- Reference of successful privatized economies.
- Dimensions of Privatization.
- Pros and Cons of Privatization.
- Privatization in Pakistan.
- Long term objectives of Privatization Commission of Pakistan.
- Privatization Process.
- Success and issues of privatization in Pakistan.
- Comparisons of different economic indicators of Pakistan for last 5 years.

1.3 SIGNIFICANCE OF STUDY

This study will show the reason for privatization in Pakistan. It shows that why privatization is necessary for the growth of the country. This study will help to people to assess the performance of Privatization Commission and also help them to understand that how privatization is playing an important role in stabilizing the economy of Pakistan. The problems or after effects related with the privatization will also be discussed in this report. Privatization is aimed at strengthening public finances and bringing in new investment while simultaneously enhancing the quantity and quality of goods and services. By attracting better management and staff and by freeing the company from public sector red tape and procedures, privatization can unleash the potential of the company. The greater efficiency and availability of capital, coupled with built-in incentives to improve customer service, will result in more satisfied customers and a lowered need to raise taxes.

1.4 SCOPE

- This study will take almost 2 to 3 months to be completed.
- The study will revolve around privatization in Pakistan but references from other countries can also be taken to compare the situations.

1.5 DELIMITATIONS

Some of the delimitation that can affect this research is as follows:

- Most of the data, which is available, is for the year ended 2004, which may cause some statistical errors.
- The future privatization deals by Privatization Commission and recommendations by the researcher will be indicative only and will be contingent upon resolution of outstanding issues, market conditions, investors' response etc.

1.6 DEFINITIONS

EOI	EXPRESSION OF INTEREST
BOI	BOARD OF INVESTMENT
PC	PRIVATIZATION COMMISSION
CCOP	CABINET COMMITTEE OF PRIVATIZATION
HBL	HABIB BANK LIMITED
KESC	KARACHI ELECTRIC SUPPLY CORPORATION
UBL	UNITED BANK LIMITED
PTCL	PAKISTAN TELECOMMUNICATIONS LIMITED
PPL	PAKISTAN PETROLEUM LIMITED
KAPCO	KOT ADDU POWER COMPANY
PSO	PAKISTAN STATE OIL
FDI	FOREIGN DIRECT INVESTMENT
SBP	STATE BANK OF PAKISTAN
GDR	GLOBALLY DEPOSITORY RECEIPT
IPO	INITIAL PUBLIC OFFERING
OGDCL	OIL & GAS DEVELOPMENT COMPANY LIMITED
SSGCL	SUI SOUTHERN GAS COMPANY LIMITED
ARL	ATTOCK REFINERY LIMITED
PIA	PAKISTAN INTERNATIONAL AIRLINES
NBP	NATIONAL BANK OF PAKISTAN
RFP	REQUEST FOR PROPOSAL
SOQ	STATEMENT OF QUALIFICATIONS

CHAPTER # 2

2.1 RESEARCH DESIGN

The problem statement is to analyze the role of privatization in stabilizing the economy of Pakistan and it's after effects. So the research is a fundamental research and the suitable design for the research is descriptive.

This research is qualitative as well as quantitative. The method of conducting this research is based on primary as well as secondary data. The emphasis will be both on the primary and secondary data. Through secondary data the past performance of the PC will be analyzed and through the primary data problems regarding the privatization and its after effects will be find out. I will go through newspapers, Internet, magazines, and annual reports for the literature review, and unstructured interviews will also be conduct with the key management personnel of the Privatization Commission or Senior Government Employees.

2.2 RESPONDENT OF THE STUDY

Respondents of my study will be the employees of the Privatization Commission of Pakistan, Members of the Cabinet Committee of Privatization and key management personnel of the companies which are privatized as well as the point of view of the critics will also be included in the study.

2.3 INSTRUMENTS

For collecting information from the respondents the interviews will be conduct. The interviews will be unstructured. For the secondary data I will go through newspapers, Internet, magazines, and annual reports of the Privatization Commission.

2.4 TREATMENT OF DATA

The data that will be gathered during primary data collection will be analyzed in verbal context that is qualitative framework. The statistical data that will be gathered from the annual reports will be covert into the form of graphs and the interpretations and analysis of that secondary data will be done. The conclusion and the recommendations will be given on the basis of collected data in the study.

2.5 PRESENTATION ANALYSIS

The data that I will collect be raw and I will analyze the data in form of quantitative framework as well as in qualitative form and will also present the tables, graphs and charts about the privatization done in Pakistan and some economic indicators for several past years.

CHAPTER # 3

3.1 RELATED LITERATURE

Privatization What is Privatization? Privatization is the process of transferring productive operations and assets from the public sector to the private sector. Broadly defined in this fashion, privatization is much more than selling an enterprise to the highest bidder, as it includes contracting out, leasing, private sector financing of infrastructure projects, liquidation, mass privatization, etc. My testimony will argue that there is no single best approach to privatization; the appropriate privatization path depends on the goals that the government is seeking to attain, the individual circumstances facing the enterprise and the economic and political context of the country. It should be noted that privatization is fundamentally a political process as well as a commercial and economic process. Privatization changes the distribution of power within a society, as it diminishes control of the economy by the state and government- appointed managers. Workers often feel threatened by the potential changes inherent in privatization, although employees frequently benefit from the process. As a result, public support is a major consideration in any privatization program and many of the choices made in designing and implementing transactions reflect the need for such support. Two consequences flow from this factor.

1) Choices of approaches are sometimes altered due to political considerations, meaning that equity must be promoted in the privatization strategy.

2) Program implementation must be objective and fair to avoid adverse publicity.

What are the goals of privatization? Many goals are often pursued through privatization programs. These goals often fall along two principal dimensions:

1) Broad social or macro economic goals.

2) Enterprise specific or macro economic goals. Macro economic goals are numerous. Fundamentally, privatization is advocated as a means to reduce the government's role in

the economy, partly as a philosophical matter (as in the UK) but principally because governments have performed badly in that role. Many countries can attribute substantial portions of their external debt to liabilities of state-owned enterprises and significant portions of government budgets are devoted to paying subsidies or otherwise assisting loss-making State-owned enterprises. Government's objectives in these situations are often simply to extricate themselves from these financial commitments, and focus scarce resources instead on education, infrastructure, and social welfare. A second macro economic goal of privatization is to promote the development of the private sector by leveling the playing field and ending subsidized competition from state-owned enterprises. There is a danger in some countries that emerging private businesses face unfair competition from state enterprises that have access to credit and other inputs at below market rates and better access to government distribution channels. In order to give the private sector a fair opportunity to compete and thrive, state-owned enterprises are privatized. A third goal of privatization's to obtain the sales proceeds and use them to finance shortfalls in the government's budget or retire some of the public sector debt. While it is widely recognized that focusing on sales proceeds may be shortsighted and ignore other important outcomes of privatization, it is a fact that many governments are strongly influenced by the availability of funds from privatization. A fourth goal is to broaden share ownership so that the public has mechanisms for saving money and participating in the economies of their countries. The macro economic goals of privatization focus mostly on the potential improvements that private sector operators will bring to an enterprise to improve this performance and increase chances of survival. These goals recognize the need to improve enterprise efficiency by introducing new technology and financing sources, improving the quality of the product, enhancing marketing-especially in the international market, providing information systems, and generally improving the management of the enterprise. Obviously successful changes of this nature, when applied to a number of individual enterprises, will have significant macro economic implications as well. The final goals of privatization is to note that in most countries privatization is but one part of a broad program of structural reform. This is most evident former Communist country, where privatization is an element of the process of developing a market economy and its associated financial institutions. In such cases, the privatization program designed should take into account the broader economic goals that are being pursued, as well as the goals specific to the enterprise.

3.2 LOCAL LITERATURE

IS PRIVATIZATION IN PAKISTAN PURPOSEFUL?

Dr. Akhtar Hasan Khan

Member of Pakistan Institute of Development Economics (PIDE)

Source: (http://www.pide.org.pk/psde/Papers_18AGM.html)

Dr. Akhtar Hasan khan presented his research paper in the 18th Annual General Meeting of Pakistan Society of Development Economics (PSDE), PSDE is one of the bodies of PIDE. In hi research paper he talked about the goals of privatization and also gave some examples of privatization done in Pakistan and relate it with different countries. He mentioned some of the problems of the privatization in Pakistan and gave some recommendations also. The crux of his study is given below:

> *"China's economic achievement is unique in human history. A nation of more than one billion people has been able to quadruple its per capita- income in less than two decades. The Washington Consensus and international financial institutions have been putting pressure on China to privatize its public enterprises, some of which are running at a loss. However, China did not pay any heed to the foreign advice but what it did was to stop fresh investment in public enterprises. Thirty years ago public enterprises accounted for about 90% of the national industrial output. At present they account for only 30%. As the fast expanding new investments, especially by multinationals have over taken the public enterprises. In the process many loss making enterprises which could not modernize themselves have closed or automatically phased out. Pakistan should have followed China's example and instead of undertaking sweeping tides of privatization conducted in a non-transparent manner, detrimental to national interest, we should have rather lured private*

investors' along with foreign investors to set up new industry which would have gradually reduced the size of public sector enterprises."

3.3 FOREIGN LITERATURE

Impact of Privatization on Economic Growth

Adnan Filipovic, Furman University, AUGUST 2005

Source:(http://64.233.179.104/search?q=cache:b3Nbq2hDjzAJ:org.elon.edu/ipe/Adi%2520final.pdf+Impact+of+Privatization+on+Economic+Growth&hl=en&gl=pk&ct=clnk&cd=3)

Adnan Filipovic the student of Furman University has researched the relationship between the economic growth and the privatization of the country. In his study he has taken the variables like GDP, Foreign Direct Investment, Government Debts, Balance of Payments and many more variables of more than 40 developing countries, which also includes the Pakistan, SriLanka, Bangladesh, Nigeria and others. In the research he found out the significant relationship between the privatization as an important strategy for a economic growth. The conclusion of his study is given below.

"The quest for economic growth in Third World countries has received an enormous amount of attention over the past 50 years. The poverty problem that plagues numerous countries around the world is a monumental challenge for which we have yet to find the solution. Easterly powerfully captures the significance of economic growth as he states, "Poverty is not just low GDP; it is dying babies, starving children, and oppression of women and the downtrodden. The well-being of the next generation in poor countries depends on whether our quest to make poor countries rich is successful." (Easterly, 2001). Theoretical analysis of privatization suggests that incentives play a significant role in the potential success of privatization as a factor of economic growth. In fact, privatization, accompanied by appropriate structural reforms, creates incentives to improve economic efficiency, increase investment, and adopt new technologies. Furthermore, the methods of implementing

privatization play an important role in creating the right incentives and leading the way for the appropriate economic restructuring. It is essential to note that the success of privatization largely depends on the government commitment to legal and regulatory reforms. Cook and Uchida's study suggests that the lack of appropriate governmental reforms might be the cause for a negative relationship between privatization and economic growth. Further research is necessary in order to conclusively determine the benefits and the potential role of privatization in the construction of the future economic policies. Although privatization is a fairly recent economic policy aimed at promoting economic growth, it is safe to conclude that privatization alone will not be the magical solution to the elusive quest for growth."

3.4 GAPS TO BE BRIDGED BY THIS STUDY

This study is done to find out the role of the privatization in stabilizing the economy of Pakistan. As from the prior studies it has been claimed that privatization is an important factor in the economic growth of country. It facilitates the economy of a country in various ways such as restructuring the economy, very helpful in changing the balance of payment for any country, transfer of technology and etc.

So this study will help the public to understand that how the privatization is beneficial for the country and how it affects the society and economic growth of Pakistan.

By the help of this study we will also analyze the performance of Privatization commission of Pakistan and future prospects of privatization for Pakistan in both positive and negative ways.

CHAPTER # 4

4.1 SUCCESSFUL PRIVATIZED ECONOMIES

Here in this section some of the successful privatized economies are discussed to show that show that the trend of privatization has become a key factor in the economic growth of developing countries.

BRASIL:

Brazil has radically altered its view of the proper role of a modern State. No longer is the government seen as a prime producer of goods and services, but rather as a regulatory agent that should focus its resources on the country's social needs. Privatizing the State's extensive productive network is an effective way to enhance the government's social role, to balance the budget, to reduce the public debt and to improve the competitive position of the nation's industry.

The steel sector is a good example of Brazil's changing economic structures. Throughout the last forty years, the Brazilian government invested $26.1 billion in the steel sector, receiving in return dividend payments of only $600 million. From 1992 until 1993 eight companies were privatized. The speed at which these companies turned their losses into profits was remarkable. Already in 1993, they were able to distribute dividends worth $150 million. But the benefits to Brazilian society far exceed that number. In financial terms, the total sale of the steel sector approximated $10.6 billion if one considers the $5.5 billion from the sale of shares, the $2.6 billion in debt assumed by the new owners, and the expected $2.5 billion of new investment. In addition, efficiency improved substantially, about 2,500 new jobs were created, ownership was expanded and extended to the workers, and exports rose. The successful privatization of the steel sector indicates the privatization program's massive benefits to Brazil.

In summary, the privatization program contributes significantly to the restructuring of the State by pursuing the following objectives:

- Correcting the fiscal imbalance
- Focusing the government's activities on the social area
- Transferring to private management many activities considered "strategic" in the country's previous development model
- Stimulating the modernization and restructuring of the country's industrial sector
- Strengthening the capital market by broadening its base.

RUSSIA:

Privatization in Russia unfolded rapidly following the collapse in 1991 of the Soviet Union and its centrally planned economy. In late 1992, about 150 million privatization certificates (vouchers) were distributed which gave the bearer the right to buy small-scale business or shares at auctions, as well as to pay for housing. To get the plan through parliament, the reformers agreed to allow managers and workers to buy 51 percent of shares in businesses, rather than the maximum 40 percent originally proposed. This often kept enterprises in the hands of "insiders," Soviet-era bosses with little idea of how to run private business, creating a delay in the influx of new management and the shake-out of inefficient companies. The voucher-based scheme ended in mid-1994, marking the beginning of the second stage of the privatization process, the loans-for-share scheme. By then, 75 percent of small scale enterprises had been privatized, along with over 80 percent of the industrial workforce. Overall, 15,000 companies were privatized using vouchers, which accounted for 60 percent of industrial assets. Cash privatizations or the loans for shares scheme resulted in a compromise where businessmen would bail out the government with loans and in return would receive shares in big enterprises as collateral. This was attractive as many crown jewels of Russian industry - oil companies, metal smelters and mines - had been kept back from voucher privatization. In 1997 the privatization process entered a third stage, case-by-case privatization. In this phase, financial, insurance, aluminum and coal companies were sold. By the end of 2001, 129,811 enterprises had been sold, representing about 66 percent of the entire inventory of enterprises at the beginning of privatization. About 700 enterprises and packets of share were sold in 2001.

CHINA:

Reform of China's state-owned enterprises (SOEs) has been a major aim since urban reforms began in 1984. Although there were calls to privatize the SOEs, the Government's initial emphasis was on boosting performance by changing the internal governance of SOEs and improving the market environment in which they operated. By the late 1980s the Government had decided that the best way to reform small SOEs was to lease them out, with the manager paying the state a fixed proportion of the firm's profit. Incorporation was another significant measure that led to privatization. Since the start of the present century the reform of China's state enterprise sector has accelerated and acquired some qualitatively new features. First, the scale of change has expanded to affect almost every kind of SOE – small, medium, large, and very big; under both central and local control. Second, ownership diversification has been so extensive that the wholly state-owned non-financial company has become an endangered species in China. Third, the range of restructuring mechanisms being used has expanded dramatically to include bankruptcies, liquidations, listings and de-listings, debt-for-equity swaps, sales to private parties (domestic and foreign), auctioning of state firms and their assets or liabilities, standard corporate governance techniques, and so on. Finally, mass layoffs – unheard off just four or five years ago--have become a widespread phenomenon. Some restructuring of SOEs is occurring through the four state-owned asset management companies (AMCs) that have been created to take more than $170 billion in nonperforming loans from the big four state-owned banks. As part of their program, 580 SOEs, accounting for about 40 percent of the state sector's assets and sales, have been selected for debt-equity swaps. The AMCs have emerged as important, and often majority, shareholders in a number of large SOEs. In the strategically important infrastructure and energy sectors where the regulatory framework is still evolving, monopolies have been broken and competition has been introduced. Many companies have been corporatized, and some have been listed on local and international exchanges. China has nurtured over 20 giant corporations and conglomerates that have proven competitive in the international market. Some of these companies are laying off tens—or even hundreds—of thousands of employees, not because they are in financial distress (some of them are hugely profitable) but because they wish to position themselves as important international players. As of 2002 the top 12 Chinese transnational corporations, mainly SOEs, controlled over $30 billion in foreign assets and had some 20,000 foreign employees and $33 billion in foreign sales.

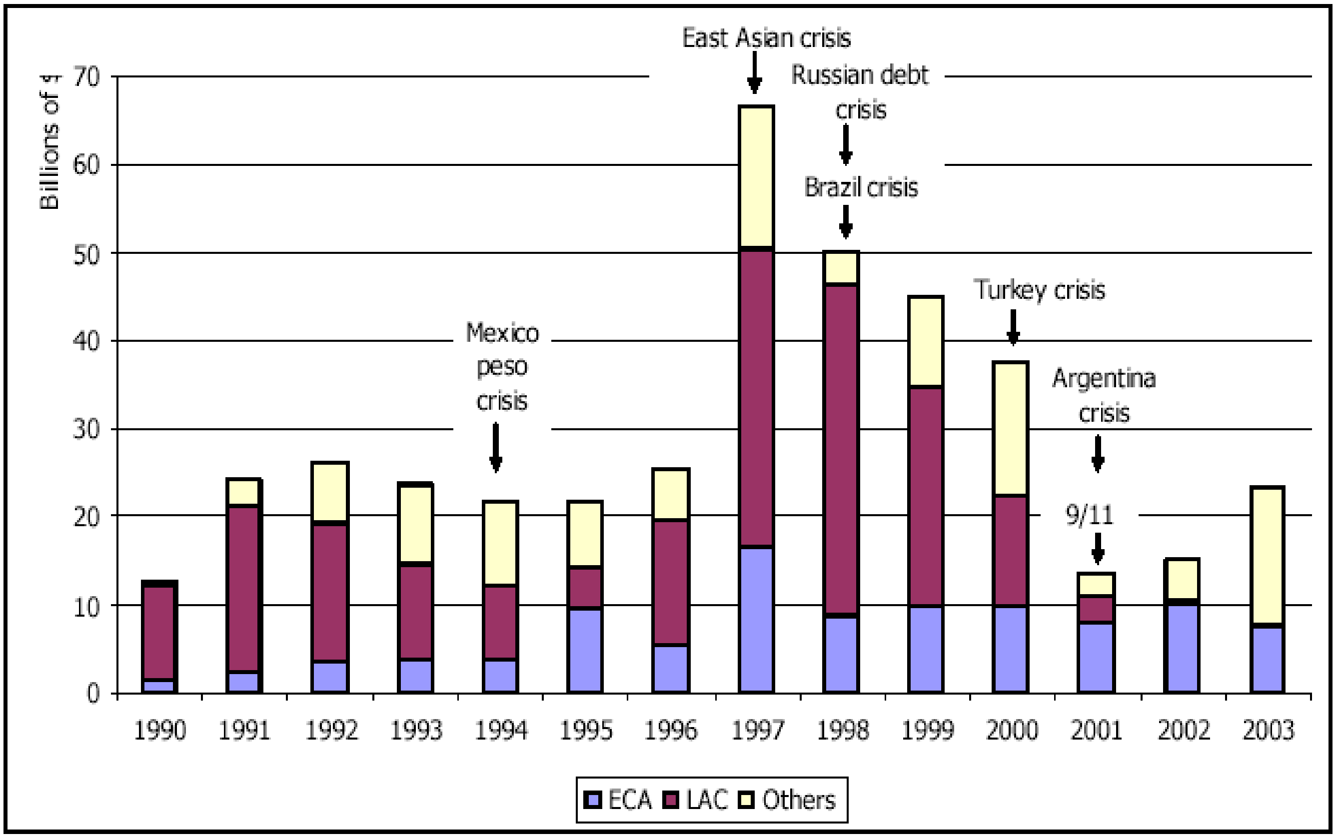
TURKEY:

The striking economic shifts of the 80's ushered a new era for the world economy, where privatization became one of the most essential and indispensable financial reforms on the economic agendas of many nations. As being one of the fundamental tools of the free market economy, privatization has been on Turkey's agenda since 1984. Privatization in Turkey, not only aims to minimize state involvement in economic activities and to relieve the financial burden of State Economic Enterprises (SEE) on the national budget, but also contemplates the development of capital markets and the re-channeling of resources towards new investments. Turkey, one of the fastest growing economies of the world has positioned itself as an attractive and promising investment environment through the implementation free trade principles and establishment of dynamic capital markets as well as offering liberal incentives facilitating transactions for international investors and exporters. The fundamental transformation in Turkish economy has moved the country from an inward focused import substitution model towards an export led growth and industrial one. The East-West expansion of the world's geopolitical horizons has opened up a new era for Turkey with many promising opportunities for international investors. The investment opportunities in Turkey are particularly attractive in the framework of country's ongoing ambitious privatization agenda. The involvement and participation of international investors is highly encouraged in the massive privatization program. The privatization process in Turkey with a view of relieving the burden of state economic enterprises on the national budget has proved to be an important source of funds for the government and brought tangible results and progress within this philosophy. Although this task has not been easy, many state-owned companies have passed to the private sector. Since 1985, state shares in 241 companies, 29 energy generation and distribution units, 4 power generations, 22 incomplete plants, 6 toll motorways, 2 Bosporus bridges, 1 service unit and 5 real estates have been taken into the privatization portfolio. Later, 22 of the companies, 4 power generations and 4 real estates were excluded from the portfolio for various reasons. One of these was Turkey Ögretmenler Bankasý, which merged with Halk Bankasý in May 1992 and Denizcilik Bankasý which merged with Emlak Bankasý in November 1992. Currently there are 38 companies in the privatization portfolio.

4.2 PRIVATIZATION: TRENDS AND RECENT DEVELOPMENTS

The analysis of overall developing country trends shows that: (i) privatization activity dropped off after 1997 but picked up, albeit modestly, in recent years; (ii) the average size of a transaction increased over the years as countries moved towards privatizing larger firms; and (iii) while a large number of countries are involved in privatization, proceeds are highly concentrated in a handful of countries. In the early to mid-1990s, privatization proceeds in developing countries averaged between $20 to 30 billion on an annual basis. Proceeds peaked sharply in 1997 to almost $70 billion. The sudden and one-time jump resulted from increased activity in large infrastructure and energy (oil and gas) transactions across virtually all regions, with the largest share coming from three countries in Latin America (Argentina, Brazil, Mexico), Kazakhstan, Russia, and China. Revenues declined thereafter as Argentina's stock of enterprises dwindled and as activity in Asia and Europe slowed down following the East Asian financial crisis of 1997 and the Russian debt crisis of 1998. By 2001 activity had reached the level of 1990, but starting in 2002 proceeds began a modest pick up and is slowly creeping back up to pre-1997 levels. The recent increases resulted mainly from share sales in telecoms, power, and banking in countries such as China (additional share offering of China Telecom), the Czech Republic (partial sale of Transgas), Slovakia (partial sale of the electricity company), India (telecoms), Pakistan (United Bank), and Saudi Arabia (telecoms).

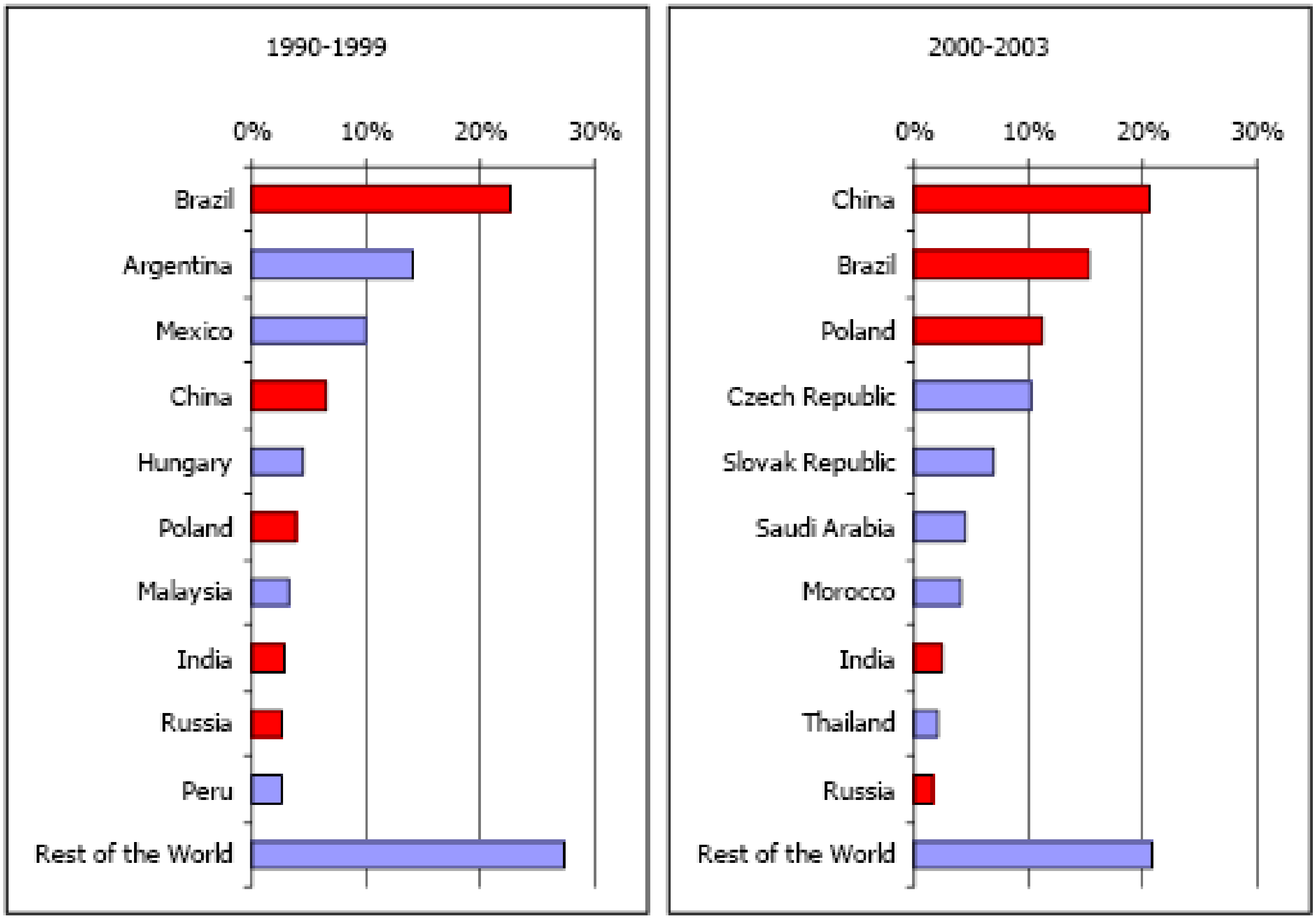
Figure 1: Global privatization proceeds



Source: World Bank Privatization Database

While 120 countries have engaged in privatization over the past 15 years, proceeds are highly concentrated in a handful of countries: over two-thirds of total developing country proceeds over the entire time period were generated in just ten countries—or 8 percent of all privatizing countries—with over half of all proceeds generated by the top five alone. While ten countries consistently generated the bulk of all proceeds, the composition of the group changed over time Brazil, Argentina and Mexico dominated the 1990s, with these three countries alone accounting for virtually 50 percent of all proceeds. Argentina and Mexico fell off the list in more recent years due to near completion of much of the privatization agenda, but Brazil remained and together with China, Poland, and the Czech Republic accounted for nearly 60 percent of all proceeds since 2000. For the first time, two countries in the Middle-East and North Africa region made it to the group of ten on account of the partial sale of Saudi Telecom and the sale of Regie de Tabac (tobacco manufacturing) in Morocco. Five countries remained on the list in both periods - Brazil, China, India, Poland, and Russia – representing 41.3 percent of total proceeds from 1990-2003.

Figure 3: Top ten revenue generating countries



Source: World Bank Privatization Database

In South Asia—with 4 percent of total proceeds or $15 billion from nearly 400 transactions—remains at the same levels as in the past. India and Pakistan together account for 75 and 15 percent respectively of South Asian proceeds. Indian revenues were generated largely from minority share sales in banking and oil and gas, with only a few recent manufacturing sales transferring strategic control through majority or full share sales and the divestment of the telecoms company in 2002. Pakistan privatized enterprises in a wide range of sectors, including telecoms, banking and manufacturing.

Sri Lanka had an active program but its share of regional revenues remained small given the size of its economy. While Bangladesh recently closed a number of large loss-making jute and textile mills, enterprise sales proceeded at a slower pace.

4.3 DIMENSIONS OF PRIVATIZATION

Privatization efforts are occurring in several different regions, nations, and industries. Although some clear patterns have emerged, there are many different forms and variations of privatization. One example of an aggressive attempt at privatization is when a government completely divests itself of all state-owned enterprises to the public and fully removes itself from the control and management of these enterprises. There are also several less substantial forms of privatizing. At the other extreme, a government may implement a deregulatory policy which allows an industry only a marginal amount of greater autonomy or may just contract out a service that was formerly performed by government workers, such as trash collection. Privatization can also be achieved without doing much of anything. If, for example, the private sector is growing while the public sector is shrinking, privatization is being achieved through attrition.

Recent efforts have also varied considerably in terms of the speed at which companies have been privatized. In some cases, recent privatizations have been sweeping--involving the transformation of state-owned petroleum monopolies into completely privatized companies, almost overnight. However, more typical is the case of gradual privatization. Even in the most far-reaching privatization efforts--such as in the United Kingdom--several years have gone by between the time government committed itself to privatizing industries and the full transfer of ownership to the public.

The role of the foreign investor has been an important factor in the privatization process. In some political jurisdictions, few, if any, restrictions have been placed on foreign investors. In the Australian state of Victoria, for instance, when five of the state's electric distribution companies were auctioned off, all were purchased, at least in part, by U.S. companies. Countries such as the United Kingdom and Argentina have also been at the forefront in allowing relatively nondiscriminatory treatment of foreign investors. In other cases, restrictions on foreign investment have been inhibiting. Several of the former

Communist regimes, for example, along with China, have undertaken relatively moderate and often vacillating steps towards opening their energy sectors to foreign investment. In general, these countries have relied on joint ventures with state-controlled enterprises as an approved vehicle for foreign investment in their energy industries.

Governments have often undertaken a vast restructuring of energy industries prior to the transfer of ownership to the public. In Russia, for example, privatization has involved the creation of eleven vertically integrated petroleum companies, along with a large natural gas-producing company and a large transmission company. In other countries, a restructuring has ensued largely after the transfer of ownership from state to private hands. In the United Kingdom, a merger and acquisition frenzy ensued following the recent privatization of electricity generation, transmission and distribution industries, as well as in the natural gas transmission and distribution industries.

It should be noted that the privatization of an industry does not mean that governments relinquish their authority to regulate these industries. In many cases, the politically sensitive issue of what allowances could be made to electric utilities being privatized in their freedom to adjust residential electricity rates has placed constraints on the privatization process.

4.4 PROS AND CONS OF PRIVATIZATION

PROS

The following points can be mentioned as some advantages of privatization:

1. Growth of the private sector and creation of a healthy competition in the production sector and people's direct involvement in economic activities and creation of job opportunities
2. Increasing the efficiency of the production sector and curbing inflation
3. Creating an atmosphere of confidence for domestic and foreign businessmen and helping boost the export of non-oil commodities

4. Attracting foreign and domestic investments in the form of hard currency or modern technologies
5. Bringing about further harmony with the international economic system in order to join the member countries of the World Trade Organization
6. Gaining access to modern managerial techniques and getting away from outdated and traditional managerial methods
7. Diluting the government's role in the economy, improving the budgetary structure, reducing budget deficit and cutting government expenditures
8. Improving taxation system and exploring new financial sources for the government to invest in infrastructures
9. Reducing and stabilizing wages and salaries and offering goods at competitive prices
10. Improving social security system and so on

CONS

The arguments against privatization include:

1. Out flow of money in the long run (in case of Privatization through FDI).
2. Does not guarantee market competition and can result in private monopolies.
3. Government can lose sovereignty (in case of FDI)
4. Causes policymakers and managers to lose control over privatized services.
5. Diminishes accountability of government.
6. Private gain and public good do not always correspond.
7. Is unnecessary given other productivity approaches available to public service providers.
8. Compromises quality because of private vendor profit motive.
9. Lowers state employee morale and contributes to fear of displacement.
10. Destabilizes economically marginal communities.

4.5 PRIVATIZATION IN PAKISTAN

Number Of Privatized Transactions (Rs. In Millions)								
SECTOR	1991 to June 2003		July 2003 to June 2004		July 2004 to April 25,2005		To Date	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Banking	6	18614	1	22409			7	41023
Capital Market Transaction	11	9727	3	9707	3	12266	17	31700
Energy	12	20904			1	20240	13	41144
Telecom	2	30558					2	30558
Automobile	7	1102					7	1102
Cement	11	757	2	1049	1	75	14	8681
Chemical/Fertilizer	17	10198	1	6			18	10204
Engineering	7	183					7	183
Ghee Mills	21	756	1	81			22	837
Rice/ Roti Plants	23	326					23	326
Textile	2	87					2	87
Newspapers	5	270					5	270
Tourism	3	594			1	1211	4	1805
Other	5	155			1	5	6	160
Total	**132**	**101031**	**8**	**33252**	**7**	**147**	**147**	**168080**

4.6 LONG TERM OBJECTIVES OF PRIVATIZATION COMMISSION OF PAKISTAN

Vision for the Future

Our long-term vision is a government that focuses on good governance and regulation, while providing an enabling environment for the generation of investment opportunities n Pakistan to harness the private sector as the engine of growth for the economy. Economic growth is the most potent tool for fighting poverty as it stimulates employment, which is necessary to reduce poverty. e would like to think that the PC is the standard bearer in the ongoing struggle to revitalize and restructure Pakistan's economy. We are committed to privatization in an pen, fair and transparent manner, for the benefit of the people of Pakistan, in the light way, to the right people, at the right price he Government's program for transfer of the ownership of public assets is unambiguously predicated on the principle of reducing its direct participation in commercial activities. The Government's role will be limited to the oversight of the economy and to ensure equity and economic justice. This reinforces the need for regulation in strategic areas and the design of appropriate policies in order to ensure that he functioning of the economy is not distorted and those benefits are distributed in an equitable manner.

The broad features of the privatization policy are:

- Privatization is a key element of the overall economic reforms agenda of the government of Pakistan that embraces deregulation and liberalization of the economy. In this regard, its scope includes all public assets that can be transferred to or managed by the private sector. Furthermore, it is a comprehensive policy that recognizes the need for regulation, broad-based legislative support and careful planning.

- The program of privatization is flexible and not unduly rigid. It is structured and organized in such a manner that adjustments are made and necessary changes accommodated as privatization proceeds in order to ensure successful divestiture of public enterprises to the private sector.

- The privatization policy is an important feature of the economic liberalization agenda that will lead to improvement of domestic industry, greater private capital investment and economic growth.

- The program will enable the Government to liberate itself from micro-management of the economy and to reduce the need for persistent budgetary support to the public enterprises.

- The policy aims to provide a vehicle for potential investors to invest in Pakistan through their participation in the privatization process. In this respect efforts are continuously made to harness the resources of the expatriate Pakistani and domestic private sector investors.

- Safeguards are being introduced to achieve broad based ownership and to prevent the concentration of resources in a few hands, while promoting privatization through competitive bidding.

- Steps will be taken to ensure that the interests of consumers are protected, especially in respect of fair price and quality of product.

- Establishment and strengthening of regulatory frameworks will be ensured to protect the genuine interests of the investors, consumers, taxpayers and the Government.

- Above all, learning from previous experiences, the process of privatization has been made manifestly transparent through codification of procedures and process to the extent possible.

- Special care is being taken to protect the genuine interests of the employees of enterprises proposed to be privatized.

Constraints in Implementation

With continued Government commitment and support, substantial progress has been made in overcoming the resistance from vested interests and negative market sentiment; the two primary causes for slow pace of privatization in the country. Recognizing the need to tackle the issues impacting the pace and progress of privatization on an emergent basis, the Government continues its efforts to create an enabling environment conducive to successful and progressive privatization program. Establishing and strengthening regulatory frameworks in all sectors, carrying out sectoral reforms related to deregulation and pricing so that prices of goods and services bear a closer relation to their true cost and provide correct incentives to consumers and producers and improving the public's understanding of privatization rationale and process via seminars, interviews, publications are all part of the Government measures to further facilitate the investment and privatization efforts in the country. Notwithstanding the above, the Government is taking further measures to overcome constraints in the implementation of the privatization process including:

- Perception issues and lack of understanding about the privatization process.

- Regulatory uncertainty particularly in the utilities and infrastructure sectors.

- Litigation from losing parties and occasionally from public.

- Continued opposition both overt and covert from the vested interests in the public sector as well as from other vested interests.

- Political sensitivities especially on pricing, employment, security and competition issues.

Measures to Facilitate the Process

- Rationalization of tariff structures to reflect cost of service

- Overcoming the resistance of vested interest groups with a firm hand

- Strengthening the regulatory framework for telecommunications, power, and oil & gas, and staffing regulatory agencies with professionals who are supportive of private participation in these sectors

- Being realistic in the amount of proceeds that can be obtained from the transactions; in some instances, those opposed to privatization inflate expectations of likely proceeds with the intention of raising controversy and undermining the privatization process.

- Ensuring that federal investigation teams carry out their work with an open mind and in a professional manner so as not to demoralize investors and others involved in the privatization process so that decisions are taken at different for as based on sound business practices.

- Developing, structuring and timing capital market transaction in a manner that broaden deepen and strengthen the capital markets in Pakistan.

- Large number of cases had been filed since 1991 at various for a including Civil and District Courts, Labor Courts, NIRC, Federal Service Tribunal, Wafaqi Mohtasib, and High Courts. These were pursued vigorously and generally decided in favor of PC. However, special mechanism had been laid down vide PC Ordinance 2000. Accordingly the High Courts are exercising the exclusive Jurisdiction in privatization related cases. Consequently, Privatization Commission, instead of making representations and defending itself before various forums, now defend and file case mainly before the High Courts. This has resulted in reduction in the number of Privatization related cases also. The reduction of number of cases has, indeed, made the process of privatization smooth and fast.

4.7 PRIVATISATION FOR THE PEOPLE

Divestment of Shares through Stock Market

The Privatization Commission Ordinance 2000, inter alia, mandates the PC to privatize any state owned entity through public offering of shares through a stock exchange. In addition to privatization through strategic sales involving transfer of management along with a significant equity stake, the PC also undertook an ambitious program of offering shares to the general public with the aims of passing on the benefits of privatization to the common man and broadening and deepening the shareholder base of entities thereby strengthening and developing the stock markets. Following this strategy, the PC initially offered 10% shares of National Bank of Pakistan (NBP) after having it listed on all three stock exchanges. The shares were offered at an attractive discount to their expected fair market value and received a good response from the public. The Initial Public Offering (IPO) of NBP shares was followed by two secondary offerings of 10% and 3.2% shares which were also oversubscribed. The total amount raised through the divestment of 23.2% shares of NBP was Rs.1.76 billion. Encouraged by the public response to the NBP share offerings, the PC planned a series of IPOs and secondary offerings of state owned blue chip companies.

Setting of New Trends / Record

The IPO of Oil & Gas Development Company Limited (OGDCL), being the first transaction to follow after NBP, created a new trend in the local stock market and set a number of records. A record number of 97,570 applications were received which was unprecedented in the history of local stock exchanges. Another record was the amount of

Rs. 28.12 billion received on account of subscription funds as against the required amount of Rs.6.88 billion. The shares were offered at a price of Rs.32/- per share which had almost doubled by the time of formal listing thus benefiting the common investors substantially. Secondary offering of already listed shares of Sui Southern Gas Company (SSGC) was also heavily oversubscribed through a record response from 258,089 applicants, 243,116 of which were for the smallest lot of 1,000 shares. An amount of Rs.13 billion was received against the required amount of Rs.1.745 billion for the 10% shares. 67,117 applications were declared successful through a transparent balloting process. The secondary offering of 5% shares of Pakistan International Airlines was oversubscribed and brought in Rs.1.32 billion in sale proceeds. IPO of Pakistan Petroleum Limited (PPL) was another landmark transaction. This was offered in minimum lots of 500 shares. An unanticipated response was received from 755,000 small investors bringing in more than Rs. 21 billion subscription funds against the required amount of Rs.5.65 billion for the 15% shares. 205,750 applicants were declared successful through balloting. At the time of its formal listing, the PPL share was trading at close to double the offer price, thus providing an opportunity to the common investors to earn 100% return on their investment.

Market capitalization was at the level of Rs.587 billion (approx) in December, 2002. OGDCL IPO was undertaken in November, 2003 as indicated above for Rs.6.88 billion. It was, however, listed in January, 2004 when market capitalization was Rs.772 billion (approx). To begin with OGDCL share traded at Rs.53 (approx) and contributed Rs.228 billion (approx) to market capitalization. This constituted about 30% increase. Market capitalization was at the level of Rs.1444 billion on 11th August, 2004 inclusive of OGDCL and trading price of OGDCL share was Rs.65.25 (approx) which meant that the OGDCL share alone is now contributing Rs.280 billion (approx) or 24.91 percent to the market capitalization. The formal listing of PPL is expected to further add Rs.77 billion (approx) to market capitalization.

Other Capital Market Transactions

Prior to the public offerings of shares, the PC undertook the divestment of the residual government shareholdings in Muslim Commercial Bank (MCB), Pakistan Oilfields limited (POL), Attock Refinery Limited (ARL) and DG Khan Cement Company Limited (DGKC). These divestments were done through sell orders placed with stock exchange brokers using a process prior-approved by the CCOP. Rs.6.9 billion was realized through this mode of divestment.

Benefits of Capital Market Transactions

PC's divestments through the capital markets have played a significant role in the development of the domestic capital market. The benefits can be summarized as follows:

- Significant addition to the number of listed blue-chip companies.
- Considerable increase in market capitalization.
- Manifold increase in investor awareness and equity investor base.
- Opportunities for capital gains for the general public.
- Improved image of Privatization Program among the masses.

Worker's Welfare

In order to ensure smooth implementation of privatization program, an agreement was signed between Inter-Ministerial Committee appointed by the then Prime Minister and All Pakistan State Enterprises Workers Action Committee (APSEWAC) in 1991 where by following benefits of the employees of the units to be privatized were recognized.

- Protection of Service for 12 months.
- Sale of 10 % shares to the employees at mutually agreed rate.
- Payment of Golden Hand Shake to the employees who opt to retire.
- Employee's right of negotiation on the highest bid to buy a unit.

Although PC has been religiously following the sprit of APSEWAC agreement, certain issues of the employees of privatized units remained un-resolved since 1992. Although Golden Hand Shake Scheme had been successfully implemented in most of the privatized units, the employees of Suraj Ghee Industries and National Cement Industries, Dandot Works could not avail this benefit due to default on the part of the buyers. These units were privatized in 1993 and 1995 respectively. The employees had been agitating about their grievances at different foray. The Minister for Privatization and Investment took a very serious view of the situation. Special Committees were constituted to review and recommend the solution of this outstanding problem. The Board of the Privatization Commission has recently approved the payment of Rs. 22.10 million and Rs. 56.658 million on account of GHS/VSS to the employees of Suraj Ghee and National Cement Industries respectively. Payment to individual employees is in final stage (has been realized). According to APSEWAC agreement, 10 % shares of privatized Industrial units were reserved for the employees who did not opt for GHS. Since the rate for sale of these shares could not be agreed, these shares remained un-disposed. The present Government realized the importance of this pending issue and constituted a committee to recommend the price of such un-disposed shares to employees. CCOP has very recently decided that the shares retained for employees may be given to them after allowing 50 % discount on the market value or latest book value of the units as the case may be. Arrangements are being finalized to transfer shares of 4 industrial units to 1450 entitled employees.

4.8 PRIVATISATION PROCESS IN PAKISTAN

The privatization process, which is aimed at selling government property in an open and transparent manner with a view to obtaining the best possible price, varies somewhat depending on the nature of the asset being privatized, on the proportion of shares being offered for privatization, and on whether a transfer of management is involved. The Board of the PC decides what kind of process will be followed. Following are typical steps in the privatization process of a major unit:

- Cabinet / CCOP approval
- Financial Advisor (FA) hired, if required.
- Due diligence
- Privatization strategy
- Needed restructuring, sectoral / regulatory reforms
- Expressions of Interest (EOI)
- Screening - Statement of Qualification (SOQ)
- Pre-qualification
- Due diligence by potential buyers
- Valuation approved by PC Board and CCOP
- Pre-bid conference (s)
- Bidding process approval by Board and CCOP
- Open bidding: media invited to observe
- Board and CCOP approve price and bidder
- Letter of Intent to successful bidder
- Sale agreement
- Payment process and management transfer

A brief description of some of the steps common to major transactions is given below:

Identification

The first step is the identification of the entity or list of entities to be privatised. In a typical transaction, the PC, in consultation with the relevant ministry, submits a Summary of the proposed transaction to its Board. The Summary justifies the need for privatizing the property, outlines the likely mode of privatization, and sometimes seeks guidance on issues relating to such matters as pricing, restructuring, legal considerations, and the regulatory framework. Once endorsed by the Board, it is submitted to the Cabinet or its subcommittee, the Cabinet Committee on Privatization, for approval.

Hiring of a Financial Advisor

In major transactions, the process to hire a financial advisor is carried out by the transaction manager with the approval of the Board. Terms of reference for the FA are finalized, expressions of interest from prospective FAs are solicited, an evaluation team is constituted, and short listed firms are invited to submit technical and financial proposals in a common format. The evaluation team scores the technical proposals and the highest ranked firm based on both technical and financial scores is invited for contract negotiations and signing. In November 2001, the Board approved regulations for hiring a financial advisor in order to make more transparent the procedures that were largely being followed over the last decade. A copy of these regulations can be obtained from the PC website at www.privatisation.gov.pk.

Due Diligence

The next step is to carry out the legal, technical, and financial due diligence. This is aimed at identifying any legal encumbrances, evaluating the condition of the assets, and examining the accounts of the company in order to place a value on the company. For most industrial units and some small transactions, this is done using in-house transaction managers and staff, or by sub-contracting out part of the work to a domestic legal, technical, or accounting firm. However, for major privatizations in banking, infrastructure, or utilities, the FA carries out this function. Following due diligence, the FA finalizes the privatization plan. This may include recommendations on any needed restructuring, in addition to specifying the amount of shares or assets to be privatized. For major privatizations or when the proposed privatization mode is different from the initial plan, the plan is then submitted to the Board, the CCOP, or the full Cabinet for approval.

Enacting any Needed Regulatory and Sectoral Reforms

For many major transactions, the ability to privatize and the amount of proceeds realizable depend critically on the level of regulated prices for the public enterprise's inputs or outputs and other sectoral or regulatory policies. For many monopolies or quasi-monopolies, the "rules of the game" specifying the competition framework post privatization, the manner and type of regulation, and the institutions regulating them are key to investor interest. In addition to rules determining prices or tariffs, there may be rules determining standards, penalties for non-compliance, the extent, form and timing of any proposed deregulation, and the evolving structure of the market following liberalization. Clarification of these rules and passage of needed laws and regulations will often be necessary before taking the transaction to market.

Valuation of Property

In order to obtain an independent assessment of the value of the property being privatized, the Commission relies primarily on external firms. The Financial Advisor, where engaged, carries out the valuation to obtain a "reference price" for the property. In other cases, the Commission contracts with an external valuation firm or accounting firm as specified in the rules on the valuation of property, which can be obtained from the PC website. The methods used for the valuation vary with the type of business and often more than one method is used in determining the value. These include the discounted cash flow method, asset valuation at book or market value, and stock market valuation.

Despite using scientific methods, valuation remains more an art than a science. The true value is dependent on many difficult to quantify variables such as country risk, corporate psychology and strategy, investor specific synergies and perceptions of future macroeconomic performance. Only the market can determine the true value. Therefore it is important to focus on designing appropriate transaction structures, on advertising in relevant media, in choosing and implementing appropriate pre-qualification criteria for bidders, and in following an appropriate bidding process to obtain a fair price for the privatization

.

Pre-bid and Bid Process

Expressions of Interest (EOI) are invited by advertising in the relevant media. The PC Ordinance 2000 spells out some of the advertising procedures. Depending on the kind of transaction, the EOI describes the broad qualifications that potential bidders must possess. Those submitting an EOI and meeting the broad qualifications are provided with the Request for Proposal (RFP) package, where required**,** containing the detailed prequalification criteria, instructions to bidders, draft sale agreement, and other relevant documents. Interested parties then submit a Statement of Qualifications (SOQ), which is evaluated to determine whether an interested party meets the requisite qualifications. Pre-qualified bidders are then given a specified period to conduct their own due diligence, following which they are invited to pre-bid meeting(s) where their questions and concerns can be addressed. The meetings are useful in determining the bidding procedure to be followed (for example, open auction, sealed bids, or some combination) and could even determine the proportion of shares that the Government may want to offload. The bidding itself is done openly, with all bidders and media invited.

Post-bid Matters

Following bidding and identification of the highest bidder, the Board of the PC makes a recommendation to the CCOP as to whether or not to accept the bid. The reference price is a major determinant in the recommendation, although the Board may recommend the sale even if the offer price is below the reference price. Once the bid price and bidder are approved, the PC issues a letter of acceptance or a letter of intent to the successful bidder, indicating the terms and conditions of the sale. Following negotiations with the bidder, the PC then finalizes the sale purchase agreement, collects the sale proceeds, and transfers the property. Under PC's current policy, privatization proceeds are generally required to be paid upfront rather than over time, however, transaction specific exceptions are possible as had been the case for many earlier transactions. Within 30 days of the sale, the PC is required to publish the summary details of the transaction in the official gazette.

In summary, the privatization process is lengthy for major transactions, mainly to assure transparency in the process. After receiving CCOP approval for the privatization, it typically takes about 18 months to close a major transaction, even when no major restructuring of the company is required. This includes about six or seven months to appoint a Financial Advisor and another three or four months for the FA to complete its legal, technical and financial due diligence and to propose a privatization strategy. Following approval of the strategy, the marketing and bidding process may take five or six months (valuation efforts proceed in parallel), while it may take another two months after bidding to obtain approvals, finalize sale documents, and close the transaction. Delays in privatization are often caused by waiting for the necessary regulatory framework and sectoral policies to be put in place and for any needed restructuring to occur. In addition, resolution of transactional and inter-ministerial issues often results in causing delays in the bidding process.

4.9 SUCCESS AND ISSUES OF PRIVATIZATION IN PAKISTAN

As discussed earlier that there are some of the advantages of the privatization as well it also got some disadvantages too. Here I am going to discuss some of the success stories of the privatization and its effects and along with this I am also going to discuss some negative issues created due to the privatization process.

SUCCESSFUL PRIVATIZATION STORIES:

Privatization of the public sector entities, which has elided over Rs.23 billion from the stock market so far, is one of the chapters of success stories of the present government. The proceeds not only benefited state coffers but the common man made hefty capital gains, according to an estimate shareholders of the state run companies made capital gains in excess of Rs. 40 billion in a years period. The government stepping stone was a sell off of OGDC and NBP shares through the stock market. Earlier the shareholders shield to park their funds in these state run companies but boost in share prices and relay at the Karachi stock exchange on the back of the privatization's commissions planned to sell more stakes, generated a bullish rally convincing thousands of investors to put their hard earned money in the highly speculative market. But they were net gainers as the prices of NBP, OGDC, PPL, UBL and KAPCO traded 3 to 4 times higher as a against the offer price of the government, bolstering the faith of general investors on the policies of privatization commission. The slogan of the commission is "Privatization in a fair and transparent manner, for the benefit of the people of Pakistan in the right way, to the right people, at the right price."

With surplus liquidity in the banking system, declining rates on the fixed income securities and lower demand for credit, institutions were also forced to look for alternative investment opportunities. Declining fixed income yields and net interest margins forced commercial banks to turn towards the equity market for fund deployment.

Commercial banks became major players in the stock market. At the end of 2004, there total investment in equities have risen by 254 percent (over 5 years) to Rs. 37.256 billion, which is one of the biggest indicators that institutions pumped their excess liquidity in the stock market, especially state owned entities, assuring attractive returns. Since November 2002, excluding PTCL sales, the privatization proceeds comfortably crossed the Rs.100 billion level after completing around 25 transactions.

The Privatization Commission in order to ensure participation of the small investors and benefits form the privatization program also sold the Pakistan government's shareholding in NBP, Pakistan Oils Fields Limited, Attock Refinery, DG Khan Cement, OGDC, SSGC, PIA, PPL, KAPCO and UBL through the capital market. Some of the major transactions completed are:

- Sale of 51% of GOP stake in HBL for Rs.22.409 billion
- Sale of GOP shareholding in POL, ARL and D.G Khan Cement through Stock Exchange for Rs.5.862 billion.
- Divestment of 30% shares of Bank Al-Falah for Rs.620 million.
- Sale of Management Rights of ICP-SEMF for Rs.787 million
- Divestment of 13.2% shares of National Bank of Pakistan for Rs.1.386 billion
- Sale of Associated Cement, Rohri for Rs.255 million
- Sale of (5%) 215,046,420 ordinary shares of Oil & Gas Development Company Limited (OGDCL) through Capital Market for Rs.6.848 billion.
- Sale of Thatta Cement for Rs.794 million
- Sale of 10% shares of Sui Southern Gas Limited for Rs.1.731 billion through Capital Markets.
- Sale of shares of Kohinoor Oil Mills Limited for Rs.80.7 million
- Sale of 5.8% shares of PIA for Rs.1.329 billion through Capital Market
- Sale of 15% shares of Pakistan Petroleum Limited (PPL) through Capital Market for Rs.5.655 billion
- Sale of the Falleti's Hotel, Lahore for Rs.1.211 billion
- 10% additional shares of Kohat Cement for Rs.40.8 million

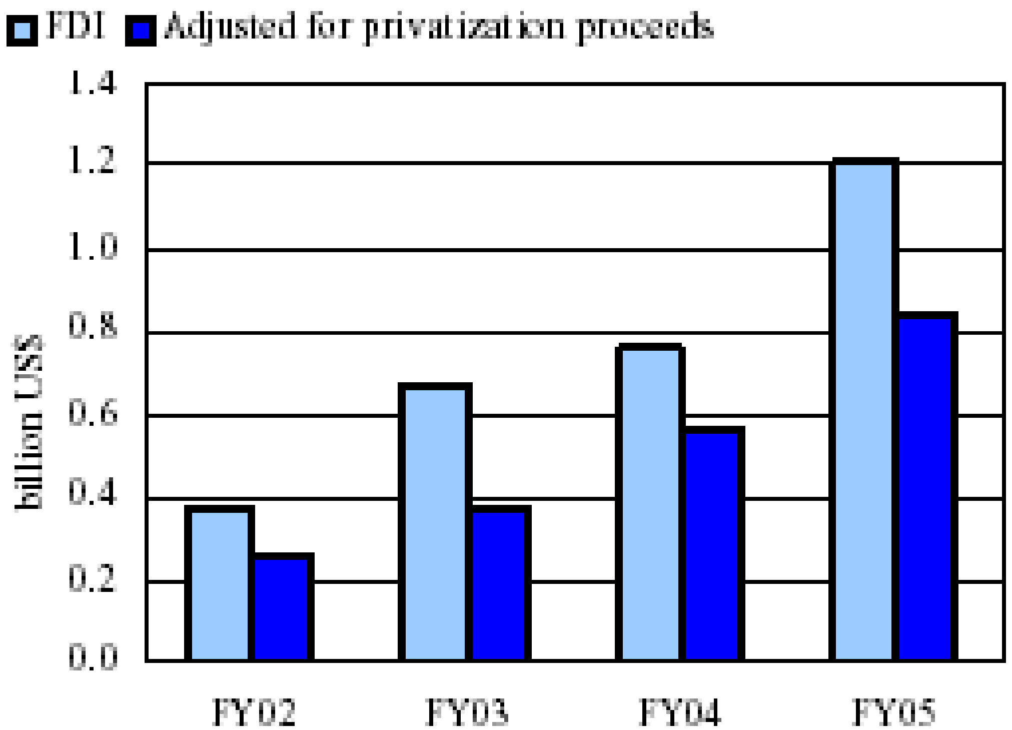
- Sale of 20% shares of Kot Addu Power Company through Capital Market for Rs.5.282 billion.
- Sale of International advertising (Pvt.) Ltd. for Rs.5.177 billion
- The transaction of KESC for Rs.20.240 billion has been approved for privatization. The proceeds are awaited.
- Sale of 4.2% shares of UBL raising Rs. 1.040 billion
- Sale of Mustehkam Cement for the Rs. 3.2 billion.
- Sale of 26% shares of PTCL to Etisalat for $ 2.59 billion.

The asset sale agency plans to make an IPO in Pak Arab Refinery Co. and State Life Insurance in the year2006. The government is also planning to sell shares overseas in a state owned company through locally known as Globally Depository Receipts (GDRs). It's a way of tapping into international markets and diversifying sources of privatization, besides introducing Pakistani companies outside and details for selling shares overseas are being worked out.

The privatization proceeds are one of the major sources of improvements in Foreign Direct Investments in the country. During FY05, according to the annual report of SBP for 2004 and 2005 significant flows were due to privatization and deregulations in the telecommunications and financial sectors. FY06 is likely to much higher receipts on account of PTCL privatization and would likely to turn the balance of payment position of the country into a billion dollar surplus.

The proceeds from privatization of the state owned enterprises are used to retire the debts of the country as well as to use in the restructuring of the country.

Figure 7.11: Foreign Direct Investment (Equity)



ISSUES RELATED WITH PRIVATIZATION:

There is issue related with privatization of most of the cash cows of the country like PTCL, PSO, Pakistan Steel Mills, National Investment (Unit) Trust, etc. The sovereignty of the state effects due to the sale of major corporations of the country.

In this regard the long-term vision for the government is that to focus on good governance and regulation, while fostering conditions that provide incentives for the private sector to invest in providing goods and services efficiently. Direct participation of the Government in commercial activities should progressively reduce. In this regard the Government should focus on two broad areas. First, good governance and creating an environment that encourages investment while at the same time, safeguards the public interest through an effective regulatory framework in especially key areas such as power, telecommunication, oil & gas and transport sectors. Second, helping to create a suitable physical and technological infrastructure required for the unhindered economic development of our rapidly growing society. Accordingly, privatization is a matter of principled ideology rather than a matter of expediency. The Government does not differentiate between specific transactions as loss making or profit making when mapping its privatization program. Notwithstanding the above, it is also wrong to say that the Privatization Program is focused on profitable units and not loss making units. There are many units like Karachi Electric Supply Company and National Construction, which are either loss making or dependent upon Government's subsidies and assistance for their continued survival. Also while some of the companies on the privatization program may be currently profitable, this is not surprising given that they are operating in a monopoly environment and /or in an era of attractive oil prices. In fact, some of these companies have failed to provide services demanded by consumers at reasonable cost and fail to live up to their potential in terms of the level of production and profits. Privatization, when accompanied by the transfer of management control and prudent regulation, can change this. It can overcome constraints brought about by bureaucratic interference and processes. It can provide an impetus to deregulation and competition, reduce cross-subsidies, bring in new management and capital, and facilitate the introduction of new technology. It can also strengthen public finances by reducing losses and enhancing taxes from increased profits.

Privatization would also send a strong signal to investors of the Government's faith in the private sector to generate economic growth and productive employment. International investors, in particular, view Privatization as a principal proxy of the seriousness of a government's reform program. An improved business climate would bring in new investment, potentially reversing the capital flight that has occurred in recent years. Efficient enterprises providing enhanced quality and quantity of goods and services safeguard the security and national interests of the country more effectively than inefficient and loss-making public enterprises. Worldwide experience has shown private companies to be more efficient than public ones. The incentives all work towards having greater efficiency in the private sector. Although such companies are profitable now, there is no guarantee that they will remain profitable in future. Many of today's loss making public enterprises were once profitable. However, even if one could be assured that the companies would continue making profits, the Government is likely to receive more fiscal revenues if the companies were privatized, mainly because the private company is likely to make higher profits. Moreover, government policy makers would then be free to set policies and govern rather than be involved in management decisions of the companies.

Another issue is the reduction in the number of employees after the privatization of most of the State Owned enterprises. This thing we have seen in the cases of Habib Bank limited, PTCL and now the issue is hot for the Steel Mills of Pakistan and other big state owned corporations. While some privatizations will generate net employment as a result of expanding production or services, employment in many privatized entities may decrease after privatization. This is because state owned enterprises often have many more employees than needed for efficient operation of the company. Many of the employees perform little or no work and/or have low productivity. This implies that either taxpayers end up subsidizing their salaries or consumers pay for it through higher prices. The extra amounts paid by taxpayers or consumers leaves less money in the hands of people who might otherwise spend it in a way that promotes productive employment. In this regard the privatization program as a whole, by injecting new investment, introducing better management, improving competitiveness, and leaving more money in the hands of the public, is likely to result in increased employment opportunities. At the same time, laid-off workers are often given generous severance packages that can be used to start business or obtain training to help them prepare for a new job.

On the other hand the two major transactions that have been delayed so much are the privatization of KESC and PTCL. Looking at the track record of the Privatization commission the nation may be ready to condone two bad transactions. However the nations would be right I demanding from the Commission better performance in the months to come. As presently the commission has been following two tier policy.

- Transfer of management control through sale of substantial shareholding.
- Divestment of government holdings under "privatization for people" program.

The policy is good as well as very practical but certainly needs a thorough review in the light of above stated two difficult transactions. The history tells that nations learn from their past mistakes and so should Pakistani economic managers.

4.10 COMPARISONS OF DIFFERENT ECONOMIC INDICATORS OF PAKISTAN FOR LAST 5 YEARS

The major macro economic indicators of Pakistan show that Pakistan's economy is going through a reform and a process of restructuring of Pakistan has begun.

- The increase in the GDP i.e. having 8.4% growth in 2004-2005 shows the tremendous performance of the economy.
- Increase in the Foreign Direct Investment.
- Increase in the Federal reverses.
- Decrease in the short term external debt (in percentage of GDP).
- Decrease in the total Debt of Pakistan in terms of GDP %.
- Increase in the market capitalization with a huge percentage.
- Surplus in the balance of payments by more than Rs. One billion in the first 5 months of current fiscal year.
- And many more.

All the above things are indicating the performance of the economy. And one of the major factors is the attraction of foreign investors in Pakistan due to privatization regime. The statistics for macro economic indicators and International Economic Indicators are attached in the appendix section at the end of the report.

CHAPTER # 5

5.1 CONCLUSION

- Privatization is playing an important role in the economic reform of any country. This thing can be seen by the analyzing the economy of the various developing countries (as talked earlier in Chapter 4).
- There are both advantages and disadvantage of Privatization but if we do the Cost Benefit Analysis of Privatization we will see that the benefits of privatization are greater than its potential drawbacks, for this the privatization process must be transparent and guided in a systematic way.
- The objectives of privatization in Pakistan are common to many other countries, particularly those from the developing world. They include the need to reduce government debt by the sale of state-owned industrial and commercial units, to improve their profitability and performance, and to make the role of government that of facilitator of commerce as opposed to a procedure of goods and services. Other avowed goals include the strengthening of capital markets and the securities industry, increasing local savings, and broadening the ownership of economic assets though publicly listed companies.
- Privatization Commission is performing well in terms of achieving their objectives. They have done many successful transactions such as OGDC, PPL, KAPCO and many more. The recent successful transactions of KESC and PTCL after quite some waiting due to different problems.
- The first five months of the current fiscal year has shown the growth of 124% in the accounts of Foreign Direct Investment. And the account exceeds by Rs.1.005 billion dollars.
- Some problems are also present in this privatization regime of Pakistan. These issues include the sale of cash cows of the country, the anti-privatization alliances present in the country, the delay on the major privatization deals of PTCL and KESC.

- The fears about employment losses in the industry as a result of privatization are also, by and large, unfounded. The example of the banking industry privatization controverts those who claim that privatization means jobs are lost. In 1997 when the restructuring, down-sizing and privatization of the nationalized commercial banks picked up speed there were 105,000 employees working in the financial sector. After privatization was completed, the banking industry has expanded and the work force has expanded to 114,000. It is true that the pattern of employment has changed and more productive and skilled workers have been taken in at the expense of low skilled or unskilled. There is no doubt that the PTCL will also expand under its new owners and employ more people but in the skilled category. This up gradation of skills will raise productivity of the firm as well as of the industry.
- The economic indicators for the last five years shown that Pakistan economy is going towards betterment. The GDP is growing; the balance of Payment turning into surplus, tremendous growth is occurring in Foreign Direct Investment i.e. 124% in the current year; Unprofitable organizations are turning into profitable organizations such as UBL and HBL.

5.2 RECOMMENDATIONS:

- The Privatization Commission has to revisit and refine its entire privatization program rather than encountering one troubled transaction after another. For example the due diligence done for estimating the prices of the companies that are going to privatized must be thoroughly and strictly done. Because it has been seen in some of the earlier transactions like HBL and KESC which were estimated under priced due to the inefficient due diligence of these big giants.

- The privatization process must be revised and the loopholes must be taken under considerations to keep the process transparent and efficient.

- There is a need to make the regulatory framework strong to ensure that the deals like PTCL and KESC must not be delayed and the negotiations to be done for getting these deals successful just for the sake of achieving objectives of the Privatization Commission.

- The Privatization Commission must consider the Employee Welfare while going for the large state owned corporations. Employee participation must be there.

- The privatization of the large state owned enterprises must be done in parts to different investors to restrict the private monopoly.

- The Commission must study the economies like China, Brazil and Malaysia to learn the techniques and ways of privatization which must resulted in the great proceedings and which must not hurt the public and sovereign interests of the country.

- The Privatization must not go for the sale of strategic assets of the country such as Steel Mills of Pakistan (having Harbor with it) and Pakistan Railways. This can create problems for the country in future.

APPENDICES

CORE ECONOMIC INDICATORS OF PAKISTAN

Indicators	FY 01	FY 02	FY 03	FY 04	FY 05
Economic Growth					
1. GDP at Current Factor Cost (Billion Rs.)	3,876	4,095	4,481	5,143	6,130
2. GDP at Constant Factor Cost of 1999-2000 (Billion Rs.)	3,594	3,706	3,885	4,135	4,480
3. Agricultural Sector Real Growth Rate	-2.2	0.1	4.1	2.2	7.5
4. Manufacturing Sector Real Growth Rate	9.3	4.5	6.9	14.1	12.5
5. Services Sector Real Growth Rate	3.1	4.8	5.2	6.0	7.9
Monetary Sector					
6. Currency/Deposits ratio	0.33	0.33	0.31	0.30	0.29
7. RFCDs /Total Deposits	0.14	0.12	0.08	0.08	0.08
8. M_2/GDP	0.37	0.40	0.43	0.45	0.45
9. Private Sector Credit/GDP(%)	1.35	1.20	3.48	5.88	6.55
10. Private Sector Credit/Deposits	0.66	0.61	0.61	0.67	0.74
11. M_2 Growth Rate	9.00	15.43	18.01	19.62	19.26
12. Reserve Money Growth Rate	7.10	9.64	14.52	15.44	17.61
13. Money Multiplier	2.86	3.01	3.10	3.22	3.26
Banking Sector[1]					
14. Capital adequacy ratio	8.8	8.8	8.5	10.5	10.9
15. Advances/ Deposits ratio	61.7	54.9	56.5	65.9	66.6
16. Return on assets (After Tax)	-0.5	0.1	1.1	1.2	1.4
17. NPLs/Advances(gross)	23.4	21.8	17.0	11.6	10.6
18. NPLs/Advances(net)	12.1	9.9	6.9	3.6	3.0
19. Provision/NPL	54.7	60.6	63.7	71.6	73.6
Interest Rates (%)					
20. SBP 3 day Repo Rate (End Period)	14.00	9.00	7.50	7.50	9.00
21. Overnight Call Money Rate (Annual Average)	8.96	6.74	4.23	1.86	4.34
22. Six Month Treasury Bill Weighted Average Rate (End Period)	12.88	6.28	1.66	2.08	7.96
23. Six Months KIBOR (End Period)		6.21	2.12	2.69	8.46
24. Weighted Average Rates of Return on Deposits (End Period)	5.27	3.61	1.61	0.95	1.37
25. Weighted Average Rates of Return on Advances (End Period)	13.61	13.19	9.40	7.28	8.81
26. Yield on Five Year PIBs – Weighted Average (End Period)	12.99	9.39	4.16	5.27	7.50
27. SBP Export Finance Scheme Rate (End Period)	9.00	6.50	2.00	1.50	6.50
Inflation					
28. Consumer Price Inflation (Average)	4.4	3.5	3.1	4.6	9.3
29. Core Inflation [2]	4.0	3.5	2.6	3.7	7.6
30. Wholesale Price Inflation	6.2	2.1	5.6	7.9	6.8
Fiscal Balance (Billion Rs.)					
31. Federal Government Revenue Receipts	535.1	619.1	701.6	761.0	875.3
32. Federal Government Expenditure	708.1	948.7	861.2	898.5	1,001.0
33. Federal Government Development Outlays	83.6	105.4	103.0	119.5	149.0
External Sector					
Trade Sector					
34. Exports-*fob* (Billion US $)	9.202	9.135	11.160	12.313	14.391
35. Imports-*cif* (Billion US $)	10.729	10.340	12.220	15.592	20.598
36. Terms of Trade (1990-91 = 100)	90.96	90.83	82.07	78.68	--
37. Export Price Index (1990–91 = 100)	271.47	271.18	254.02	279.65	--
38. Import Price Index (1990–91 = 100)	298.44	298.56	309.52	355.43	--

1 Data for FY01-04 pertains to end dec.

2 Non Food-Non Energy

(Contd.)

Indicators	FY 01	FY 02	FY 03	FY 04	FY 05
Balance of Payments					
39. Current Account Balance (Million US $)	326	2,833	4,070	1,811	-1,559
40. Current Account Balance (% of GDP)	0.46	3.95	4.94	1.88	-1.41
41. Financial Account Balance (Million US $)	-642	-1,107	-1,137	-1,334	568
42. Foreign Direct investment in Pakistan (net)	323	485	798	949	1,524
43. Portfolio Investment (net)	-140	-491	-239	314	620
Foreign Exchange Reserves					
44. SBP Liquid Reserves (Million US $)	1,689	4,337	9,529	10,564	9,805
45. Gold and Foreign Exchange Reserves (Million US $)	3,810	7,065	11,472	13,155	13,338
46. Official Reserves in weeks of next year imports on *cif* basis	8.6	18.4	33.1	26.7	21.3
47. Ratio of Official Reserves to Broad Money (%)	7.1	14.8	26.5	24.7	19.7
Exchange Rates					
48. Exchange Rate (Yearly Average, Rs. per US Dollar)	58.4378	61.4258	58.4995	57.5745	59.3576
49. Exchange Rate (End Period, Rs. per US Dollar)[3]	64.0891	60.0729	57.8090	58.1566	59.6738
50. Real Effective Exchange Rate (End Period)	90.0900	92.5877	91.1064	91.3771	94.7894
51. Nominal Effective Exchange Rate (End Period)	90.5500	89.3400	87.4500	82.5500	79.8400
External and Domestic Debt					
52. Short-term External Debt (Million US $)	257	183	187	22	271
as % of Official Reserves	15.2	4.2	2.0	0.2	2.8
53. External Debt (Million US $)	32,144	33,400	33,352	33,307	34,037
as % of GDP	49.5	45.6	40.0	35.0	31.0
as % of Exports of Goods, Services & Income	309.17	299.10	240.70	217.85	188.53
54. External Debt & Liability (Million US $)	37,159	36,532	35,474	35,258	35,834
as % of GDP	57.2	49.8	42.5	37.1	32.6
55. External Debt Servicing (Million US $)	3,395	4,095	3,150	4,969	2,716
as % of Exports of Goods, Services & Income	38.4	36.7	22.7	32.5	15.0
56. Domestic Debt (Billion Rs.)	1,731.0	1,17.9	1,853.7	1,979.5	2,129.1
as % of GDP	41.6	39.0	38.4	35.8	32.5
57. Total Debt (Billion Rs.)	3,884.5	3,783.0	3,824.0	3,949.9	4,186.5
as % of GDP	93.3	86.0	79.3	71.4	63.9
Capital Market					
58. SBP General Index of Share Prices (2000-01 = 100)	118.72	106.74	204.10	312.70	359.99
59. KSE 100 Index (Nov. 01, 1991 = 1000)	1,366	1,770	3,403	5,279	7,450
60. Market Capitalisation of Ordinary Shares (Billion Rs.)	339.2	407.6	746.4	1,357.5	2,013.2
Per Capita Indicators					
61. GNP per Capita at current prices (Rupees)	29,269	30,910	33,899	37,802	43,748
62. GNP per Capita at constant prices (Rupees)	27,192	28,015	29,389	30,363	32,032
63. Exports (US Dollars)	66	64	76	82	94
64. Imports (US Dollars)	76	72	83	104	135
65. Reserves (US Dollars)	27	49	78	88	87
66. External Debt (US Dollars)	229	233	227	223	223
67. Debt Servicing (US Dollars)	24	29	21	33	18
Social Sector					
68. Population (Million)	140.36	143.17	146.75	149.65	152.53
69. Unemployment Rate (%)	6.0	7.8	7.8	8.3	7.7
70. Education Expenditures as % of GNP	1.6	1.9	1.7	-	-
71. Literacy Rate (%)	49.0	50.5	51.6	53.0	-
72. Health Expenditures as % of GNP	0.7	0.7	0.7	0.6	0.6
73. Infant Mortality Rate per 1000 persons	-	85	83	83	80

3: Mid-point of spot buying and selling

INTERNATIONAL ECONOMIC INDICATORS

Country or Region Indicators	2001	2002	2003	2004	2005 Projection[1]
Real GDP (Annual % change)					
World	2.5	3.0	4.0	5.1	4.3
United States	0.8	1.9	3.0	4.4	3.6
Euro Area	1.6	0.9	0.5	2.0	1.6
Japan	0.2	-0.3	1.4	2.6	0.8
China	7.5	8.3	9.3	9.5	8.5
India	4.8	4.4	7.5	7.3	6.7
Indonesia	3.8	4.4	4.9	5.1	5.5
Thailand	2.2	5.3	6.9	6.1	5.6
Pakistan	2.7	3.2	5.6	6.5	6.7
Real per Capita GDP Current Prices (US Dollar)					
United States	35,506	36,400	37,821	39,934	41,917
Euro Area	25,326	25,867	26,374	27,491	28,756
Japan	32,769	31,242	33,705	36,575	37,566
China	921	989	1,096	1,269	1,411
India	456	471	539	608	678
Indonesia	772	930	1,092	1,165	1,267
Thailand	1,836	1,994	2,227	2,521	2,665
Pakistan	405	443	500	550	591
Inflation % (Consumer Prices)					
World	4.1	3.4	3.7	3.7	3.6
United States	2.8	1.6	2.3	2.7	2.7
Euro Area	2.4	2.3	2.1	2.2	1.9
Japan	-0.7	-1	-0.2	0.0	-0.2
China	0.7	-0.8	1.2	3.9	3.0
India	3.8	4.3	3.8	3.8	4.0
Indonesia	11.5	11.8	6.8	6.1	7.0
Thailand	1.7	0.6	1.8	2.7	2.9
Pakistan	3.1	3.2	2.9	6.7	7.9
Current Account Balance (Billion US Dollars)					
World	-160.8	-133.1	-82.8	-81.2	-77.6
United States	-385.70	-473.94	-530.67	-665.94	-724.49
Euro Area	13.1	53.5	25.8	35.6	50.1
Japan	87.79	112.61	136.24	171.81	157.22
China	17.405	35.422	45.875	70	76.489
India	1.41	7.06	6.85	2.05	-2.49
Indonesia	6.90	7.82	7.25	7.28	6.30
Thailand	6.21	7.01	7.97	7.29	3.47
Pakistan	0.24	2.90	3.05	0.28	-1.07

1 Projected by IMF

Source: World Economic Outlook IMF April 2005, IMF Website