3. PRIVATISATION TRENDS AND POLITICAL OWNERSHIP

The first part of this chapter briefly discusses the privatisation trends around the world. The trend discussed includes the objectives of privatisation, approached used to privatised state assets and country experience for several selected countries. The second part focuses on political ownership. It discussed about political participation in the privatisation programmes and partial privatisation. It then moves on to discuss about political ownership after privatisation by focussing on state shareholdings in several countries.

3.1 Privatisation Trends

In the 1980s privatisation of state-owned assets was the 'in thing' in economic policy of many countries. The most vocal supporter was Margaret Thatcher and her conservative government. In the developing countries where public enterprise is more dominant in the economy, the push for privatisation came from the IMF and the World Bank. These two agencies managed to push the liberalisation agenda where privatisation is part of, to developing countries by linking it to their aid packages. Consultants were sent to the developing countries to advise them on the implementation of the policies.

Privatisation and deregulation in advance countries such as in Europe and Australia were caused by a combination of political and economic factors. On the political front, opposition to the growth of the public sector in the previous decades has increased. Government became a particular target because the public sector was growing too large to handle. In most countries it became a burden on the budget. On the economic front, advocates of privatisation and deregulation drew on property rights, public choice and government failure literature, evidence of regulatory capture and distortion and a new theory of contestable markets.

At that time, there was tremendous pressure against the state from all sides in favour of the market. It is alleged that public sector enterprises achieve inferior performances in terms of profits or the efficient use of resources. While private sector managers are subject to various constraints leading them to profit maximising policies, this need not be the case with public managers. Such constraints arise from the capital market, the corporate control mechanisms, the market for managers, and the product market. Other factors that give support to private firms are, the concentration of shares in the hands of the financial institutions; the emergence of M-form organisations which tends to ensure that divisions operate as profit centres; the possibility of markets where competitive forces operate through potential entry by new competitors, given free entry and costless exit conditions.

Today, privatisation policies can be seen implemented in many countries around the world. Privatisation programmes are underway not only in mature economies such as the United Kingdom and the rest of European Union (EU) but also in developing countries like Mexico and Malaysia. The fall of the former Soviet Union and the socialist governments of Eastern Europe led to a situation of transition in their planned economies to market based economies. This situation provided a major role for privatisation in the respective states.

Privatisation programmes are different for each country as each country embarks on privatisation based on their own needs. Although there are many types of privatisation, this study will focus mainly on the sale of State Owned Enterprises. Recent trends revealed that privatisation activities were largely driven by factors such as: the continuation of a general trend towards reducing the role of the state in the economy; budgetary constraints; a need to attract investments; and a combination of technological change, liberalisation and globalisation of products and financial markets.

3.11 Privatisation Approach and Objectives

There are different approaches to selling state owned assets. The methods used for the sale of assets include auctions, stock offers, stock distributions, negotiated sales, management-employee buyouts, and voucher or coupon exchanges. The choice of methods usually reflects the government's policy priorities in terms of proceeds, transparency, broadening and deepening the capital markets, better corporate governance, direct impact of technological or managerial know-how and access to markets. Within the Organisation for Economic Co-operation and Development (OECD), public offering of shares in the stock market has been the preferred method of sale. This method is viewed as the most transparent method of all. It can also be used as a tool to broaden the equities market. On the hand, in non-OECD countries, negotiated trade sales is the most dominant method. This difference reflects the lack of a well developed capital markets in non-OECD countries. This reason compelled some countries to issue Global Depository Receipts (GDR) or American Depository Receipts (ADR) to tap the international equities market. Another reason is the need to gain new capital and technology by these countries. By selling it direct to a strategic investor it is expected to gain from new technologies introduced by the strategic investor.

Some of the objectives of privatisation that is frequently mentioned are: -

- Reducing government involvement in industries;
- Improving efficiency in the industries privatised;
- Reducing the public sector borrowing requirement;
- Easing the problems of public sector pay determination by weakening the public sector unions;
- Widening share ownership;
- Encouraging employee share ownership;
- Gaining political advantage

3.12 Privatisation; The European Experience

For the countries of the European Monetary Union (EMU), the key factor was the need to meet fiscal objectives of the new monetary union and the EU directives requiring liberalisation of markets. Therefore Western Europe accounts for the bulk of privatisation in OECD countries. For example in 1999 the US$18 billion IPO of ENEL (Italy's largest electricity company) became the world's largest ever initial public offering (Financial Market Trends, 2000). Other notable recent transactions in the OECD include sale of stakes in: Aerospatiale, Air France, and Credit Lyonnais in France; Deutsche Telekom in Germany; and Telia in Sweden. In the last few years privatisation are mainly in the telecommunications sector, which is currently undergoing rapid technological change.

In transition economies of Eastern Europe, privatisation began after the collapse of the communist regimes from 1989 onwards. But without certain factors such as a legal framework of property rights, functioning banks or stock exchanges, convertible currencies, or a culture of market exchange, privatisation did not solve the structural problems of these economies. Only the most attractive and profitable state enterprises are taken over by Western multinationals or local investors while most other public enterprises declined when faced with Western competition.

(a) United Kingdom

The United Kingdom privatisation programme started in 1979. It involves three components, sales of existing public sector housing at local government level, contracting of services to private enterprises and the sale of public enterprises. Between 1979 and 1983 nearly 600,000 housing units were sold, more than in the whole of the 1945-1979 period, and receipts climbed from around £300 million per annum in 1979 to nearly £2,000 million in 1982 (Yarrow, 1986). The second component involves a contractual arrangement between the government and private enterprises, which provide services. It will require continuing involvement of the public authorities in contract enforcement and renewal. Services most commonly privatised in this way are various types of cleaning (streets, offices, schools, hospitals, etc.) and refuse collection. Other services such as pest control, catering, architectural services, grass cutting, provision of parking facilities, laundries and housing repairs are also contracted out.

The sale of public enterprises is the most important component of the privatisation programme in the United Kingdom and in any other country is because it usually attracts wide spread public concerns. The following chapters of this paper will focus on this form of privatisation. The first major asset sale is the sale of slightly over 50% of British Telecom (BT) in November 1984. The sale of state owned enterprises in the United Kingdom has been widespread reflecting the government's commitment to the programme (Table 4).

Table 4. Public Asset Sales in the UK, 1979-91

Company	Industry	Financial year of Initial floatation	Net Proceeds £ million
British Petroleum	Oil	1979/80	6149
British Aerospace	Aerospace	1980/81	390
British Sugar Corp.	Sugar refining	1981/82	44
Cable & Wireless	Telecommunications	1981/82	1024
Amersham International	Radio-chemicals	1981/82	64
National Freight Co.	Road haulage	1981/82	5
Britoil	Oil	1982/83	1052
Associated British Ports	Sea ports	1982/83	97
International Aeradio	Aviation comm.	1982/83	60
British Rail Hotels	Hotels	1982/83	51
Wytch Farm	Oil	1983/84	82
Enterprise Oil	Oil	1984/85	382
Sealink	Harbour/Ferries	1984/85	66
Jaguar	Cars	1984/85	297
British Telecom	Telecommunications	1985/86	3681
TSB	Banking/Finance	1986/87	
British Gas	Gas	1986/87	7731
British Airways	Airline	1986/87	850
Rolls-Royce	Cars/engines	1987/88	1028
British Airport Authority	Airports	1987/88	1183
10 Water Companies	Water supply	1989/90	3480
Electric Companies	Power supply	1990/91	5200
2 Electricity Generating Cos. (PowerGen & National Power)	Power generation	1991/92	2000

Source: Clarke 1993, Yarrow 1986

(b) Germany

Privatisation in other parts of the European Union is less severe than in the United Kingdom at least up to the early 90s. (Refer to Table 3). One reason is that for the other countries, 'privatisation' includes restructuring of public enterprises into state corporations while in the United Kingdom privatisation usually means private ownership. In West Germany for example, Bos (1993) finds that the overall economic performance of West German public enterprises was better than those in the United Kingdom, hence the public was less dissatisfied with public enterprises. Some other governments held on to the public enterprises because of national interests. Even if there is a restructuring, the government will still retain control. This situation is most likely in a leftist government.

Apart from privatisation in the west, Germany had a special privatisation programme in the east. The economic situation in the eastern part of Germany is different from the western part because historically the eastern part is a socialist economy. The East German privatisation programme is one of those that follow the 'big bang' approach. In order to facilitate rapid privatisation, an independent privatisation agency, the Treuhandanstalt (THA) was established (Dyck & Wruck, 1998). The THA has a limited legal life because the privatisation programme is supposed to be completed quickly.

Unlike in the United Kingdom, East German key sector enterprises are not sold through auction (Bos, 1993). It is sold through a negotiated trade. The bidding is opened to investors worldwide. In order to attract investor interest in the sales, the

THA shares some of the environmental and ownership risks with the investor. In some cases it shoulders the full burden itself. In return, the bidder must give investment pledges and job guarantees. Non-salvageable firms are shut down. Unlike the privatisation programmes in the other East European countries, the managers and employees of former East German firms play no direct role in the privatisation activities.

Although the THA was an independent agency financed by the Ministry of Finance, it was not able to avoid political pressure led by organised labour because of the rising unemployment. At the same time the quality of the firms remaining in the hands of the THA were lower than those sold earlier. The THA was forced to increase subsidies for the weaker firms in order to save jobs. In order to avoid further pressure it contracted out the privatisation process and restructuring by creating a new set of organisations called the Management KG[1]s (Dyck & Wruck, 1998). The Management KGs have no limited legal life. It can carry on the job of restructuring and managing the firms indefinitely until all the firms are sold and the whole privatisation process is completed. This move manage to reduce the political pressure on the privatisation programme which at one time was on the verge of being derailed by jobless protests in East Germany.

[1] KG is an abbreviation for the German *Kommanditgesellschaft*, which means 'commercial limited partnership'.

(c) Transition Economies of Eastern Europe: Czech Republic, Poland and Hungary

For transition economies in Europe, part of the reason for large-scale privatisation was the prerequisites for obtaining membership to the EU. States with planned economies without the necessary competition are not allowed to join the EU. Privatisation in post-communist countries are distinguished between 'small privatisation' and the privatisation of key sector enterprises (Bos, 1993). Small privatisation refers to shops, cinemas, restaurants, small hotels, etc. The privatisation of key sector enterprises refers to industry, wharves, transportation, mining, energy, R&D, media, printing offices, etc. There are two approaches being used here. The so-called 'big bang' approach and the gradual approach. The 'big bang' approach is designed to transform the economy into a market economy as quickly as possible. On the other hand the gradual approach allows the economy to adjust gradually to the market economic system at its own pace and ability.

In the former Czechoslovakia, privatisation programme is conducted the Czech and Slovak Privatisation Ministries. Plans or proposals for privatisation are submitted to the Ministries by the management of each firm and by local or foreign potential investors for evaluation. For the most attractive firms, a trade sale is usually carried out. The 'voucher privatisation system' is used for the smaller state assets and the less attractive enterprises. The privatisation programme in the Czech Republic has been extensive. In 1991-92, 120,000 retail shops, restaurants, and service business and 13,000 small manufacturing enterprises were auctioned. By 1993-94, 80,000 to 100,000 business were returned to former owners and close to 5,000 medium to large state owned enterprises were privatised (World Bank, 1995). The voucher privatisation programme has also been very successful given that the economy had limited savings. It also manages to ensure equity by avoiding the privatisation from benefiting a few individuals at the expense of many. During the first wave of voucher privatisation in 1992, the state divested 946 companies with a book value of Kr 208 billion. About 75 percent of the adult population became shareholders (World Bank, 1995).

In Poland, the most popular concept of privatisation is 'by liquidation' (Bos, 1993). Here the state owned enterprise (SOE) is first liquidated then whatever assets are either leased back to a company established by former employees or contributed to a joint venture with a foreign partner. Some firms are individually sold after converting into a joint stock company. Another component is mass privatisation. In this method, the government's policy is to distribute the shares among national investment funds-60%, employees-10% and treasury-30%. Poland has divested nearly all retail services but has made slower progress on large firms. Privatisation and reform in Poland is never easy because of opposition from various parties especially organised labour. The labour movement in Poland is politically influential at that time because political reform in that country came about largely due to the labour movement.

Hungary also used a different approach from the other transition economies. It used a gradual approach instead of the 'big-bang' approach used in the other countries. Firms are sold through direct auction, tender and the stock exchange. The State Privatisation Agency (SPA) was later set up to oversee the privatisation programme following public outcry over 'spontaneous privatisation', which led to abuses, by the parties involved (Lawrence, 1993). These abuses include claims of low valuation for the national assets, and asset stripping by foreign investors.

3.13 Privatisation: The Australian Experience

Privatisation in Australia includes the sale of assets such as land, unutilised property and public enterprise. Public enterprise is first corporatised before being sold. However the sale of major public enterprises have been slow and only made progress in the 1990s. Opposition from the trade unions was the reason that restricted the progress of the privatisation process. Both the federal and state governments have implemented privatisation. But the sale of key sector enterprise is mainly decided by the federal government. Examples include the Commonwealth Bank of Australia, Qantas and Telstra.

Australian politics is a major factor that guided the implementation of privatisation (Rimmer, 1991). There are three major parties in Australian politics. The Australian Labour Party (ALP), the Liberal Party of Australia (LPA) and the National Party of Australia (NPA). The Australian Labour Party is generally less enthusiastic about privatisation because their main support comes from the trade unions. The other two parties are more supportive of privatisation. So the implementation of a privatisation programme depends on who is in control of the government whether federal or state.

3.14 Privatisation: The Developing Country Experience

In developing countries, desperate economic circumstances forced these economies towards privatisation. These countries were facing serious budget deficits, high foreign debt, and high dependence on agencies such as World Bank (IBRD), International Monetary Fund (IMF) and the Asian Development Bank (ADB). In Latin America and Asia, the extensive use of state enterprises is being abandoned in favour of an expanding private sector. However, the situation in Africa was even more critical. It suffers from political turmoil and rampant corruption. It therefore had no choice as the privatisation policy is usually imposed by external agencies in return for continued support.

However recent privatisation in developing countries have been slowing down with the exception of China which still has a substantial public sector. In Malaysia, the most notable recent case is the public offering of Malaysia Airports Holding Berhad. After the crisis hit, most privatisation plans have been put on hold. Instead there are some form of nationalisation seen taking place. For example the recapitalization of the banking sector, the recent purchase of a stake in Malaysia Airlines System (MAS) and the take over of the two light rail projects in Kuala Lumpur.

(a) Malaysia

The privatisation programme in Malaysia is very much similar to the privatisation programme in the United Kingdom. The privatisation programme in Malaysia started in 1985 when the Economic Planning Unit (EPU) of the Prime Minister's Department issued its 'Guidelines on Privatisation'. The sudden change in policy by embracing privatisation and abandoning its commitment public enterprise is partly influenced by the publicity given to the floatation of British Telecom in 1984. The official reason was to stimulate entreprenuership and relieve the financial and administrative burden of the state. Prior to this the government has been promoting and supporting the public enterprises as a means of redistributing income. Two factors have influenced the government's decision on privatisation. First, resource crunch of the government, and second, the desire to introduce more competition in the economy.

However, widespread concern has emerged that the privatisation process has involved collusion and corruption in the disposal of public assets to private interests. Since private investors' main concern is profits, it may have affected the availability of basic utilities. Privatisation here was based on ethnic consideration under the NEP. Transparency on government decision making has not improved, whilst many important sectors of industry fell into the hands of politically well-connected private interests.

In 1991, the EPU published the 'Privatisation Masterplan' (PMP) which sets out the modes of privatisation to be considered. These could be in response to public criticism of the privatisation carried out previously. There are four main modes of privatisation outlined in the PMP: -

- Sale of assets or equity
- Lease of assets
- Management contracts
- Build-operate-transfer (BOT) or build operate (BO)

According to the PMP, privatisation can be initiated by both public and private entities. However privatisation are carried out on a 'first come first served basis' although it is supposed to be subjected to competitive bidding which will bring in the element of transparency and competition (Jomo, 1993). Competition is an important element to improve efficiency. A list of the more prominent public asset sale to date is given in Table 5.

Table 5. Malaysia : Selected Major Privatised Projects, 1983-99

Project	*Year*
Malaysia Airline System (MAS)	1985
Klang Container Terminal	1986
Malaysian International Shipping Corporation Bhd (MISC)	1986
Tradewinds Bhd	1988
Cement Manufacturers Sarawak Bhd	1989
Cement Industries of Malaysia Bhd (CIMA)	1990
Edaran Otomobil Nasional Bhd (EON)	1990
Syarikat Telekom Malaysia Bhd (STM)	1990
Pernas International Hotels and Properties Bhd (PIHP)	1990
Kumpulan FIMA Bhd	1990
Tenaga Nasional Bhd	1990
Heavy Industries Corporation of Malaysia Bhd (HICOM)	1994
Petronas Dagangan Bhd (PDB)	1994
Petronas Gas Bhd	1995
Johore Port Authority	1996
Malaysia Airports Holdings Bhd (MAHB)	1999

Sources: Gomez and Jomo 1999, Privatisation Masterplan 1991, Financial Market Trends 2000

(b) India

India is another country with a huge public sector. The country has been following a development policy based on import substitution industrialisation (ISI) for a long time. This led to large investments in the public sector. In 1991 after a change of government, India started liberalisation and deregulation. Privatisation was carried out with the aim of reducing the public sector borrowing requirement. The Disinvestment Commission was set up in 1996 as an advisory body with the main purpose of facilitating sales of equity in public enterprises (Arun & Nixson, 2000). The government divided the state owned enterprises (SOE) into three categories: -

1. Strategic SOEs (defence, space and atomic energy) where no divestment would take place.
2. Core SOEs (power, telecommunications, steel, minerals and metals, coal and lignite, and petroleum) where the government would sell up to 49% of its equity in stages but would not surrender its controlling interests.
3. Non-core and non-strategic SOEs where government would divest up to 74% of its equity and could over time be fully privatised.

Privatisation in India has been slow moving since the policy was announced. This is due to political hostility. The problem is very similar in most countries with a weak government. Stronger governments tend to perform better in their privatisation programmes such as the case in Malaysia. As of 1996, there was no SOEs in which the share of the government had fallen below 51%. The Government of India had retained the share of at least 80% in more than half of the enterprises in which privatisation has taken place (Arun and Nixson, 2000). This half hearted privatisation, led to allegations that divestment was not used for genuine restructuring of the public sector but was used as a means of generating government revenue.

(c) Chile

In Chile, the privatisation programme started in the 70s reversing a long-term trend in the growth of the public sector much like in India or Malaysia but much earlier. The first stage of privatisation beginning in 1974 involves the return of previously expropriated companies to their original owners. This is followed by the second stage, which involves the sale of public enterprises. It was carried out by auction. Between 1974 and 1979 sales of public enterprises totalled $802.5 million (Marshall and Montt, 1988). In order to make the sales more attractive to investors, the government gave loans to purchasers through CORFO[2]. The problem of this second stage is the lack of regulation to prevent sales to parties without sufficient backing or capability.

By the early 80s some of the privatised firms failed and needed to be rescued by the government. The same trend could be evident in Malaysia. The renationalisation includes many banks, which was privatised earlier. The third stage beginning in 1985 involves the reprivatisation of these rescued firms. This time the privatisation programme also involves using the diffuse ownership method where shares are sold to a large number of investors. The remaining enterprises in government hands were slowly reformed through corporatisation before being sold some through partial privatisation. In order to prevent the same problem that affected the second stage privatisation from happening again, further measures were implemented to improve transparency and creditability in the sales. The measures include sales to pension funds, public offering and sales to foreigners.

3.2 POLITICAL OWNERSHIP

Privatisation is expected to lead managers to place greater weight on profit goals. But the changes involved are far more complex than a simple shift from 'public interest' objectives to profit maximisation. Under private ownership, management is directly responsible to shareholders although it may be constrained in its actions by a regulatory body. Under public ownership, management is monitored by the government, which in turn acts as agents for the people.

Privatisation does not always end up with private ownership and what is expected may not be true. Political ownership could feature prominently. Political ownership is the ownership by the state, politicians or their agents. Privatisation programme, which maintains political ownership, is understandable because of politicians concerns.

The reform of State owned enterprises (SOE) can cost a government its support base because reforms almost invariably involve eliminating jobs and cutting long established subsidies. Not surprisingly politicians carefully weigh any changes in SOE policies, naturally preferring policies that benefit their constituents and help them remain in power over policies that undermine support and may cause them to be turned out of office. While some exceptional politicians may be able to change the support base, and mobilise new constituents for reform, most are inherently responsive to supporters who put them in office. A form of compromise is to have partial privatisation. Therefore the political ownership factor could spoil the noble objective of privatisation.

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[2] CORFO - Corporacion De Fomento De La Produccion or Chilean Economic Development Agency

3.21 Partial Privatisation

Basically there are two kinds of privatisation being carried out. Full privatisation and partial privatisation. Most countries have fully privatised firms, which operates in non-core industries. Partial privatisation is mainly used for core industries where the state will remain as a major shareholder in order to exert control over the firm. The core industries include the utility companies and companies which could affect the national interests such as defence. The state will remain as a major shareholder so that it could control and regulate the industry in the name of national interests. However some countries have fully privatised the core industry firms but regulate it through the use of preference shares or "golden share". This preference share gives them special voting powers.

In partial privatisation, the firm will basically still be under public ownership. Therefore firms under partial privatisation with no ownership changes is not much different from a public enterprise. Even though there are internal restructuring with the formation of a board, the directors are appointed by the state. There is no concrete reason to suggest that the same people can perform better in a corporation as directors as compared to as a bureaucrat in a public enterprise. Competency has no correlation with organisational structure.

The monitoring of public enterprises can be rather weak. The lack of detailed knowledge on the part of voters means that their monitoring performance will often have a rather minor effect on the government's electoral prospects. Where decisions

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acts as the state owned holding company and development bank.

do have an impact on political prospects, it is likely to be because the actions have highly visible impacts on the wealth of identifiable interest groups, generating pressures to use public enterprises to transfer income to favoured groups, often at the expense of efficiency. The same goes for partially privatised firms. This means that monitoring will still be the responsibility of the state. If the state could not monitor public enterprises properly, then they may not be able to monitor the privatised firms under their control as well.

3.22 State Holdings

This section discusses about the political ownership situation in selected countries by focussing on state holdings.

(a) The United Kingdom

After two decades of privatisation in the United Kingdom, state holdings are minimal. Most of the public enterprise has been fully divested. For example Cable and Wireless Plc, first offer for sale of 49.36% equity was in 1981. The remaining shares were sold in two tranches. The first one in 1983 and the second one in 1985. Within five years, all state holdings in the company have been sold. However this does not mean that the state has no means of regulating the company. The state holds one special rights preference share in the company. In the case of Cable and Wireless Plc, this special share carries no rights to vote at general meetings but requires the prior consent of the government for certain events such as any amendment or removal of certain provisions of the company's Articles of Association, the voluntary winding up of the company, a material disposal of assets or the creation or issue of shares with different voting rights from those of the ordinary shares. In addition to the special share, the government has also formed specialised regulatory bodies for the respective industries to monitor the companies.

(b) Germany

Privatisation in Germany could not match the rapid pace set in United Kingdom. State holdings here are still substantial in major privatised state owned enterprises. The state does not have a policy of selling state assets quickly as compared to the United Kingdom. Instead the state's stake in the companies is viewed as a long-term investment as well as a regulatory instrument. Volkswagenwerk AG, an automobile manufacturer, first privatised in 1960, is still 18.6% owned by the State of Lower Saxony. This stake also allows the state to ensure that a large manufacturing concern like Volkswagenwerk AG comply with the strict environmental regulations.

(c) Eastern Europe

For the transition economies of the Czech Republic, Poland and Hungary, there is also a difference in the speed of divestment of public enterprises. In the Czech Republic, those major public enterprises which have been privatised for at least five years, the state holdings is still above 50%. In Poland on the other hand, the privatisation of key sector public enterprises, 30% must be allocated to the treasury as a policy rule. However for some firms, this treasury stake has fallen below 30%. For example the treasury stake in Bank Pekao S.A. is only 7,98% while its holdings in Polski Koncern

Naftowy ORLEN S.A. is 10.4% only two years after privatisation. Divestment is even faster in Hungary. Most major public enterprises are fully divested with the state's only holding is a 'golden share' like in the United Kingdom.

(d) Australia

Privatisation in Australia is mainly carried out in the 1990s, which is fairly recent. However the government is committed to full divestment following the trend in the United Kingdom. This is reflected in the privatisation of Commonwealth Bank of Australia. The initial public offer of Commonwealth Bank in 1991 was for about 30% of the company. By 1996, the government had fully privatised the bank. The same goes for Qantas. Qantas was first privatised through a trade sale of a 25% stake to British Airways. Its first public offer was in 1995. By 2000 it was fully privatised.

The most recent privatisation in Australia that caught investors' attention is Telstra. The government floated one third of Telstra in 1997. A second offering was made in 1999. Currently the Commonwealth Government of Australia still holds 50.1% of Telstra.

(e) India

India is another country where privatisation does not mean full divestment. This situation is reflected in the top privatised public enterprises listed in the Bombay Stock Exchange. For example Bharat Heavy Electricals Ltd. (BHEL) and Mahanagar Telephone Nigam Ltd., both privatised in 1992 still have heavy state holdings of 68%

and 56% respectively. Another firm in the key sector industry, Hindustan Petroleum Corp. Ltd. is 51% owned by the state.

(f) Chile

Chile is one of the earlier countries that embraced privatisation. They are also committed to full divestment. Because of its long privatisation history, most major public enterprises under the care of CORFO, the state holding company, have been privatised. The remaining state holdings are minimal. A summary of the findings is presented in table 6.

Table 6. State ownership in major privatised companies of selected countries.

Company	Industry	Year of initial floatation	Current share of state ownership
Czech Republic			
1. CEZ	Power Generation	1992	NPF[a] – 67.6%
2. CESKY Telecom	Telecommunications	1994	NPF – 51.1%
3. Komercni Banka	Finance & Banking	1994	NPF – 60%
4. C.Radiokomunikace	Transport & Communications	1994	NPF – 51%
5. Unipetrol	Chemicals & Pharmaceuticals	1994	NPF – 62.99%
Poland			
1. Polski Koncern Naftowy ORLEN S.A.	Petrochemicals	1997/98	Treasury – 10.4%, Nafta Polska[b] – 18%
2. Bank Pekao S.A.	Finance & Banking	1998	Treasury – 7.98%
3. Telekomunikacja Polska S.A.	Telecommunications	1998	Treasury – 35%
Hungary			
1. OTP Bank	Finance & Banking	1995	1 golden share[c]
2. MOL	Oil & Gas	1995	25% + 1 share
3. MATAV	Telecommunications	1997	1 golden share
United Kingdom			
1. Cable & Wireless Plc	Telecommunications	1981	1 golden share
2. BAE Systems	Aerospace & Defence	1981	1 golden share
3. National Grid Group	Electricity Transmission	1989	1 golden share
Germany			
1. Volkswagenwerk AG	Automobile Manufacturer	1960	State of Lower Saxony – 18.60%
2. VIAG AG	Diversified Manufacturer	1988	State of Bavaria – 15.10%
3. Deutsche Telekom	Telecommunications	1996	Fed. Rep. Of Germany – 43.18%, KfW[d] – 15%
Australia			
1. Telstra	Telecommunications	1997	Commonwealth Government of Australia – 50.1%
India			
1. Bharat Heavy Electricals Ltd.	Engineering	1992	President of India – 67.72%
2. Mahanagar Telephone Nigam Ltd.	Telecommunications	1992	President of India – 56.2%
3. Hindustan Petroleum Corp. Ltd.	Petrochemicals	1995	President of India – 51.01%
Chile			
1. Endesa[e]	Power supply	1986	CORFO – 0.17%
2. Banco Santiago	Finance & Banking	1986	Banco Central de Chile – 35.45%

a. NPF – Czech National Property Fund.
b. Nafta Polska – State Oil Holding Company.
c. Golden Share – Special rights preference share.
d. KfW – Kreditanstalt fuer Wiederaufbau, the state owned development bank.
e. Endesa – Empresa Nacional De Electricidad S.A.

Sources: Prague Stock Exchange, Budapest Stock Exchange, Warsaw Stock Exchange, London Stock Exchange, Deutsche Boerse, Bombay Stock Exchange, Santiago Stock Exchange, Bloomberg and the respective companies websites.

3.23 State Holdings in Malaysia

The state has been a major participant in Malaysian economic development, particularly under the New Economic Policy (NEP). Capitalist development in Malaysia involves a series of linkages among party politics, the bureaucracy and business. Most political leaders have business interests of both the public and private kind. This could be the effect of the Malaysia Incorporated policy. All the major political parties in the government have multipurpose holding companies with a wide range of business interest. On top of that, Bumiputra trust, agencies and companies have been receiving funds from the government either directly or indirectly through state administered insurance and provident funds. Furthermore privatisation in Malaysia was designed to redistribute wealth and income through the allocation of 30 percent equities to the bumiputras.

Because of this complex relationship, privatisation may provide great opportunities for rent seeking among the various power groups. According to Craig (1988), "Privatisation represent a rearrangement of ownership within already pre-existing power groups". Gomez and Jomo (1999) added that extensive political nepotism and patronage have grown with privatisation in the absence of an independent, accountable monitoring body to ensure proper implementation of the policy.

Widespread public concern has emerged that the privatisation process has involved collusion and corruption in the disposal of public assets to private interests. Since private investors' main concern is profits, it may have affected the availability of basic utilities. The privatisation of the North South Highway was one such case that caught public attention when the Parliamentary opposition leader Mr. Lim Kit Siang and other civic groups brought the case to the civil courts (Jomo, 1993). It was alleged that UEM's winning bid was not the most competitive but the details of the tender will never be known because it is covered by the amended Official Secrets Act. UEM is virtually insolvent and had no track record of building highways at the time. UEM is controlled by a holding company of UMNO. On top of that the government have to guarantee the returns of the company by continuously increasing toll charges.

Privatisation here was based on ethnic consideration. This is the objective of the NEP. The sale of public enterprises to non-bumiputras was politically unpopular and attracted widespread protests from UMNO members (Gomez & Jomo, 1999). The only way for non-bumiputras to participate in the privatisation programme is through joint ventures with politically influential Malays. Transparency on government decision making has not improved, whilst many important sectors of industry fell into the hands of politically well-connected private interests. Examples include Perusahaan Otomobil Nasional Bhd, Hicom Holdings Bhd to the late Mr. Halim Yahya, MAS to Mr. Tajudin Ramli and Sports Toto to Mr. Vincent Tan Chee Yioun.

So how extensive is the political ownership? The Kuala Lumpur Stock Exchange (KLSE) market capitalisation rankings for 26 December 2000, the last trading day for the year shows that out of the top five companies, four are former public enterprises. They are Tenaga Nasional Bhd, Telekom Malaysia Bhd, Petronas Gas Bhd and Malaysia International Shipping Corporation Bhd (Investors Digest, January 2001).

Table 7. KLSE Market Capitalisation Rankings

Ranking Dec 2000	Company Name	Market Capitalisation (RM'000)	As a % of total market capital
1	TENAGA	36,033,408	8.3%
2	TELEKOM	34,883,912	8.1%
3	MAYBANK	31,702,255	7.3%
4	PETGAS	12,762,821	2.9%
5	MISC	12,703,211	2.9%

Source: Investors Digest, January 2001

This means that former public enterprises command a big share of the market capital. The total market capital at the end of 2000 is RM433billion (Investors Digest, January 2001). From table 7, the four former public enterprises make up more than 20% of the total market capital. They are some of the largest listed companies in the KLSE and make up high weightings in the KLSE Composite Index (KLCI).

However the government held portion of the equity of these companies is also very high. Table 8 and 9. shows political ownership in five-selected privatised companies. Aside from MAS, the other four highly ranked companies in terms of market capitalisation have state equity ownership of at least 50%. If the figures for other state owned or controlled funds are included, then the state equity ownership goes up to 80%. As for MAS, at the end of 2000, the government bought back a 29% stake from its largest shareholder Mr. Tajudin Ramli. The price it paid matched that paid by Mr. Tajudin in 1994, which was double the market value. At the same time, the largest foreign shareholder, the Brunei Investment Agency sold its 9.09% stake in the airline to Kumpulan Wang Amanah Pencen (KWAP), a government pension fund for RM4.00 per share (AWSJ, 27/12/2000).

The figures show that the state is effectively the controlling shareholder. However it is difficult to differentiate bumiputra ownership from political ownership without a detailed study of the ownership figures. Given the political influence spans the state and other state controlled funds, these equity ownership can be considered political ownership.

Even if the government wants to sell the entire stake in the privatisation, it could not do so because the market would not be able to absorb it. It is restricted by several factors such as the shareholding limit under the NEP, the lack of depth in the capital market, and the lack of suitable local strategic investors. Extending the sales to the international market can solve these problems. But the government is unlikely to do so because of nationalistic sentiments.

The high shareholdings of the government may not go down well with the current investment climate. Outside investors are now being more suspicious than before regarding state share ownership. Prices of stocks with big state shareholdings are being traded at a discount to its normal value. The recent adjustment for free float in the Morgan Stanley Capital International (MSCI) global indices puts further pressure on companies with high state ownership because these state investments are usually for long term and will not be freely traded.

Table 8. Ownership structure of the five selected companies.

	Shareholdings			
	Government	Semi-Government	Private	Total
MAS[1]	8.8%	46.6%	44.6%	100%
MISC[2]	67.8%	15.2%	17%	100%
TELEKOM	65.6%	15.3%	19.1%	100%
TENAGA	64.5%	18.1%	17.4%	100%
PGAS[2]	58.4%	32.8%	8.8%	100%

1. The ownership structure for MAS is before the government bought back the controlling stake from Mr. Tajudin Ramli.
2. The figures for MISC and PGAS include the shareholdings by Petronas the state oil holding company.
3. Semi-government means shareholding held by state owned or state controlled funds.

Table 9. State ownership in selected privatised companies in Malaysia.

Company	Industry	Year of initial floatation	Current share of state ownership	Share of other state owned or controlled funds
1. Malaysia Airline System Bhd[a]	Air Transportation	1985	1 golden share S'wak State – 4.42% Sabah State – 4.42%	EPF[f] – 26.01% KWAP[g] – 10.50% ARNT[h] – 10.06%
2. Malaysia International Shipping Corporation Bhd[b]	Shipping	1987	1 golden share Petronas[i] – 62.06% KNB[j] – 2.37% S'wak State – 1.65% Penang State – 1.72%	EPF – 8.80% FELDA[k] – 2.74% ARNT – 2.32% LTH[l] – 1.34%
3. Telekom Malaysia Bhd[c]	Telecommunication	1990	1 golden share KNB – 36.09% MoF.[m] – 21.27% BNM[n] – 8.23%	EPF – 9.45% PNB[o] – 4.52% ARNT – 1.32%
4. Tenaga Nasional Bhd[d]	Power supply	1992	1 golden share KNB – 36.04% MoF. – 17.10% BNM – 11.35%	EPF – 6.53% PNB – 4.02% ARNT – 5.01% KWAP – 1.32% BSN[p] – 0.61% LTH – 0.60%
5. Petronas Gas Bhd[e]	Gas processing	1995	Petronas – 58.11% KNB – 0.33%	KWAP – 16.13% EPF – 11.60% ARNT – 3.32% PNB – 0.75% LTH – 0.69% LTAT[q] – 0.31%

a. Share ownership figures for MAS is as at 27 July 2000.
b. Share ownership figures for MISC is as at 9 May 2000.
c. Share ownership figures for Telekom is as at 10 March 2000.
d. Share ownership figures for TNB is as at 8 November 2000.
e. Share ownership figures for Petronas Gas is as at 21 July 2000.
f. EPF – Employees Provident Fund Board.
g. KWAP – Kumpulan Wang Amanah Pencen.
h. ARNT – Amanah Raya Nominees Tempatan, nominees for Sekim Amanah Saham bumiputera/Amanah Saham Nasional/Amanah Saham Malaysia.
i. Petronas – Petroliam Nasional Bhd, the state oil company.
j. KNB – Khazanah Nasional Bhd.
k. FELDA – Lembaga Kemajuan Tanah Persekutuan.
l. LTH – Lembaga Tabung Haji.
m. MoF. – Minister of Finance Incorporated.
n. BNM – Bank Negara Malaysia.
o. PNB – Permodalan Nasional Bhd
p. BSN – Bank Simpanan Nasional.
q. LTAT – Lembaga Tabung Angkatan Tentera.

Source : Sequencer Ver 1.7.0 Financial Times Information.