

Conclusion

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CONCLUSION

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Some lessons can be derived from our analysis of privatization and deregulation for developing countries:

(a) **Timing:** Results of privatization and deregulation are affected by business cycles. During the boom period, dismissal of SOE employees is relatively easy as it does not create serious social problems because redundant workers can be relocated or absorbed in a growing economy. Moreover, SOE stocks and real estate can be sold at a high price. However, the opposite happens during a recession. Thus, the timing of the introduction of these policies is of importance, especially, when SOEs have heavy debt burdens.

(b) **Speed:** Hasty liberalization, as seen recently in the case of many East Asian financial markets, can create turmoil. The speed of deregulation is hence another issue to be considered. Foreign capital dominance, so-called Wimbledon effects, has not yet taken place in the case of Japan. When NTTPC was privatized, the NTT Corporation Law prohibited foreign ownership of shares. However, it was amended in 1992, so that foreigners could buy up to 20% of NTT shares. In this context, Japan's opening up process has been gradual. It is expected that the so-called 'big bang' in the financial market will invite foreign capital into Japan. Gradualism with clear time schedules therefore may prove to be the best path for certain developing countries to follow. Of course, if the purpose of privatization is to attract international capital (due to inadequate local capital markets) the concern over foreign domination is diminished, given the benefits achieved by bringing productive investments and new managerial skills into important infrastructure industries.

(c) **Sequence:** Sequencing is another factor to be considered. Several public utility charges are usually set low for social subsidy reasons in developing countries. Privatization may result in higher prices in such charges which actually happened, for instance, in India and Bolivia. Privatization is not a mere question of introducing competition but of

distributional effects. Therefore, one of the sequencing examples of privatization may be: (i) that companies producing goods in competitive markets should be privatized first; (ii) then privatization of large industrial, non-utility firms follow; and (iii) where prices are set to rise, essential utilities may well need to be privatized last. Moreover, governments need to take time to explain carefully the reasons in advance if prices are set to rise after privatization because it is of the uppermost importance that citizens are well informed and feel involved in the restructuring process.

(d) **Contract arrangements:** Technology advances very rapidly and it influences the pattern of institutional and contract framework for building infrastructure. Different contract forms such as BOT (build-operate-transfer), BOO (build-operate-own), BLT (build-lease-transfer), and PFI (private finance initiatives) need to be carefully examined and the best mix of private and public hands in terms of finance, performance, social implications, etc. needs to be chosen.

(e) **Government efforts:** Sometimes better management and competition where appropriate can deliver significant benefits even without ownership transfer. Particularly, attracting managers from the private sector, setting efficiency targets, and contracting out parts of the production process can yield big gains.

(f) **Proper regulatory bodies:** Firm but fair institution building for new liberalized systems is required and must be substantial. Especially, independent monitoring and controlling institutions such as fair trade commissions, electricity regulation offices, and banking supervisory authorities are necessary. However, we have to realize that the regulatory cost (direct and indirect) is also very high as is shown by the UK's experience. Furthermore, hindrance factors to fair institution building such as vertically-split ministerial vested interests, nepotism, political influence as well as corruption must be avoided.

(g) **Information disclosure:** Information disclosure, transparency, and accountability in privatization and deregulation processes are crucial. Information asymmetry becomes a hotbed of insider transactions and wrongdoing. All players involved such as public sectors, privatized companies, regulatory institutions, and customers should avoid this problem.

(h) **No cook book:** There is no simple recipe for formulating and implementing privatization and deregulation policies. It is difficult to graft the successful privatization cases of advanced countries on to developing countries. Often privatization and deregulation processes are derailed in developing countries due to weak regulatory arms, corrupt or inept bureaucrats, conflicts between central and local governments, conflicts of stakeholders such as political pressure groups, and the lack of political leadership. Each developing country should analyze the given information and devise for itself the best way forward, taking economic, social and political factors into consideration. One thing that is clear is that developing countries should not make the same mistakes in implementing the processes of privatization and deregulation as the forerunners made.