

## Question no. 03

State Owned Enterprises have been a huge burden on the budgetary economy of Pakistan. Why and how these enterprises should be privatized?

### State Owned Enterprises (SOEs)

#### And Pakistan

##### 1 Introduction:

State Owned Enterprises are organization, companies, or corporations, fully or partially owned by the government to provide benefits and subsidies to the public and ensure their welfare. Currently around 113 state owned enterprises operate in Pakistan. The total loss made by all the loss-making SOEs constitutes around \$4.1bn dollars annually. This loss is even higher than the budgetary spending on education and health, which is \$2.8bn and \$3.8bn respectively. This loss is incurred due to various reasons i.e., over-staffing, corruption, and inefficiency.

## 2 Rationale for Privatization:

### i) Case Study: Pakistan International Airlines (PIA)

Pakistan International Airlines (PIA) has been a burden on Pakistan's budgetary economy. In 2021, when COVID-19 ended, international airlines around the world observed a boost by 25% to 30% in their profits. However, Pakistan International Airlines (PIA) incurred a loss of -0.04%. This shows that Pakistan International Airlines (PIA) was unable to contribute to the Pakistan's economy, while other private sector airlines were aiding to their economies through taxes.

Efficiency of airlines is measured through a metric, which is as follow:

$$\text{Efficiency} = \frac{\text{Employee}}{\text{HR}}$$

SNo.	AIRLINES	EFFICIENCY
01	TURKEY AIRLINES	23
02	AIR INDIA	86
03	AIR CHINA	116
04	PAKISTAN INTERNATIONAL AIRLINE	269

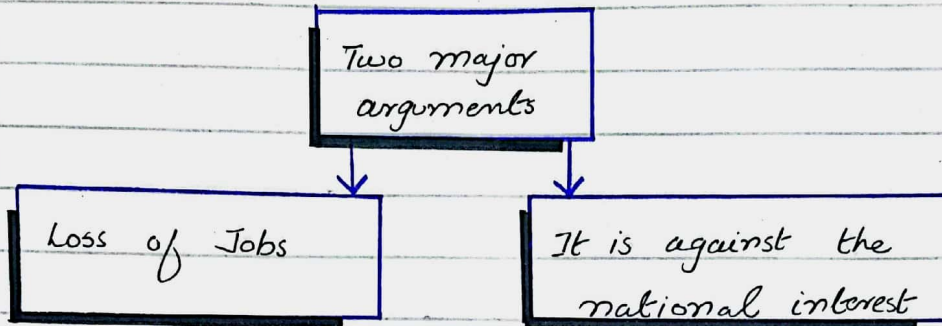
The table shows that Pakistan is the most loss-making airline in the world and Turkish Airlines is the most efficient airline of the world. Even the neighbouring countries have better efficiency than PIA.

## ii) Case Study: Pakistan Railways

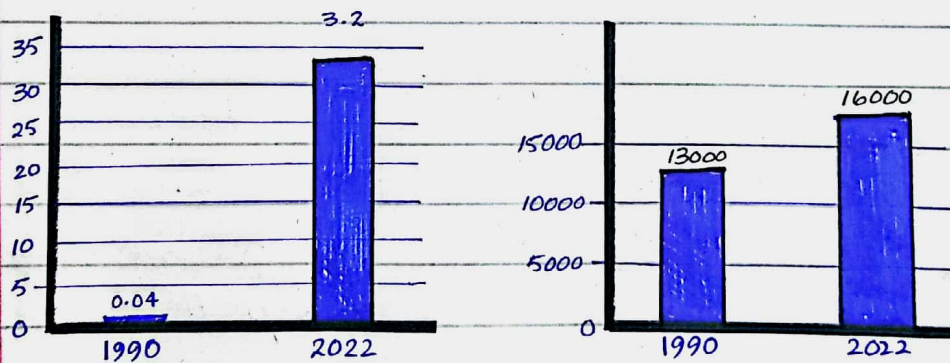
Railway system of Pakistan operates under the Pakistan's government Ministry of Railways. It comes under federal control and operationalize across all provinces with its 7000 km railway track. Pakistan Railway is a constantly loss-making SOE due to its inefficiencies, corruption, schedule problem, outdated infrastructure, over-staffing and delays. However; Pakistan's neighbour, India has successfully overcome over such efficiencies by operating railways on Public-Private Partnership (PPP). India has outsourced its station's operation, while keep the ownership of the infrastructure.

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### 3 Arguments against Privatization:



i) Loss of Jobs: One of the most cited argument against the privatization is that, jobs are lost in this process. However, the stats of privatization of Muslim Commercial Bank shows otherwise.



(Amount in \$US billion)

ii) It is against the national interest:

It is ~~not~~ against the national interest, as many other private airlines are already operating in Pakistan i.e., Air Blue, Fly Jinnah and Air Sial. Many countries have private airlines and it aids to their economies. Actually, it is in the favour of national interest.

#### 4 Role of Government:

The role of government in businesses should be limited and restricted to areas like:

**Policy Making:** Government should only formulate policies that are favourable for thriving businesses.

**Security:** Government should maintain the law and order situation in the country to attract Foreign direct investment (FDI) and provide a safe environment for operations of business.

**International Cooperation:** Government must focus on maintaining good diplomatic ties with the neighbouring countries to promote trade and reach foreign markets.

## 5 Ways to Privatize SOEs:

State owned enterprises (SOEs) must be privatized and sold on good market value and they should not be undervalued as the payment ~~and~~ received through their privatization has the potential to end debt trap of Pakistan. Secondly, smooth transition should be ~~an~~ adopted ensuring there are no unnecessary jobs losses and the previous employees are compensated their share accordingly. Pakistan should adopt the method similar to India, maintain land ownership and outsource the operations to the private corporations. In this way, government would maintain a certain autonomy over these businesses. Government should ensure that these corporations must follow regulatory framework and do not burden the public unethically.

## 6 Conclusion:

State Owned Enterprises (SOEs) must be privatized to reduce the budgetary strain from Pakistan's economy. Major SOEs of Pakistan ~~and~~ PIA and Pakistan Railways provide the rationale for their privatization by incurring consistent losses. In contrast, successfully privatized

SOEs such as Muslim Commercial Bank (MCB) provide ~~case~~ case studies to why privatization is important to make businesses profit-making. However, government should adopt model of public private partnership (PPP) to maintain certain autonomy in their decision-making.