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Jan 19, 2025

Essay Topic:

Is Privatization of Public Services beneficial or detrimental to developing countries?

Outline:

1) Introduction:

Thesis statement:- It is true that ~~the~~ privatization of public services ~~may~~ have some benefits^{too}, but the overall assessment reveals it is detrimental to developing countries. It has many negative impacts ~~for~~ on the country's governance matters and ~~the~~ overall national interests.

2) Understanding the underlying concept behind "Privatization of Public Services".

3) Privatization of Public Services is detrimental to developing countries (Thesis)

a) It results in the loss of non-Tax revenue for ^{the} developing countries

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- b) To compensate for the loss of non-tax revenue government has to increase the tax rates.
- c) Loss of strategic enterprises reduces state's ability to provide relief to masses.
- d) Privatization also increases the social inequality ~~and~~ widening the gulf between "haves" and "have not".
- e) Big companies and corporations have the capabilities to capture the domestic market of developing nations.
- f) MNCs can exert significant pressure on ^{the} developing country's governance matters.

- 4) Privatization of public services is beneficial for developing countries (Anti-Trust)
- a) Private entities have more potential of providing tax revenue than the public ones.
 - b) Privatization encourages entrepreneurship, brings foreign investment and helps developing countries in transforming their economies to knowledge economy.
 - c) Privatization results in generating more employment opportunities.

- d) It reduces the state's burden of handling the loss-making Public services entities and helps in ~~them~~ focusing more on governance matters.
- e) Case study of the Privatization of ^{the} Banking sector of Pakistan.

5) Overall assessment reveals that Privatization is detrimental to the developing countries.

a) Tax revenue generated by the private corporations comes at the cost of loss of non-Tax revenue.

b) Developing countries have no necessary infrastructure that is necessary for ~~benefiting~~ benefiting from foreign investors.

c) Employment provided by privatization only comes after the huge job losses during the process of privatization.

d) When state's influence on economic matters reduces it harms developing countries national interest.

e) Case study of the Chinese state-led & state-controlled economic model. Success of

9) Conclusion

Picture essential public services — healthcare, education and utilities — driven solely by profit motives. Privatization risks turning these basic human rights into commodities, accessible only to the highest bidder. As the cost we are willing to pay for efficiency rises, it is true that privatization of public services may have some benefits, but the overall assessment reveals it is detrimental to developing countries. It has many negative impacts such as the loss of non-Tax revenue; the loss of state's ability to provide relief to the masses and others. Further, privatization also enables big companies and corporations to take control of the domestic market. They can also exert significant pressure on the developing country's governance matters. However, some people argue that privatization is beneficial for the

developing countries. They believe that privatization helps in generating economic growth by encouraging entrepreneurship and foreign investors to invest in the developing countries. Further, they believe privatization contributes a lot in the national exchequer as it has the ability to provide more tax revenue than the public services^{provider} entities. But the overall assessment reveals that privatization despite having some benefits is detrimental to the developing countries, as it benefits more to the investors than the public. Further, its negative impacts for the governance and its ability to harm national interests are far greater than the benefits it provides for the developing nation.

Privatization of Public services refers to the process of reducing the role of government by increasing the role of private sectors. "Privatization" gains more prominence in the world for the last fifty years, when UK

Prime Minister, Margaret Thatcher has gained success in liberalizing her country's economy. She nearly got £190 bn from the privatization process. Other EU countries soon follow the suit and start liberalizing their respective countries. From then, the Western-~~red~~ countries has increasingly inclined their economies towards de-regulation, and liberalization. Thus, more and more countries are encouraged by the Western countries and the international ~~that~~ institutions to adopt privatization.

One of the detrimental effects that privatization has on the developing countries is the loss of non-Tax revenue sources. Public services entities are the important source of non-Tax revenue for any government. Developing countries like Pakistan has heavy reliance on such sources. For instance, in the next fiscal year, Pakistan has estimated

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4.9 trillion rupees to be recovered from such sources (MoF, "Pakistan's Budget FY25, June 2024"). Thus, the loss of such huge amount of money will put detrimental effects to the economy of any developing country. To compensate for the loss of non-tax revenue government has to increase its tax rates. When the government increases tax rates it puts more economic burden on the poor masses. It is because the taxation system of most of the developing countries ~~are~~ rely more on indirect taxation rather on direct taxation. The incidence of direct taxation is on rich people whereas indirect taxation like General Sales Tax, Income Tax, harms poor people more. Pakistan for the next fiscal year has budgeted around Rs 7 trillion from the indirect taxation. So, when non-tax revenue sources are no longer available, government in

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order to compensate for it will rely on the indirect taxation.

Another reason why to believe privatization of public services is detrimental to the developing nation is due to the loss of strategic public services enterprises, which holds much importance for the government of developing nations. Whenever, governments want to provide relief to the masses, they provide it with the help of these strategic enterprises. For example, when government wants to provide subsidized food items to the people, they do so with the help of Utility Stores Corporation. So, when such entities get privatized it will harm state's ability to provide relief to its people. Another detrimental impact that privatization process has on the developing nations is it

increases socio-economic inequality among the masses. That is privatization widens the gulf between "haves" and "have not". It is the state who provides such means to its people that helps them in changing their socio-economic status. For instance, according to the Article 25-A, it is the duty of the State of Pakistan to provide its citizens free compulsory education. So when Government privatizes public schools it will limit the access of poor people to attain education.

Another harm that privatization has on the developing countries is that their domestic market will be captured by the big companies and corporations. Privatization ~~involves~~ asks de-regulation and free-market operation in the economy. These measures in turn attract the foreign investors to invest there. As these big corporations are equipped

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With modern technology, they can make cheaper, better products than what developing nations can make. Thus, the quality and price of goods and services that developing nations can make is far less competitive than what big corporations have the abilities to provide.

Along with this, Multi National Corporations (MNCs) can also exert significant pressure on the developing countries governance matters.

This is because, after privatization, these entities will have large stakes in the economy of the developing nations. Governments will also have to fear from them due to their huge financial contribution. They will not only be the major source of revenue but also provide employment to the masses.

This is evident from the recent inclusion of Elon Musk, the world's richest man, in the Donald Trump's cabinet and his

subsequent different acquisitions on different countries. Thus, the privatization of Public services challenge the well state.

Contrary to this, some people argue that privatization of public services is beneficial for developing countries. They believe that private entities have more potential of providing tax revenue than the public ones. Private entities ~~are~~ operate in a formal channel and pay all their due taxes to the governments. According to the statistics from last fiscal year of Pakistan, Banking sector of Pakistan has contributed more than Rs 900 bn to the national exchequer in the form of taxes. Whereas, PIA has accrued a loss of Rs 150 bn in the same year. (Mubarak Zeb, Salawad class overtakes textile exporters, June 2024). Thus private entities

are the major revenue sources for the developing nations.

Another argument in support of the Privatization is that it encourages entrepreneurship and brings foreign investment. In doing so, Privatization process helps developing countries in transforming their economies to become a knowledge economy. As

discussed above, Privatization attracts foreign investment and they come to the host country with the modern technology. They also help in uplifting the competitiveness of the country's workforce.

As one research shows that privatization helps in providing more productive and innovative workforce for the country (Dawn, The Contract Labour, Aug 2024)

Thus Privatization enables countries to completely transform their economies.

Similarly Privatization also helps in generating

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employment economic opportunities to youth. This is because privatization generates economic growth, and the more we have economic growth the more will be the opportunities of employment. Employment need is significant in developing countries, as their industrial infrastructure is not too strong to provide employment to the new entrants in the work force. In Pakistan, every year around 1.5m new entrant add into the job market. Such huge entrant can ~~only~~ be absorbed in the private sector only, and private sector is doing it so, that is it is providing job opportunities to the youth. This can be seen in Pakistan's banking and Tele com sector where millions of people are employed. Thus privatization results in generating more employment opportunities to the youth population.

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Another reason why privatization is considered beneficial for the developing countries is because it reduces the state's burden of handling the loss-making enterprises and helps in focusing more on the governance matters. It, by reducing the state's role of being operator of the economic enterprises to mere regulation and enabler.

That is privatization reduces the state's burden and provides them the only but important responsibility of making business friendly environment. In this way state will get rid from loss-making enterprises. According to one estimate, Pakistan suffers from ~~an~~ Rs 750 bn economic losses every year to these loss-making enterprises.

Thus, privatization helps government to focus on only government matters. The example of

the privatization of Banking
 Sector (1990s) and Telecom
 Sector (2000s), is a significant
 guide to prove that
 privatization is beneficial
 for the developing countries.
 Both these sectors are
 contributing positively in the
 national development. They not
 only contribute in revenue,
 generating employment opportunities
 but also provide different
 and quality services to
 the people of Pakistan.
 Whereas, other sectors are
 either giving economic losses
 to the country or are
 not performing well. After
 these two sectors, no
 public sector entity
 can provide such revenue
 and services to its
 country. Thus, ^{the success gained from} privatization
 of the banking sector
 alone can provide us
 the reason to believe
 that privatization is beneficial
 for the developing
 nations.

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Due to one reason or another, the arguments put forward by the proponents of Privatization process holds no ground. Their argument that Privatization results in generating more revenue is weak. They are right when they say that private entities, such as Banking sector has contributed nearly a trillion rupees in taxation but they forget the contribution of public entities in the non-Tax revenue, which stands at nearly five trillion rupees. Thus, the revenue generated by the private corporations come at the cost of the loss of non-Tax revenue. Their another argument that employment opportunities are generated by the Privatization process also seems to be weak. This is because they forget that Public entities are better source of providing job opportunities,

as seen in the Energy, aviation and railway sector of the government, where these "Public services entities" are not only providing low cost services to people but also provides hundreds of thousands of jobs to the people. Thus, those jobs that are provided by the Privatization process only comes after the huge job losses during the process.

Another argument that it reduces the state role to mere enabler of the businesses activities is also weak. It is because when state's influence on the economic matters reduces it harms developing countries national interest.

For instance, to manufacture high-tech weapons, missiles is the state's top priority.

~~Further~~ Also, these sensitive manufacturing industries of defense and weapons are safe only when the whole process is under the full supervision of the

State. Similarly, same is the case in other sectors of defense too. Thus, privatization can harm the national interests of developing countries. The success example of the Chinese state-led and state-controlled economic model is one of the prime examples to prove that "privatization of public services" is detrimental to developing nations. China in the past five decades has not only maintained a steady G.D.P growth of over 10 pc, but also brings its 800 million people out of poverty. Also they are the world's second largest economy. Further, China has

a strong industrial sector and manufactures high-tech goods. All this happens without the "privatization" process. Further, the will of the Chinese government over the whole country is very strong. This proves that privatization of public services harms country's national objectives and goals.

In a nutshell, privatization of public services have some benefits, but seeing through the broader lens it can be concluded that it is without any doubt is detrimental to developing countries. It not only results in economic and job losses, but also harms to country's national interests. Additionally, it also weakens the will of state, as the big corporations start meddling in the governance

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matters. In some cases, one sees that it provides some benefits. Two, like in the case of Pakistan's privatization of banking, media and Telecom sector but these are only the limited cases. The overall result of the privatization ~~is~~ would be the widening socio-economic inequality among the masses. The poor cannot afford to avail costly healthcare, and education, and ^{will} also remains unable to benefit himself from buying ^{or} expensive food, electricity and gas — all are though provided efficiently by the corporations but the poor have no means to avail these

* unsubsidized stuff