AN OVERVIEW

OF

PRIVATIZATION IN

THE SOUTH PACIFIC

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> "If only I knew how to start some kind of business. My dear friend, all theory is dismal and only business flourishes. Unfortunately I have learned this too late." Karl Marx to Engels, 1862.

Hardly a champion of private enterprise, Karl Marx, the founder of dialectical materialism, obviously recognized the vitality and importance of business. But, in spite of his words, Karl Marx took no action. Privatization of government business is often talked of, often written about. Like Marx, there is much rhetoric but little action. One should not mistake interest for action. Privatization rhetoric and yet another study examining privatization possibilities of state-owned enterprise does not mean that anything is actually happening.

Several South Pacific countries are considering privatization Amongst these are Western Samoa, Fiji, and Papua New Guinea. Western Samoa is engaged in an extensive program to investigate privatization of many of its state-owned enterprises. Fiji has considered privatizing the government-owned shipyard in Suva. Additionally, the Fiji government is said to be considering privatization of its telecommunications. Several of the smaller Pacific Island nations also are considering privatization of utilities and hotels. Notably amongst these are Kiribati and the Cook Islands.

The United States Agency for International Development (USAID), Regional Development South Pacific, has been actively involved in promoting privatization through dialogue with governments in the region. USAID has also provided direct consultation assistance to the Papua New Guinea Department of Finance.

One Country's Action Plan

Papua New Guinea, it seems, has resolved to take a different tack from the common study and consideration route.

The Papua New Guinea Department of Finance recently endorsed a position paper for cabinet compiled by a USAID privatization consultant, Robert Laport. The position paper, which has been signed by Galeva Kwarara, the new Minister for Finance, does away with multitudinous layers of studies and instead asks cabinet to endorse a free market approach to privatization of government holdings in half a dozen corporations.

The Papua New Guinea approach is really quite simple. It goes like this. After an examination of more than two dozen corporations in which the government of Papua New Guinea has significant holdings, a short list is drawn up of those corporations most likely to have investment appeal in the marketplace. The next step is to issue a request for proposal to the local financial community and investment corporations which would bid on a "success fee" basis (fee to be deducted from proceeds of sale) to make public offerings for sale of government holdings in the selected corporations.

Such a process allows for a competitive valuation of the relative worth of the short-listed corporations. Further, it provides a method of sale open to public scrutiny, extremely important in a country where there is no public capital market.

The International Finance Corporation has recently completed a study which shows potential to develop a small capital market in Papua New Guinea. However, sources of investment funds now generally are limited to institutional investors, such as the Superannuation Board, National Provident Fund and the New Guinea Investment Corporation. Such institutions act as unit trusts or invest retirement funds in bricks and mortar or securities on behalf of a large number of constituents.

What's happening in other countries?

Elsewhere in the South Pacific, unlike Papua New Guinea, specific businesses have been selected or targeted for privatization which often have little attractiveness for investors. Why? Simply because many of them have been run as subsidized businesses. Governments throughout the world have poured millions of dollars annually into state-owned enterprises to subsidize inefficient and money-losing operations. Pacific Island nations are no exception. More often than not, employment in such enterprises is only a substitute for unemployment benefits.

Ideological Business?

Often, money-losing state-owned enterprises are operated for ideological rather than for business reasons. In the same manner, parliamentary oppositions often vow to nationalize existing private corporations for yet another set of ideological reasons. Competition for private business won't allow a business to survive solely because of ideological reasons. For that reason, governments often have to protect state-owned enterprises with a monopoly which restricts others from operating private competition.

Even the mention of privatization connotes fears of multi-national companies dominating local industries in some political circles. In their eyes foreign ownership is seen as a form of modern-day financial neo-colonialism. Informed observers of foreign investment may argue that a country does not have to have ownership of business to have control, given regulatory powers. Nonetheless fear of foreign ownership is very real to a significant number of Pacific Island citizens.

In cultures built on communal ownership, where everyone shares existing resources, how an economy can expand by the interjection of outside capital is little understood.

To counter this view, one can present a financial reality; it takes money to create new jobs in an economy changing from a subsistence or agrarian base to a monetized base. It takes money to build plants, buy machinery, train personnel, transport products, and market products. In fact, without money no new jobs will be created.

This concept is understood by astute government officials throughout the South Pacific. Unfortunately, however, too few citizens understand this concept. If Pacific Island governments can convey to their constituencies the logical reasons for privatization, they will have an easier task to encourage both in-country and foreign investment.

Once the money is gone...

When there are no in-country opportunities for investment, flight of capital from Pacific Island nations will continue. Even now, in those countries which have an overabundance of cash, surplus liquidity has reduced bank interest rates for large deposits to less than two per cent. With no alternatives for investment and such inadequate bank interest, capital will indeed leave the country in spite of the most creative currency controls.

Experience in many developing countries has shown, that once exported, capital is unlikely to return.

The reasons countries should sell government holdings to the private sector really aren't ideological. Nor should they be. Businesses exist to make a profit. The real reason for privatization is financial.

When governments own companies there is less room for private investment. When governments restrict competition to benefit government-owned monopolies there is no room for private investment. And when governments tie up money, even in parastatals or state-owned enterprises which are making a profit, they are limiting the growth of their economies. How? By restricting government capital available for investment promotion, infrastructure, immunization programs, education, and other benefit goods and services properly carried out and produced by government.

What is gained by privatizing ?

With freed assets government can work in partnership with business to expand economies and create real jobs not make-work jobs in heavily subsidized state-owned enterprises.

The will to privatize -- the political will -- is the key and pivotal issue. Although privatization can be a slow and agonizing process, there are ways to relieve the pain. If a government is willing to expose its economy to competitive market forces, it can create an environment for economic expansion which will provide productive employment and more tax revenue.

What could happen if we don't?

But what about those countries that want to keep the commodity boards, the money-losing shipping lines, the money-losing timber companies, the money-losing plantations? And what about the utility companies which can't meet customer demand to expand because profits are absorbed by government to support other money-losing ventures?

One day. The day the government can't create any more make-work jobs. The day school-leavers can't find any employment. The day government officials realize massive amounts of money have flowed out of the country. That day. Many an official may join Karl Marx in saying..."only business flourishes. Unfortunately, I have learned this too late."