Public Enterprise and the Developing World

Edited by V. V. Ramanadham

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PREFACE

This volume has grown out of the papers (and discussions) presented at the Seminar conducted at London Business School during March-June 1983, with a focus on the problems of public enterprise in the context of the developing world. Essentially, three facts of thought emerged: first, on the working of public enterprises in developing countries; second, on joint ventures and consultancies involving public enterprises in the two groups of countries; and, third, on the value and relevance of experience of public enterprises in developed countries, particularly in the UK, for the developing countries.

Broadly, the first Chapter belongs to the first category, Chapters Six and Seven to the second and Chapters Eight to Thirteen to the third. The concluding review seeks to highlight some of the major issues that deserve notice in the light of the views expressed in the papers and the discussions that took place on them.

I deeply appreciate the co-operation of the various authors who prepared the papers for publication. In particular, I gratefully acknowledge the support I constantly received from Professor Michael Beesley, Professor David Chambers and Professor John Heath in the conduct of the Seminar, for which the academic setting at the London Business School has been exceedingly congenial.

V.V. Ramanadham
Editor

To my mother V. Janakamma
the definition of affection

CONTENTS

Chapter One

PUBLIC ENTERPRISE IN DEVELOPING COUNTRIES: THE DEVELOPMENT CONTEXT

V.V. Ramanadham

The aim of this paper is to present the thought that for a full understanding of the nature and problems of public enterprise in developing countries (1), we have to appreciate the development context of the countries. This constitutes a basic setting within which the enterprises are set up and operate.

The emergence of public enterprise in developing countries has coincided with initial stages of industrialisation and modern economic development. It has even seemed to be a necessary condition for the latter; and governments have felt that they had "little choice in this respect" (2). The merits of such policy choice are outside the present discussion; it is the implications for public enterprise with which we are concerned, looking essentially at three aspects of the facts of history.

1. THE DEVELOPMENT STATUS

First, the development status of several countries was so low that the first efforts towards development involved them in heavy costs that were analogous to overheads of national economic development. And a significant proportion of these devolved on public enterprises which happened to be the vehicle of the development strategy.

How serious the costs must have been may be illustrated briefly by data on select indices reflecting the structural disadvantages in which a wide cross-section of developing countries were placed some twenty years ago. Data for 1960 are examined in respect of (i) manufacturing as per cent of gross domestic product, (ii) energy consumption per capita (as kilograms of coal equivalent), (iii) urban population as per cent of total population, (iv) labour force (as a percentage) in agriculture, and (v) adult literacy (as a percentage); and the frequency of the least favourable figures under these heads in the case of each country is denoted in Appendix A. (The values considered as the least favourable are, respectively for the five indices, (i) below 10, (ii) below 50, (iii) below 10, (iv) above 80, and (v) below 20). Constraints of space keep us from a detailed discussion of how such values aggravate the costs of gestation of national economic development; but it may be suggested that they raise the costs of technology acquisition and absorption (3), involve inordinate costs of technical and managerial training, occasion expensive (expatriate) arrangements for skills, almost obligating the countries with expensive foreign collaborations (4), and cause uneconomical sequences of capital expenditure on projects (5).

These are really costs of national gestation, though, in several cases, carried in the books of the public enterprises concerned. In countries where private enterprises heralded (industrial) development, such costs were born:

(i) through bankruptices of some enterprises;

(ii) by virtual enjoyment of monopoly power by enterprises over a span of time sufficient to compensate their initial high costs and losses;

(iii) by subsidies offered by the government - e.g. the grant of free land to railway companies in India in the last century;

and/or

(iv) through multi-national operations which either proportioned the manufacturing content in local activity to suit gradual diminutions in structural diseconomies over time or brought the benefits of their global economies to bear on local activity, with a view to some kind of eventual advantage. In most developing countries, such costs tended to devolve squarely on public enterprises. Without an understanding of this historical perspective, one may derive inaccurate judgements on their performance.

An empircal word on the message of Appendix A. Of the 89 countries for which data are available, nearly half - all low- and middle-income developing countries - are marked by one or more of the unfavourable indices, with 32 of these in Africa and none in Latin America. Five, all in Africa, are badly placed in respect of all five indices - Chad, Niger, Mauritania, Tanzania and Upper Volta; and these are among the countries with high, if not dominant, proportions of public enterprise - e.g. Tanzania. Of the eight countries badly placed under four indices six are in Africa - Central African Republic, Somalia, Uganda, Togo, Mali and Mozambique - and two are in Asia - Yemen Arab Republic and Papua New Guinea. That these again are dominantly public enterprise economies with the exception of the last supports the theme of this section.

2. NATIONAL GESTATION

The second aspect of the development perspective is that the costs of national gestation, though applicable to private enterprises as well, are disproportionately associated with public enterprises; for, most of the countries have development plans which are based on macro preferences that work towards the emergence of public enterprises almost without choice. Definitive reservations of certain sectors of activity for public enterprises, as illustrated by industrial policy enunciations in India, Bangladesh, and Trinidad and Tobago (since 1948) are but the end result of governmental preferences such as the following:

> No activity shall be pursued in an unrestricted manner, but only the activities endowed with priority in investment are to be undertaken - e.g. capital goods industries as against light, consumer goods industries:
>
> unrestricted location of activity is not permitted; only locations conducive to regional balance in development are;
>
> it is not necessarily technologies that permit of immediate profit, but such technologies as sustain long-term self-reliance in development that are to be chosen;

> the choice should be, not for a rate of growth that might satisfy individual entrepreneurial motivations of profit, but for rates designed to compress development into as short a span as possible (6);
>
> and entrepreneurial entry is generally not unconditional.

The last condition cuts out foreign inflow of capital and skills except under restrictive provisions of government policy. The development plans which incorporate such preferences, including large doses of promotional rather than profit-oriented pricing policies, tend to restrict local private entrepreneurs to residual areas. Here they can pick and choose business activity, but will remain uninterested in or incapable of entering the main stream of developmental activity. Such policy statements as the following, referring to different developing countries, effectively say that private entrepreneurship is a function of (restrictive) macro preferences in development. This, naturally, turns out to be so low as to oblige public enterprises to assume a large measure of the costs of gestation of national development.

> The place of government investments is "where the risks were too great for private capital, or too much capital was needed and private enterprise was unable or unwilling to provide it, or the returns appeared too low for private enterprise, but the project was nevertheless necessary in the national interest". (7)
>
> Government invests in "industries that had little attraction to the private sector, that is, industries that would be characterised by small profits and heavy burdens, or whose investment could not be split up". (8)

The inevitability of public enterprises is not unqualified in theory; for foreign private enterprise can come in. But the choice (9), generally, is such as to restrict it so meticulously that either the inevitability of public enterprise is reinstated or it operates through investment in a joint venture.

3. RECENT INDEPENDENCE

A third historical fact, which intensified the burdens of national costs of development borne by public enterprises, is that the latter, representing the beginnings of national development efforts, came into being in the early years of national (political) independence in many cases. This occurred in the 1960s in many countries of Africa and as recently as in the last five to ten years in more than 25 countries. Appendix B, which indicates the recency of independence of developing countries as reflected in their membership in the United Nations, provides empirical support for the proposition that there must have been heavy cost or diseconomy for public enterprises in a wide cross-section of the developing world, on the following grounds:

(i) It takes time and effort for a newly independent country to make amends for certain structural legacies of colonial subjugation. These include a disproportionate bias of the community for trading rather than for manufacturing, foreign trade orientation of the economy in terms of primary exports and manufactured imports, and excessive localisation of economic activity on the coast line rather than in a more balanced manner. Even a big country like India experienced these problems (10); so has Algeria (11). Such structural imperfections (viewed from a national perspective) have entailed high costs through ameliorative actions of public policy.

(ii) The governments are under the disadvantage of inexperience - especially in two respects, viz. economic administration and negotiations with foreign governments and collaborators. The larger and more rapid the exodus of expatriates, the more serious the disadvantage.

(iii) Rapid programmes of indigenising government and economic services have a cost tag (12). In the process, initiative can pass into the hands of civil servants out of proportion with their capability.

(iv) The position deteriorates as a result of a common feature found in several newly independent developing countries, viz. over-zealous political and parliamentary interferences with enterprise matters. Politicisation, sometimes to a serious degree - as in Ghana (13) and Nigeria (14) - takes place.

It is not difficult to appreciate that the diseconomy flowing from these factors impacts public enterprises far more heavily than it affects private enterprises. (Some interesting evidence on the proposition may be derived from a comparison of the degree of economy in the governmental background enjoyed by certain public enterprises set up in the colonial times in East Africa with that relating to public enterprises set up immediately after independence or to the Community enterprises' performance in the 1970s).

The actual impact of "new independence" on public enterprises in developing countries is unlikely to be uniform across all of them. Important qualifications exist. For example, the gravity of the development indices discussed earlier is a material consideration; and the countries which featured in the least favourable indices must have been most handicapped (15). Further, the legacies of colonialism are not similar in the Anglophone, Francophone, Belgian, Dutch and Portugese cases. And a few colonies did possess a strong administrative framework at the time of independence - e.g. India; whereas many others, especially in Africa - e.g. Congo, lagged disastrously behind in this respect. But in every case new independence was a source of costs that devolved significantly on public enterprises. Of course, there could be no escape from this phenomenon.

In brief, the development perspective enables us to appreciate the existence of certain "givens" that conditioned the genesis and evolution of public enterprise in developing countries; and attempts at the appraisal of their performance without reference to the impacts of the development context are unlikely to be fruitful. Few developed countries have initiated public enterprise in their early stages of development or in their infancy as independent nations.

Appendix A

Some development indices

Country	Manufacturing as % of GDP (Below 10)	Energy consumption per capita (kg of coal equivalent) (Below 50)	Urban population as % of total (Below 10)	Labour force in agriculture % (Above 80)	Adult literacy % (Below 20)
(1)	(2)	(3)	(4)	(5)	(6)
Benin	x	x			x
Chad	x	x	x	x	x
Central Afr. Republic	x	x		x	x
Somalia	x	x		x	x
Rwanda	x		x	x	x
Madagascar	x	x		x	
Niger	x	x	x	x	x
Zambia	x				
Mauritania	x	x	x	x	x
Senegal	x			x	x
Uganda	x	x	x	x	x
Togo	x	x		x	x
Ethiopia	x	x	x		
Tanzania	x	x	x	x	x
Mali	x	x		x	x

<u>Appendix A</u> (cont'd.)

Some development indices

Country	Manufacturing as % of GDP (Below 10)	Energy consumption per capita (kg of coal equivalent) (Below 50)	Urban population as % of total (Below 10)	Labour force in agriculture % (Above 80)	Adult literacy % (Below
(1)	(2)	(3)	(4)	(5)	(6)
Malawi	x		x	x	
Upper Volta	x	x	x	x	x
Mozambique	x		x	x	x
Kenya	x		x	x	
Nigeria	x	x			x
Ivory Coast	x			x	x
Zaire				x	
Guinea				x	x
Judan				x	x
Sierra Leone		x			x
Liberia				x	x
Cameroon				x	x
Burundi			x	x	x
Lesotho			x	x	
Congo, People's Rep.					x
Morocco					x

Bangladesh	x			x	
Burma	x	x			
Papua New Guinea	x		x	x	
Indonesia	x				
Kampuchea		x		x	
Lao PDR		x		x	
Nepal		x		x	x
Aghanistan		x		x	x
Viet Nam		x			
Yemen Arab Republic		x	x	x	x
Thailand		x		x	
Bhutan			x	x	
Pakistan					x
Haiti		x		x	x

Source: World Development Report 1982, World Bank (Washington, 1982).

APPENDIX B

United Nations Memberships (Accessions)

Year (1)	N. America Europe and Australia (2)	Latin America (3)	Africa (4)	Asia (5)	Total (6)
1945	19	19	4	5	51
1946-50	3			6	9
1950-60	9		5	8	22
1960-65	2	2	25	2	31
1965-70		2	8	3	13
1970-75	2	1	1	7	11
1975-82		6	9	5	20

Source: States Members of the United Nations DPJ/690 - January 1982 (New York).

NOTES

1. For a full discussion of the topic see V.V. Ramanadham, The Nature of Public Enterprise, Part II (Croom Helm, London, 1984).

2. It was observed in the course of a study by the Centre for Development Planning, Projections and Policies of the United Nations that "in some of these countries that are at a relatively early stage of industrialisation but wish to expand manufacturing output rapidly, the underlying current of thought in policy making is that there is little choice in this respect: only through large investment outlays by public authorities will it be possible to achieve the goals of industrialisation". Journal of Development Planning, No. 8 (1975) (New York, 1975), p.83.

3. Indian Drugs and Pharmaceuticals Ltd. was seriously exposed to problems of technology for a long time in respect of its surgical plant unit in