CHAPTER - II

GLOBAL DISINVESTMENTS - AN OVERVIEW

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2.00 PAGODA OF GLOBAL PRIVATIZATION

Since 1979, Mrs. Margaret Thatcher and in 1981 Mr Ronald Reagan were the "*Pagoda of privatization*" Their omnipresent and pervasive concept and techniques of privatization are adopted as key strategic objective to achieve sustainable economic development and welfare of citizens of the economy. In atleast 88 countries privatization is an inherent part of efforts to rationalize and revitalize the public sector as a whole, in most cases to abate their burden on the national budget, to ameliorate the efficiency and effectiveness of individual enterprises, to assure wider and deeper distribution of business ownership, to augment welfare of the citizens or to achieve a combination of objectives The success or failure of process of privatization program, *inter alia*, depends on the suitability of the methods of privatization chosen UNDP Report (1993)[1] also points out that in many countries privatization has taken place for 'wrong rationales' under the 'wrong conditions' and in the 'wrong direction'. To illustrate a few, in India disinvestment in F.Y. 1991-92 had been undertaken to maximise and finance short term revenues rather than build a long term sustainable competitive environment

Therefore, the choice and use of appropriate techniques depends on a thorough understanding of SWOT analysis of nation, industry, company, constraints, obstacles, industry and market characteristics, etc Each privatization transaction is idiosyncratic, esoteric, unsystematic, stochastic and kaleidoscopic in nature and different in character and therefore, needs to be designed and dovetailed to meet specific need characteristics and objective of an economy, enterprise and time, *inter alia*, taking into account local administrative, economic, political, social, legal and environmental conditions of both the country and the enterprise and assets / equities charged.

2.01 LESSONS FROM BAILIWICK OF GLOBAL DISINVESTMENTS

It is by now very crystal clear from the review of a slew of countries experience that paradigm of privatization does not permit dogmatic treatment and therefore 'creativity' is prominent and desideratum ingredients of disinvestment. Each country with each case of disinvestment must be examined on its own merits. Therefore, privatization transactions or methods of disinvestment places vital role for the success stories Based on the analysis and in depth examination of experiences of selected countries presented in Table : 2.01 and Table · 2.02 (*Infra*), most transactions observed fall under one of these basic types, which constitute the main options or alternative approaches available to Sovereign Government. With a view to analyse for the purpose, what are the basic methods of disinvestment used by several economies that had mostly completed their privatization program, the reported available data on selected countries have been examined and compared. Pirie discusses 21 such techniques[2], in the process of privatization several strategies have been used by the different countries in the different circumstances. They are :

- Selling the whole enterprise by public share issue.
- Selling a proportion of the whole operation.
- Selling parts to private buyers
- Selling to workforce or management.
- Giving through an outright gift to the employees together with the writing off of any capital debt.
- Contracting out the service to private business.
- Diluting the public sector whereby the government decides to engage the private sector in some public sector activities such as maintenance and expansion work.
- Buying out existing interest groups by keeping off newcomers from coming into the public sector while allowing those already within the system to continue in the benefits they receive

- Charging prices for public sector services is considered a variety of partial privatization.
- Setting up counter groups, this technique involves the transfer of state-provided goods and services to the private economy.
- Deregulation via private associations. This applies to situations where regulation although considered to be an inherently governmental activity can be effectively contracted out to private bodies such voluntary associations.
- Encouraging alternative institutions. this technique rests on the thesis that by encouraging alternative institutions to organize supply in a new way, government gives society access to innovative thinking and permits all kinds of new ideas to be tested including ideas, which may benefit the state sector of the activity
- Making small-scale trials, for example by designating enterprise zones as areas of selective deregulation
- Repealing monopolies to let competition grow, this technique is based on the argument that private sector activity can be stimulated by repealing the monopoly laws which protect the state dominance of certain activities thus paving the way for gradual change from public to private enterprise
- Encouraging exit from state provision: the technique encourages the development of new and alternative resources without the transfer of resources and personnel from the public to the private sector.
- Using vouchers: through the use of vouchers of tokens, government can guarantee effective buying power to individuals who deserve support and at the same time leave the private enterprise to provide the services, By guaranteeing dependent in

individual's access to those services, obstacles are removed and a way is paved for privatization of the service.

- Admitting demand pressures: this technique seeks to introduce private sector pressures by making the public services respond to consumer demand.
- If public operations were made to depend on the choices of consumers, the public would be induced to direct their output towards attacking those consumers.
- Curbing state powers, movement towards privatization can be hastened by restricting some of the state power which oppose privatization. Simple curbing of state to oppose privatization promotes private ownership at the expenses of state ownership.
- Applying closure proceedings: if government reduces the size of the public sector by withdrawing altogether from an activity it no longer deems necessary or desirable, private sector products can move into such areas, leading to greater private sector involvement resulting in partial privatization
- The right to private substitution: there are areas of the public sector for which the general public could be given the right to select private alternatives, for example, in the provision of water and electricity which in may cases are poorly supplied to the public. Overtime, the dominance of such state monopolies would give way to private enterprises that render similar services efficiently.

The details of selected countries have been presented hereinbelow in Table 2 01, *inter alia*, showing the various techniques of disinvestment used in certain completed privatization transactions From the analysis of data presented in Table · 2 01, 2.02 and 2.03 (*infra*), it is observed that 64.40% of disinvestment were effected through Sale of Shares (including public and private offering of shares), 9.10% of disinvestment were made through Sales of Assets, 16 17% of disinvestment were made through the method of lease and Management Contract The least of 2 22% of disinvestments were made through New Private Investment method and 7 58% through Fragmentation and Management /employee buy-out. Therefore, all over the globe the preferred method of disinvestment was through Sale of Shares. While on review of data of major 67 countries in which 678 enterprises have been disinvested are presented in Table 2.01, in Tables 2.02 and 2.03 number of times major techniques of disinvestment applied in the selected countries are exhibited Therefore, the grand total of figures of these Tables is not comparable and hence not tallied. For all the countries and all the sectors, under reference the popular method of disinvestment was Sale of Shares (55.30%). The least popular methods were employee buy-out (2.10%), New Private Investment Method (4.60%) and Fragmentation (6.90%) respectively

TABLE : 2.01

TECHNIQUES USED IN CERTAIN COMPLETED PRIVATIZATION TRANSACTIONS IN THE WORLD

Country	Public Offering of Shares 1	Private Sale of Shares 2	Sale of Assets 3	Fragmentation (In ombinati on with 1,2 or 3) 4	New Private Invest ments 5	Management / employee Buy-out 6	Management Contract 7	Lease 8	***Total companies disinvested***
Sub-Saharan Africa * Cameroon			02				02		4
Central African Republic			01						1
Cote D"Ivoire	01	18	02	02	-	05	05	02	35
Equatorial Guinea	-	06	-	-	-	-	-	-	6
Gabon	-	01	01	-	-	-	-	-	2
Gambia	01	02	-	-	01	01	01	03	9
Ghana	-	01	-	-	-	-	05	-	6
Guinea	-	24	13	-	-	-	01	02	40
Kenya	-	-	-	-	-	-	02	-	2
Liberia	-	-	-	-	-	-	02	-	2
Malawi	-	-	-	-	-	-	01	-	1
Mali	-	02	-	-	-	-	02	01	5
Mauritania	-	01	01	-	-	-	01	-	3
Niger	-	12	01	02	-	-	03	02	20
Rwanda	-	-	01	-	-	-	-	-	1
Sao Tome E Principe	-	-	-	-	-	-	02	-	2
Senegal	-	04	-	-	-	-	01	-	5
Sierra Leone	01	01	-	-	-	-	-	01	3
Tanzania	-	-	-	-	-	-	01	-	1

Country	Public Offering of Shares 1	Private Sale of Shares 2	Sale of Assets 3	Fragmentation (In combination with 1,2 or 3) 4	New Private Investments 5	Management / Employee Buy-out 6	Management Contract 7	Lease 8	***Total companies disinvested***
Togo	-	-	05	-	02	-	05	05	17
Uganda	-	06	01	-	-	-	-	-	7
Zaire	-	01	-	-	-	-	-	08	9
Zambia	-	-	-	-	01	-	02	-	3
Bangladesh	-	30	-	-	-	-	01	-	31
Indonesia	-	-	-	01	-	-	-	03	3
Japan	03	02	-	03	-	-	-	01	9
Korea, Republic	02	05	-	-	-	-	-	-	7
Malaysia	02	05	-	01	-	-	03	03	14
Philippines	-	05	-	-	-	-	-	-	5
Singapore	12	-	-	01	-	-	-	01	14
Sri Lanka	01	04	-	03	01	-	09	01	19
Thailand	01	01	-	-	-	-	-	01	3
Pacific Countries American Sanoa	-	01	-	-	-	-	-	03	4
Australia	-	02	02	-	-	-	-	-	4
Fiji	-	01	-	-	-	-	01	-	2
Papua New Guinea	01	-	-	-	-	-	-	-	1
New Zealand	01	03	-	-	-	-	-	-	4
Europe, Middle East & North Africa Austria	02	-	-	-	-	-	-	-	2
Denmark	01	-	-	-	-	-	-	-	1
Egypt	-	-	-	-	-	-	02	-	2
Germany, Federal Republic	06	-	-	-	01	-	-	-	7
France	14	10	-	01	01	01	01	-	28
Iceland	-	-	-	-	-	01	-	-	1
Iraq	-	03	-	-	-	-	-	-	3
Israel	-	02	-	-	-	-	-	-	2
Italy	14	20	-	-	-	01	-	-	35
Morocco	-	08	-	-	-	-	01	02	11
Netherlands	02	03	-	-	-	-	-	-	5
Oman	04	-	-	-	-	-	-	-	4
Spain	05	27	02	-	-	-	-	-	34
Sweden	01	01	-	-	-	-	-	-	2
Tunisia	-	04	01	01	03	-	-	-	9
Turkey	02	-	-	-	-	-	-	-	2
U K	13	16	01	02	01	10	01	-	44
North America	08	30	03	-	-	-	01	-	42
U S A	01	02	01	01	-	-	-	01	6
Latin America & the Caribbean Argentina	-	03	-	-	-	-	-	-	3
Bolivia	-	-	01	-	-	-	-	-	01

Country	Public Offering of Shares 1	Private Sale of Shares 2	Sale of Assets 3	Fragment ation (In combinati on with 1,2 or 3) 4	New Private Invest ments 5	Manag-ement / Employee Buy-out 6	Manage-ment Contract 7	Lease 8	*Total companies disinvested*
Brazil	05	19	08	02					34
Chile	13	24	-	-	01	02	-	-	40
Colombia	-	-	01	-	-	-	-	-	1
Costa Rica	-	01	-	-	-	-	-	-	1
Dominican Republic	-	-	-	-	-	-	-	01	1
Grenada	-	-	-	-	-	-	-	01	1
Honduras	-	02	-	-	-	-	-	-	2
Jamaica	03	22	01	01	-	-	02	11	40
Mexico	03	07	-	-	-	-	-	-	10
Total	**123**	**342**	**49**	**21**	**12**	**21**	**58**	**52**	**678**

Source : processed from, The World Bank Technical Paper No. 88, Techniques of Privatization of SOEs, Vol. 1, Methods and Implementation by Charles Vuylsteke, pp.45-55.[3]

Similar type of sector-wise analysis of techniques used for privatization in the world is also summarised in the following Table 2.02.

TABLE : 2.02

SURVEY OF PRIVATIZATION TRANSACTIONS BY SECTORS

Country	*griculture Agri-business*	*Oil/ Mining*	*Manufacturing*	*Transport*	*Tourism*	*Infrastructure/Construction*	*Services*	*Public Services & Utilities*	*Finance*	*Retail/ Trading*	*Others*
Sub Saharan Africa Benin			SA		SA				SA, PS		
Cameron			PS, SA, MC	MC							
Cen African Rep			SA								
Cote d' Ivoire	PS, F, MC		PS, EB, PO, L		PS, F, MC, L, EB		PS	PS, SA, L, MC	PS	SA	PS
Equatorial Guinea	PS		PS	PS				PS		PS, SA	
Gabon									PS	SA	
Gambia	EB		PS, PO	S, NI, MC PO, F, L, SA	PS, L, NI		L	F	PO	PO	PS, F, L

Country	Agriculture/ Agri-business	Oil/ Mining	Manuf-acturing	Transport	Tou-rism	Infrastr-ucture/ Constru-ction	Services	Public Services & Utilities	Finance	Retail/ Trading	Others
Ghana	PS, MC, NI	MC, NI	MC, NI		NI					MC, NI	NI
Guinea	SA		PS, SA, L	MC		PS, L, MC		L			
Kenya			PS, MC								MC
Liberia		MC	MC	PS	PS			PS, MC		PS	
Malawi			F	MC							
Mali	PS		PS, MC	L	MC			PS		PS	PS
Mauritania	PS		SA, MC		SA						PS
Mozambi-que	L, PS										
Niger		SA	PS	PS, MC, L		PS	PS	F, SA, PS	SA, PS	F, PS, L, MC	
Rwanda			SA								
Senegal			PS	PS	PS, S	PS, MC	PS, SA, P	PS, MC	PS, SA		PS, SA
Sierra Leone	PO, PS				L						
Somalia						L, PS					
Togo	MC, SA, L		PS, SA, NI, L	PS	MC			SA, NI	MC		F, SA, MC, L
Uganda			PS, SA								
Zaire	MC	MC		MC				PS			
Zambia	MC	MC	MC, NI	MC				MC		MC	
ASIA – Bangladesh			MC, PS	PS							
China			PS	PO						PO	
Indonesia		L	F					L			
Japan			F, PS	PO		F, PO, L		F, PO, PS			
Korea, Republic			PO	PS				PO, PS	PO, PS		PO, PS
Malaysia	MC		PS	PO		PS, MC, L	F, PS, L, MC	PS, MC, PO			PS
Nepal	PS		PS								
Pakistan			PO	PO							
Philippines		PO, PS	PO, PS	PS	PS			PS, PO	PO, PS		
Singapore	F, L	PO	PO	PO, SA, MC		PS, EB	PO, EB, F PS	F, PO	PO	PO	PO
Sri Lanka	L, F, MC, PO		MC, PS	MC			PS	PS, MC		PS, NI, F	F
Taiwan	PS, F		S, SA, F, PO								
Thailand	L, PS			PO	L, PS	MC, PS, L		PS, PO			
PACIFIC COUNTRIES American Samoa			L	L	PS			L			
Australia			L			L, SA	PS		SA, PS	SA	SA
Fiji		NI	NI				NI, F				
Papua New Guinea				PO							
New Zealand			PS	PO		F		PO, PS	PO		

Country	Agriculture/ Agri-business	Oil/ Mining	Manuf-acturing	Transport	Tou-rism	Infrastr-ucture/ Constru-ction	Services	Public Services & Utilities	Finance	Retail/ Trading	Others
Western Samoa	PS										
EUROPE, MIDDLE EAST & NORTH AFRICA Austria			PO, PS					PO	PO		
Belgium						PO					
Denmark			PO								
Egypt											
Finland		NI	NI				NI, F				
France			F, PO, PS, EB	PO			PO, PS	C, L, NI PS, PO	PS, PO		
Germany, Federal			PO					PO	PO		
Gulf States				PS							
Iceland				EB							
Israel			PS, PO					PO		PS	
Iraq				PO						PS	PS
Italy			PO, PS	PO		PO	PO	PO	PS, PO		PO, PS
Jordan			F, PO					PO			
Morocco	PS, L				L, MC			PS			
Netherlands			PS, PO	PO, PS					PO, PS		
Oman		PO	PO					PO			
Portugal						PS					
Spain			PS, SA, PO	PS, PO	PS	PS	PS	PO, MC, L, PS	PS	PO, PS	PS
Sweden			PO, NI, PS						PO		
Tunisia		NI, PS	NI, SA	F	PS						
Turkey			PO	F			PO	PO	PO		
U K			PS, EB, PO, NI	F, PS, EB, PO, GA	F, SA, PS	MC, PO	EB, SA, P	PO, F, PS			PS
NORTH AMERICA Canada	PO, PS, SA	PO, PS, SA	PS, PO	PO				PS, PO, SA, MC			
U S A				PO		PS		PS, F, SA, L	PO		PS
LATIN AMERICA & THE CARIBBEAN Argentina			PS	SA, PS	PS			PS, PO, SA			
Bolivia		SA		SA							
Brazil	PS, SA	F, PS, SA, PO	PO, PS, F, SA	PS, L	PS, L		SA, PS	F, PO, PS	PS, PO		PS, PO, SA
Chile	PS, PO	L, PS	PO, PS	PS			EB	PS, PO	PS, PO		
Colombia									SA		
Costa Rica	PS, MC		PS, SA, MC								
Dominica-n Republic			MC, L								

Country	Agriculture/ Agri-business	Oil/ Mining	Manuf-acturing	Transport	Tou-rism	Infrastr-ucture/ Constru-ction	Services	Public Services & Utilities	Finance	Retail/ Trading	Others
Grenada					L			PS	PO		
Costa Rica	PS, MC		PS, SA, MC								
Dominica n Republic			MC, L								
Honduras			PS, SA		PS, S						
Mexico		PS	PS	PS, SA	PS				PO, PS		
Panama	PS, SA		PS	PS	PS						PS
Peru	PS	PS	PS	NI			PS	PS		PS	
Venezuela		L									

Note . PO =Public Offering , PS=Private Sale, SA= Sale of Assets, NI=New Investment, F=Fragmentation, EB=Employee Buy-out, GA= Give Away, MC= Management - Contract, L= Lease This table includes transactions, which are planned, under way and completed.

Source : Adopted from The World Bank Technical Paper No. 88, Techniques of Privatization of SOEs, Vol. 1, Methods and Implementation by Charles Vuylsteke, pp. 173-176.[4]

Table : 2.03
SECTOR WISE USE OF METHODS OF DISINVESTMENTS IN THE WORLD

Sector / Methods	Agricult-ure/Agri-business	Oil/ Mining	Manufa-cturing	Transport	Tourism	Infrastruc-ture/Const-ruction	Services	Public Services & Utilities	Finance	Retail/ Trading	Others	TOT-AL
PS & PO	23	12	61	36	15	14	17	46	33	13	18	288
SA	5	4	15	5	5	1	3	6	4	4	4	56
NI	1	4	8	2	2	-	2	2	-	2	1	24
F	4	1	7	4	2	2	4	7	-	2	3	36
EB	1	-	3	2	1	1	3	-	-	-	-	11
MC & L	15	7	20	14	11	11	3	16	1	4	4	106
TOT-AL	**49**	**28**	**114**	**63**	**36**	**29**	**32**	**77**	**38**	**25**	**30**	**521**

Note : PO=Public Offering, PS=Private Sale, SA=Sale of Assets, NI= New Investment, F= Fragmentation, EB= Employee Buy-out, GA= Give Away, MC= Management Contract, L= Lease, Nos. in the matrix represents numbers of PSUs have used the method/s for selected countries.

Source: Processed from data published by The World Bank, The World Bank Technical Paper No. 88, Techniques of Privatization of SOEs, Vol. 1, Methods and Implementation by Charles Vuylsteke.[5]

2.02 TECHNIQUES OF DISINVESTMENT

While Pirie discusses 21 different techniques of privatization, based on analysis of experiences of several countries all over the world, the following basic methods[6] of disinvestment have been mostly used by various countries in a bid to implement their privatization strategy.

(1) Public offering of shares (Full or Partial).
(2) Private sale of shares (Full or Partial).
(3) Sale of Government or Enterprise Assets. Sale of Government or Enterprise Assets.
(4) Re-orgainsation in to component parts- Fragmentation/ Un-bundling/De-merger
(5) New private investment in PSU.
(6) Management / Employee / Leveraged buyout.
(7) Leased and Management Contract.

Besides the above methods, other actions are also some time used as privatization or linked to it, that also deemed necessary to mention as under:

- Introduction of competitive features into PSU (e.g. MOU/Performance Related incentives)
- De-Monopolising certain activities or liberalisation, economic reforms.
- Increased use of private sector financing of new activities, such as contractor equity financing (e.g BOOT, BOLT).
- Revenue participation certificate or Revenue Bonds issued by the state (as were issued for the bosphorus bridge and the keban dam in Turkey).
- Privatization by attrition (e.g an SOE operating as quasi monopoly but not renewing investments, gradually permitting the private sector to invest in plant and related facilities and take over all or part of the SOE's operations)

The brief discussions on the characteristics and procedural aspects of each major methods are discussed hereinbelow :

(1) Public offering of shares (Full or Partial)

Under this method the state sells to the general public, private investors, foreign investors, all or large blocks of stocks it holds in wholly or partly owned PSUs, which is assumed to be going concern setup as Public Limited Co. Technically, this transaction amounts to secondary distribution of shares. After disinvestment, the result is joint state / private ownership of PSUs. The Government may pursue this approach as a deliberate policy to maintain its presence or as first step towards privatization and / or further privatization in case of already existing shareholding

The normal procedure of disinvestment in this method is largely handled as a primary issue or Initial Public Offering (IPO). In a typical transaction, investment bank is appointed, prospectus / offer document is prepared The offering may be based on fixed price or on tender basis or on book-building basis and is marketed domestically as well as globally In case of listed company the Government may simply sell the shares on the stock exchange The offering may also involve, aside from general public, incentives for employee participation as internal stakeholder. In some cases, shares may also be distributed to employees or the general public for a token.

For becoming eligible, the PSU must comply with certain legal, financial and disclosure requirements governed by the names of respective economies, including corporatization of Government department (e g. British Telecom). Besides, other normal procedural aspects, **the vital issue is valuation and pricing of shares for disinvestment**. The value and price of equity shares, inter alia, depends on idiosyncratic conditions of the PSU, target ownership, nature of capital market regulations, timing and marketing of public offering by privatization officials, receptivity of capital market and crowding-out effect on private sector, methods of valuation used by the acquirer and the divestor, both in the domestic market and the International market. Valuation and pricing issue need careful handling to ensure that adequate value is received Their importance is enhanced by the need to eschew claims that the state has given away the "Public Patrimony" to purchasers who then enjoy a windfall profits. Therefore, utmost objectivity and creativity is *sine qua non* for the success.

(2) Private sale of shares (Full or Partial)

Under this method of disinvestment, the state sells all or part of its shareholdings in a wholly or partly owned PSU, to a pre-identified single purchaser or a group of purchaser. The typical transaction can take several forms, such as direct acquisition by another corporate entity or a private placement targeting a specific group (e g institutional investor, resulting in mixed ownership of shares)

The privatizing agency carry out "due diligence" exercise to identify the capable and competent buyer. Two common ways for sale of shares are practiced.

(i) Full competitive process with pre-qualification of bidders,

(ii) Direct negotiation involving a wide investor search

To illustrate the Senegal's privatization law requires a competitive process, *inter alia*, to eschew to direct sales to predetermined buyers and the need for a transparent process. In Argentina, it requires individual calls for bids to purchase all the shares of PSU. Since, the sale of shares on a Viols implies that the PSU would be sold as a going concern with all the assets and liabilities, restructuring of financial statement are desideratum prior to the implementation. Further to ensure post privatization success many Government has introduced mandatory procedures such as, price setting, uniform terms of finance, selection of purchasers, etc. However, so far as marketing procedures are concern, it is like private sale of shares, the sale of assets, the solicitation of new private investment by way of capital augmentation of a PSU.

This method has advantages over other methods, such as it is flexible and resilience, preferred method for weak PSUs, existence of absence of developed capital markets, the seller with due diligence, etc knows prospective owner Against the above advantages, it has disadvantages of normal Government 'distancing' in partial sale, ambivalent valuation and pricing giving rise to criticism as to the selection of acquiring party and resulting into inadequate spread of wealth in the country, etc

(3) Sale of Government or enterprise assets

In this method, unlike sale of shares of PSU, the assets are sold, *inter alia*, with different purposes such as to dispose of, to hive-off, to un-bundle, the assets either as a whole or as a new corporate entity.

The sale of assets can be based on an open competitive bidding carried out by auction. It may also be effected through direct negotiation with private parties, albeit by a complex investor search. The procedure discussed in private sale of shares will also apply to this method, *mutatis mutandis*. These transactions can be resorted based on rationale of principles of 'sticking to knitting' and keeping 'core competence' at bay, taxation or legal impediments, etc. When IRI sold Alfa Romeo to Fiat, it deed not convey it as a company and eventually, had sold all the assets.

(4) Re-organisation in component parts/Fragmentation / Unbundling / De-merger

With a view to fetch better value, based on the principle that "the sum of parts are greater than the whole", this technique is resorted as a form of restructuring prior to privatization. It is mostly found to be a distinct action with many applications in developing countries. Therefore, this method involves the breaking up or re-organisation of a PSU into several separate entities or into a holding company and several subsidiaries.

Among the options, aside from sale of some of the assets, includes

- ENDESA, break-up into several legal entities as power generating and distributing company in Chile.
- British Ship Builders – The sale of productive facilities in single or group of units rather than as a whole
- Activity-wise subsidiaries were incorporated, before privatization viz. Turkish Airlines (THY).
- For gradual spin-off, transformation of the PSU into holding company that acquires the shares of subsidiary company which have taken over the assets and liabilities of the original PSU (as happened in Srilanka, in the case of co-operative wholesale establishment).

Under this method the best example is a hive-off of British Rail in U.K. This method is suitable in the cases of PSUs, which are highly vertically integrated and different methods of disinvestment is required to be applied in each section of vertical integration, such as ports. Singapore, Guinea, etc. have resorted to this method for port privatization. This method is also appropriate, where monopoly is required to be converted into competition (e.g. British Ship Builders).

(5) New Private investment in PSU

The state may wish to finance the expansion, modernization and / or rehabilitation program by way of equity participation by private sector. In this method, there is no divestment of existing equity shares of the Government, but it augments the equity and causes dilution of the Government equity position, resulting into Joint Venture. This method of privatization is recently practiced in the infrastructure projects and also to eschew the problem of under-capitalized PSUs. France has done privatization of Rhône – Poulence (chemicals) by applying this method In India also recently many state Governments have resorted to this technique of privatization, *inter alia*, to finance large infrastructure projects.

This method is more suitable for the countries having colossal amount of fiscal deficit accompanied by capital rationing, inter alia, facing dearth of scarce and sparse resources

(6) Management / Employee / Leveraged buy-out

This method of privatization includes disinvestment through employee acquisition of shares by ESOP (Employee Stock Ownership Plan). The term management buy-out generally refers to the acquisition of controlling shareholding in a company by a small group of managers / employees. The leveraged management / employee buy-out involves the use of credit to finance the acquisition, with the assets of the acquired PSU, *inter alia*, as security.

World Bank in its technical paper no. 88, concluded that there is more experience with employee buy-out, outside of the privatization spear, the experience of which is however directly applicable to acquisition of PSUs Italy in case of Nuova Utnesileria Italian (NUI) had sold the enterprise to a group constituted by the majority of the company's employees, not on a leverage basis. In U.K. the Victualic company was sold by its parent viz British Steel Corporation, through management buy-out in 1983. This method is useful in the cases where PSUs are not saleable otherwise profitability or management buy-out are relevant means of transferring ownership to management and employee with little wealth or knowledge of ownership In other words, it is solution to employment issue, where alternative is the liquidation Valuation and pricing issue needs much attention and consideration including devising new financial instrument with proper trade-off of risk-return-performance nexus.

(7) Lease and Management Contracts

Under this method, arrangements are made whereby private sector management, technology and / or skills are provided under contract to PSU, for agreed period and compensation. This method is suitable where there is no transfer of ownership and therefore no divestiture of state assets and what is privatized is management and operations, *inter alia*, to augment strategic and economic efficiency and effectiveness. This method is a temporary measure to privatization strategy.

This method is suitable were there are no appropriate situations to privatize the assets / ownership of PSUs. Srilanka had used this method for its textile companies. Other considerations in this method may include, taxation sops, sovereignty considerations, intermediate solutions, etc

2.03 DETERMINANTS OF CHOICE OF TECHNIQUE OF DISINVESTMENT

For the privatization strategy to succeed, each economy needs to have proper and right choice of methods of disinvestment. The determinants for choice of methods may be briefly enumerated as under:

(1) Objectives of the state for the privatization.
(2) Current organisational form of the PSU
(3) Financial conditions and record of economic performances of the PSU.
(4) Sector of activity of the PSU.
(5) Strength of domestic financial market.
(6) Socio-eco-political consideration
(7) National development strategy and velocity of global forces.
(8) Welfare considerations of citizens, taxpayers and stakeholders.

2.04 SELECTED IMPLEMENTATION ASPECTS OF DISINVESTMENT

For the effective, economic and efficient implementation of privatization strategy, the staple and principal issues, which arises in the total process of privatization, can be summarised as under:

(1) Determination of optimal Economic Valuation and pricing for disinvestment.

(2) Planning and management for disinvestment- Stakeholder's delightment.

(3) Reading the PSUs between the lines.

(4) Determining the pattern of future ownership

(5) Employment issue and employee participation.

(6) Cost of privatization

(7) Financing and resource mobilization

(8) Taxation aspects of privatization.

Among all the above issues, the hot issue concerning all the stake-holders in the total process of privatization is the determination of objective, strategic, efficient, effective, economic and ological valuation and pricing of assets and equities of privatization candidate The logical and plausible reasons for its importance are already discussed in the Chapter - I. However, on a practical experience basis, the following quotations and explanations by various veterans *sue moto* explains its importance, justify objectively and substantiate plausibly the gravity and velocity of problem of valuation, not only for the Government as a seller, but also undoubtedly and wittingly supreme relevance for private sector as investor / acquirer of interest in PSUs. The few of them are as under:

- "May it be for the purpose of selling shares or otherwise, valuation and the resulting prices are sensitive and difficult matter to decide, evenwhere developed equity and other markets exists. This is evident from the experiences of U.K , France, etc "[7]

- "Pricing a share issue is always a difficult matter of judgement, whether it is a state owned or a privately owned company, that is being sold, especially when the company's shares have not been traded before or where there are no directly comparable companies".[8]

Moreover, it is impossible for any vendor to anticipate accurately the movements of stock market between price fixing and the receipt of the applications. The U K Government always seeks the best professional advice available both on pricing and on other aspects of sale. It has also shown that it is ready to experiment and innovate in the interest of achieving successful privatization at a fair price for the taxpayers and the investors. However, the effect of privatization on the Government's finances is incidental to the program's main purpose which are to increase efficiency and to wider share ownership to the benefit of the whole economy.

2.05 SELECTED COUNTRIES EXPERIENCES OF DISINVESTMENT

Based on the study and experiences of *catena* of countries all over the globe who have had adopted the privatization strategy so far, the brief description of selected countries objectives and motivations for privatization and major disinvestment is narrated as global comparative study as under:

(1) Privatization in U.K.[9]

❖ Objectives and Motivations

From the readings of various literatures on privatization there seems to be dispute about the objectives the U.K Government sought to attempt in pursuing privatization Temple[10] gives four objectives : revenue, competition and efficiency in enterprise, reduction of Government interference in business, and the promotion of more widespread ownership. Vickers & Yarrow[11] add that Government also sought to ease problem of public sector employee pay determination, to encourage employee share ownership and to gain political advantage Walters[12] stresses that the over-riding objectives were to reduce politicization of the economy and to increase U K net wealth.

❖ Major Disinvestments

In the May, 1979, parliamentary elections the Conservative Party obtained a majority and Mrs. Margaret Thatcher became the Prime Minister. They politically and ideologically committed to reduce the scope of Government in economic affairs, *inter alia*, by adopting a general policy of privatizing state owned firms and pursued this policy systematically. However, the pace of privatization in the first four years was modest. After the Conservatives again won in election of June 1983, privatization efforts augmented dramatically, thereby realising astronomical gross proceeds from the first public offering in November, 1984 of British Telecom shares alone of Sterling Pound 3916 millions.

From 1979 until 1984 the firms sold by the Government operated in competitive industries. Such firms included British Aerospace, Britoil, Trustee Saving Bank and Rolls-Royce. During this period sale by tender offer and privatization in stage were common. From 1984 onwards the pattern has been changed. Large monopoly public utility firms were privatized, first being British Telecom, followed by British Gas in December, 1987. During 1990 and 1991 the Electric Utility Industry was privatized alongwith creation of utility regulatory bodies (e.g. office of telecommunications, and the office of gas supply) to control prices. This was a shift from state ownership and direct Government control of utilities towards the U.S. model of price regulated, Government franchised, but privately owned monopoly utility firms. After 1984, privatization through tender offers were rare and fixed price offers for sale pre-dominated. Typically, all of the firm's shares were offered to the public in the initial stage thus privatizing the firm at once rather than in stages through multiple partial offers.

The Government chose to distribute shares widely through advertising and share allocation rules favouring small investors Internal stakeholders were given free shares plus bonus shares for all shares purchased. In many cases the Government retained partial control via a golden share that confers the right to veto certain transaction such as takeovers by foreign corporations. Economic valuation had given less preference then popularizing the concept of privatization. However, today this requires rethinking, *inter alia* in view of existence of cross – border drifting of wealth in the process of globalization, especially from developing countries to developed countries.

(2) Privatization in France

❖ Objectives and Motivations

French privatization program[13] was motivated, *inter alia*, by desire to abate Government control of economy and enhance economic efficiency. Chirac intended to cut the French's share of non-agriculture economy by about 1/3 from roughly 24% to 16%, but only accomplished a half. Even so efforts to broaden share ownership were highly successful. The number of French citizens owning shares quadrupled as a sequel to Chirac's Privatization program. More recent privatization under Balladur had further reduced the size of state owned sector of French economy

In mid 1980 French privatizations were a reaction to the sweeping program of nationalisation already pursued by the Government Francois Mitterrand was elected president of France in May 1981 and the socialistic party gains the control of French assembly after the June, 1981 elections. Under the hegemony of Pierre Mauroy the Prime Minister, the Government proceeded to nationalize major private companies and all private banks by June 1982. With this nationalization, French Public Sector firms grew to account for 21% of sales, 23% of employment, 28% of value added, 34% of export and 53% of fixed assets of all French companies.

❖ Major Disinvestments

The results of Mauroy's nationlisation were viewed as disastrous. Jacques Chirac was appointed as Prime Minister and he, *inter alia*, has economic policy objective to reverse the recent nationalizations of major industrial companies and banks. In July & August 1986 the French assembly passed laws targeting specific state owned companies for privatization and regulating the privatization process. As an aftermath of this, privatization progressed very rapidly. Thirteen companies were divested over a nine month period before the stock market crash of October, 1987 and a subsequent change of Government brought privatization efforts at a temporary halt. In 1993 Conservative Party regained control of assembly. Since that time the Government of Prime Minister Balladur has sold its controlling stock holdings in *Credit local de France, Banque Nationale de Paris (BNP), Rhone-Poulence SA, Elf Acquitaine, and Union des Assurances de Paris (UAP)*

France made no attempt to privatize public monopolies in telephone, electricity, gas, transportation or water supply Instead, all privatized French companies were operating in competitive markets. With few exceptions, French privatization has been fixed price sales offering 100% of sales This contrast with the French practice in private offering, which most often resorted to employee tender offers.

The law requires that each company sold must be appraised by an independent privatization Commission comprised of seven experts in law, economics and finance The Minister of the economy set the actual offering price for a company but this price could be no less than the valuation of the Privatization Commission. Shares could be sold (and were sold), however, at discount upto 50% of the regular offering price to encourage stock ownership by company employees. Moreover, employees enjoy preferred share allocations guaranteeing that their subscriptions would be fully made, upto a total of 10% of capital. Loyalty bonuses were also offered to encourage long term investment French citizens were entitled to one free share for each 10 shares held a minimum of 18 months subject to some limitation. Prior to public share sale, the Government often arranged for a portion of the shares, usually between 10% to 30%, to be purchased by a set of core shareholders These shareholders were most often companies in which the Government held a stake. Resultant over subscriptions were handled in a variety of ways : shifting allocations among investor groups (including reducing the share allocated to core investors), increasing the number of share offered and limiting the number of shares individuals could purchase

(3) Privatization in Canada

❖ **Objectives and Motivations**

The staple justification for Canada's privatization program has been vague In 1984 Minister of Finance stated that the principal rationale for privatization was that Government ownership of certain companies no longer served any important public purpose. Since then other, more specific goals of privatization have been professed including more efficient management of assets, more competitive and fair markets, small Government, and broadened share ownership, *inter alia*, reiterating in 1984 by saying that "in the coming fiscal year, the Government will continue divesting itself of investments no longer required as instruments of public policy".[14] In Canada Government wields pervasive economic power christened as 'Government – centered society', *inter alia*, by holding 202 companies in 1992 and was the nation's second largest owner of corporate assets, behind the Bronfman Family. Most of state owned companies were known as crown corporations, and were created during or just after world war.

❖ **Major Disinvestments**

Recent privatization efforts in Canada began dramatically in 1979. The British Columbia provincial Government divested British Columbia Resources Inc. (BCRIC) by giving each BC resident five shares free plus the option to buy upto 5000 additional shares at $6 each. Stanbury reports that approximately 1.70 lacs people who received free shares also subscribed for additional shares. The overall Canada's privatization program has been quite modest. The Canadian public has never strongly supported privatization. Indeed, public opinion polls most often indicate that a majority of Canadians opposed the divestiture of Government business interests Despite this, the conservative federal Government led by Prime Minister Joe Clark announced plans in 1979 to privatize Petro-Canada and atleast five other crown corporations. The Liberal party shelved these federal privatization plans. As a result, effective privatization efforts did not resume until the conservatives regained power in 1984.

Since 1985, the Canadian Federal Government has sold full or partial interest in 24 countries. Provincial Governments have divested their interest in over 30 companies since BCRIC in 1979. Privatization in Canada most often has proceeded by outright sale of state owned enterprises to individual privately owned companies. Notable examples include the sale of *de Havilland* to *Boeing, of Candair* to *Bombardier, and of Teleglobe Canada* to *Memotec.* Full or partial privatization though widely distributed public share offerings has been carried out for only seven federal and nine provincial companies. Half of these companies are in the natural resources industry. In the public offerings, shares are sold in a series of trenches. Often priority is given to employees and to local individual investors through early excess or preferential share allocations. In two cases the Telus and AEC privatization offers, share over subscriptions were allocated by limiting the maximum number of shares an individual could acquire. These are the only cases were details about allocation procedure is available to the authors.

(4) **Privatization in Japan**[15]

❖ **Objectives and Motivations**

Japan's privatization efforts stem from the oil crises in early 1970s, accompanied by steep rise in oil prices led to Japan's first post war negative growth in 1974, lower tax receipts and higher expenditures for social programs and public works caused a fiscal deficit in 1974. 1979 financed approximately 1/3 of the fiscal budget with bonds The Government's response to on going budget deficit, a consumption tax was met with steep resistance from the public in early 1981, the Provincial Commission on Administrative Reforms (PCAR) was established to advice the Government, as to how to achieve fiscal reform *sans* raising taxes. In July 1982, the PCAR basic report out line numerous recommendations, including privatization of Government's telephone viz. Nippon Telegraph and Telephone Public Corporation (NTTPC), Rail, Road (Japan National Railways) and tobacco and salt (Japan Monopoly Corporation) interests.

❖ **Major Disinvestments**

As a sequel to the 1982 PCAR report, three bills necessary to carry out NTTPC privatization were passed. These bills have, however, maintained the Ministry of Posts and Telecommunication's supervisory role over NTTPC, while opening local, long distance and cellular services to competition.

In April 1985, NTTPC was transformed into Nippon Telegraph and Telephone (NTT), a joint stock company. Later that year a private advisory group to ministry of finance and MPT recommended divestment of ½ of NTT's shares in four equal, annual sales beginning in 1986. As of early 1995, approximately 1/3 of NTT's share had been divested 12.5% in both 1986 and 1987, and 9.6% in 1988.
Relatively poor performance of NTT shares, the worldwide stock market crash in 1987 and falling prices on the Japanese stock market have delayed attainment of the 50% divestment goal.

Japan · National Railway's (JNR) path to privatization has involved significant corporate restructuring. Total staff was cut by 1/3 in the early 1980s. Most senior managers and union leaders were dismissed In April 1987, JNR was broken up into six regional railroad companies and one freight company. Five years later, in 1992, JR East was selected as the first regional Railroad Company to be sold. Events surrounding its privatization have received much attention. On its first trading day, JR East share price rose almost 60% above the fixed offer price. The Nikkei 225 index fell 1.4% as buyers sold other shares to fund JR East purchases. One broker was quoted, "*this stock is a vampire This is like listing Count Dracula*" On its second day, trading in JR East was suspended as the Nikkei 225 fell another 1.4%. After one month of trading, the market-adjusted return to JR East investors was 25.8%.

The Japanese Government used the same method for pricing shares in the first tranche for both NTT and JR East. First, a small number of shares (1.3% of total equity of NTT and 15% of JR East) worth sold in a competitive auction where successful bidders paid their bid price. Second, a fixed share price was set as weighted average of successful bids in the competitive auction. The fixed price was used in a public offering for the bulk of the shares (10.6% of total NTT equity and 35% of JR East equity) Due to over subscriptions for available shares (9 times for NTT and 29 times for JR East), shares were allocated by restricting the number any individual could buy and award of shares by lottery method. Finally, some shares were held aside for market stabilization purpose on the first trading day. This method was employed in mid-1994 privatization of Japan Tobacco Inc. However, the fixed share price of 1.4 million yen proved too high. Only about half of this share available in the public offering was taken up. The price of Japan Tobacco shares fell 26.8% on the first trading day, *inter alia*, evidencing, the case of over pricing / investors dis-motivation.

(5) Privatization in Thailand [16]

❖ Objectives and Motivations

The debut of privatization in Thailand begun with the sixth national economic and social development plan in 1987. Unlike other national economies, PSUs were not burden on the Thai economy. The staple objective of privatization, inter alia, was to increase spending on infrastructure investments. Since 1985, legal limits on public external borrowings have been imposed, viz. initially $1 billion per year, raising it to $3.2 billion in 1994, resulting into availability of fund for investment. The another major motivation is the desire to augment economic efficiency.

❖ **Major Disinvestments**

Thai's privatization program has incorporated the full range of the policies The Government has granted concessions for infrastructure developments (including telephone network, rail mass transit, high way, etc.), allowed management of public services by private companies (including ports, hotels, and concession stands in public venues), deregulated several sectors (including buses and trucking), and conducted outright sale of state enterprises

The public sale of Thai's state enterprises has included a bank, national airlines, two petroleum related companies and the national electricity company monopoly (EGCO in 1994). All disinvestments have been fixed price share sales, but none have been complete divestitures The Thai Government retains 50% to 85% of the shares in these companies. In most cases, shares were allocated to employees and foreign investors. When over subscribed, shares allocation was done by fixing the number of shares each individual could buy randomly selecting purchasers from among those who submitted applications

(6) Privatization in Hungary [17]

❖ **Objectives and Motivations**

The main objective of privatization includes augmenting economic efficiency and raising non-tax revenue for the development The process started in late 1980s and in September 1990, the State Property Agency (SPA) (created to own all state assets and was responsible for privatization process), announced the first 20 companies targeted for a public sale. The sales revenue of these companies represented approximately 5 5% of GDP. At the same time, the SPA was selling by companies by private placement. In addition to, spontaneous privatizations, assets sales initiated by company employees, were occurring.

❖ **Major Disinvestments**

The privatization authority promoted participation in privatization transactions by individual investors, employees and foreigners. Individuals were encouraged to buy shares by the provision of cheap credit. Two special institutions were set-up to grant preferential credit to individual buyers. For e.g. investors in hotel Danubius were asked to put 10% down, pay 40% after 6 months and finance the balance through cheap credit. As of the early 1990s, employees could buy up to 25% of their companies with concessionaire financing. Foreign investment was strongly encouraged : it accounted for 85% of SPA's proceeds in 1991 and 70% 1992. The 1988 law, on investment by foreigners gave foreigners the right to own-up to 100% and established favouarble rules for re-patriation for capital and profit. Hungary has yet not met the SPA's goal stated in 1991, to privatize approximately 100 enterprises. The reasons ascribed are among others political disagreements about the best methods and institutional constraint on both the supply and demand sides. As of 31.12.93, only 28 companies were listed on Budapest Stock Exchange with a market capitalization $812 million, or about 2% of GDP. Hungarian shares were also quoted on Vienna Stock Exchange at an implicit exchange rate i.e. very close to the official rate. Hungary's public, fixed-price privatizations were all service and manufacturing concerns, including everything from a travel agency to a salami manufacturer. Most of these sales were oversubscribed. While no detailed description of the allocation process is available, press reports indicate shares were allocated in proportion to the initial subscriptions.

(7) Privatization in Poland[18]

❖ **Objectives and Motivations**

The privatization processes in Poland and Hungary have several similarities. Both countries initiated legislation in the mid to late 1980s that established the legal framework for private ownership. Both followed the legislative reform with ambitious privatization programs that simultaneously encompassed several different methods. Poland selected the first 20 firms for public sale in early 1990. By year end the target list had more than double. In addition, the Government was taking a sectoral approach, as against, case by case approach, packaging together groups of companies in a particular industry for sale to private investors and also allowing employee buy-outs. A voucher system was announced in 1991 and it moved further during the summer of 1995 with the allocation of 413 State Owned Enterprises (SOEs) into 15 "National Investment Funds" (NIF). Shares in the funds were distributed to citizens paying nominal fees in late 1995.

❖ **Major Disinvestments**

Poland also encouraged participation by individual investors, employees, and in some cases foreigners. Individuals were able to purchase state issued discount bonds that could in turn be exchanged at par for privatization shares at discount of 20% to the nominal offer price. Employees were able to buy upto 20% of their company's share at concessionaire prices as low as ½ the regular offering price. Foreign participation in the pubic share ranged from Pepsi's 40% purchase of the Candy maker Wedel just prior to public offering, to restricted participation in both the small and large investor trenches. Like Hungarian experience, political disagreements and institutional constraints have prevented Poland from achieving its initial goals. Despite the 1990 target of over 40 public sales, only 22 companies were listed on the Warsaw Stock Exchange as of 31.12.93 These companies had a market capitalisation of $2706 million or about 3% GDP. Trading on the Warsaw Stock Exchange is based on the French model, where offers to buy and sale are matched to fix a price without any active market making by brokers. Price changes were limited initially to 10% each session. The market was open for only 1 day a week in 1991, 2 days in 1992, 3 days in 1993 and 5 days in 1994. Poland's privatization via public, fixed price share sales included 3 banks, 3 service and 13 manufacturing companies. These sales often were concluded on a first cum first serve basis. Press reports note that many of these offer sold out on the first day (this method means that no reliable measures of over subscription for these share issues). Some later sales appear to allocate shares across subscribers. In 1994 the Polish Government announced a change whereby they would sale company by tender, setting a minimum price and asking investor to bid the maximum price they were willing to pay.

(8) Privatization in Malaysia [19]

❖ Objectives and Motivations

The multifaceted approach to privatization in Malaysia was, inter alia, driven by the broad set of goals motivating the process viz. to abate Government involvement in the economy, to augment the efficiency of Government enterprises and above all, to ameliorate the Government sector finances Moreover, the Malaysian Government had additional role for the privatization process. The new economic policy formulated in the early 1970s, establish the re-distribution of the nations wealth to ethnic Malays (BUMI PUTRAS) as an explicit national role.

❖ Major Disinvestments

Attempts to re-distribute wealth have affected the allocations of both contracts and shares in the privatization process. Some have argued that privatization simply have shifted the ownership of the Government to the United Malays National Organisation (UMNO) Critics also complain that the Government has yet to fully divest control or ownership in any of the companies. The average holding of Government shares shall be retained in the twelve public share issues covered in the study of the author is 63.35%. In some cases, Government retains one special right redeemable preference share that has unique right with respect to board appointments and share re-purchases Restructuring usually precedes the public sale of shares in Malaysian Government companies To illustrate, prior to its public share offer, Trade Wings purchased a sugar refinery and a large stake in the insurance company and sold off several major assets. After restructuring only a portion of shares usually between 15% and 45% is sold to the public Specific trenches are reserved for foreign investors, employees and ethnic Malays. Share allocation process includes fixed price sale and award of shares by lottery, as well. From the start of its privatization program in 1983 until mid 1994, the Malaysian economy privatized 84 Government entities. The privatization program included deregulation (television, banking), contracting out of services (cargo handling, port management, and hospital laundry), and transferring development projects to the private sector (road construction), as well as the partial sale of state companies through public offerings (15 of the 85 entities mentioned above).

(9) Privatization in China[20]

❖ Objectives and Motivations

December 1978, was a dramatic moment in the history of the Chinese communist party, when capitalist roader ***Deng Xio Ping*** came to challenge Hua and emerged triumphant. The Plenum encapsulated the party's fundamental decision to reorient China towards the market. A party leader like *Chen Yun* propounded what came to be known as the "bird cage" thesis: " you must not hold the bird in your hands too tightly or it would be strangled". The major motivations were compelling reasons such as desperate poverty, i.e. 60% of China's people lived on less than a dollar a day. The other objectives might be to finance the deficit, to ameliorate the economic efficiency and above all creation and distribution of wealth and not the distribution of poverty.

❖ Major Disinvestments

Dengue's process of privatization was accelerated by the Maastricht treaty, which resulted in many respected institutions like Volkswagen, Lufthansa, Renault, Elfa-Aquitaine, etc. being reorganised through partial, or complete sales. Though the very word 'privatization' was anathema to the older generation, yet the 15th Party congress reaffirmed China's march to the market in September, 1997 and declared that as many as 1,00,000 state-owned enterprises would be divorced from the state and operated on the principle of 'ming ying'- people-owned companies. Between 1978 and 1995, China's foreign trade increased from $60,000 to $300 billion and per capita income doubled between 1978 and 1987 and doubled again between 1987 and 1996. Above all Deng had lifted over 200 million people out of poverty in two decades The tools for the privatization include downsizing, merger, bankruptcy and abating the role of the Government through privatization. It is reported that no much problems were faced by China in the process of privatization except as to valuation and realisations, in the guiding strategy of "one country, two systems".

10. Disinvestment in India

Last but not least, disinvestment in India is discussed in detail in the next chapter

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