

Privatization of PTCL and Its Positive and Negative Impacts on Economy and Society of Pakistan

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Abstract

In this research work positive & negative impacts of Privatization of PTCL on economy and society of Pakistan are analyzed. Privatization process of PTCL started in early 90 and completed in 2006. Objectives behind the Privatization of PTCL were the improvement in economy of the country with the reduction in loans, stability in GDP and currency and improvement in performance of company with the increase in Profit and revenue of the company. It has found that privatization of PTCL has more negative impacts as compare to positive impacts on economy & society of Pakistan. Analysis shown that set objectives have not achieved, targets were not met, and expectations were not fulfilled with the privatization of PTCL. It was a profit earning company and was contributing a huge amount (billions of profit per year) to national treasury. It had provided an honorable employment to the big number of nationals of country. It was constructing a part of National assets. Such profit earning organizations may not have privatized. If there were some pitfalls, they should be removed rather than throwing away of such profiting & valuable National asset. However such sick units be identified which have gone in loss, have lost their integrity and no chances of their improvement/revival. These units be privatized with certain SOPs & transparency.

Keywords.

PTCL, Privatization, Positive & Negative impacts, Impacts on loans, GDP and currency, Performance of company, economy of country

Introduction

Post & Telegraph (P&T) Department was established in 1947. P&T was replaced with the establishment of Pakistan Telegraph & Telephone Department in 1962. Pakistan T&T department was transformed in to Pakistan Telecom Corporation (PTC) in 1990-91 through Telecommunication Act 1991. PTC was transformed in to PTCL through telecommunication Act 1996 in 1996. After this transformation PTCL was listed on all Stock Exchanges of Pakistan. Mobile & Internet subsidiaries were established in 1998. Telecom

Policy was finalized in 2000. Telecom Deregulation policy was announced in 2003.

26% shares of PTCL were sold to M/S Etisalat with full Control of Management in 2006. [6][16]

Privatization

Privatization is also called as denationalization. It is the process of transference of an enterprise from the state ownership in in private hands in whole or in part. Privatization is the globally going on Phenomenon of this twenty first Century. In this phenomenon of privatization or denationalization publically owned enterprises are sold out by

governments to the general public or perspective investors. The basic motive behind privatization is enhancing efficiency of respective department / organization in all respect. [1] [3]

Privatization Process in Pakistan

The program of privatization was launched in Pakistan on 22 January 1999. Goal was to attract investment from foreign in the country. The program was initiated with the vision to improve the GDP growth of the national economy of Pakistan.

This privatization programme was reversal of the nationalization programme in which was done in 1970s by the government of that time. Privatization programme was launched with the much more intensity and pace. Whole process was supervised & led by the Prime Minister of Pakistan of that time, Mr. Shaukat Aziz in 2004. This privatization programme was finished at the end of 2007 effectively. Till that time about 80% to 90% of the industries were privatized by Prime Minister of Pakistan Mr. Shaukat Aziz. [13]

Privatization of PTCL

Due to more increased trend of privatization/deregulation of telecommunications sector all over the world opened the way for deregulation/privatization of telecommunication sector in Pakistan. Pakistan's potential consumer market of over 150 million people was much coveted by multinational telecom companies

Process of privatization of telecom sector in Pakistan started in 1991 and completed in 1996 through telecom act 1996. In 1996 it was transformed in to company and privatized in June 2006 by selling its 26 % shares to a multinational foreign company M/S Etisalat with handing over of full management at the cost of 2.6 billion US dollars. [16]

Purposes of Privatization of PTCL

Purposes of privatization of PTCL were as under;

- Payment of Loans/Debits.
 - Improvement in performance of the company by Increasing revenue/ profits of the Company.
 - Strengthening of National Economy with improvement in national currency and GDP of the country.
 - Expansion of network & customers.
 - Opportunities for more employment.
 - Contribution of private investors in national economy.
 - Provision of services with more diversity.
- [13]

Research Methodology

- Data was gathered about the variables of foreign /local loans, GDP of Pakistan, Currency of Pakistan, profits of company, employment opportunities and foreign investments for the periods before and after privatization of PTCL.
- Data was gathered through various, journals, reports & internet resources.
- For verification of these variables data was compared for the periods before and after privatization of PTCL. A questionnaire of more relevant questions was also prepared and distributed among various peoples for response/feedback.
- Results were analyzed with the help of statistical tools to find the positive & negative impacts of privatization of PTCL.

Impacts of Privatization of PTCL

Privatization of PTCL has both of positive aspects as well as negative aspects on economy of Pakistan as well as in society of Pakistan. Both aspects are

mentioned below. Detail of positive aspects & negative aspects of privatization of PTCL is asunder

Positive impacts

- The opportunities of foreign investment
- Introduction of new technologies
- Customer care and respect
- Variety of services with ease of provision
- More competitive rates of services and improved customer services.

[15][16]

Negative Impacts

- 1 Profit of the company reduced after Privatization. Before Privatization of PTCL during the year 2005 profit of the company after tax deductions was Rs.26.606 billion & Rs. 20.777 billion during year 2006. After privatization of PTCL during the year 2007 profit of the company reduced to Rs. 15.639 billion and declined up to Rs 8.760 billion till 2015. [7] [8] [9] [10]
- 2 Foreign & local loans/debts of the country increased after privatization of PTCL. Before privatization of PTCL during the year 2005 total loans/debits of the country were Rs.4091 billion including Rs. 1913 billion external debits. Total loans of the country increased to Rs. 6044 billion including Rs. 2778 billion external debits. The increasing trend in loans of the country reached to the total loans of Rs. 15532 billion including Rs. 4711 billion external loans. [13]
- 3 National currency devalued. Before privatization of PTCL currency of Pakistan as compare to one US dollar was Rs. 60.4 as

selling price & Rs. 60.2 as buying price. After privatization of PTCL the currency of Pakistan was devalued as Rs. 67 as selling price & Rs. 66.8 buying price as compare to one US dollar during the year 2008. Devaluation trend in Pakistan currency continued and it has reached to Rs. 104.5 as selling price & Rs. 104.3 as buying price as compare to one US dollar during the year 2016. [14]

- 4 GDP of the country reduced. GDP value of Pakistan at the time of privatization of Pakistan in 2006 was 5.82. After privatization of PTCL in 2006 it has declined till 2016. Its declined value is 4.24 till 2016. [4] [5]

- 5 Loss of national assets due to privatization of PTCL. More than 3200 properties of PTCL in prime & commercial locations in all prominent cities of Pakistan have handed over to a private multinational company along the infrastructures, equipment, installations & experienced manpower handed over to private company with full management. [11] [12]

- 6 Loss in national income occurred after Privatization of PTCL. The profit of the company, in billions, is now going in pocket of private investor/capitalist which was going in national treasury before privatization of PTCL. [3] [7]

- 7 Privatization of PTCL caused increase in unemployment. Over 50,000 employees have lost their jobs after the privatization of PTCL and hence caused the increase in

- unemployment and poverty in the country. [4]
- 8 Wealth of Pakistan is flowing away/outside of the country. A big amount of national wealth is now flowing away from the country causing reduction in GNP. Investors of PTCL as well as other mobile operators such as Telenor, Zong, and Warid / Mobilink are foreign investors except Ufone. They carry the earned profits to their native countries. [12]
- 9 Chances of Foreign interference increased. Foreign hands have more opportunities to interfere in economy of Pakistan as well as in social sector of Pakistan. In case of any disaster, war, changing political scenario or changing markets foreign investor (owner of the company, as Etisalat in case of PTCL) may close or sublet the business. This may result the big problems to attaining the services of communications for the peoples of Pakistan, reduction in economic volume of the country. [2]
- 10 Contribution of PTCL in national treasury after privatization decreased. Before privatization of PTCL all earned profits, over 30 billion in 2006, was going in national treasury. After privatization of PTCL its yearly profits have reduced to much extent, around 12 billion in 2016 and only taxes and fraction of this lesser profits are going in national treasury. [2][10]

Privatization issues in Pakistan

If we dig the situation of privatization in Pakistan, it will not appear as simple as it seems in first/general look. For the successful process of privatization some

pre requisite measures/standards may have set as defined by World Bank & in addition following measures may also be observed and followed strictly.

- 1 Environment may be conducive with the confidence of investor.
- 2 There should be strong government which may have ability/capacity for the implementation of such agreements of privatization.
- 3 Only those Publicly State-Owned Entities (PSEs) be selected for privatization which are not vital and are going towards the decline and having no chance of their revival in future.
- 4 Transparency in privatization process of PSEs must be observed by following certain criterion/standards.

The governments in Pakistan has focused only on privatization and ignored the fulfillment of necessary measures set to be followed by World Bank. Faulty selection was made for privatization of PSEs. Strategically vital and profitable entities were selected for privatization. Proceedings on privatization were made with the haste. Transparency and clarity in privatization process was lacked. Atmosphere was non-conducive for investment. In such situations privatization may not have been proposed the best solution.[2]

Privatization is not a lone solution

Privatization or selling out of poorly performing SOEs is not a lone solution for the improvement of their performance. There is need of investigating the root causes of decline in performances in such SOEs and making the proper remedies by applying the best

option out of possible multiple options for the improvement rather than selling them out. [2]

Situation in Pakistan

Pakistan cannot be compared with other developed countries where privatization is more successful. It may be realized that in Pakistan the ground realities are different from that of the developed countries. Privatization in developed countries is successful because their markets are much stronger and competitive. Pakistan is a developing country and its markets have yet not gotten stronger. With the privatization of (healthier & revenue generating) SOEs, government has lost its revenues, taxes and dividends. Share prices of such departments have also declined /reduced with privatization. Prices of the services have also increased. [2]

Restructuring rather than Privatization

This is unfortunate for Pakistan that it has been made the laboratory to test the economic perspectives in Nationalization and denationalization/Privatization. An in-between policy is needed to be adopted for the better economic progress of the country.

An independent restructuring institution may be established who may be empowered to identify the poor performing PSEs and then carry out the necessary restructuring process so as the performance, growth and revenues of such PSE units may be enhanced. Restructuring of PSEs may be more fruitful and profitable for the country / nation rather than privatization. Restructuring will not affect the continuity of services, whereas in privatization many PSEs have not kept the services continue and assets were used for other purposes by new owners.

This is to be pointed out here that all privatized PSEs achieve the success by hiring top management staff at lucrative / attractive packages & linked with better

performance. This means proper person at proper place and results are quite profitable and encouraging. If private organizations can achieve the big success by following this model then why the government may not follow the same model to achieve the big success for PSEs and even PSEs may be converted into Public Corporations. [2]

Conclusions

- 1 At the time of privatization of PTCL in 2006, it was a telecom leader in South Asia with plenty of technical hands, use of latest technologies, earning big profits (over 30 billion a year) and was contributing national income as well as source of employment to a big number (over 65,000 employees at the time of privatization in 2006) of country nationals.
- 2 Privatization of PTCL and entrance of mobile telecom operators (Zong, Telenor, Ufone & Warid etc.) have caused the profits going into the pockets of private hands of capitalists, which were earlier coming into national treasury. National assets reduced. Unemployment increased.
- 3 With the privatization of PTCL, performance of the company has not improved as the profits decreased. GDP & national currency of the country declined. Loans of the country kept on increasing with more pace.
- 4 Data of national importance may be leaked out easily now after privatization of PTCL & telecom sector. After the privatization of PTCL by selling it to a foreign multinational hand (Investors) have more opportunities to interfere in national economy, national interests and foreign investors may impact the religion / culture and norms of the nation/country.
- 5 The consequences of privatization have caused

damages to the country in many ways. It has created unemployment at mass level, increased the level of dearness resulting in difficulties for the peoples to meet their daily life requirements. Richer get richer and poor get poorer resulting in robberies & suicides.

Recommendations

- 1 Huge organizations/departments like PTCL and other profiting corporations and departments which are running in profits, source of employment for nationals, contributing national assets and contributing national treasury and budgets, may not be privatized. If there is some performance problem, it may be resolved on merit, rather than to sale the National assets on cheap rates.
- 2 Only the loss making and non-vital PSEs be selected for privatization. National and public interests may be kept on top priority, well protected and may not be affected adversely. Before the privatization of selected PSEs proper homework be done relevant experts & professionals.
- 3 The government may ensure that profitable and strategically vital PSE's may not be sold out in the name of privatization for temporary economy boost up at the cost of stability, national interests and revenues. PSEs providing essential services to the public should not be placed on list of privatization just for the wish of foreign agents.

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