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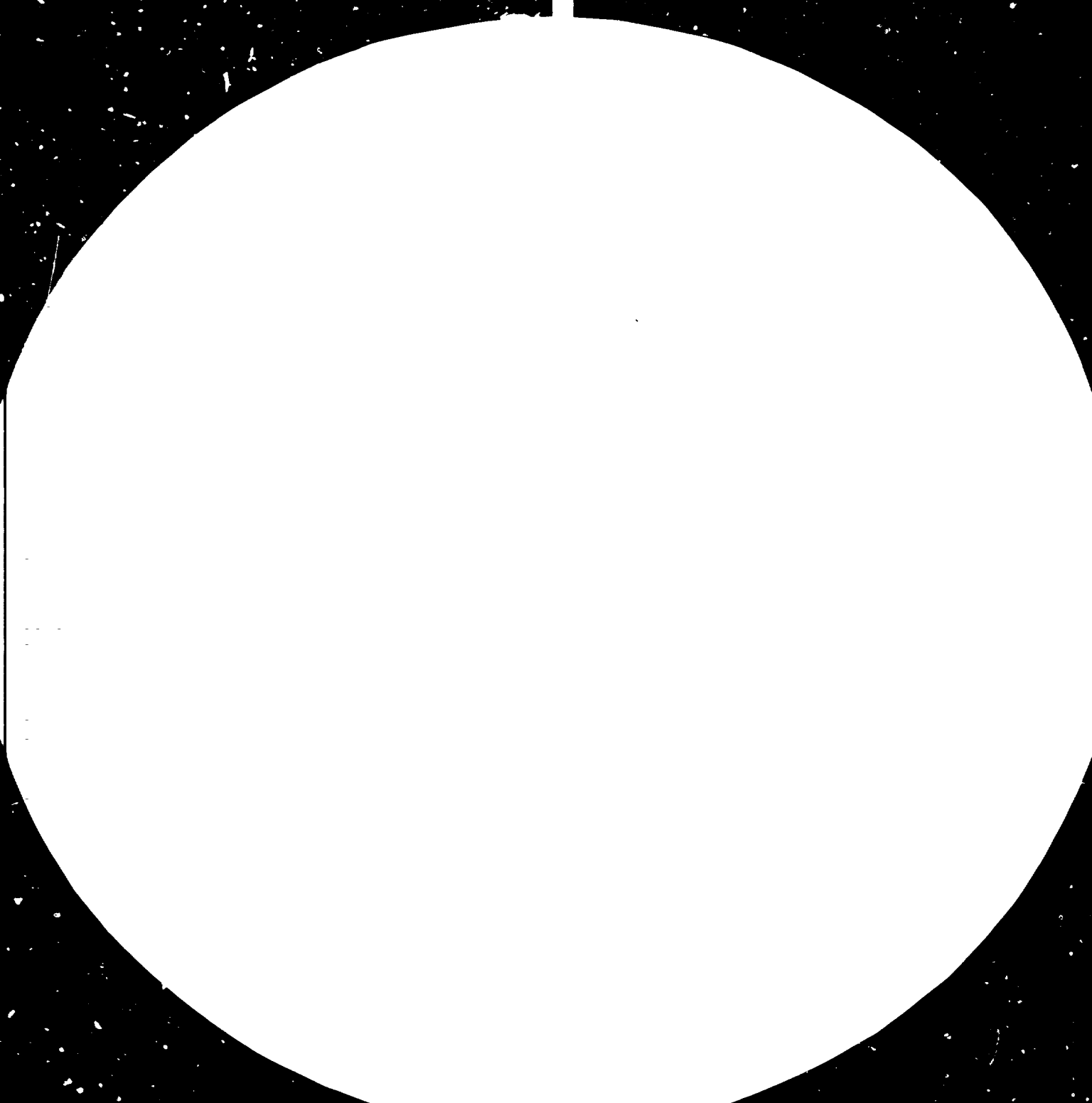
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PUBLIC ENTERPRISE AND INDUSTRIALIZATION

IN ESCAP COUNTRIES\*

by

ESCAP secretariat\*\*

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## INTRODUCTION

The ESCAP region is the largest and most heterogeneous of all regions serviced by a single economic and social commission within the UN system. More than 2,300 million people, i.e., about 55 per cent of world population, live in 39 countries of Asia and the Pacific. It is also estimated that around 700 to 800 million people find themselves below the poverty line, the largest concentration of poverty in the world. Apart from the three developed countries, Japan, Australia and New Zealand, a vast majority of the remaining countries, have reached a markedly lower level of development. Yet, they differ considerably in terms of geographical position, area, population, resource endowments, economic size and, perhaps most importantly, in terms of socio-economic and political environment. It follows that, in any attempt at the regional analysis, the magnitude of these dimensions should be reflected.

In accordance with the last criterion mentioned above, i.e., the socio-economic and political conditions, the two main country groups should clearly be distinguished here. First, a numerous group of developing economies characterized by the prevailing market orientation (market oriented developing economies) and, second, a few less developed socialist economies, such as China, Mongolia, Vietnam and Laos, relying mainly on the system of central planning (less developed centrally planned economies). Actually, the developing ESCAP region is the only developing region in the world where these two distinct groups of member countries emerged as a result of dramatic changes during the last decade.

Regardless of their socio-economic and political differences, one can also identify a number of structural similarities originated essentially in the stage of socio-economic underdevelopment of these countries. Thus, despite their industrialization efforts, a majority of the population in all these countries lives in the rural areas, agriculture remains the large source of employment and important contributor to GNP. Also, in all these

countries, the state is actively involved in the process of development and its activities typically cover not only infrastructure and indirect controls but also planning and public enterprise. In this respect, the country differences in state involvement in the economy appear to be a matter of degree rather than that of kind.

Yet, the differences in the economic role of the state in general and in that of public enterprise in particular are not of secondary importance. These are essential irrespective of whether they concern differences between the two country-groups or those among countries within each of them. For one thing, while in the market oriented developing countries the economy is basically controlled by the private sector and the state owns only a minor part of the means of production, in the centrally planned economies a larger proportion of these assets is controlled by the state. This gives rise, inter alia, to considerable differences in the system and methods of control and regulation of the economy.

For another, even within each country group, one could see differences in the over-all pattern of the role of the state. There is a clear distinction, for instance, between the economic role of public enterprises in development in Thailand or the Philippines, and its role in Sri Lanka or India. Of course, there are modifications brought about by political changes. Similarly the Chinese model is far different from the Mongolian, particularly in terms of organization and management.

Taking into account the above-mentioned similarities as well as dissimilarities in the economic role of the state, this paper attempts to provide a brief introductory analysis of selected aspects of public enterprise in the developing ESCAP region. The emphasis is however placed on the role of public enterprise in industrialization with reference, to the extent possible, to both the market oriented developing economies as well as less developed centrally planned economies. ESCAP intends to undertake a more thorough study of this subject in order to elaborate the

preliminary findings presented in this document. The future studies will also deal with several other issues which have not been taken up here.

## I BASIC CHARACTERISTICS OF PUBLIC ENTERPRISE

### 1. Concepts and definitions

All major concepts used in this paper, such as industrialization, public sector, public enterprise and public industrial enterprise, are generally known. Yet, due to a variety of definitions, some clarification would be useful right at the outset of this analysis.

For the purpose of this study, it is suggested to rely upon the official UN definition of industrialization.<sup>1/</sup> Based on this definition, industrialization is viewed as a process of growth accompanied by structural shift from agriculture to industry, manufacturing in particular, and by the corresponding socio-economic changes. It follows that the progress in industrialization should primarily be measured by the increase in the share of industry (manufacturing) in total output and employment rather than by the respective growth rates. Viewed in this light, industrialization can no longer be conceived as an endless industrial (manufacturing) growth which continues to proceed, though at slower pace, even in the most advanced countries during their post-industrial stage. By contrast, industrialization is considered here as a stage of long-term development during which economic growth and structural realignments are brought out as indicated earlier. It should be added that practically all countries of the developing ESCAP region, irrespective of whether they are market oriented or centrally planned, find themselves in various phases of such change.

In order to accelerate industrialization and solve other economic and social problems, active involvement of the state in the process of development ceases to be a matter of choice and becomes economic necessity



among the developing countries. The state has evolved a substantial public sector, which consists of a variety of organizations including central government ministries and departments, local authorities, public corporations and public or semi-public companies. While co-operatives constitute a part of the public sector in developing economies,<sup>2/</sup> they form a relatively independent sector in centrally planned economies. This is because the socio-economic base of these countries consists of socialist ownership of the means of production which exists in two major forms, the state and co-operative ones. Correspondingly, the methods of planning and management, including the choice of top managers, differ considerably between these two sectors. It should also be mentioned that the public sector in centrally planned economies should more appropriately be called the state sector.

In most developing countries, the public sector is actively involved either directly or indirectly in (i) the choice of main economic and social objectives and planning and management of the economy or its parts, (ii) the establishment of public institutions and infrastructure, (iii) the creation and operation of public enterprise including public utilities, (iv) the formulation and execution of economic policies regulating the activities of the private sector, and (v) the preparation and implementation, of major economic and social reforms.

In centrally planned economies, practically all spheres of the economy are either controlled or influenced by the activities of the public sector. Regardless of the differences between market oriented developing economies and centrally planned economies in this respect, it is obvious that public enterprise constitutes only a part and an instrument, and perhaps the most important part and the most important instrument, of the public sector.<sup>3/</sup>

These enterprises are conceived as the entities owned or controlled by public authorities which produce goods and or services. Their output is largely marketed, although this criterion may not necessarily appear in centrally planned economies. Public enterprises in market oriented developing economies which meet all these criteria but are engaged in health, education, training and other services have often been excluded from various studies of public enterprise undertaken in the recent past.<sup>4/</sup> In accordance with this narrow definition, these studies have dealt with public enterprises engaged directly in productive activities.

Among a multiplicity of such enterprises concerned directly with productive activities, public industrial enterprises play an extremely important role. Depending upon the definition of industry, the category of public industrial enterprise varies in coverage. In a wider sense, it comprises all public enterprises in mining, manufacturing, construction and utilities. In a narrow sense, this term is confined to public enterprises in manufacturing only. While both approaches have some merits as well as demerits, the narrow definition focuses on public enterprise engaged not only in the largest but also technologically most advanced industrial sub-sector which, at least in perspective, should, inter alia, supply the whole economy increasingly with modern technology. For this reason, special attention is paid in the present analysis to public enterprise in manufacturing.

## 2. The origin of public enterprise

It is undoubtedly correct that the origin and continued development of public enterprises are influenced by a number of political, economic, social, technological, as well as other factors,<sup>5/</sup> which vary from country to country as well as from time to time within each country. It will be seen (Chapter II), however, that generally there has been a tendency for the expansion of public enterprise almost in all countries of the

developing ESCAP region. Under these circumstances, it is rather difficult to explain the origin and further development of public enterprise, i.e., one single substantive phenomenon of general nature, by a number of partial elements mentioned above.

These partial elements or, more precisely, varying combinations of these elements, seem to be responsible for changes within this general tendency rather than for the tendency itself. To be more specific, they are likely to contribute to accelerated or decelerated growth of public enterprise and sometimes even to its decline. They influence also its industrial composition and geographical location. They can hardly be considered, nevertheless, as the major cause of this phenomenon in countries of the developing ESCAP region per se. This cause should be sought in the need for accelerated economic and social progress, on the one hand, and their prevailing socio-economic structures, which do not provide conditions favourable enough to achieve such progress, on the other.

These observations on the origin and the growing role of public enterprise appear to be equally valid for both the market oriented as well as centrally planned economies. One of the main differences between them is, of course, the speed and the size of the public enterprise sector. Within a given time span, generally such enterprises tend to change usually faster and grow considerably larger in the latter than in the former. This is so because private ownership of the means of production continues to constitute the foundation of the existing socio-economic structure in market oriented developing economies, while its substitution for social ownership, irrespective of whether this transformation is gradual or sudden, is essential in less developed centrally planned economies. Accordingly, public enterprises do co-exist with private enterprise and, within certain limits, also support its further development in market oriented developing economies. In less developed centrally planned economies, however, public enterprises either eliminate private enterprise right away or, at least,

tend to diminish the sphere of its operation and bring it under control. In such situation, co-operation between these two types of enterprises, though not entirely impossible, is usually seldom and temporary. How the actual relationship between public and private enterprise proceeds depends, inter alia, on ways and forms in which public enterprise emerges and develops.

In this respect, a distinction should be made between (i) taking over existing enterprises and (ii) the establishment of new enterprises. There is also (iii) a subsidiary form, mixed enterprise, which may acquire some characteristics of both above-mentioned forms. The taking over of existing industries can be achieved mainly via inheritance from a colonial regime, acquisition by purchase or nationalization. Practical experience is always richer than any logical scheme. In Pakistan, for instance, there had been 12 enterprises inherited, 5 fully nationalized and 77 taken over by the Government without acquiring majority shares, 6 acquired by purchase from private owners, 3 acquired by purchase of majority shares by the Government, 2 abandoned by their private owners, and 70 newly established, by 1975.<sup>6/</sup>

The distinction between various forms of taking over existing enterprises and the establishment of new enterprises is of importance. It is the latter which has the capacity to contribute directly to economic and social progress while the former creates essentially a more favourable environment to achieve this aim. This is also the reason why newly established public enterprises tend to contribute by far the largest share to the total value added by public enterprises and, moreover, this share tends to grow over time. Greater importance attached to newly established public enterprises can be observed in both groups of ESCAP countries here under review.

There seems to be no basic difference between these two country groups in respect of inherited public enterprises from the earlier regimes. In some countries, irrespective of the group they fall under, this inheritance was not negligible. Korea, for example inherited a large number of public enterprises from the Japanese regime after independence in 1945. Sri Lanka inherited several public industrial enterprises built up by the colonial government during the time of reduced supply from abroad in World War II. Even China inherited a number of enterprises, although some of them were damaged during the war. In most countries of the region, again regardless of their social order, this inheritance was concentrated mainly on economic and social infrastructure.

A clearer difference between the two country-groups concerns nationalization. At first glance, even this difference seems to be a matter of degree rather than that of kind. This is because within each country-group one can find rather extreme country examples. It is, of course, true that some countries, such as Singapore and Thailand, have always been against nationalization <sup>7/</sup> and have never resorted to it. <sup>8/</sup> Some other countries, however, have resorted to nationalization from time to time. India in 1969 nationalized 14 largest banks, general insurance, coal and wheat trade. In 1980, six more large banks were nationalized in that country so that the Government gained control over 90 per cent of the deposits with the banking system. <sup>9/</sup> Similarly, Mongolia can be seen as an example of the second group where nationalization played a minor part. There are, of course, several cases where nationalization proceeded on a large scale. Indonesia in the later part of the 1950s, <sup>10/</sup> Burma in the early 1960s, <sup>11/</sup> and Bangladesh <sup>12/</sup> and Sri Lanka in the early <sup>13/</sup> 1970s, on the one hand, China at the threshold of the 1950s, and Vietnam in the 1950s (North) and 1970s (South), on the other, experienced extensive nationalization.

In all centrally planned economies, however, nationalization is an integral part of the long-term development strategy, based on the notion that large-scale private ownership of the means of production must be replaced by social ownership in order to achieve greater economic and social progress. Moreover, based on the same theoretical argument, nationalization should principally be carried out without compensation. By contrast, market oriented developing countries choose mostly a pragmatic approach and usually pay compensation for nationalized property.

In this connexion, it should be borne in mind that nationalization is purely a legal act. All its potential advantages (concentration of surplus in the hands of the state instead of private companies makes it possible to distribute it more efficiently between investment and consumption, to introduce improved working conditions, to strengthen political power of the Government, etc.) can be translated into actual life only if nationalized enterprises operate efficiently. For this reason, nationalization as a legal act should be distinguished from <sup>13/</sup>socialization which is a more difficult process of introducing new methods of management and organization in nationalized enterprises.

In concluding this section, a brief mention should be made of various forms of mixed enterprises including joint ventures. This is perhaps one of the most controversial issues of public enterprise. The state may co-operate, for instance, with private enterprise, either local or foreign, or with another state. The experience shows that even if a certain reconciliation of differing interests is achieved during the stage of negotiations, it is sometimes difficult to carry it out in the stage of practical implementation and execution. Yet, various forms of joint ventures seem to gain momentum in both market oriented developing ESCAP countries as well as centrally planned economies. While there are

numerous examples of this kind of enterprises in the former countries, the experience of the latter countries is certainly more limited. In an early phase of their revolution, China and Vietnam used these so-called state capitalist enterprises as a form of gradual transition of private enterprise to public enterprise. Recently established Chinese joint ventures with foreign companies are scheduled to serve as a practical means of technology transfer. This method may effectively be used in other centrally planned economies, too. It has been reported that Vietnam and the USSR have agreed to set up a joint enterprise to survey and explore for oil and natural gas on the continental shelf of Southern Vietnam.<sup>14/</sup>

3. The main objectives of public enterprise and problems confronted

The objectives of the establishment of public enterprises are many and varied and may be defined at (i) the national level related to national strategies and plans; (ii) the sectoral level; and (iii) the enterprise level. They are historical, political and socio-economic in character and differ from one developing country to another. The variety of the objectives is demonstrated by the following catalogue mentioned by the UNIDO Expert Group Meeting on the Role of the Public Sector in the Industrialization of the Developing Countries, held in Vienna from 14-18 May, 1979:

- To adopt a fully socialistic model of development.
- To control strategic sectors of economy.
- To provide the requisite economic infrastructure.
- To control and manage "natural monopolies".
- To undertake tasks beyond the capability of private enterprise.

- To provide a competitive element to private industry.
- To develop backward areas.
- To stimulate the advancement of weaker sections of society.
- To increase the availability of essential consumer goods.
- To generate employment.
- To develop technology.
- To generate foreign exchange earnings.
- To stimulate agricultural development.
- To commercialize activities traditionally run as government departments.
- To discourage the concentration of economic power.
- To utilize more fully economic resources.
- To control the exploitation of natural resources.
- To help stabilize prices.
- To take over the management of ailing private sector firms.
- To develop self-reliance.
- To improve income distribution.
- To favour or accomplish structural change.

Some of the objectives that are mentioned above concerning the establishment of public industrial enterprises may be conflicting, looking at them from the point of view of the problem of efficiency of the public industrial enterprises. All objectives mentioned appear to be desirable, depending upon the changing conditions. The question however is how to determine an order of priority by reducing their number so that the task of setting up and running public industrial enterprises on the criterion of efficiency is made easier. The view is often expressed that "the discharge of social responsibilities by public



industrial enterprises could not and should not be made an excuse for inefficiency". The multiplicity of objectives makes the task of management of the public industrial enterprises on efficient lines difficult. The problem of reconciling commercial objectives with socio-economic objectives has to be worked out. The problem really centres round working out social profitability as distinct from private profitability.

In less developed centrally planned economies, the rising standard of living, industrialization and developed socialism have frequently been emphasized among major objectives in the recent past. In Mongolia, e.g., the main task of the Sixth Five-Year Plan was formulated as further development of social production, its increasing effectiveness, improved performance and continuous growth of material well being and cultural level of the people.<sup>15/</sup> In Chinese literature, it has been stressed that "the aim of socialist production is, first and foremost, to satisfy to the greatest extent possible the people's material and cultural needs",<sup>16/</sup> and that "developed socialism must be built on the foundations of mass social production" interlinked with "fully developed commodity (market) or consumer economy". In Vietnam, "the central task of the entire period of transition to socialism is to carry out socialist industrialization!"<sup>17/</sup>

In some developing ESCAP countries, public enterprise provides support for national community in the economy. Thus, e.g., in Thailand, businesses were in the hands of Chinese who were considered aliens and this gave rise to strong national sentiments with the urge to establish public enterprises in the 1950s.<sup>18/</sup> Similarly, in Malaysia public enterprises are used presently as a key vehicle for reducing inter-racial differences in the country.<sup>19/</sup>

Experience in some developing countries of the ESCAP region with mixed economies also suggests that the objectives of public enterprises are promotional, catalytic and developmental. Private entrepreneurship and capital have not been adequate, particularly in the initial years of industrialization. The limited number of available entrepreneurs came from particular sections of the countries' populations which meant concentration of wealth in their hands. The objective of public enterprises, under such conditions, was to bring about a wider diffusion of entrepreneurial and managerial ability in the society. These enterprises are promotional

in character. There are large capital-intensive enterprises where public participation was required because such industries can generate growth in the rest of the economy. Such basic and key industries could not be left to private enterprise for development. In such cases, the creation of public industrial enterprises has presented a way out. Public ownership and control of the "commanding heights" of the economy, defined as large-scale, capital-intensive "basic" sectors catalysing industrial development in particular and economic development in general, are both necessary and desirable on sound economic and social considerations. It is on these considerations that India has established public industrial enterprises in steel, fertilizer, heavy engineering, basic chemicals, and petrochemicals. India's example in this respect has been appealing to other developing countries with mixed economies. These industries have strong linkages with the development of other sectors of the economy including the small-scale industrial sector.

In brief, there are many considerations involved in the establishment and running of public industrial enterprises, but one may be right in holding the view that these are essentially economic and social. There is, of course, no escape from the fact that these considerations are dependent on political decisions. There appears to be a strong case for working out a limited number of the predominant objectives of public industrial enterprises after very careful deliberations. This is important because the performances of the public industrial enterprises need to be evaluated in the light of those predominant objectives.

## II. QUANTITATIVE DIMENSION OF PUBLIC ENTERPRISE

In accordance with the concepts and definitions discussed in the preceding chapter, a modest attempt to quantify the role of the state in the economic and social development in countries of the ESCAP region is made in this chapter. Owing to the paucity and low degree of comparability of available data, the analysis is limited in both the geographical coverage and time, and reveals only a few major trends. Despite these severe limitations, it permits some preliminary observations which coincide broadly with the conclusions of other studies<sup>20/</sup> but need certainly more elaboration in the future.

So far as the economic and social role of the public sector is concerned, its magnitude and trend can broadly be analysed on the basis of public expenditure, public investment and other relevant macro-indicators. Such analyses have been attempted in a few countries. Thus, for instance, there was a sizeable increase in government expenditure in Sri Lanka from Rs(SL) million 1,921 in 1960 to Rs(SL) million 6,887 (3,490 in real terms) in 1975. The share of this expenditure in GNP increased from 29 per cent to 31 per cent and per capita expenditure increased from Rs(SL) 184 to Rs(SL) 506 during that period.<sup>21/</sup> India, the share of the public sector in plan outlay had increased from 46.4 per cent in the First Five-Year Plan to 66 per cent in the Fifth Five-Year Plan. Though this share declined to some 58 per cent in the Sixth Five-Year Plan, it still prevailed appreciably over the private sector.<sup>22/</sup> In Pakistan, public investment had increased absolutely from Rs(P) million Rs(P) 3,786 in the First Plan (1955-60) to Rs(P) 13,700 in the Third Plan (1965-70) but had declined relatively from 65 per cent to 46 per cent respectively. In the 1970s, however, the rate of growth of public

investment was considerably faster than that of private investment.<sup>23/</sup>

In Mongolia, the only representative of less developed centrally planned economies for which data are available, the share of the public (state) sector in the value of fixed assets increased from 26 per cent in 1940 to 82 per cent in 1970<sup>24/</sup>.

The progressive expansion of the public sector as a whole tends to be associated with a similar trend in respect of public enterprise which is considered here as the most important sub-sector of the public sector. Table 1 shows that, except for Thailand, all market oriented developing ESCAP countries covered by available data reveal a clear upward trend in the number of public enterprises, indicating a close correlation between the public sector and public enterprise developments. But even those countries, where the shortage of data does not permit comparison, report a sizeable number of public enterprises, emphasizing their significant position in the economy in the recent past. Just as an interesting illustration, it may be added that there are more than one million state run enterprises in China.

Table 1. Market oriented developing ESCAP countries: Number of public enterprises (various periods)

<u>Country</u>	<u>Initial period</u>	<u>Terminal period</u>
India	5	189
Indonesia	-	220
Korea, Rep. of	89	98
Malaysia	12	110
Nepal	1	68
Pakistan	12	172
Singapore	-	180
Sri Lanka	28	107 (76)
Thailand	76	71

- Source: - India (1950 and 1980); Yoyana, 26 January 1981, pp. 1-2.
- Indonesia (1978); UNIDO Questionnaire Survey of Indonesia, 1981, p. 30.
  - Korea, Rep. of (1975 and 1977); II SaKong, Macro-economic Aspects of the Korean Public Enterprise Sector, Korea Development Institute, Working Paper 7906, p. 5.
  - Malaysia (1975 and 1981); UNIDO Questionnaire Survey of Malaysia, 1981, p. 36 (rough estimates).
  - Nepal (1954/55 and 1979/80); Profiles of Public Enterprises in Nepal, June 1978, pp. 3 and 10 (1979/80 estimate including those proposed to be completed during the Fifth Plan).
  - Pakistan (1947 and 1974/75); Syed, Reza (ed.), Role and Performance of Public Enterprises in the Economic Growth of Pakistan, pp. 23 and 24.
  - Singapore (1975); Lee Sheng Yi, Public Enterprise and Economic Development in Singapore, Malayan Economic Review, October 1976, p. 52.
  - Sri Lanka (1958 and 1975); Karunatilake, H.N.S., The Public Sector in the National Economy, Staff Studies 2/1976, p. 180; figure in brackets (76) is based on a narrow definition of public enterprise; see Lakshman, W.D., Public Enterprises in the National Economy of Sri Lanka: An Analysis of their Value-Added Data for 1975, Modern Ceylon Studies, Vol. 6, No. 2, July 1975, p. 76.
  - Thailand (1973 and 1981); Management and Performance of Public Enterprises in Thailand, The National Institute of Business Administration, pp. 1-6; UNIDO Questionnaire Survey of Thailand, 1981, p. 2a.

Though the number of public enterprises can be considered a useful indicator capable of identifying the prevailing trend of public enterprise per se, it cannot show the relative size of these enterprises in the economy. In this regard, the share of public enterprise in GDP or other aggregate indicators can be selected as a more accurate measure of the overall role of public enterprise in the economy. The International Development Research Center (IDRC) in Ottawa (Canada) should be given full credit for emphasizing this point in its research project, the preliminary results of which have become now available<sup>25/</sup>.

Table 2. Countries of the developing ESCAP region :  
The share of public enterprise in total output (various periods)

Country group	percentages	
	Initial period	Terminal Period
<b>1. <u>Market oriented</u></b>		
Bangladesh	6.5	7.1
India	10.7	18.9
Korea, Rep. of	6.7	8.0
Nepal	1.3	2.0
Pakistan	...	7.7
Sri Lanka	17.2	22.9 (11.6)
Thailand	4.0	3.9
<b>2. <u>Centrally planned economies</u></b>		
Mongolia	28.0	75.0

- Source:
- Bangladesh (1972/73 - 1974/75, GDP); Sobhan, Rehman, Public Enterprise as an Instrument of Policy in Anti-Poverty Strategies in South Asia, ESCAP DP/STR/SAG(2)/6, 12 April 1979, P. 22 (mimeographed).
  - India (1960/61 - 1977/78, NDP); Kulkarni, M.R., How Mixed is the Indian Economy? Yojana, 26 January 1981, p. 115.
  - Korea (1963 - 1977, GDP); Il Sakong,.....p.11.
  - Nepal (1970/71 - 1974/75, GDP); Profiles ..., p.24.
  - Pakistan ( - 1974/75, GDP); Syed, Reza H. ...., p. 36.
  - Sri Lanka (1960 - 1975, GNP); Karunatilake, H.N.S..., p. 187.  
In brackets (11.6), Lakshman's estimate based on the narrow definition of public enterprise (see, Lakshman, W. D. ...., p.106).
  - Thailand (1969 - 1973, GDP); Management and Performance...., p. 1-75.
  - Mongolia (1940 - 1970, National Income); Zagasbaldan, D., Economic Growth Just Distribution and Structural Change in People's Republic of Mongolia, Ulan Bator, p. 16 (in Russian - mimeographed).

To be more specific, the estimates of the share of value added by public enterprise for Korea, Rep. of, Nepal, Pakistan, Bangladesh, Sri Lanka and Thailand have essentially been calculated to meet Leroy Jones' narrow definition of public enterprise<sup>26/</sup>, and cannot, therefore, show its actual contribution to GDP which is considerably greater. Just to demonstrate the difference in the order of magnitude, it will suffice to compare the two estimates of the relative size of public enterprise in Sri Lanka. Karunatilake's estimate (22.9 per cent in 1975) is almost twice larger than that of Lakshman (11.6 per cent) for the same year. Lakshman himself claims that the share of both public enterprises (narrowly defined) and the so-called non-enterprise public departments would reach more than 19 per cent of GDP which is close to Karunatilake's estimate. A similar difference between various estimates of the relative size of public enterprise can be found in the case of India. Irrespective of these differences, Thailand appears to have been the only country example which registered a slight decline in the relative contribution of public enterprise to total output. All remaining countries included in table 2 recorded a marked increase, although this increase reveals considerable variations from one country to another.

Table 3. Selected Countries of the Developing ESCAP Region :

Industrial Structure of Public Enterprise

percentages

Industry	India		Nepal		Pakistan		Sri Lanka	Thailand		Korea, Rep. of		Mongolia	
	1960/61	1972/73	1970/71	1974/75	1960/61	1974/75	1975	1969	1973	1963	1977	1960	1977
1. Agriculture	12.3	8.3	4.0	5.0	-	0.2	1.7	2.5	1.4	1.8	..	22.9	17.1
2. Mining	2.4	4.4	-	-	2.3	0.6	0.3	0.2	-	8.8	3.2	14.6	27.5
3. Manufacturing	12.8	21.4	22.9	19.0	5.8	14.9	31.4	24.5	19.9	30.2	39.5		
4. Electricity	7.1	11.2	7.0	5.0	10.2	26.3	5.7	16.8	42.1	12.3	17.0		
5. Construction	3.2	2.7	3.0	4.0	-	-	3.3	0.2	-	1.8	3.9	6.7	5.5
6. Transport	53.1	33.9	17.0	18.0	77.0	26.8	33.0	32.3	20.2	26.5	14.9	9.1	10.6
7. Trade	0.7	3.6	22.0	23.0	-	12.9	10.9	6.5	1.7	3.0	0.9	44.2	27.0
8. Banking	8.1	14.0	17.0	25.0	4.7	18.3	12.7	12.8	11.3	19.4	18.1		
9. Services	0.3	0.6	1.0	1.0	-	-	0.9	4.2	3.4	0.2	2.4	2.5	2.3

Source: India; Performance of Indian Public Enterprises (Macro Report), SCOPE, New Delhi 1978, p. 94 (real gross value added).

Nepal; Profiles.... p. 26 (value added at current prices).

Pakistan; Syed, Reza H.....p. 124 (gross value added at current prices).

Sri Lanka; Lakshman, W.D.....p. 104 (value added at current prices).

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Korea, Rep. of; Il Sakong ....., p. 12 (value added at current prices).

Mongolia (both state and co-operative enterprises); Zagabalden, D... Statistical Annex, Table 3 (national income).



Table 3 above provides information of industrial structure of state enterprise in selected ESCAP countries based on value added estimates. For a number of reasons (both substantive and methodological nature), it is difficult to identify any common pattern of its industrial structure. Yet, one can discover a few prevailing trends. Firstly, public transport which was once the dominating infrastructural sub-sector, appears to lose its position in most countries. On the contrary, the share of banking in public enterprise value added tends to increase in nearly all countries, indicating an increased involvement of the state in this vitally important area. Thirdly, the increasing percentage of electricity in industrial composition of state enterprise reflects its greater involvement in this industry following the energy crisis. Fourthly, and most importantly, the expansion of public industrial (manufacturing) enterprise appears to have gained momentum, demonstrating the need for its active engagement in the process of industrialization.

In fact, this increasing role of public enterprise in industrialization is supported by the experience of most market oriented developing ESCAP countries. In India, for example, public manufacturing enterprises contributed 14.8 per cent to total manufacturing value added and provided job opportunities for 1,384 th. employees in 1977/78. At the same time, there was 73 public manufacturing enterprises providing jobs for 47,000 employees in Indonesia. In Korea, public manufacturing enterprises always contributed the largest share (fluctuating between 30 and 50 per cent of sectoral value added) to GDP of all public enterprises in that country. Public manufacturing enterprises constituted the largest group of public enterprises in Pakistan (93 out of 172 in 1974/75), Nepal (15 out of 59 in 1975) and the second largest group in Sri Lanka (29 out of 107 in 1975). Only in Thailand, public industrial enterprises (17 out of 71

in 1981) play a minor role, contributing only 3.5 per cent to manufacturing value added and 2.3 per cent to manufacturing employment. In centrally planned economies, public (state) enterprises have always been considered as the driving force in industrialization. The group of less developed centrally planned economies including Vietnam<sup>27/</sup> does not represent any exception in this respect.

In conclusion, three observations could be derived from the above analysis as follows: (i) Primarily, while the narrow definition of public enterprise focusses rightly on the expansion of public undertakings engaged in directly productive activities, which is a relatively new phenomenon, it leads also to a certain underestimation of the relative size of this enterprise in the economy. If the broader definition is accepted, it is possible to argue that only a few countries in the region would have registered the share of public enterprise in GDP below, say, 10-15 per cent. As the preceding text (based on the narrow definition) shows, this is the level which has been recorded just by one of all market oriented developing ESCAP countries under review; (ii) Furthermore, if this proposition is accepted, it would be possible to demonstrate much more clearly that regardless of their socio-economic and political background and orientation, public enterprise plays important part in the economies of most countries of the developing ESCAP region. The argument that any Government can hardly tolerate lower efficiency of these enterprises, would then gain much in strength; (iii) Finally, the analysis shows that such extreme country examples as Korea, at the one end of the spectrum, and India, at the other, do use public enterprise extensively as an effective mean of their industrialization efforts.

### III. PUBLIC ENTERPRISE AND NEW DEVELOPMENT CHALLENGES

#### 1. Public enterprise and a new international development strategy in Asia

The gradual elaboration of the New International Economic Order in operational terms and its reflection in the strategies for the 1980s has created new tasks and challenges which confront the economic and social role of the state, including public enterprise. These challenges may be classified in a simple dichotomy. The first pertains chiefly to internal developments in countries of the developing ESCAP region and involves the potential of public enterprise to contribute to the achievements of major development goals to be met in the present decade. The second involves external aspects of development, international trade in particular, and focuses on the relation of public enterprise and TNCs. The main emphasis is placed here on some issues concerning internal developments.

In countries of the developing ESCAP region, several development objectives have recently appeared in development plans and official pronouncements, namely rapid economic growth, fuller employment, distributive equity, fulfilment of basic needs, fuller participation of people, particularly women and youth, in development; and increasing self-reliance in the field of food, energy, technology and finance.<sup>28/</sup> It is recognized that these objectives can hardly be met unless the entire economic and social role of the Government and especially that of public enterprise is strengthened. It is

for this reason that the substantive ESCAP document on regional development strategy explicitly claims that state enterprises have multiplied and diversified within the region and their role in development will continue to grow. Moreover, the (ESCAP) Commission recommended substantial autonomy for such enterprises and stressed the need for them to have an adequate and efficient cadre of highly qualified managers.<sup>29/</sup>

One of the principal issues reflected in the regional as well as international strategy is the concurrent achievement of the twin goal, that is, economic growth and equity, fuller employment and more equal distribution of development benefits inclusive, within a limited time space of ten years. While it is difficult, if not entirely impossible, to attempt such development path on an aggregate level because maximization of growth is not compatible with employment maximization, the sectoral approach based on suitable combinations of varying sectoral paths can be seen as a meaningful alternative. The main aggregate as well as sectoral growth targets for the developing ESCAP region in the 1980s are presented in table 4 below.

Table 4. Developing ESCAP region: Projected real growth targets

(1980s)

percentages

Region/Subregion	GDP	Agriculture	Industry	Industrial exports
South Asia	5.7	3.6	8.2	
East and Southeast Asia	7.5	3.0	9.9	
ESCAP	6.7	3.5	8.9	8.0

Source: See footnote 28 page 42.

All these targets imply marked acceleration of annual growth rates as compared to the 1970s. They show, however, that agriculture cannot contribute to accelerated economic growth as much as industry. Yet, this sector has a capacity to improve considerably the unequal distribution of income and wealth and create more labour opportunities. This is so because, at the current stage of development, agricultural strategy can be so designed as to accomplish both social objectives simultaneously. In this case, the major lines of technological progress ("the green revolution"), which do not necessarily require heavy mechanization, should be associated with radical agricultural reform. The Government has also to provide agricultural credit and help agricultural development in many other ways, including the strengthening of linkages with the development of industry (this will be discussed in section 2 of this chapter).

If industry is envisaged to contribute substantially to accelerated economic growth (as reflected in table 4), both market oriented as well as centrally planned economies of the region are likely to rely increasingly on large-scale production and modern technology. This technology may primarily be introduced in a few carefully selected industries or branches of manufacturing, preferably of regional or sub-regional significance. Such more or less ambitious industrial programmes presume, of course, a more intimate co-operation among various countries of the region and also an active participation of the state in their formulation and implementation.

However, (i) in each developing country one can find some industries confined essentially to the domestic market supply. Such basically small-scale industries and enterprises may use

whatever appropriate technology is available and, moreover, be linked with the development of modern large-scale industries (this issue will also be discussed in the next section). The other reservation (ii) concerns projects preparation. Even if new manufacturing projects are prepared in developed countries and TNC's are involved, an attempt should be made to introduce some less advanced labour-intensive technology in all auxiliary processes, including internal transport, storage, packing etc. Though this economic policy principle can be found easily acceptable, its translation into operational terms may be difficult for both technical difficulties on the part of suppliers and some socio-economic problems faced by the receivers. The experience shows, for instance, that most private entrepreneurs in developing countries are not too much interested in increasing the number of jobs and prefer modern, usually capital-intensive and labour-saving, technology. Thus, public enterprise appears to provide a more favourable basis than private enterprise for attaining the social objectives including the employment one.

If the major lines of industrial strategy are followed as suggested, industry would chiefly be concentrated on the implementation of the growth objective but would likely not accomplish the employment objective.<sup>30/</sup> At present, the employment situation in countries of the developing ESCAP region is such that its solution can be expected only through an all-sector approach and not by placing excessive demands on industry anyway.<sup>31/</sup> In addition to the growing role of public enterprise, which may only improve but not entirely reverse the weak employment effect of this industrial strategy,

sound wages, fiscal and social policies should be introduced in order to achieve a more equitable distribution of income. There are many examples showing that public enterprises provide housing facilities and social services such as education and medical care for their employees. And these activities of public enterprise should be expanded.

On the contrary, the services sector could contribute substantially more to meeting the employment and income distribution objectives. This would be feasible, provided that this sector will grow at slower rates than in the past and that this growth is accompanied by structural reconstruction in favour of health, education, training and other social sub-sectors. It should be emphasized that these sub-sectors fall largely under the direct responsibility of the state.

There are many examples indicating that rapid economic growth characterizing industrialization can be achieved without government intervention. It would be difficult, however, to achieve also greater equity based just on spontaneous development of market forces. Hence, increased involvement of the state, particularly planning<sup>32/</sup> and public enterprise, as a major means of implementation for the growth with equity strategy in the present decade is imperative.<sup>33/</sup>

## 2. Public enterprise as instrument of industrial policy reorientation

Beside the regional development strategy prepared recently in broad outline, some aspects of the regional strategy of industrial

development were discussed in detail already four years ago. The ESCAP Meeting of Ministers of Industry held in Bangkok in November 1977 suggested the reorientation of industrial policies in order to improve the growth prospects of industry and to make it more relevant to the lives of broad strata of people. The four major directions of this reorientation were spelled out, namely:

- (i) strengthening of linkages between industry and agriculture;
- (ii) development of industry to satisfy the basic needs of the poor;
- (iii) development of small-scale industries and their linkages with large and modern industries; and
- (iv) dispersal and location of industries away from metropolitan areas.<sup>34/</sup>

Actually, some progress along these lines had been observed even before the programme of industrial policies re-orientation was adopted. Moreover, both private and to some extent also public enterprise had gained already some experience in this field not only in market oriented but also in centrally planned economies in the region. However, the progress achieved had not always brought benefits to all social classes and strata involved, particularly not to the most numerous and poorest ones. It is mainly for this reason that, in addition to techno-economic issues, social aspects were emphasized when the reorientation of industrial policies question was taken up. In response to the Ministerial meeting's recommendations, ESCAP initiated a research programme some findings of which are discussed below:



(i) In all countries of the developing ESCAP region, agriculture provides raw materials and semi-products for manufacturing, savings for industrial investment, market for manufactures, surplus labour for industry and the services sector, and food for the population. Industry, on the other hand, supplies technology and other inputs (machines, fertilizers, insecticides, pesticides, power) for agricultural development, and consumer goods for agricultural labour force. Significant factors contributing to the strengthening or weakening of these linkages between agriculture and industry in either direction are reflected in intersectoral terms of trade. The ESCAP studies of this subject have revealed unequal relationship favouring industry over agriculture. By contrast, the recent experience of some countries in the region has shown a shift in favour of agriculture. Since intersectoral terms of trade can be influenced through government intervention, the state is in a position to regulate their evolution and thus influence the development of both sectors<sup>35/</sup>. The major general direction to be followed appears to be greater intersectoral equity strengthening the quality and durability of linkages and contributing to a balance growth of both sectors. Since the linkages are influenced by the existing socio-economic conditions, their impact requires further study. In particular, the role of middlemen, who acquire a considerable part of the value of both agricultural and industrial products, will certainly be subject to institutional reforms. In this connexion, the last meeting of the Ad Hoc Group of Ministers of Industry held in July 1981 recommended that various institutional forms such as marketing boards, agro-industrial complexes, co-operatives, etc.

be studied in relation not only to their commercial role but also their contribution to modernization and productivity compatibly with equity and distributive justice. It also noted that the best scope for inter-linkaged development appears to be in the field of new non-traditional agro-industries, e.g. raising of energy crops for their processing into energy liquid.<sup>36/</sup>

- (ii) The development of industry to satisfy the basic needs of people cannot be simplistically interpreted as a change in industrial structure in favour of industries or branches producing simple consumer goods and housing, providing inputs for such industries, and generating more employment opportunities for the lowest income groups of the population via introducing labour-saving techniques. Such an approach would tacitly assume the existing pattern of income distribution and would contribute to widening the economic and technological gap between developing and developed countries. Rather, the solution of this problem should be sought through designing the overall development strategy and the industrial strategy as its component part in such a way that accelerated economic growth would be accompanied by a substantial change in the pattern of income distribution in favour of lower income groups. As mentioned in the earlier sections, the implementation of such strategy presumes greater involvement of the state as a prerequisite sine qua non. In this perspective, production of goods and services in the basic needs basket, provision of required inputs to reach this aim, creation of higher incomes and generation of employment opportunities should be viewed as useful means and ways to be incorporated in the strategy but by no means as the major strategical direction per se.

(iii) The surveys undertaken in several developing ESCAP countries have shown that small-scale industries are often not only labour-intensive but register also high productivity per unit of capital, exhibit strong linkages with agriculture, show better spatial dispersal and have even some export potential. Although governments are committed to their promotion, their assistance leaves much to be desired, particularly in administrative and procedural matters. Another question relates to government intervention to influence the choice of technology and scale of production. The Government of India, for instance, has reserved about 800 products exclusively for small-scale industries. The main point is, of course, their growth potential and over-all productivity which appear to have lagged behind. In order to improve this undesirable trend, it was suggested that vertical linkages between small-scale and large-scale industries should be fostered. These vertical linkages should not be limited, however, just to sub-contracting relations. The latest Meeting of the Ad Hoc Group of Ministers of Industry noted that the healthy linkages should also include support in such areas as technology, management and marketing. Another promising trend arises from the economies of decentralized production. For many commodities, such as machine tools, engine components etc., it is often cheaper to manufacture each item on a small-scale, bringing them together for assembly or packaging and distributing them in a single large-scale factory. This division of labour should be encouraged by government intervention.

(iv) A great many benefits accruing to industrial enterprises established in metropolitan areas cause a lop-sided spatial location of industries in disfavour of non-metropolitan areas. In order to pursue the policy of dispersal of industries away from metropolitan areas, a three pronged approach has been recommended by the ESCAP study of this topic, namely (a) restraints of further growth of industries in these areas, (b) incentives for the promotion of industries in non-metropolitan areas, and (c) construction of infrastructural facilities in these areas.<sup>37/</sup> Out of these three directions, the last one received the top priority because of some undesirable side-effects of the first two. It has also been found that the creation of a complete range of infrastructural and other supporting services in future industrial centers is preferable to any partial approach because of its direct powerful effect on industrial investment. In accordance with this line, ESCAP has succeeded in generating 13 pilot projects in seven market oriented developing ESCAP countries to stimulate industrial activity in non-metropolitan areas.<sup>38/</sup> As an example for the other market oriented developing ESCAP countries to follow, India has established successfully "nucleus plants" to stimulate ancillary industries in industrially backward districts. Vietnam, as a country example of less developed centrally planned economies, is directing its efforts to achieve a more balanced spatial dispersal of all economic activities, industry inclusive, via establishing a number of the so-called economic zones, particularly in the Southern part of the country. Actually, the necessity to link the central industry within the overall industrialization process and planning was stressed in this country as early as 1960.<sup>39/</sup>

As reflected in the preceding analysis, the governments have pursued the policies of industrial reorientation, relying mainly upon indirect controls, and public infrastructure. It has been observed, however, that public enterprise could be utilized more extensively as an effective instrument for reorienting industrial policies. The Ministerial meeting has requested the ESCAP secretariat to examine the potential of public enterprise to serve as such instrument and to suggest the manner in which public enterprises could be used to meet this objective.

So far, the country studies of public enterprise in Bangladesh, India, Sri Lanka and Thailand have been undertaken, and a general study, synthesizing their major findings, has also been drafted.<sup>40/</sup> Though not uniform in all respects, these studies have indicated that the emergence of public enterprise in developing ESCAP countries is a living reality. Though its role varies in accordance with the socio-economic conditions and the stage of development, the studies have demonstrated great potential of public enterprise as an instrument of policy. They have also shown a number of examples of public enterprise having been involved in fostering intersectoral linkages, pioneering the development in underdeveloped areas, supporting ancillary units, adopting labour-intensive techniques in auxiliary processes, etc.

It should be noted, however, that on the whole its contribution to the implementation of the four industrial policy directions has been limited. This is because the reorientation of industrial policies is of relatively recent origin and public enterprise, notably public industrial enterprise, has not yet been adjusted to this change. Moreover, it is only now that this enterprise is recognized increasingly as a potentially significant, if not the most significant, instrument of policy.

It should be stated clearly, however, that if public enterprise is to play a greater role in the reorientation of industrial policies, its own policies should be reoriented as well.

As pointed out earlier, public enterprise is expected to meet a great many objectives already. The four principles of industrial policy reorientation mean actually the introduction of additional objectives or, at least, the adoption of a new scale of priorities. And this certainly requires, first, a political decision and, second, a certain time to introduce it into operation. In the above-mentioned synthesizing study, four other recommendations have been suggested to facilitate this process: (i) the social and economic objectives should be worked out up to the enterprise level; (ii) the co-ordinated public enterprise programme reflecting the main directions of industrial policy reorientation should become a component part of the national development plan; (iii) statistical base providing the necessary data on public enterprise should be expanded and their quality improved; and (iv) a strong central organization should be established to look after the public enterprise sector as a whole.

#### IV. PERFORMANCE EVALUATION OF PUBLIC ENTERPRISE

Although the expansion of public enterprise and its penetration in new areas witness that this type of enterprise has greater potential to attain certain objectives than private enterprise, it also suffers from certain drawbacks. The development of public enterprise has frequently been accompanied by administrative inadequacies, implementation difficulties and inefficiency in production. For this very reason, both market oriented developing ESCAP economies as well as centrally planned economies make great efforts to improve the economic performance of public enterprise.

The methods applied to resolve this problem vary not only between these two country groups but also among individual countries within each group. Thus, for instance, some Thai economists and politicians see the solution in taking over unprofitable public enterprises by private entrepreneurs. The difficulty is that private sector is interested in profitable rather than in unprofitable ones. At the other end of the spectrum, in India, changes in management of public enterprise are thoroughly discussed in detail with a view to improve its efficiency without considering its possible transfer to the hands of the private sector. In China, the radical solution is viewed in "a unification of the planned economy with the market economy"<sup>41/</sup> while gradual and moderate reforms have been introduced in Mongolia.

There is, of course, a fundamental distinction between market oriented developing economies and centrally planned economies which stems from the fact that public (state) ownership of the means of production constitutes a predominant system in the latter but by no means in the former economies. In such situation, public (state) enterprise is inevitably a major source of income and surplus for investment. The organization, planning and management are geared to this purpose. Although this does not necessarily ensure a high degree of economic efficiency, most public (state) enterprises must generate income sufficient to finance investment and social welfare expenditure. In market economies, where the size of public enterprise is much smaller, different criteria may prevail, depending upon a number of differing factors.

The performance of public enterprises in market oriented developing ESCAP countries in general and of public industrial enterprises in particular is dependent on many factors, but mainly centres round the problems of management and control of public enterprises as well as the yardsticks for judging their efficiency. It has been the experience in many developing countries

that the financial performance of public industrial enterprises has been poor. There may be many reasons for such poor performance. They may include poor project development, uneconomic scales of operations, lack of managerial and technical expertise, laxity in the setting up of effective systems for monitoring and evaluation of performance, low capacity utilization or inability to increase productivity, unfavourable market conditions or price-fixing, uneconomic or inadequate exploitation of raw materials and the high cost of expertise from outside sources, under-development of infrastructural facilities, especially power and communications, pressures to undertake uneconomic tasks or the creation of agencies for predominantly social purposes, the pattern of managerial and supervisory arrangements for public enterprises etc.

In the context of the above, it would seem that the poor financial performance of the public industrial enterprises is not due entirely to permanent handicaps. These handicaps can be gradually remedied to a very substantial extent with appropriate measures. It is expected that, after the difficulties of the initial settling-in period (to be flexibly defined) are over, and as an accumulation of entrepreneurial and managerial experience takes place and other facilities develop, public industrial enterprises may ultimately turn out to be efficient on economic and financial grounds. Efficiency is a function of management, organization and training which, in developing countries, can be improved only over a period of time. There are, therefore, no inherent reasons as to why public industrial enterprises could not turn out to be profitable entities and generate funds for development. Their initial losses involving subsidization may even be justified by eventual gains. In short, one may feel inclined to use the same kind of arguments for the justification of public industrial enterprises as applied to the development of infant industries with protective and other devices in developing countries. This view could perhaps be considered in evaluating the performance of public industrial enterprises.



Another significant factor which must be taken into account in deciding on the standards or yardsticks of evaluation is that efficiency needs to be related to the specific aims, objectives and goals initially underlying the establishment and development of public industrial enterprises in developing countries which themselves are at different stages of experience in this field. If this is not done, a performance evaluation is bound to be unrealistic. There is a strong case for developing a realistic systems for evaluating public enterprises and adopting corrective measures.

There is, in practice, a real difficulty faced in the evaluation of public industrial enterprises because of the lack of any definite set of criteria for such evaluation. As a result, it is difficult to say in conclusive terms that the performance of a public industrial enterprise has been good or bad. The managements of public industrial enterprises are conscious of the need for improving the operational efficiency of their enterprises and for running them on efficient or commercial lines. Their tasks are, however, rendered difficult by the requirements that such enterprises are to be run in the public interest. Now, the public interest may consist in the efficiency of production (production at the lowest per unit cost), the regularity of production and supply, the creation of employment, the utilization of locally available resources, strengthening the industrial base of the country, development of capital intensive basic industries with important linkages with other industries, the generation of surplus funds for development etc. There are many objectives of public enterprises - social, economic, technological, financial, political and strategic - and these objectives may often have conflicting implications. To strike a balance in this context and to evolve a common yardstick for the evaluation of performance of the public enterprises -- industrial or other activities - presents a very complicated problem before the authorities responsible for the management of

public enterprises. The problem, however, should not be considered as insuperable and an evaluation of the performance of the public enterprises is considered to be extremely important to ensure, as far as possible, the use of resources in the most efficient way.

The advocates of public enterprise hold that public enterprises set up to subserve social objectives should not be judged by crude financial profitability, while the opponents claim that "not to do so is an open invitation to perpetuate waste and inefficiency". While there is truth in both these views, "it is social profitability that is the relevant criterion for judging public sector performance" in a situation "where private and social profitability diverge because of the various divergencies between market and shadow prices". As one writer has said "public sector company accounts must present both the social and financial profitability accounts of various enterprises, for it is by its social profitability that a public enterprise's performance should be judged.<sup>42/</sup>

#### CONCLUDING REMARKS

Public enterprise has widely spread over the countries of the developing ESCAP region irrespective of their varying socio-economic and political environment. It is particularly public industrial enterprise the advancement of which has gained momentum during the present stage of development. This expansion and diversification have revealed a great potential of public enterprise to meet sundry development objectives in the process of industrialization, including growth and equity and four main directions of industrial policy reorientation. At the same time, however, the public enterprise performance has been associated with some weaknesses, resulting in its lower economic efficiency as compared to its potential. Thus, one of the major problems faced essentially by all countries of the developing ESCAP region in this field results in a question what to do to make public enterprise a more efficient instrument of economic and social progress.

A simple uniform answer is hard to find in the conditions so heterogeneous as those of the developing ESCAP region. Differences in size, composition and the overall role of public enterprise between both the market oriented developing countries and less developed centrally planned economies are considerable. Nor are these differences negligible among countries within each of the two country groups. A more detailed analysis of these dissimilarities as well as similarities can be considered as a meaningful approach to find the correct solution. Thus, a comprehensive regional comparative analysis of the role of public enterprise in industrialization appears to be a necessary step to take in order to meet this objective.

The Secretariat of ESCAP has prepared a project on this subject and included it in the work programme of the two substantive divisions namely, Development Planning and Industry, Human Settlements and Technology.

The project has gained the support of a number of market oriented as well as centrally planned member countries of the ESCAP region. It has also been recommended for implementation by the last (ESCAP) Commission Session and endorsed by the last meeting of Ad Hoc Group of Ministers of Industry.

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