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Economic and Strategic Implications of Privatization in Pakistan: Case Study of Pakistan Steel Mill

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Abstract

Privatization started in the 1980s in Pakistan, but it failed to turn state-owned enterprises into profitable entities, improve efficiency, ensure better governance, retire debt, and fix the fiscal balancing problem. Privatization in Pakistan seems to be politically conditioned and externally imposed rather than fulfilling domestic economic needs. This study aims to evaluate the privatization process in Pakistan descriptively; hence, the economic, political, and strategic implications of privatization in Pakistan are discussed. Pakistan Steel is an important entity in the engineering industry, significant in its economic, social, and strategic contributions. This study also explains the after-privatization implications of Pakistan Steel Mill, Pakistan's economic and strategic asset.

Key Words: Privatization, Neoliberal, Institutionalist, Marxist, Pakistan Steel Mill
JEL Codes: L30, L33, L51

1 Introduction

Since the 1980s, privatization became a widespread phenomenon around the globe as the government's turning over to private ownership for essential services such as electric utilities, railroads, education, healthcare, and others started with the emergence of the neo-liberal regime. Although developed countries have taken the lead in privatization, developing countries, particularly those who have signed loan deals with the

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International Monetary Fund (IMF), World Bank, and other global financial institutions, quickly jumped on the privatization bandwagon. Privatization was perceived to increase efficiency and revenue generation, but it seems a core strategy of imperial powers' political and economic ideology.

After more than four decades' experience with the neoliberal regime, privatization has yielded mixed results. In developed countries, the outcomes might be positive in some industries, but developing countries seem far from getting the desired results. In Pakistan, the privatization program was initiated in the 1980s as an effective tool to start liberalization imposed by the International Financial Institutions (IFIs). But effectively, it was started in 1990 with the establishment of the Privatization Commission of Pakistan. Since then, almost all Pakistani governments have initiated different privatization programs, mainly through dictation from the IFIs as pre or postconditions attached to various loan deals. This study aims to evaluate the privatization process in Pakistan. It will explore the economic, political, and strategic implications of privatization in Pakistan. Pakistan Steel is an important entity in the engineering industry that has significance in its economic, social, and strategic contributions. The Government has initiated the privatization of PSM. This study also explains the implications of the privatization of Pakistan's economic and strategic assets.

Following this brief introduction, Section 2 theoretically explains the privatization, section 3 discusses the background and process of privatization in Pakistan, and section 4 discusses the case of Pakistan Steel Mill. In contrast, we explore whether privatization would revive the PSM and its implications in section 5, followed by the conclusion in section 6.

2 Privatization in Theoretical Account

The theoretical literature on privatization offers all aspects and connects them with evidence. It seems an arduous task to discuss the various theories of privatization, which covers multidimensional approaches, both in supporting and opposing it in the context of global and local, socio-economic, political, and strategic accounts.

Zaifer (2017) has grouped various theories of privatization into three ideological approaches, i.e., neoclassical, and liberal political economy approach, Institutionalist and Keynesian political economy approach, and Marxian approach to privatization. All these approaches to privatization have their own set of theoretical explanations linked to the empirical literature. The neoclassical and liberal economists believe that market and market-oriented arrangements are inherently more efficient than state-controlled arrangements. This approach is based on the core belief that the state is naturally, universally, and potentially inefficient than the inherently efficient market.

The question is why the state is inefficient as compared to the market? This neoclassical approach believes that the state represents the interests of particular groups, so it is innately inefficient. In the neoclassical and liberal political economy orthodoxy, privatization is a technical and simple policy of transferring state enterprises (inherently inefficient) ownership to the private sector (believed to be efficient). This process will improve the economy's overall performance and help the government balance its budgets. Most of the privatization globally since the emergence of the neoliberal doctrine is based on this objective.

To strengthen the neoclassical and liberal mainstream economic approaches of privatization further, the synthesis of property rights and public choice theory also offers theoretical explanations, as Zaifer (2017) discussed. According to the Property Rights theory, the first difference that changes in ownership create is the transfer of ownership from state to private is on account of efficiency since private ownership is superior to state ownership. This superiority of private ownership might be attributed to the efficient role of principal and agent both in the case of private ownership, as the managers (agent) could face constant pressure from an efficient, competitive capital market (principal) because the ownership is transferable. And profit maximization has been defined as the primary goal to perform better. In the case of state ownership, state managers, politicians and bureaucrats (agents) have no pressure and incentive to perform better and allocate resources efficiently as taxpayers (principals) have no incentive to monitor agents' behavior (Alchian and Demsetz, 1972; Megginson and Netter, 2001).

The Public Choice theory also explains privatization in the theoretical account by problematizing the relationship of economics with politics. The theory is built around the argument that expected efficiency gains come from state intervention to rescue the market if market failure causes inefficient practices. This happens because the bureaucrats and politicians often pursue personal rather than public interest when remedying market failure, which leads to the emergence of powerful interest groups. The emergence of such influential groups within the state paves the way for rent-seeking practices in society. So the explanation of privatization as offered by the Public Choice theory is the solution to protect the state from interest groups who set the ground for rent-seeking practices (Buchanan, 1975; Kikeri et al., 1992).

The second theoretical pole of privatization is Institutionalist and Keynesian, as Zaifer (2017) elaborated. The Institutionalist and Keynesian scholars argue that a stable macroeconomic and political environment and robust regulatory and institutional frameworks preconditions for privatization (Vickers and Yarrow, 1988; Parker and Saal, 2003). The Institutionalist and Keynesian approaches are critical of market-based views on privatization. They believe that privatization can only lead to economic and social gains in countries with stable macroeconomic and political conditions and strong regulatory and institutional frameworks. Although they support privatization, their support is conditional since they believe in a balance between state ownership and privatization, instead of completely mutating the ownership from state to private sector (Zaifer, 2017).

Furthermore, in neoclassical and liberal politics, economic synthesis states that state failure is the norm because politicians and bureaucrats pursue personal interest rather than public interest, promoting rent-seeking. The Institutionalists and Keynesian scholars, therefore, oppose it. They, therefore, propose that state elites (politicians and bureaucrats) might be able to formulate and implement distinctive policies in pursuit of general interest rather than for the sake of personal interest.

The third theoretical pole of privatization is the Marxian approach, opposite to both neoclassical liberal and Keynesian approaches, and has its theoretical explanation. Contrary to the neoclassical approach that supports privatization unconditionally and the Institutionalist approach that believes in a balance between state ownership and privatization, the Marxian approach is critical of privatization and opposes it categorically. This approach views privatization through state capital-labor relations (Zaifer, 2017). Theories like Accumulation by Dispossession and the top-down process of externally imposed privatization explain the Marxist approach.

David Harvey, a Marxist demographer, states that capitalism is historically denoted by over-accumulation, a condition in which surplus capital lies inert. This problem of over-accumulation can be resolved through accumulation by dispossession, as it enables capitalists to find more avenues to utilize over-accumulated capital. Accumulation by dispossession requires commodifying commons such as land, air, water, appropriation of assets such as natural resources, the innate characteristics of neo-colonial and imperial processes, and the privatization of public assets. Privatization has become a core neoliberal strategy for accumulation by dispossession since the emergence of the neoliberal regime. So, accumulation by dispossession might be viewed as a strategy to use public resources to generate private profits by investing this surplus capital (Harvey, 2003, 2005, 2006).

The other synthesis which explains the Marxian approach to privatization is the top-down process of externally imposed privatization, which focuses on a hierarchical interstate system. According to scholars like Petras and Veltmeyer, it seems to have greater illustrative and analytical use to expose the process behind privatization. These scholars believe that several international and foreign actors, known as the imperial center (US Government, European Union, multinational capital, and International Financial Institutions like the IMF and the World Bank, etc.) externally impose the time frame and extent of privatization in developing countries. Privatization has become an essential component of the neoliberal agenda of structural reforms, enabling the imperial center to accomplish their agendas related to the national economies of developing countries. Moreover, when multinational investors acquire state enterprises, they send their earnings abroad, depriving the national economy of a lucrative source of accumulation. Hence privatization leads to the denationalization of the economy (Petras and Veltmeyer, 2000, 2001).

3 Privatization Process in Pakistan

Although the debate around public versus private ownership emerged after nationalization in the 1970s, the issue can be traced back to 1947, when Pakistan came into existence. The newborn country had inherited a negligible industrial base because most of the industries were established in the regions that became part of the Indian territory during the colonial period. So there was a dire need to develop industries to put Pakistan on the fast track of economic development. The objectives behind industrialization in Pakistan were to absorb the surplus labor in agriculture, cater to the demand for value-added goods in the domestic market, and earn foreign exchange by exporting manufactured goods (Wizarat, 2002). Considering these objectives, industrialization was started in Pakistan. Still, the central issue was that the private sector was reluctant to invest in industry because the large business groups were traders. They had no expertise, skills, or technical knowledge required for investment in the industry. At the same time, the government was very keen to motivate the private sector to get involved in industrialization.

Despite the government’s incentives, the private sector was slow to move into industry earlier. Trading was more profitable, especially during the Korean war boom from 1950 to early 1952 (Ali and Malik, 2009). Korean boom was the take-off point for industrialization in Pakistan as the traders who pocketed huge profits from the war could invest these in the industry with support from the government. Moreover, the government had invested in basic industries like steel, engineering, paper and paper board, etc., where the private sector was shy to invest because of huge capital requirements and low returns in the short run. Pakistan Industrial Development Corporation had an instrumental role in establishing such industries in the public sector and handing them over to the private sector after becoming profitable. So, the public sector had a crucial role in industrializing the country in terms of providing the infrastructure, incentives like tax rebates, exemptions in duties and electricity tariffs, etc.

But with rapid industrialization, large industrial monopolies in various sectors of the economy came about. Dr. Mehboob ul Haq, the chief economist at the Planning Commission, wrote that 66% of industrial assets, 70% of banking assets, and 80% of insurance companies' assets were owned by 22 families in Pakistan during the 1960s. The monopoly houses that controlled both banks and insurance companies undertook most of the industrial investment during this period. These monopoly houses were influential in the running of Industrial Credit and Investment Corporation (PICIC), the main aid disbursing agency in Pakistan. Moreover, out of the 17 banks incorporated in Pakistan, seven accounted for about 60% of total deposits and 50% of the loans sanctioned by all banks in the country. These banks were under the direct control of the monopoly houses. Apart from their control on banks, 14 insurance companies out of 47 were controlled by these monopoly houses (Ali and Malik, 2009). The capitalistic growth model, which resulted in the emergence of monopolies in various sectors, paved the way for nationalization in Pakistan. The most common argument used to justify nationalization in the 1970s was the containment of concentrated economic power.

The nationalization policy attracted a lot of criticism as it tried to break the established monopolies developed during the 1960s. Apart from the sharp decline in private investment, which caused economic growth to decline, nationalization paradoxically anchored civil bureaucracy's regressive and unaccountable control. Furthermore, it has been argued that the direct state interventions in industrial management were objectively used as a tool for political patronage (Abbasi, 2009). However, after nationalization, massive investments were made in the public sector, which had a long gestation period, and the results were visible during the 1980s (Amjad and Ahmed, 1984). Investment in the public sector rose from 33% of total investment to 81% annually from 1974 to 1978.

Moreover, the nationalization of financial institutions made it possible to divert credit towards the export sector and small farmers (Abbasi, 2009). In three phases of nationalization during 1972- 77 basic industries such as steel, basic metals, engineering, assembly and manufacture of motor vehicles, electricity generation, transmission and distribution, oil and gas refineries, vegetable oil, agro-processing, petroleum marketing companies, banking, and insurance companies, cotton, ginning, and rice husking was nationalized (GOP, 2021). On the other hand, the textiles sector was not nationalized, and foreign investment remained untouched. The state established several new industrial cement, fertilizers, oil and gas units, and engineering. But the nationalization policy was followed by Zia ul Haq's privatization policy that was in line with the implementation of neoliberal agenda imposed by the International Financial Institutions.

The first privatization cycle in Pakistan was started in 1988 when the government embraced liberalization and deregulation as a core strategy to enforce the neoliberal regime. Privatization policy was attributed to mismanagement of physical and human resources, inappropriate quality of goods and services by enterprises in the public sector, corruption, abuse of privileges, enormous debt burden, financial losses, etc. (Fatima and Rehman, 2012). On the other hand, one of the key principles of privatization policy was to increase public participation by encouraging small savers to become shareholders in state-owned enterprises (SOEs). In this regard, seven large SOEs in banking, aviation, shipping, and oil and gas were shortlisted. But except for divesting 10% shares of the Pakistan International Airlines (PIA), the policy was discontinued as the government couldn't complete its tenure (Fatima and Rehman, 2012). Effective privatization in Pakistan was started in 1991 with the establishment of the Privatization Commission of Pakistan. Debt retirement poverty alleviation and reduction in fiscal deficit were the objectives set for privatization. The Government commenced on privatization program afresh and privatized 66 SOEs out of 108 offered in less than 18 months. In 1990 the government enforced an aggressive privatization policy to improve SOEs' production capacity. From 1991 to 1994, around 70 enterprises were considered for privatization. However, at the end of 2000, the number of privatized SOEs reached 106 (amounting to approximately US$ 2.0 billion), half of which accounted for the telecom sector (Fatima and Rehman, 2012).

Massive privatization occurred during 2000-08 during the Musharaf era as SOEs in the energy, cement, fertilizers, and banking sectors were privatized. Some big state-owned entities like KESE (K-Electric), UBL, HBL, National Refinery, and PTCL were privatized, but many anomalies were found during their privatizations. The majority of these SOEs were sold to foreign investors. Pakistan Steel Mill (PSM) was offered for privatization in 2005. The Privatization Commission enlisted

PSM for privatization for 21.58 billion rupees. At that time, the assets of PSM, including worth of stock in trade, cash in hand, tax refund total liabilities to the government, were around 36 billion rupees. Against a petition filed by the Pakistan Steel Mill People Worker Union, the Supreme Court of Pakistan gave its verdict and declared the privatization of PSM illegal. In 2009, the newly elected PPP government announced a new privatization policy, which characterized public-private partnerships, workers' stock options, and management transfers by off-loading minority stake of 26 percent. A long list of SOEs in banking, insurance, oil & gas, and electricity was processed, but only one fertilizer sector unit, the Hazara Phosphate Fertilizers Limited, was privatized. The PMLN led government put the privatization process on the fast track again after assuming power in 2013. Still, during its tenure, it could complete only five transactions, including UBL (19.6% shares), PPL (5% shares), ABL, and HBL NPCC (88% shares) from 2013 to 2018[4]. PTI government has aggressively started the privatization program on guidelines of the IMF and put its plan for privatization on a fast track. Still, during the two years, not a single transaction in this regard has been completed.

According to the Ministry of Privatization, from 1991 to 2018, 172 transactions (Rs. 648,983 million) from various sectors were completed in Pakistan. Most of these transactions occurred through the capital markets and included ghee mills 24, cement 17, chemicals 16, while 15 transactions were conducted in the energy sector during the period mentioned above. The rest of the transactions were completed in various sectors such as automobile, fertilizer, engineering, telecom, rice, textile, tourism, etc. (GOP, 2019). The following observations were made about the process of privatization that took place from 1991 onwards:

Apart from failing to achieve its desired objectives of turning SOEs profitable from loss-making entities by changing ownership, improving efficiency, ensuring better governance, the retirement of debt, and fixing the problem of fiscal unbalancing, privatization in Pakistan seems to be politically conditioned and externally imposed, rather than fulfilling the needs of the domestic economic environment. Almost in all cycles of privatization, one

[4]http://privatisation.gov.pk/Detail/NTU0ZjE1NGQtNmYzNC00NWZjLWIxZTEtYWMzMzliYzFhNzk4

element was common; most governments (political or military) since 1988 put the process of privatization on the fast track only to meet conditionalities imposed by the IMF with different loan programs.

There is no empirical support for the argument that privatization would improve the performance of SOEs, as only a few SOEs performed better after privatization. In contrast, the majority performed worse than before.

Apart from the privatization of loss-making SOEs, many profitable entities were privatized, after which some of these SOEs failed to achieve the desired efficiency. This raised question marks the intention behind privatization and indicates that efficiency-led profit generation is not necessarily relevant to change of ownership.

Most of the privatization programs completed or processed in the 1990s and 2000s were characterized by corruption, nepotism, mismanagement mainly because privatization programs either served vested interests or poor implementations paved the way for the emergence of interest groups that were the real beneficiaries of privatization.

The institutional mechanism that enables an effective regulatory environment to get relatively better outcomes and a well-functioning capital market that is a precondition for privatization are missing in Pakistan.

4 Pakistan Steel Mill (PSM): A Case Study for Privatization

The focus of industrial policy during the 1950s and 1960s was on consumer goods rather than the capital goods industry in Pakistan. The establishment of the steel industry is important for economic development and achieving self-reliance because dependence on imports might be a setback for a country with a limited industrial base (Asim and Zaki, 2013). So, the Pakistan Steel Mill (PSM) was established in 1968. Later in 1971, a Techno Finance MOU for installing iron and steel plants was signed between Pakistan and Russia (former USSR), facilitating a 180 Million Rubble loan at gold parity. The foundation stone of the largest industrial complex and only integrated crude steel producer of Pakistan was laid down in 1973 by former Prime minister Zulfiqar Ali Bhutto. The plant's operating capacity was

1.1 million metric tons per annum at that time. Designers have suggested that a million MT per annum capacity is sub economical, which needs to be enhanced to 2 million MT per annum, but it remained unimplemented. The initial budgetary cost of Pakistan Steel Mills was Rs. 13 billion[5].The average annual capacity utilization of PSM in 1983 was 3% which rose to 95% in 1990, except for a slight decline in the early 1990s. This sub economical PSMC earned operating profit for 23 years from 1985 to 2008 and a net profit for 13 years. But it started to decline after 1995.

In the 2000s decade, the ANCU of PSMC was 85% which declined to 20% in 2016 when the operation was halted. Before 2016 Pakistan Steel Mills Corporation (PSMC) was operational, with its facilities spread over 19,088 acres. (Asim and Zaki, 2013). The construction inputs of the PSM involved the use of 1.29 million cubic meters of concrete, 5.70 million cubic meters of earthwork, which is second in the country after Tarbela Dam, 330,000 tons of machinery, steel structures and other electrical equipment, etc. Its unloading and conveyor system at Port Qasim is the third largest in the world, and its industrial water reservoir with a capacity of 110 million gallons per day is the largest in Asia; the 2.5-km long seawater channel connects the seawater circulation system to the plant site with a consumption of 216 million gallons of seawater per day (Pakistan Steel, 2012; Asim and Zaki, 2013). PSM continued to generate its operating profit from 1985 to 2007, which amounted to Rs. 3159 million in 2006-07 as per the financial details available in various financial reports of PSM till 2014.

When this largest national and strategic importance organization was operating on optimum capacity, the decision to privatize was taken in 2006. At the time of privatization, the value of assets owned by PSM was more than Rs 100 billion, including 4546 acres of land (the price estimate of land was Rs. 27 billion). Apart from this land, a steel plant in Thatta district, water supply plants having the capacity to supply 110 million gallons per day, an oxygen plant, a thermal power plant that has the capacity to produce 165MW, 14 locomotives of 800 horsepower each, and 72 km railway line along with more than 100 railway wagons were

[5] http://www.paksteel.com.pk/organ_our_history.html

the assets owned by PSMC. At that time, the total value of these assets was estimated around 100 billion Rupees, while PSM was being sold for 21.68 billion Rupees[6]. The Supreme Court of Pakistan took suo-moto notice under Article 184(3) of the Constitution of Pakistan and constituted a bench of nine judges. The process to privatize the Pakistan Steel Mill established by the Government of Pakistan was a landmark and a major case (Wattan Party and others vs. Federation of Pakistan and others) became a case of general public importance in 2006. The larger bench constituted by the SCP declared the submission of the $362 million bid for the privatization of PSM as null and void. The honorable court concluded that the actions of certain functionaries are against the rules and laws; thus, the Letter of Acceptance (issued on 31st March 2006) doesn't meet the standards required for the privatization of PSM and declares it null and void. The Privatization Commission of Pakistan and Arif Habib Group (Partner of consortium found the highest bidder in the privatization of PSM) filed a review petition in the Supreme Court later. But the Privatization Commission withdrew its review petition in 2013, while the Supreme Court disposed of the Arif Habib Group petition in July 2013. It was restored in March 2018 again by the Supreme Court and is still pending final disposal.

After assuming power, the PTI government has reinitiated the case of PSM for privatization as part of the fast-forwarding process of privatization conditioned with a new loan program from the IMF. In the 7th meeting of the Privatization Board, which was held on 12th November 2019, the Board approved the appointment of Financial Advisor for PSM. On 20th September 2020, the Privatization Commission Board approved the transaction structure to revive the Pakistan Steel Mills Corporation (PSMC) agreed in principle. The financial Adviser was asked to move ahead with procedural follow-up processes[7]. Accordingly, the government plans to revive the PSM before privatization. In this regard, the average annual capacity would be increased to 6 million tons, which seems a difficult task as the operation of the PSM has been closed since 2016.

[6] https://www.thenews.com.pk/print/756391-privatizing-pakistan-steel
[7] http://privatisation.gov.pk

5 Implications of Privatizing the Pakistan Steel Mill (PSM)

The option to privatize a big steel giant has been considered by almost every successive government which came to power since the late 1990s. But considering the serious economic and political implications has always been a hindrance for every government which came to power during the last three decades. Despite the inability of governments to privatize the PSM, one of the largest organizations that have contributed economically and strategically and whether privatization could revive PSM or not must be looked into. What would the economic, social, and strategic implications of privatization of PSM be? The argument that privatization might help improve the performance seems to lack evidence as the experience in Pakistan doesn't prove that change of ownership from public to private enhances the performance of firms. Pakistan's privatization experience for the last three decades shows that privatization has not improved the performance of SOEs, whether it is the Karachi Electric Supply Corporation or others. There has been a considerable deterioration of performance after privatization. Previously, the malaise may have been on account of inefficiency but may now be explained through abuse of market power, board room corruption resulting in fantastic salaries to higher management and laying off laborers and linemen as a cost-saving measure[8]. Considering the recent experience, it is not sure that the privatization of PSM will improve efficiency. Moreover, it is also important to determine which factors would improve the efficiency of the PSM after privatization that is not possible if PSM is in the public sector? In the 2005 privatization attempt, private buyers seemed to be interested in assets worth billions of rupees rather than improving efficiency, reducing PSM losses.

Apart from the economic contribution of PSM, which is one of the unique projects of the engineering industry in Pakistan, its strategic aspect is also a very important consideration while deciding to privatize. Before its closure, PSM was the sole producer of iron and steel that could meet the domestic demand from almost all industries, including defense manufacturing,

[8] See for details, Wizarat, S., 2020. Privatizations of Strategic Pakistani Assets. *The Consul*, pp.9-11.

power generation, construction of dams, roads, railway tracks, and other communication networks. Privatization of PSM to foreign companies and individuals could increase the dependency for raw materials for the industries mentioned above on foreign companies. The plight of employees who served PSM for decades is a grave concern, as, after privatization, their livelihood would be at stake. Around 4,544 employees, including divisional and assistant managers, were sacked in November 2020. The PSM has been one of the largest employers as the big giant had more than 30,000 employees when it was operating at optimal capacity. At the time of shutdown in 2016, around 9000 employees were working, out of which 4,544 were removed during privatization[9]. Ironically, the government will have to recruit the employees to run and revive PSM. After the forced retirement of around 5000 employees, there might be a serious shortage of skilled workforce. Without hiring new employees, the running of PSM even below optimal capacity is not possible. After privatization, the fate of the employees would be decided by private companies, which would be least interested in accommodating these employees as their primary goal would be profit maximization. So, with hindsight, we can conclude that privatization cannot revive the PSM. Privatization will have serious implications on handing over this strategic asset to a foreign private company, assets owned by the PSM, and thousands of workers' livelihood.

PSM is a strategic organization whose closure would have serious implications. In an earlier study, Wizarat (2020) has recommended that the Government should learn to pursue different goals simultaneously, rather than seeking some (privatization) at the expense of others (strategic, health, etc.). She says privatizations policy will have to distinguish between strategic and non-strategic sectors; for the non-strategic sectors, GOP may resort to full or partial privatization, but strategic sectors should not be privatized. She recommends that the Government of Pakistan start with strategic restructuring sectors instead of privatizing them and refrain from teaming up with big foreign companies, as this will create misgivings in the public's minds about government motives. Being one of the largest

[9] https://www.thenews.com.pk/print/750164-pakistan-steel-lays-off-4-544-employees

organizations with economic, strategic, and livelihood aspects, the restructuring of PSM rather than privatization would be the most appropriate solution.

6 Conclusion

Theoretically, privatization can be grouped into three ideological approaches, i.e., neoclassical and liberal political economy approach, Institutionalist and Keynesian political economy approach, and Marxist approach to privatization. All these approaches have their own set of theoretical explanations linked to some empirical literature on privatization. The neoclassical and liberal political-economic approach states that privatization is a technical and simple policy of transferring ownership of state enterprises that are inherently inefficient to the efficient private sector. This process will improve the economy's overall performance and help the government balance its budget. Since the emergence of the neoliberal doctrine, most of the privatizations around the globe have been with this objective in mind. Although the Institutionalist and Keynesian approaches support privatization, they are critical of market-based views on privatization. They believe that privatization can lead to economic and social gains only in countries with stable macroeconomic and political conditions and a strong regulatory and institutional framework. According to the Marxist approach, privatization becomes an essential component of the neoliberal agenda of structural reforms which enables imperial centers (US government, European Union, multinational capital, and international financial institutions like the International Monetary Fund and the World Bank to externally imposing the time frame and extent of privatization in less developed countries with adverse implications on national economies of developing countries.

Effective privatization in Pakistan was started in the 1980s; still, it has failed to achieve its objectives of turning SOEs into profitable entities, improving efficiency, ensuring better governance, the retirement of debt, and fixing the problem of fiscal unbalancing. Privatization in Pakistan seems to be politically motivated and externally imposed rather than fulfilling the needs of the domestic economic environment. Since the 1990s, few SOEs performed better after privatization, while most performed worse than before. Most of the privatization programs in the 1990s and 2000s were characterized by corruption, nepotism, mismanagement, mainly because the privatization programs either served vested interests or poor implementation paved the way for the emergence of interest groups who were the real beneficiaries of privatization. Privatization of Pakistan Steel Mill is an important case, which illustrates vested interest as this strategic asset was offered for privatization in a non-transparent manner in 2005. The Privatization Commission enlisted PSM for privatization for Rs 21.58 billion only. At that time, the land value of PSM was more than the amount of privatization quoted for PSM. The Supreme Court of Pakistan, against a petition filed by the Pakistan Steel People Workers Union, gave its verdict to declare privatization of PSM illegal. The government of Pakistan has reinitiated the case of PSM for privatization to meet the conditionality for the new loan program with the IMF. Moreover, giving up control of one of the largest engineering industry projects will have serious economic, strategic, and social implications. Wizarat (2020) advises that privatizations policy will have to distinguish between strategic and non-strategic sectors; for the non-strategic sectors, the government may resort to full or partial privatization, but strategic sectors should be restructured rather than privatized carries weight.

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