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MASTERARBEIT

Titel der Masterarbeit

„Privatization in East Asia:
Comparison of Causes, Processes and Outcomes“

Verfasser

Jani Juhani Mustonen, BA

angestrebter akademischer Grad

Master of Arts (MA)

Wien, 2012

Studienkennzahl lt. Studienblatt:

A 066 864

Studienrichtung lt. Studienblatt:

Wirtschaft und Gesellschaft Ostasiens

Betreuer:

Univ.-Prof. Mag. Dr. Rüdiger Frank

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1 Introduction

Since the end of the 1970s, privatization has become a significant, political economic phenomenon on a global scale. Although transfer of assets between the state and private businesses has probably existed in some form or another for as long there have been ownership rights, the current trend of privatization is closely connected to globalization and the rise of neoliberalism in the 1970s. The total proceeds gained from privatization since 1977 until 1998 amount to nearly two trillion USD in the world (Palcic and Reeves, 2010). Although the majority of the proceeds have accumulated in the West, privatization has also been a prominent feature in reforming and restructuring the state-owned enterprise sector in East Asia. Three countries, China, Japan and South Korea have each been very active privatizers and their share of the privatization proceeds amount to over 400 billion USD (See Section 6.1; Proceeds from Privatization).

In spite of the different economic histories, development paths and institutions in East Asia, privatization is an economic policy which has been adopted to a certain degree in each country. The purpose of this paper is to find out which similarities and differences China, Japan and Korea have shared in their approach to privatization. The research question of this thesis is three-part: which factors contributed to privatization, how was the process carried out and what were the results of privatization? I will identify the more specific details later on.

The method used in this study is the comparative method. In a comparative policy analysis, comparing privatization of state-owned enterprises in different countries falls into the category of process comparison or comparison of public policies.

“It (the purpose) is not to describe and implicitly compare whole systems, but rather to develop lower-level comparisons of a particular institution or political process.” (Peters, 1998:13)

These studies also tend to include comparisons across time and political systems (Ibid.,13, 14) which is also reflected in this analysis in the different beginnings of privatization in East Asia. However, the public policy comparisons usually emphasize the processes and events themselves and do not take into account the circumstances in which the events unfold. (Ibid., 1998:13) The scope of this analysis is more extensive. It also compares the types and forms

of privatization itself and the economic backgrounds, impetuses and results of privatization policies.

This paper is organized followingly: in the second section, I will provide a short introduction to the conceptual framework which includes analytical tools for the comparison, the definitions, types and methods of privatization and the state-owned enterprises. In the subsequent chapter, I will go through the privatization process in each country. The purpose of the overview is to provide an adequate understanding of what changes have taken place in the East Asian public enterprise sector and how those transformations have folded out. Thereafter, in the fourth section, I will analyze and compare the more specific features of privatization in East Asia: the methods and dimensions of privatization as well the causes and results of privatization including economic development, business cycles, national debt, budget constraints, external influences, privatization proceeds and firm profitability. The findings and conclusions can be read in the fifth and sixth sections.

2 Theoretical Framework: Defining and Explaining Privatization and State-Owned Enterprises

2.1 Historical Background

Roots of the late 20th century privatization can be traced back to the economic problems and subsequent rise of neoliberalism in the 1970s and early 1980s in the US and UK. According to David Harvey (2006), neoliberalism emerged in the west as an antithesis to the postwar consensus of state intervention, welfare state and policies of full employment.

The oil crises of the 1970s and persistent stagflation were viewed as failures of the Keynesian economic policies. The difficult economic situation forced private firms to streamline their activities and cut costs at the same time when governments were maintaining the Keynesian line of government spending and piling up deficits. It was against this background that public financial policies were condemned inefficient (Ibid., 2006; Shumpei, 1984).

At the same time, governments increasingly found themselves surrounded by pressures to cut down on spending and debt. Attempts to curb government budget deficits led to demands to downsize state-owned enterprises (SOE), reduce their subsidies and harden their budget constraints. Some SOEs had been notorious for their bad management and inefficiency which provided further impetus to privatization. Privatization was hoped to create better incentives

for the managers and crowd out companies' secondary functions which were not necessary for their vitality. There was also a desire to increase competition to sectors where SOEs had earlier been dominant. In addition privatization was also thought to help governments to raise revenue without indebting themselves or raising taxes (Chang, 2002).

Besides economic factors, the technological development and financial deregulation also affected the pace of privatization. For example, new technological innovations rendered some of the government monopolies obsolete such as telecommunications. On the financial front, internationalization of the financial markets increased the supply of capital. In order to gain access to this credit, companies had to become more profitable and their soft budget constraints harder (Ibid., 2007).

These policies became embodied with the Reagan and Thatcher administrations which initiated deregulation, privatization and reforms of public services to create growth and economic dynamism (Harvey, 2006). Neoliberal policies expanded their reach and impact toward the end of the 1980s in the developed world. Finally, as the Cold War ended, neoliberal policies gained global momentum when a large number of Eastern European and former Soviet Union states abandoned the plan economy and engaged in deregulation and mass privatizations (Chang, 2007; Shirley, 1998).

Despite the international nature of privatization and its impetuses, the process did not proceed identically in every country. Moreover, very few important companies and sectors were fully privatized. Instead of this, governments usually retained a certain amount of ownership (Chang, 2007). To sum up, neoliberal policies in general advocate minimization of state intervention, deregulation and privatization. Before moving on, the ontological nature of privatization has to be defined: what is privatization and what does privatization actually mean?

2.2 Definitions of Privatization

Privatization can be defined in a multitude of ways which are only slightly different from each other. In short, privatization can simply be described as the transfer of government¹ ownership or property to private owners by asset sale (Investopedia: Privatization; Bundeszentrale für politische Bildung:Lexikon. Accessed on Oct 29th, 2011; Bortolotti,

¹ I use the terms 'government' and 'state' as synonyms to each other in spite of their slightly different meanings.

Fantini and Siniscalco, 2001)². This definition is simple and easy to use to analyze instances of privatization but it is easily interpreted as a one-time phenomenon. Privatization is not conducted only once. It is a process carried out by authorized actors in a certain environment in certain ways using certain methods over a certain period of time. A slightly different and deeper definition of privatization can be found in the OECD Guidelines on SOEs: ‘As *privatisation may be considered any material transaction by which the state’s ultimate ownership of corporate entities is reduced.*’(OECD, 2010, pp.7) Hence, privatization does not necessarily imply a complete transfer of all government-owned assets to the private owners at once but a decreasing share of government ownership through selling state-assets to private investors. However, there are exceptions to this definition as will later be seen in the section *methods of privatization*.³ The antonym for privatization is nationalization which denotes takeover of private businesses by governments. They may or may not involve compensation to previous owners. Denationalization, on the other hand, often functions as a synonym for privatization (Columbia Electronic Encyclopedia).

2.3 Economic Reforms and Privatization

Privatization is usually a result or part of larger economic reforms, where the government redefines its relations to the production and the economy at large. This is often undertaken through reforms and restructuring of the public corporate sector. Prior to privatizing an SOE, governments implement corporate reforms directed at their management, finances, debt and responsibilities to the state. Generally, these procedures include management incentives, financial freedom, loosening of regulations or replacing government control with supervision. Good examples are the economic reforms consolidated by the 12th the Central Committee of the Chinese Communist Party (Chow, 2007) and the 1983 GIE Administration Basic Act in Korea (Shirley, 1989).

² There are other, unrelated definitions too. Privatization can also refer to the transformation of a publicly traded and owned company to a privately owned entity which no longer trades on a stock exchange (Investopedia:Privatization. Accessed on Aug 25th, 2011).

³ There have been instances when assets have been shared to citizens instead of selling them. See voucher privatization.

2.4 Dimensions of Privatization

To analyze the privatization experiences in East Asia, I have identified three opposite dimensions of privatization; the first two are from the 2003 (pp.11-13) and the third dimension from the 2010 OECD report on privatization (pp.26).

2.4.1 Program and Ad hoc Privatization

Governments may devise a specific program to carry out the privatization or privatize their assets based on temporary needs and improvisation. Where the to-be privatized companies are small and few, the improvised ad hoc approach tends to be applied and vice versa.

2.4.2 Centralized and Decentralized Privatization

Centralized privatization is a process dictated and managed by the central government or its ministries whereas decentralized or local privatization refers to a form of privatization where the most important decisions are carried out by local governments. According to the 2003 OECD report, centralized privatization can be conducted through '*(a) a unit within a financial ministry or a central agency of the government; (b) a dedicated privatisation body; (c) a holding company of the government*' (OECD 2003, pp.13). There also exists a mixed approach which usually reflects a large number of diverse assets owned by the state.

2.4.3 Rapid and Gradual Privatization

Rapid and gradual or partial privatization reflects the speed of privatization and usually depends on the size of the company to be privatized. The smaller a company, the quicker it can be privatized. However, there are notorious examples of rapid privatization. The overnight privatizations of state assets in Russia are a prime example. In addition, there are two partialities: one adheres to a single company and whether the government is selling parts of it and how fast the process is carried out. The other refers to all state-owned shares and whether the government in question gradually privatizes parts of them all or only from a selected group of few companies.

However, only few governments have resorted to rapid privatization. Also, these concepts of rapid and gradual privatization are only approximations. Countries tend to apply a mixed approach to privatization. Also, these concepts are less concrete than the other two: the centralized and decentralized privatization and program and ad hoc privatization.

In addition to the dimensions of privatization, I will also analyze privatization by comparing the methods used in privatization. The following section lists the most common types used in selling public assets to private investors.

2.5 Methods of Privatization

2.5.1 Share Issue Privatization

Share issue privatization (SIP) is carried out by corporatizing⁴ SOEs into joint-stock companies whose shares can be publicly traded on the stock market (Megginson, Nash, Netter and Poulsen, 2001:2). SIP is the most prevalent type of privatization in the world due to its effectiveness in accumulating capital (Jones, Megginson, Nash and Netter, 1999) and its contribution to the build-up of domestic financial markets, (Subrahmanyam and Titman, 1999). Often, SIP is the only alternative to privatize very large SOEs whose market value can be too high for any one single buyer to acquire (Megginson and Netter, 2001:19).

2.5.2 Direct Sale

In direct sale privatization, assets are sold directly to insiders such as managers or employees. In these cases, the method of direct sale is called manager buyout or employee shareholding, respectively. Alternatively, companies can also be sold to outsiders like private companies or to several investors through an auction without much publicity or a mediating institution like a stock exchange (Megginson, Nash, Netter and Poulsen, 2001:2). This method has mainly been used in former communist countries (Jones, Megginson, Nash, and Netter, 1999:2).

2.5.3 Leasing

Privatization through leasing (contracting out) occurs when the government transfers some of its task like garbage collection to private parties. Leasing does not usually entail private actors buying state property which is why some authors do not consider leasing a real form of privatization because there is no transfer of assets from state to private actor (Ramanadhan, 1993:248).

⁴ Corporatization implies transforming of the structure of SOEs or government departments into an enterprise structure found in publicly traded companies. Corporatization does not imply the government divesting its ownership. (Investopedia: Corporatization)

2.5.4 Privatization from below

In comparison to the other types of privatization, privatization from below is the most distinctive form of privatization as there is no ownership changes but the emergence of private businesses. Privatization from below mainly applies to transitional economies where restrictions, bans and obstacles to opening a business or market entry have been removed or eased (Naughton, 1994:266) but it could also be applied to developed economies where removal of creation of standards and regulations by the state, *deregulation*, is taking place (Gormley, 1996 and 1997). Privatization from below is also known as spontaneous privatization as opposed to calculated and planned privatization from above or centrally directed privatization (Zhiyuan Cui, 2001).

2.5.5 Other Forms of Privatization

In addition the abovementioned, privatization can be carried out in other ways as well. However, I will not include these forms into the analysis of privatization in East Asia because of their much less usual occurrence in the privatization of SOEs.

Voucher privatization is essentially the same as SIP with the exception that the vouchers (shares) are distributed by the state for free or for a low, nominal fee to all citizens. This type of privatization was mainly adopted in the post-plan-economy countries like Russia and Eastern Europe (Megginson, Nash, Netter and Poulsen.2001:2). *Elimination of a public function* occurs when the tasks and duties traditionally taken care of by the state are transferred to the private sector without government divesting (Bendick, 1989). Privatization can also take the form of *franchising*, where the private sector applies a government-approved model of providing goods and services, or *contracting*, where the government pays the private sector for producing and delivering certain goods and services (Kamerman and Kahn, 1998).

2.6 Determinants of Privatization

Apart from analyzing privatization itself and how it has unfolded, I will also look at the factors and impetuses for privatization. In short, I will explore the causal and structural mechanisms behind privatization and seek to understand their role in the East Asian privatization.

According to Bortolotti, Fantini and Siniscalco (2004 and 2001), commonplace factors which either cause and correlate with privatization include economic development, government budget constraints, financial markets, business cycles, political majorities, legal origin, political institutions, concerns for efficiency and public debt. For the analytical purposes of this paper, I have chosen four parameters to analyze the causes of privatization with: *economic development*, *public debt*, *business cycles* and *budget constraints*. In addition to these, I have also added a parameter of my own: *external influences*.

The intention of measuring level of economic development as a ratio of GDP per capita is to compare the initial level of GDP with the first privatizations. The purpose is to explore whether privatization is actually linked to a particular level of economic development in East Asia or whether it is a feature of the current global economic order.

High public debt correlates with privatization. The purpose in this paper is to find out whether the levels of debt in China, Japan and Korea remove a domestic, political threshold to privatization or whether surpassing that threshold is universal.

Economic growth tends to increase the value of assets making it more attractive to the owner of these assets to sell them. I seek to find out whether incidents of privatization have increased during times of expanding economy or whether the timing of privatization has been indifferent to the fluctuations in the economy in East Asia.

As a fourth factor influencing privatization, budget constraints are analyzed and broken into their constituent parts to form a comparative understanding of these factors in each country. Which budget constraints have contributed to privatization in East Asia?

The final factor is formed by external influences which I have added into the analysis to see whether privatization decisions are influenced by external actors or factors and to what extent this influence has realized.

Apart from analyzing the factors behind privatization determinants of privatization, this paper also looks into the results of privatization, although less extensively. The results of privatization are usually much more similar than the political imperatives leading to privatization. The results of privatization are constituted by comparing the post-privatization *profitability* of SOEs and revenue the governments have raised from privatization.

2.7 State-Owned Enterprises

The objective of privatization is the transfer of state-owned assets to private actors but what exactly are state-owned assets? Simply put, state-owned assets can be anything: land, real estate, precious metals or, as in the case of this paper, companies. The most commonplace name for these companies are SOEs but they are also known as *public enterprises* (PE) (Lim), *public corporations* (Mizutani and Uranishi, 2010)⁵, *government-owned corporations* (Investopedia: State-Owned Enterprise) or *government enterprises* (Shirley, 1989). I will use these terms interchangeably giving priority to the common terms used in China, Japan and Korea. In the English speaking academic literature on the Chinese political economy, the most common term for government-owned companies is an SOE, whereas in the corresponding literature on Japan and Korea, a more common term is a PE.

All these terms have a common denominator: a business entity which is entirely or partly owned by the state. Although this definition applies to all SOEs, not all companies with government shareholders can be accurately called SOEs. The ownership structures can be various, for example, a government can own shares of foreign companies or government-owned investment vehicles like sovereign wealth funds may acquire foreign stocks. Lacking any precise definition of an archetypal SOE, the best example of an SOE, in my opinion, is a strategically important government monopoly, possibly established by or at some point nationalized by the state.

2.7.1 Strategic Industries

Governments around the world own all kinds of companies but they tend to have close connections to certain industries. Key or strategic industries are industries which provide vital and important contributions to the national economy or security. (OECD, 1991) This is not a straightforward definition since economic importance is defined differently by different countries. In fact, it is such an ambiguous term that: “*They (observers) know a strategic industry when they see one.*” (OECD, 1991:36) Industries which usually fall into this category are technology, industry and trade (OECD, 1991:54). However, a company deemed important to the national welfare is not necessarily an SOE but a company with a special relationship with a ministry or other government department. The Japanese *keiretsus* or

⁵Public companies are companies whose shares are publicly traded on the stock exchange. (Investopedia, 2010: Public Company)

Korean *chaebols* are good examples. In addition, governments may also own companies from none of the industries mentioned but aim to protect national health through ownership of alcohol retailers and pharmacies (Cisneros Örnberg and Ólafsdóttir, 2008; Neroth, 2005).

2.7.2 Rationale for State-Owned Enterprises

Despite heavy privatization in some countries like UK, SOEs still occupy an important space in national economies around the world. Internationally, SOEs still occupy an important space in national economies. Some of the economic and political advantages provided by SOEs include natural monopolies, capital market failures, production of externalities and provision of equal access to products and services (Chang, 2007).

In certain industries, due to technological obstacles and economies of scale, it is only possible for one or very few providers of goods and services to exist. Utilities and transportation are often mentioned as examples of *natural monopolies*. Privatizing these sectors depends on the size and development of the markets and often raises political disputes.

Private actors can also be risk-averse in crediting high-risk companies. An example of *capital market failure* is a situation where private bank or private creditors are unwilling or unable to credit long-term or risky ventures which yield long-term profits.

Finally, companies operating in the free markets tend to focus on the most profitable activities at the cost of less rewarding businesses. This market mechanism might discourage them from providing goods and services to people unable to attain them for some reason like geographical obstacles, lack of money. In addition, private enterprises are self-oriented and avoid benefiting competitors or *producing externalities*.

2.7.3 Problems with State-Owned Enterprises

Contrary to the advantages SOEs provide, they also suffer from certain problems. For instance, SOEs are susceptible to a *principal-agent problem* when the policies pursued by the government contradict the interests of an SOE or when there are not enough incentives for the SOE to perform as wished by the state. If the performance of duties imposed by the state is difficult to monitor due to asymmetric information, there is an incentive for the SOE to abandon the task. (Investopedia: Principal-Agent Problem; Chang, 2007:14, 16)

In state-led economies, SOEs tend to enjoy unchecked government support, especially in form of financial resources. When firms' spending is not constrained or they have *soft budget*

constraints, they are likely to have poor performance and low profitability (Kornai, Maskin and Roland, 2003).

SOEs tend to be large and bureaucratic entities. Their management positions can be used as political rewards which are passed on between the members of the ruling elite. Due to the close political connections, SOEs can also be sources of corruption (Chang, 2007).

2.8 Conclusion

To sum up, privatization denotes any transfer of state property to non-public actors. To analyze and compare this process in East Asia, I have identified four analytical tools in this chapter: causes of privatization, dimensions of privatization, and methods of privatization and outcomes of privatization. The first category includes five causes of privatization: economic development, public debt, business cycles, budget constraints and external influences. The set of methods includes four main forms of privatization; SIP, direct sale, leasing and privatization from below. In addition, privatization will also be analyzed whether it has been centralized or decentralized, rapid or gradual and whether countries have devised a program or agency or an improvised approach to privatization. Finally, the effects of privatizations as proceeds from privatization and profitability of companies will be discussed and analyzed. Before moving on to comparing privatization experiences in East Asia, I will provide a brief history and overview of privatization in China, Japan and South Korea in the next chapter.

3 Privatization in East Asia

3.1 Key Changes in the East Asian Public Enterprise Sector

3.1.1 China

The number of state-owned companies remained at slightly more than 80 thousand in 1980. Since 1998, the number was at 64 thousand and, by 2001, it has decreased to around 46 thousand. The rapid decrease of companies also occurred in collectives which numbered more than 300 thousand in 1997. In 2001, their number had dropped to 31 thousand (Jefferson, Su, Jiang and Yu, 2003). In terms of production, the output of the SOEs in relation to the GDP has fallen from 80% in 1978 to around one fifth of the GDP in 2003. In spite of this, the sector has grown in absolute figures but not as fast as the collective and private sector. However, the state still owns significant shares of companies which are

traditionally considered private. Also, in terms of labor and certain key industries and sectors, their dominance has decreased but still remains strong. After the growth of employment until the mid-1990s, the number of workers employed by the SOEs has since halved from around 75 million in the mid-1980s to approximately 30 million in 2004. Regarding industrial entities, the SOE sector owned 57% of industrial assets. Since the mid-1990s, the majority of the SOEs are now largely in the ownership of local governments while the central government exerts control over 150 or so biggest SOEs. In addition to the reduction of state holdings through selling, the legislation adhering to the SOEs has also been constantly changed. SOEs have been merged and allowed to go bankrupt. (The McKinsey Quarterly, 2004: The McKinsey Quarterly, 2008: Naughton, 2007:106)

3.1.2 Japan

After the war, the share of the Japanese public sector enterprises of the GDP has been miniscule when compared to other developed economies. Due to this, the Japanese public sector companies have experienced the least changes. The overall number of SOEs has remained more or less the same. In 2003, the total number of SOEs stood at around 80 (OECD, 2003). If the privatization of TEPCO is excluded, there has been only one full privatization in the recent times: the privatization of JAL in 1987, an airline company which the state owned only partially. The privatizations of JNR, JT and NTT have been going on for nearly 25 years now but the process has been slow and privatization only partial. Perhaps, the reason to the slow privatization has been the traditionally less important role of SOEs in the economy.

In the 1970s, the Japanese public sector companies produced only 5% of the GDP and 10% of gross domestic fixed capital formation. At the same time, the public sector employed only 5% of the work force (Cheung 2002; Young 1987:192; Toyama 1987:11). Due to the unavailability of statistical information on the number of employees of SOEs before the 1990s, it is hard to present any precise figures. Despite this, there is a good reason to assume that the number of workers employed by SOEs has been presumably much lower than the total number of public sector employment. For instance, in the beginning of the 1990s, the workforce employed by the public sector stood at 3.5%, of which the share of the SOEs was a mere 0.1% (DPADM & DESA UNPAN, 2006).

3.1.3 Korea

Similarly to the Japanese public sector enterprises, the Korean PEs only produced a small part of the GDP and investments but, unlike in Japan, they had been reserved for experimental purposes in Korean industrialization plan. Privatization was started in the end of the 1970s. Since then, the pace of privatization has accelerated and slowed down but has always maintained its use as a policy choice. Although the exact number is difficult to assess, Korea has privatized fully or partially approximately over one hundred enterprises between 1968 and 2008, including PEs, GIEs and GBEs. For example, Shirley (1989) estimates that there were around 90 PEs in Korea: 26 GIEs and 54 subsidiaries of GIEs plus certain government departments. By 2003, the number has dropped to 23 SOEs which are subject to further privatizations (Lim, Public Enterprise Reform and Privatization in Korea: Lessons for Developing Countries, Table 2 pp. 22-23). The total number of government owned corporations stood at 22 in 2010 (Ministry of Strategy and Finance, 2010). A 2011 OECD report on the changes in the SOE governance puts the number at 21 of which eight are purely commercial and 13 semi-commercial (OECD, 2011).

Because privatization has been relatively consistent, the importance of the public sector enterprises has declined in a similar manner. In the mid-1960s, the PE produced 5.5% of the GDP and, a decade later, 6.3%. However, their share of the output of manufacturing during the same period of time stood at around 15% (Schmitz, 1996). In 1986, the GDP share of the PEs was 10.4%, (Shirley, 1989), a number which decreased to slightly more than three per cent in 1998 and slightly more than 2.5% in 2003 (OECD, 2003). Although the PEs had not been very important employers, the declining importance of PEs is also evident in terms of employment. In 20 years, the number employed by PEs was reduced from 1.5% in 1982 to 0.5% in 2000 (Shirley, 1989; DPADM & DESA, 2007). This development has continued and the percentage of people employed by SOEs in 2009 stood at 0.33% (OECD, 2011).

3.1.4 Conclusion

To sum up, privatization has reduced the number of SOEs and state-owned holdings in East Asia, albeit to a very different degree. In comparison, the biggest absolute changes in terms of number of SOEs, their GDP and labor share have taken place in China but the percentage of assets owned and controlled by the state and local levels still remains much higher than in both Japan and Korea. In relative terms, Korean PEs have experienced a fourfold decrease in their share of the GDP; From the peak of 10.4% in the 1980s to 2.5% in 2003. Similarly, their

share of labor dropped from 1.5% in 1982 to 0.5% in 2000. In absolute terms, Japan has experienced the least changes.

3.2 Public Enterprise Types in East Asia

There are definite differences when it comes to categorizing and defining an SOE in East Asia. Despite the differences in their relation to the government and public administration, *state-owned-*, *public* or *government enterprise* are the most common terms used in this paper but a different version might as well be used if it is considered necessary.

3.2.1 China

Almost all large Chinese companies have had a past of state ownership and, still, very few of them are fully private. Because of this background, there are four types of Chinese corporations. The first group is formed by large, listed SOEs which have offered a small amount of their shares to the public. The companies in this group also tend to be monopolies or in sector with little competition. Domestic foreign joint ventures are in the second category. They provide new technology in order to enter the markets. The third group is composed of largely private companies in sectors with little or no SOEs. Finally, the fourth category of companies is those companies which are funded through a mix of public and private money (The Economist, 2011 citing McKinsey and Infinity Group).

3.2.2 Japan

The Japanese PE sector has traditionally consisted of four types of companies of which three are important from the viewpoint of privatization: The first category includes governmental departments which belong to their corresponding ministries. These types of enterprises include the National Forestry Service, Mint Bureau, Printing Bureau and Postal Services. From the viewpoint of privatization, the bureau of Postal Services is the most important. The second category, the government-controlled companies, is the most important one. This category is comprised of public corporations governed by the same commercial laws which adhere to private companies. Nippon Telegraph and Telephone (NTT) and Japan Tobacco (JT), as partially privatized companies, belong to this group. The third category includes statutory companies which operate under specific laws. These companies also tend to be non-commercial. The fourth category is comprised by autonomous bodies which are founded on government decisions (Mizutani and Uranishi, 2006; ASOSAI, Accountability and Control of Public Enterprise, Japan, 1988).

3.2.3 Korea

Korean economy is dominated by the large Korean conglomerates, *chaebols*, which form a single, large entity or company groups. They are operated and, usually, owned by powerful families (Investopedia: Chaebol Structure). In addition to the chaebols, there are also independent firms and PEs.

There are three types of PEs in Korea: The first type is formed by government enterprises of which there are four: the Korean National Railroad, the Post Office, the Public Procurement Service and the Grain Management Enterprise. The government enterprises are governmental departments and are/were wholly-owned by the state. The second type of companies is public corporations. They are judicially separate entities from the state and enjoy more freedoms than the government enterprises. Despite their flexibility, the ultimate ownership remains within the state, although the piecemeal privatization of the public corporations has obscured the definitions between public and joint-stock corporations. The third corporation form is that of a joint-stock company. These companies are judicially governed as dictated by the commercial laws. The government's authority in these companies is of limited liability/limited by its ownership of shares. The public corporations and joint-stock companies subsequently fall into three categories: Government-invested (GIE)⁶, Government-backed (GBE)⁷ and Indirectly Invested Enterprises (IIE⁸) which are subsidiaries of either GIEs or GBEs (Lim; Shirley, 1989).

3.3 Overview of Privatization in China

The structural adjustment to a more market-based economy driven by the economic reforms has been the dominant determinant of the privatization process in China. Although privatization has not been embraced by the government, the state's assets have nevertheless been reduced and SOEs have been turned private but at a slow and partial pace, balancing between the old and new system. Moreover, the central government and its localities have often retained a controlling interest in important SOEs. The privatization of the most important SOEs has been influenced by the emergence of market institutions and agencies; economic infrastructure which China lacked in the early phase of the reforms. Because of the

⁶ Also called government-invested institutions (GII) (Knowledge Sharing Program 2010)

⁷ Also called government-contributed enterprises (GCE) (Korea Knowledge Sharing Program 2010)

⁸ Also called subsidiary company of the GIEs (SCGIE) (Shirley 1989:5)

transitional nature of China's privatization, this section deals mostly with reforms and the emergence of institutions and regulations.

3.3.1 Initial Reforms

The initial reforms were characterized by a focus on agriculture and industry (Naughton, 2007). Unlike Russia and many other post-Soviet states which implemented drastic measures to change the plan to a free market economy, Beijing started reducing the assets of its companies gradually and slowly (Sachs and Woo, 1994).

In contrast to agriculture where political supervision and the role of collectives were quickly minimized and where peasants and farmers were given substantial freedom to affect their own income through contracting land, the full privatization of SOEs or land was not a political goal at the time (Chow, 2007; Sachs and Woo, 1994). Furthermore, full-scale privatization would have been much more difficult than freeing the farmers from the collectives due to four reasons: first, there was an ideological desire for the communist state to own and control the means of production. Second, strong economic interests and power vested in the SOEs by Chinese government officials would have made the process unproductive and politically unfeasible. Third, privatization of SOEs would have required more extensive reforms in other parts of the system such as pricing and distribution which were unalterable at the time. Fourth, the management skills and traditions were so outdated that they would have been incompatible with the requirements of modern enterprises (Chow, 2007).

The first experiments in SOEs were started in six pilot enterprises in 1978 after which the number of experimental companies rapidly grew to cover 80% of all industrial SOEs in 1981. The general idea was to reward productivity within firms, rationalize the administrative system for SOEs and encourage foundation of collectively owned enterprises (Ibid., 2007).

Although the reforms were rapidly adopted, it was not until 1984 when the 12th Central Committee of the CCP consolidated and supported them. Enterprises were officially given autonomy in production, supply, marketing, pricing, investment and personnel in order to become profit-seeking units. Active state planning was reduced to guidance planning. Firms' budgets were hardened and more flexible wages were introduced. In addition, foundation of individual and collective firms was supported (Ibid., 2007). Corporate governance was also reformed. Managers were made responsible for sales, profitability and investments but they

also became able to receive rewards for profitable actions. The increasing competition from township and village Enterprises (TVE) and the inflexibility of the SOEs to respond to the rivalry were among the reasons behind the reforms (Garnaut, Song and Yao, 2006).

3.3.2 Township and Village Enterprises

The emergence of TVEs was an important contributor to economic growth and dynamism in the 1980s. They were, as collectively owned entities, funded by local governments, credit cooperatives or subcontracted by SOEs. They were not part of the plan economy nor were they private. Despite their blurred ownership, they were able to compete efficiently with the SOEs what was one reason behind reforms in the SOE sector. The TVEs did not have the social liabilities of the SOEs and they could take advantage of the surplus labor freed from the agriculture as a result of decollectivization. The latter factor also contributed to their significant role in driving China's exports and attracting foreign investments. TVEs were among the very first companies which were fully privatized in the mid-1990s. Encouraged by the local government and allowed by the central government, many TVEs were sold to their managers who were often themselves local government officials (Naughton, 2007: 301-302; Politics in China, 2010:199-200).

3.3.3 Shanghai and Shenzhen Stock Exchanges

The opening of Shanghai and Shenzhen stock exchanges also marked a new era in the Chinese reforms. SOEs were now able, with a special permission, to access a new source of financing and become less dependent on the plan and associated subsidies.

The Shanghai Stock Exchange (SSE) started operating at the end of 1990 and, since then, it has grown to be the largest stock exchange in China. The Shenzhen Stock Exchange (SZSE) started its operations in 1991. There were a total of 10 companies listed in the SSE in 1991 and the number has grown every year except 2005. At the end of 2010 there were 894 companies which had listed in the SSE offering 938 listed stocks. In the same year, the SZSE had 1021 listed companies comprising market capitalization worth of 828.7 billion USD. Both the Shanghai and Shenzhen stock exchange are overseen and regulated by the China Securities Regulatory Commission (Shanghai and Shenzhen Stock Exchange, 2010, 2011).

3.3.4 Restrictions on Trading

Although the most successful large enterprises are listed in the Chinese stock exchanges, the shares they issue are not all fully tradable. The shares were initially divided into four classes: state shares, legal-person shares, individual shares and foreign shares. The shares were also divided between A and B shares of which the latter could only be purchased by foreigners paying with USD. Later, the right to buy B shares was extended to Chinese citizens but only to those holding USD. Of the A shares, the state and legal-person shares came to be known as state-owned shares (SOS) which were officially non-tradable. Since the state was a majority shareholder in the SOEs, the non-tradable stocks posed certain problems. They undermined the value of state-owned assets, property rights of enterprises and the development of a secondary stock market (Ma, 2008). In addition to A and B shares, there are also H shares which are shares of Chinese SOEs traded in Hong Kong. Foreign institutional investors have been able to invest in Chinese A shares, bonds and mutual funds since 2002 but, again, to a limited degree (Chow, 2007:249-50).

3.3.5 Protect the Large and Release the Small

Despite earlier reforms in the 1980s, it was not until the 1990s when real privatization took place. In 1995, the state council decided that the state would give up its ownership in small and medium-sized enterprises, that is, effectively privatize them while retaining the large SOEs. This policy is called *Protect the Large, Release the Small* (Li, 2001) and it became legal in 1997 when the 15th Congress of the Chinese Communist Party granted the local governments an official permission to proceed with privatization. and, apart from the largest 500 or 1000 companies owned by the central government (The Economist, 2011), the management of the companies was transferred to municipalities and the local governments which received more extensive rights with respect to these companies. The central government was no longer responsible for the privatization, restructuring or closing of the small – and medium-sized enterprises (Naughton, 2007: 301-302).

3.3.6 Shareholding System Reform and Reduction of Holding of State-Owned Assets

The purpose of the *Protect the Large and Release the Small* - policy was to eliminate the deficits of small and medium-sized SOEs through selling, closing or merging them. This overall reform regarding the restructuring of SOEs was called Shareholding System Reform (SSR) (Ma, 2008). The reform was an attempt to increase the SOE efficiency and profitability

(Ma, 2010). Besides SMEs whose shares could not be publicly traded (Chow, 2007:71), the reform was also applied as a mainstream reform for larger SOEs in order to turn more of them to shareholding companies (Ma, 2008; Chow, 2007:71). SSR entailed a policy of reduction of holding of state-owned shares (RHSOS) in the end of the 1990s. Prior to this, reduction of state-owned shares had occurred through direct negotiations and the shares had been traded over-the-counter at fire-sale prices depreciating their value. To counter this process, the government had to make RHSOS an official policy to encourage more companies to go public. Reducing the amount of state-owned share became an official policy but under the premise that the state retains a controlling interest.

During the next year in 2000, there were over 100 cases of investors buying state-owned shares. Despite the initial, positive effect of the SSR on transforming SOEs to publicly traded corporations, there were problems with a large number of SOEs listing themselves and launching initial public offerings (IPO). A constantly increasing amount of non-tradable shares flooded the market and brought the prices down. Because of this, the RHSOS failed at first (Ma, 2008).

3.3.7 National Social Security Fund

The RHSOS was revived again in 2001 to finance the newly-established National Social Security Fund (NSSF) (Ibid., 2008). There had been a desire to reform the pension system which had become a financial burden. To organize and fund the pensions, local governments were given more responsibilities of the pensions. However, the transfers of duties to local governments led to an encroachment of pension funds and risked their financial stability. To prevent local authorities from going bankrupt, the central government decided to create the National Social Security Fund. To raise the funds, IPOs and rights issues were made taxable through the sale of state-owned shares. As a result, the stock markets reacted aggressively and did not calm down until part of the RHSOS was cancelled in the end of 2001. Officially, the measures were drawn back because of the concern for social stability. Although the number of Chinese investors had been steadily growing, the real reason might have been pressure from powerful institutional investors who feared losing the value of their assets (Ibid., 2008).

Until now, the state's attempt to reduce its ownership in SOEs and to provide funds for the NSSF from sales of state-owned shares had failed as its ownership in SOEs actually grew. In

the end, even the NSSF was opposed to the RHSOS because its own shares were decreasing in value due to the stock market reactions (Ibid., 2008).

3.3.8 State-Owned Assets Supervision and Administration Commission

The State-Owned Assets Supervision and Administration Commission (SASAC) was created in 2002 when the unofficial over-the-counter sales and direct negotiations between SOEs and private enterprises resumed due to the failure of the RHSOS. Although reduction of state-owned assets was still on the political agenda, the state required a full price from its shares which the markets did not accept. A lesser price was considered by the state council a depletion of state assets. The establishment of the SASAC brought the governance of state-owned assets under one unified body reassembled from different ministries, agencies and institutions. SASAC was thus a compromise between politics and economics, the state's desire to manage and, on the other hand, allow the economy to function freely (Ma, 2008; Naughton, 2008).

At first, the SASAC had authority over 196 SOEs which were all sizeable and central to the Chinese economy but otherwise rather different by their businesses and industries. These include companies from automobile, electricity, chemical, telecom construction, high-tech, import-export and research industries. There are no financial companies (Ma, 2008; Naughton, 2003). At present, the SASAC exerts control over 117 most central SOEs (The State-owned Assets Supervision and Administration Commission of the State Council: Central SOEs).

In general, the SASAC's priority is to defend the value of state-owned shares and sell them at the market for reasonable prices (Ma, 2008). The SASAC's more specific duties include regulatory supervision over enterprises, auditing of enterprises, appointments of member of board of directors and creation of procedures to appoint managers. The SASAC also approves of major decisions affecting the companies such as merger, bankruptcy and issuance of new shares and reporting the performance and revenues of companies to appropriate government levels. The SAC is not allowed to intervene in the operational autonomy of the enterprises nor pursue sociopolitical goals (Naughton, 2003: The State-owned Assets Supervision and Administration Commission of the State Council: Policies, Laws and Regulations).

3.3.9 Share Conversion

To solve the problem of reducing state assets without reducing the value of the assets or equity markets, the pilot program known as *Equity Division Reform* or *Share Conversion* (Ma, 2008) was introduced in 2005. The chosen companies were to start a conversion of non-tradable shares into tradable ones. The plan had to be accepted by the company's board of directors and at least by two-third of the individual shareholders. To make this happen, most companies offered bonus shares: every ten tradable shares would receive three bonus shares from the state. As the reform proceeded, more and more state institutions came to favor it. In less than a year, 70% of the listed companies had completed the conversion or were in the process of doing so. The rest were forced to convert their shares or they would be acquired, merged or delisted. In 2006, IPOs resumed (Ibid., 2008).

Despite the reform, the state still had power to retain shares. Moreover, no more than 15% of the state-owned shares within the first three years of the reform could be sold. The state also retained the possibility to acquire more shares. Now it became easier for legal person shareholders to cash in the state-owned shares. The share conversion program contributed to the speed of the privatization process (Ibid., 2008).

3.3.10 Conclusion

In general, the development of Chinese privatization has proceeded in three steps. The first one was the emergence and expansion of SOEs outside the plan in the 1980s. Before this, there were no companies operating with a profit motive. Some of these companies were known as TVEs and some of them were traditional SOEs producing for both the plan and markets. Despite them still being technically state-owned, they were controlled by private persons and they were used for profit-making. The process was fostered by managerial reforms and creation of monetary incentives and support for the establishment of collective firms; policies strengthened by the 12th Central Committee of the CCP. The more traditional, industrial SOEs were however strictly state-owned and -controlled but they went through significant reforms which subordinated them, although only partly, to the rules of market economy. As a result, the operational environment of SOEs changed. Their profitability started improving, albeit from a really low starting point and they got a great many competitors from the collective and town and village enterprises. Their economic importance started declining and they employed fewer and fewer people throughout the 1980s.

Privatization, in the real sense of the word and on a larger scale, did not realize until the early-mid 1990s. The second significant phenomenon was a successful privatization process of SMEs. In this process of *Protecting the Large* and *Releasing the Small*, the ownership of SMEs was transferred from the central to local governments which on their part allowed some of them to become private in order to curb the MBOs and over-the-counter sales at local levels leading state assets to be sold at deflated prices.

The third important phase in privatization was the successful completion of the institutional framework. The privatization of large, important and well-managed SOEs was started already in the early 1990s under the framework of RHSOS. The enterprises were encouraged to list themselves in order to gain access to more financial resources. However, this practice threatened to bring down their market value and even reverse the economic reforms. The RHSOS through SIP went through a couple of failures and did not take place until the state could create a concentrated institution for managing state assets which so far had been dispersed among various government institutions and levels. The establishment of the market institutions, Shanghai and Shenzhen stock exchanges, the SASAC and the share conversion-program, uniformed and brought the previously unclear ownership rights under a more effective control of the state.

This enabled a more sustainable framework under which partial privatization of large SOEs could continue. The reduction of state assets became more stabile and speedier but the state still retained a certain amount of shares and the right to purchase more. In addition, the state still exercises significant influence over some of its enterprises.

3.4 Overview of Privatization in Japan

In Japan, the state-owned corporations were largely the heritage of the state-military-industrial complex before the Second World War (Cheung, 2002). After the war, their role in the Japanese economy became less significant than in other developed economies partly due to the strong American influence (Toyama, 1998). In comparison with other developed economies, Japan's public sector has been rather small producing only 5% of the GDP, 5% of the work force and 10% of gross domestic fixed capital formation in the 1970s (Cheung, 2002; Young, 1987:192; Toyama, 1998). The first privatizations took place after the war. For instance, the Tokyo Electric Power Corporation (TEPCO) was incorporated in 1951 after the government gave up its monopoly in energy production but a large scale privatization did not

take place until the 1980s. The most important public corporations have been in transport, utilities and telecommunications (Cheung, 2002).

3.4.1 Japanese Public Sector Enterprises prior to 1984

The core of the public corporation sector was formed by ‘three public corporations and five government departments’. The first mentioned included the JTSPC (Japan Tobacco and Salt Public Corporation), NTT and Japan National Railways (JNR). They were all established through transforming some of the state departments into state corporations: The JTSPC and the JNR in 1948 and NTT (previously Nippon Telegraph and Telephone Public Corporation; NNTPC) in 1952 (Toyama, 1998). The government departments were formed by the Post Office, Forestry Agency, Printing Bureau, Mint Bureau and Monopoly in Alcohol Bureau (Cheung, 2002). In addition to these, there were also three loan and financing corporations (Toyama, 1998), 38 departmental business entities and 99 special corporations such as public corporations, public foundations, financial corporations and banking institutions operating nationally and, finally, some 10,000 municipal companies controlled by various local authorities (Cheung, 2002).

Because of the overwhelming significance of NNT, JNR and JTSPC in the Japanese public sector, this section focuses, more than on anything else, on their privatization. In spite of the small number of Japanese SOEs, the importance of their privatization is not only significant in Japan but also internationally. For example, their IPOs are among the most generous in the world. According to Thomson Reuters, of the 16 biggest IPOs in the history, four have been issued by Japanese companies. NTT Mobile Communications Network Inc., an entity separated from NTT, attracted 18 billion USD in 1998 whereas its parent company NTT drew 13.7 billion USD in 1986. One of the companies formed from JNR, East Japan Railway Co., made 9.9 billion USD from its IPO and JT 9.5 billion USD in 1993 (The Wall Street Journal, 2010).

3.4.2 Structural Problems with Japanese Public Enterprises

According to Cheung (2002), the public corporations had been suffering from low profitability and dependency on government subsidies and, since the 1970s, they had become a fiscal burden on the government. However, PEs had practices and policies similar to those of private companies such as lifetime employment and enterprise unions. The internal structure of PEs was not the factor behind their privatization. “*Privatization was motivated*

more by the monopoly and public ownership status of these enterprises, which by the 1980s was giving rise to negative impact even on the enterprise management itself.”(Ibid., 2002). PEs were subjected to government accounting system which assessed their budgets, profit allocation, prices and business composition and which decided on whether PEs were entitled to receive loans. In addition, the PEs were obliged to follow the political promises made by the ruling party, the Liberal Democratic Party (LDP). To make things worse for the PEs, they were not allowed to expand or acquire other companies to make up for their losses. In short, the PEs were between a rock and a hard place; forced to engage in money-losing activities and financially constrained by the government regulations while not being able to expand (Ibid., 2002).

The privatization was a product of PEs seeking their way out of the government control and government willing to privatize. This process culminated in the 1980s due to the US pressure, the international economic trends and the conflicting policies concerning the PEs (Ibid., 2002).

3.4.3 Public Corporations Reforms and Privatization

The major reforms to restructure the status of the Japanese SOEs were commenced in the 1980s. The agency responsible for proposing privatization recommendations, the Provisional Commission for Administrative Reform (PCAR), was set up as a vehicle to evaluate the PEs and how they could be reformed (Cheung, 2002). In 1982, the commission proposed reforming PEs either to joint-stock companies, chartered corporations and fully privatizing public and mixed enterprises (Shumpei, 1984:162-163). The core of the public corporation sector (NTT, JNR and JTSPC) was decided to be partially privatized in the act of 1984 (Young 1987:193).

Subsequently, the privatization of NTT and JM was started in 1985, JRN (renamed JR) in 1987 and JAL in 1987. So far, the only fully privatized company is Japan Airlines (JAL) although it has never been fully owned by the government (Toyama, 1998). JAL became private in 1987 when the government sold the 34.5% of the shares it held (Ibid., 1998). In 2010, the company filed for bankruptcy protection and was subsequently delisted from the Tokyo Stock Exchange (The Economist, 2011).

In addition to these companies which were all government-controlled companies, four non-commercial statutory companies, the Japan Highway Public Corporation, the Metropolitan

Expressway Public Corporation, the Hanshin Expressway Public Corporation and the Honshu-Shikoku Bridge Authority were privatized in 2005 (Mizutani and Uranishi, 2006:13).

3.4.4 Impediments to Privatization

At first, the government ownership was dispersed at a very slow pace since the government was the sole owner. After three public offerings of NTT in the 1980s, the government's share of the total equity was still at 75%. The PCAR recommended both NTT and JT to be reorganized as special business entities whose shares, held by the government, would be gradually sold but this has failed to realize. For example, still in 2007, the government still owned, as ordered by the law, 33.7% of the total equity of NTT (OECD, 2007: pp. 39-42). In the case of JT, the government still owned 50% of the JT shares in 2011 (The Wall Street Journal Japan, 2011). Also, the monopolistic production of tobacco has continued (Toyama, 1998).

According to Toyama (1998), the slow progress of selling the government-owned stocks was due to the lack of favorable treatment policies. Unlike in other countries where privatization schemes have been popular, there were no discounts, bonuses or other incentives for the buyers to acquire stocks nor were the shareholders rewarded in any meaningful way for acquiring extra stocks. Also, employee shareholding was not encouraged.

Furthermore, privatization was also hindered by politics. The close relationship between the government and key industries has produced a situation where deregulation or liberalization of regulations have been slowed down by vested interests of the politicians, favoring of producers rather than consumers and private businesses' dependency on subsidies and governmental support (Toyama 1998; 396-397). Privatization and the recommendations of the PCAR had been opposed by some member of the Liberal Democratic Party, trade unions and the opposition parties. In the end, the privatizations were carried out due to the support from the majority of LDP members but not without compromises (Ibid., 1998).

The only company which was reorganized as recommended by the PCAR, was JR. By 2006, three of the six passenger railway companies of the JR Group, JR East, JR Central, JR West, have been fully privatized. The rest are not listed and remain fully state-owned (Yanagawa, Yoshino, and Harimaya, 2010). Hokkaido, Shikoku and Kyushu Railway companies have been corporatized but the government has held all shares without even selling them. The only difference between these corporatized entities and government departments is that the

formers are governed by commercial, not public law (Toyama, 1998; 396; Yanagawa, Yoshino, and Harimaya, 2010).

3.4.5 Postal Privatization

One of the biggest and longest political issues in the 2000s was the Japanese postal privatization. Although the plans to privatize the post had been around since the 1980s, the project had been continuously postponed and did not become an issue until the policy recommendations by the Hashimoto administration and Koizumi administration which adopted the project as one of its political priorities (Imai, 2009:140; Porges and Leong, 2006)

The Koizumi administration began investigating possibilities for privatization. According to Porges and Leong (2006), the motivation to privatize the post was to release its huge financial assets with total assets reaching 2.07 trillion USD. The post consists of postal, banking and insurance services. The assets in the former two sections amount to one quarter of all personal financial assets in Japan. Privatization of the post would not only release these assets but also increase competition in banking and insurance (Ibid., 2006).

Privatizing the post was posed challenges because the leaders would have to balance between creating a too powerful new post or purposefully weakening the vital infrastructure. In other words, the new, private post could not be too big to crowd out all the competition but then again they had to be careful not to purposefully create a weak post which would become a financial burden to the state (Ibid., 2006)

The initial goal was to divide the post into six entities:

“(1) a privately-owned bank; (2) a privately owned insurance company; (3) a majority-private holding company which would wholly own (4) a postal delivery company and (5) a postal network company; and (6) an entity to hold pre-privatization bank and insurance assets.” (Ibid., 2006:5)

Due to continuous opposition within the LDP and other parties, the postal privatization became so controversial that the Prime Minister Koizumi decided to order a new general election in 2005 to weed out the opponents and continue with the privatization plans (Imai, 2009:142). After the victorious election, the bills were passed to privatize the post. The privatization is not immediate but will be gradually carried out by 2017 the entity being split into four parts and a holding company. (Washington Post Foreign Service, 2005).

3.4.6 Conclusion

In order to summarize this section on the privatization of SOEs in Japan, it is important to note that the companies in the Japanese public sectors have been few and that their significance to the economy has been marginal. Privatization was started as a response to the deteriorating performance of the SOEs. Susceptible to political interference but unable to expand or innovate, there was political will to change their rigid legal standing more flexible and responsive to market signals. This process was influenced by the oil crises, rise of neoliberalism, international trends of privatization and deregulation and U.S. pressure.

Due to the small number of important Japanese SOEs, privatizations have focused on a rather small group of companies: NTT, JSTPC, JNR, JAL and Japan Post. Despite this, the monetary value of the IPOs launched by the new, separated entities has been significant. New IPOs from the dissolved Japan Post are expected to follow their predecessors but, despite the final decision to privatize in 2007, the process has suffered from setbacks (Financial Times, 2009).

Despite normal political opposition and some natural impediments, privatization in Japan has proceeded in a rather straightforward manner and the Japanese economy has been able to adjust to these changes with only little trouble. From time to time, the privatization plans have been encountered with political opposition, of which the most recent incident was the halting of privatization of Japan Post. The Koizumi Administration had to order a new election in order to secure the privatization. The relative easiness and lack of structural problems might be due to the already sophisticated legal and institutional framework of the Japanese economy, the small number of the companies privatized their marginal share of the labor and effect on the economy. On the other hand, it should be noted that even though the privatization has been started, the government still retains significant amounts of their shares.

3.5 Overview of Privatization in South Korea

In comparison with Japan and China, the role of the PEs in Korea has been important but not dominant (Chaudhuri, 1996:22; Haque, 2000:217). For instance, their share of the GDP and total employment has been low (Shirley, 1989). In terms of labor, Korean SOEs have not been important and their share of labor has been constantly decreasing since the early 1980s. In, 1982, for example, the PEs employed only 1.5% of the workforce and less than 2 per cent throughout the decade. In 2007 the number of executive and employees at the public sector

had fallen to around 86,000, of which the government plans to cut one-third (Forbes International, 2008 9 May S. Korea Moves toward Privatization). They were however used in the most important sectors of the economy and they were often used to initiate production in industries in which private companies were not able to invest. These included heavy industries such as fertilizers, petrochemicals, petroleum and steel and other sectors crucial to industrialization. PEs were also used to diversify Korea's labor intensive products (Chaudburi, 1996).

3.5.1 Timeline of Privatization and Reforms in Korea

Privatization of government enterprises has been a long and gradual process starting in the end of the 1960s and intensifying toward the end of the 1990s and 2000s. The first phase of privatization took place between 1968 and 1973. A total of 11 public corporations were privatized. These corporations were among the first private companies in Korea after the Korean War. The second phase from 1978 to 1983 saw the privatization of seven public corporations. The second privatization phase also introduced the 1983 GIE Administration Basic Act which restructured the PE governance. The 1987 reform witnessed the liberalization of the Korea Stock Exchange and reduction of the government's ownership in two of its largest holdings: KEPCO and POSCO. The fourth phase took place between 1993 and 1997 when reduction of the government's ownership in public corporations was continued and some of the subsidiaries of public corporations were fully privatized. The fifth privatization period from 1998 to 2002 was the most extensive and radical one. Because of the Asian Financial Crisis (AFC), the Korean government was forced to draw up a reform plan and had to sell its ownership in 74 corporations in order to improve Korea's credit ranking and to attract foreign investments. Finally, the latest phase of privatization between 2008 and 2010 has concentrated on privatizing the subsidiaries of the public corporations and selling state assets (Korea Knowledge Sharing Program 2010).

Based on this categorization, I will discuss the phases of privatization but with two exceptions. I have combined both the second and the third phase and the fourth and the fifth into a longer period due to continuities in privatization policies (Cheung, 2002). Before moving on to the actual history of privatization, I will go through the most common public enterprise types in Korea.

3.5.2 First Privatizations

Until end of the 1970s, the GIEs had been able to take advantage of their near-monopoly status and they had been growing 14.5 per cent annually since the inauguration of the Park administration (Cheung, 2002, citing Ahn 196:149). Some GIEs had started accumulating losses due to exhaustive government regulation, the overall performance staying however still profitable (Shirley, 1989; Lim: 30). In spite of the general profitability, the input-output ratio of the GIEs was lower than the average ratio (Shirley, 1989).

The first privatization process began in 1968 when the Park government attempting to reduce government deficit, sold the companies to the chaebols which were supported by the state in the industrialization. The chaebols were also better able to purchase the companies than other, private companies (Cheung 2002; Ahn and Kim, 2002; 86-88).

3.5.3 Corporation Reform Period

In the 1980s, there were 90 PEs in Korea. Their total value of the GDP was growing and grew to cover 10.4% of the GDP in 1986. Within the sector, the relative value of the GIEs and IIEs increased while the size of the GBEs and GEs stayed relatively stable. Their previously dominant market position vis-à-vis the private sector had become less competing and even supportive to the private sector. In addition, the public sector had become more service-oriented (Shirley, 1989).

This period saw the privatization of a few public corporations including Daehan Reinsurance, Daehan Oil, Daehan Dredging Corporation, Hanil Bank, Jeil Bank, Seoul Trust Bank and Choheung Bank which were sold to the public (Lim). However, even after the privatization, the government continued intervening in their business operations (Cheung, 2002; Korea Knowledge Sharing Program 2010). Besides these privatizations, important reforms were introduced in the public sector. The 1983 GIE management Act increased the autonomy of the enterprises, simplified their relationship with the government, shifted the supervision from the budget control to that of management supervision of agreed targets and standardized their rules and procedures (Shirley 1989; Kim, State-Owned Enterprise Reform and Corporate Governance Reform in Korea).

3.5.4 The 1983 GIE management Act

The reforms included the separation between supervisory and executive boards and removal of life-time appointments. The government representation was reduced to just two persons, one from the supervisory ministry and one from the Economic Planning Bureau (EPB). Managers were given greater autonomy with budgeting, procurement and personnel. The right to supervise GIEs was reduced from multiple agencies to one agency. Responsibility for auditing and inspections was removed to the Board of Audit. Company appointments have been given a priority in manager appointments instead of outside appointments. Rewards based on individual performance and lay-offs are used as stick and carrots (Shirley, 1989). The Management Evaluation Council was created to draw up guidelines for preparing management objectives, budget preparation and performance evaluation (Ibid., 1989). One of the most important reforms was the creation of the GIE Performance Evaluation System whose task was to hold the management accountable for achieving agreed objectives. The incentive system and performance indicators were set to monitor and reward managers (Shirley, 1989; Kim, State-owned Enterprise Reform and Corporate Governance Reform in Korea).

The performance of the GIEs has improved since the introduction of the reforms. The performance has changed when the GEs have been transformed to GIEs. The net profits of the GIEs more than doubled between 1982 and 1986. There however were companies registering losses later on (Shirley, 1989; Kim, State-Owned Enterprise Reform and Corporate Governance Reform in Korea).

3.5.5 Further Privatizations of the 1980s

The most important companies subjected to privatization in this period included the Korea Tobacco and Ginseng Corporation (KTG), Korea Telecom, The Korea Stock Exchange, POSCO and KEPCO (Korea Knowledge Sharing Program 2010; Lessons from privatization: labour issues in Developing and Transitional Countries: 31), which were also among the ten largest SOEs in Korea.

POSCO and KEPCO were partially privatized through the People's Share Programme. (Cheung, 2002; Van der Hoeven and Sziráczki, 1997). The program was intended to sell shares worth of 7.1 billion USD over a period of 1988-92. A part of POSCO, 34.1%, was sold to the public in 1988 but the privatization with KEPCO failed due to troubles in the stock

markets. In both cases, employees were also offered shares. KTG was transformed from GEs to GIE in 1987 and 49% of its state shares were sold to the public in 1991. In KT, the government reduced its holding from 100% to 51% in 1990 (Van der Hoeven and Sziráczki, 1997: 26, 38). Most shares were sold to individual investors rather than companies (Korea Knowledge Sharing Program, 2010). The Korea Stock Exchange had been a GIE since 1984 but, in 1988, it was transformed into a membership corporation whose shares the government sold to the member firms. Despite privatization and transfer of the management to the majority shareholders (Cheung, 2002), the stock exchange maintained a close relationship with the ministry of strategy and finance (Van der Hoeven and Sziráczki, 1997:42).

3.5.6 The Asian Financial Crisis

Before the AFC hit Korea, Seoul had privatized some PEs including Daehan Tungsten and Kookmi Housing Bank and reduced the holding of state-owned shares in 22 public corporations (Korea Knowledge Sharing Program, 2010) and its previously state-owned financial institutions (Ha and Lee, 2007).

Initially, the AFC, which broke out in Thailand, was not thought to spread as far as Northeast Asia. However, before the 1997 crisis, Korean companies had been suffering from low profitability and debt, coupled with weak corporate governance and supervision and regulations of the financial sector. Korea also lacked other normal market mechanisms such as exiting the markets. Bankruptcies were nonexistent for large corporations and they were very bureaucratic procedures. M&As were discouraged and the cross ownership between chaebols prevented takeovers. One part of the problem had been the continuous interventions by the government to save chaebols. Moreover, the accounting standards, lack of transparency and the exaggeration of sales and size did their part in leading to the crisis. Especially weak was the performance of the chaebols (Joh, 2004:195-196, 204-207).

The reforms were started after the crisis. They have concentrated on reforming the companies' capital structure, creating market threats to the companies and improving their corporate governance. The IMF and World Bank were heavily involved in pressing through the reforms. The government set out to revise accounting standards and corporate statements, to eliminate cross-debt-payment guarantee, to improve firms' capital structure, to place a debt limit on 200% debt-equity ratio, to reduce overdiversification, to identify core businesses and cooperative relationships with SMEs, to enhance the accountability of management and

controlling shareholders, to separate commerce from finance and to discourage circular equity investment and intra-group trading (Joh, 2004; Ha and Lee, 2007).

3.5.7 Post-Crisis Privatization

Although the vulnerability of the Korean economy had originated with the chaebols, the SOEs were also subjected to privatization, partially because of the crisis but mainly as a follow-up to the earlier 1990s reforms initiated by the Kim Young Sam administration. The majority of the reforms caused by the AFC were nevertheless targeted on the chaebols (Cheung, 2002; Ha and Lee, 2007). Despite earlier privatization and plans of further privatization since the early 1990s, the AFC gave it a new impetus and hastened the process (Cheung, 2002). The fears of foreign and, possibly, hostile takeovers (Ha and Lee, 2007) changed to the need to attract foreign investments and to reduce government deficits became more acute than before (Kim, State-Owned Enterprise Reform and Corporate Governance Reform in Korea).

The 1998 phase of privatization was more extensive than the previous ones. 13 GIEs, eleven GBEs and 75 subsidiaries were inspected and reviewed for the privatization, altogether 99 government-owned entities. 13 corporations were decided to be only restructured and eleven to be privatized either immediately or partially. 61 of the subsidiaries were ordered to be privatized either immediately or partially. By 2002, all these companies had been privatized (Korea Knowledge Sharing Program 2010; Lim: 40). The privatization of three public utilities companies in a phased privatization process was later cancelled as a result of opposing act from the subsequent administration (Kim, State-owned Enterprise Reform and Corporate Governance Reform in Korea).

The enterprises for sale were open to the public and foreign buyers. Selling to the chaebols was intentionally avoided as the state was reluctant to increase their economic power and also because the Kim Dae Jung administration was strongly biased against chaebol-led development (Korea Knowledge Sharing Program, 2010; Ha and Lee 2007). The Planning and Budget Commission (PBC) also sought diffused ownership as it wanted to avoid the enterprises from being acquired by too few buyers. (Korea Knowledge Sharing Program 2010 pp. 21)

78.3% of the PEs was reduced and 61.8% of the employment (Korea Knowledge Sharing Program 2010 pp. 23). In 2002, there were only 13 GIEs left (Lim, Public Enterprise Reform

and Privatization in Korea). Moreover, the government received 24 trillion won and ten billion USD in foreign currency (Ibid. 24)

3.5.8 The Late 2000s Privatizations

Even after the privatization induced by the AFC the public sector presence continued in the Korean economy. In 2008 privatization resumed. The MOSF published a list of 41 enterprises to be privatized. However, the companies to be privatized were small and fewer than expected. The companies included Hynix Semiconductor Incorporation, Daewoo Shipbuilding & Marine Engineering Corporation and Woori Finance Holdings Corporation among others (The Wall Street Journal Asia, Aug, 2008). Of the abovementioned 41 companies, 27 will be privatized, two abolished and the rest will go through functional adjustment⁹. There were also plans to merge some of the SOEs into a holding company (The Wall Street Journal, Mar, 2008).

3.5.9 Conclusion

As in China and Japan, public sector enterprises in Korea have also followed the pattern of decreasing importance in their share of the GDP and labor both due to government divestments and the private sector growth.

Privatization in Korea has been gradual and proceeded in periods extending over four decades. While the privatizations of the earlier periods were few and modest until the end of the 1990s, the overall development of Korean privatization seems to have followed economic growth and development (Kim, State-Owned Enterprise Reform and Corporate Governance Reform in Korea).

Apart from structural impetuses of inefficiency and lack of competition for privatization, the single most important event affecting the privatization in Korea was the AFC which resulted in a series of privatizations of government enterprises. Although the Korean government had privatized before, the post-crisis privatization plan was the most extensive one. Also, quick privatization and revenue gained from divestment were probably among the reasons why Korea was able to recover its economy and return to growth in one year. Another major event affecting the privatization was the 1983 GIE Management Act which itself did not directly

⁹ Functional adjustment is a privatization method first used in 1984 to reconfigure the corporate activities of public enterprises competing too closely with the private sector (Cheung, 2002).

prompt privatization but restructured and streamlined PEs which ended up in making them more profitable and competitive. Prior to this, government had been divesting its assets. Finally, People's Share Programme in the end of the 1980s also facilitated selling government divesting.

4 Dimensions and Methods of Privatization

In this section, privatization experiences and processes will be compared from the viewpoint of dimensions and forms of privatizations. First, *how* privatization has unfolded in East Asia will be compared and analyzed using dimensions of privatizations, that is whether countries have relied on privatization programs or ad-hoc approaches, whether the privatization has been centralized or decentralized by nature and whether privatization has been rapid or gradual. Second, the use of privatization methods, which includes SIP, voucher, direct sale and privatization from below, will be compared to find out which methods have and have not been used.

4.1 China

4.1.1 Dimensions of Privatization

There have been several programs or campaigns aimed at managing privatization in China. One of them was RHSOS, a series of unofficial incidents involving state assets being sold to enterprises at very low prices. In 1999, RHSOS was made into an official policy called SSR (*Shareholding System Reform*) which was intended to transform SOEs to shareholding companies. The late-1990s mass privatizations were permitted under the official RHSOS but the managed privatization of the larger SOEs did not realize until 2003 when the *share conversion program* was adopted in 2005. The roots of these hasty developments were in the inadequate reforms made in the 1980s which did not address of the problems of ownership and rapidly decreasing state ownership in the 1990s (Ma, 1998; Ma, 2008).

China has applied a dual approach to privatization. In general, the privatization process has been largely a local phenomenon (Bowles and Dong, 2002:8). In the mid-1990s, the central government gave up its duties regarding the small and medium-sized SOEs and transferred their governance and associated tasks to the local governments which were free to merge, bankrupt or privatize them (Naughton, 2007:301-302). However, when it comes to the larger SOEs, a centralized approach to privatization has been preferred. The SASAC administered

by the Chinese state council, now manages some 150 biggest enterprises, down from 196 enterprises in 2003 (The Economist, 2012; Naughton, 2003). Also, with respect to the privatizations the largest SOEs, there are still numerous restrictions regarding their share floating and share trading so in this sense, the privatization has not been as complete as in some of the smaller companies which have undergone full privatization.

The same division between SMEs and large SOEs is also visible when discussing whether the privatization has been rapid or gradual. The mid-1990s saw SMEs being privatized at a very rapid pace. In 1994, there were around four thousand private enterprises, in 1997 13 thousand and, in 2001, 36 thousand, more than collective enterprises. This development took place parallel to the decrease in the number of collectives and the total number of enterprises in China (Jefferson, Jian, Yuan and Xinhua, 2003). On the other hand, the overwhelming majority of the shares of the 150 largest SOEs are still state-owned so share offerings will continue to be part of China's economic development (The Economist, 2012).

4.1.2 Methods of Privatization

Chinese methods of privatization have included five methods: SIP, direct sales, employee shareholding, leasing and privatization from below.

SIPs have been used in the privatization of large SOEs but their use has been restricted with various methods. In most countries, public share floats have been the most popular method of privatizing SOEs (Jones, Megginson, Nash and Netter, 1999). Until recently, it was not possible for SMEs to issue shares publicly (Chow, 2007:71) but, since 2005, in Shenzhen stock exchange Chinese SMEs have been able to list themselves on the SME board index (Shenzhen Stock Exchange, 2012).

The unofficial RHSOS throughout the 1990s was an example of direct sale from the state or a local government to investors. These sales were often directly negotiated and led to the sale of state assets at very low prices. In addition, the various regulations restricting the sale of shares led to the depletion of state-owned assets (Ma, 2008:200). The mid-1990s mass privatizations were supported by allowing insider buyouts e.g. managers to buy whole enterprises to themselves (MBOs). According to a survey taken by Jie Gan, Yan Guo and Chenggang Xu (2010), direct sales have accounted for almost 70% of privatized companies between 2000 and 2005 making direct sales the most popular method of privatization. In their survey, employee shareholding and leasing covered 10 % and 8% of the privatizations

surveyed. The SIPs only accounted for one per cent of privatizations. However, Gan, Guo and Xu only compared the amount of privatizations. When comparing the market value produced by privatization, it becomes more likely that the SIPs have been more dominant and visible in this development. For instance, the largest 121 enterprises produced around 80% of the total market capitalization of the Chinese stock exchanges (The Economist, 2012).

4.2 Japan

4.2.1 Dimensions of Privatization

In Japan, the 1980s privatization program was initiated by the establishment of a commission called the PCAR. The commission's tasks included suggesting and recommending reforms targeted at PEs. The PCAR's recommendations did not fully realize as only JAL and JNR were reorganized as recommended by the commission. Despite privatization in other companies, the PCAR's influence remained miniscule considering that a significant proportion of the SOE shares still remain in government ownership. In the case of Japan Tobacco, the monopoly on the production of tobacco continued (Toyama, 1998). The second privatization program was initiated during the Koizumi administration when the plans to privatize the Japanese highway corporations and Japan Post were carried out. These plans have largely been completed or are in process (Mizutani and Uranishi, 2006: 13; Washington Post Foreign Service, 2005).

Based on the OECD criteria which states that privatization is centrally organized when it is conducted by '(a) a unit within a financial ministry or a central agency of the government; (b) a dedicated privatisation body; (c) a holding company of the government' (OECD 2003, pp.13), Japanese privatization has been centralized to a high degree. The Ministry of Finance carries out the process of selling government-owned assets. The three core PEs (JNR, NTT and JT) were, prior to their corporatization, government departments managed and administered by their corresponding ministries. For example, NTT and Japan Post together formed the Ministry of Posts and Telecommunications which was a part of a larger entity, the Ministry of Internal Affairs and Communications. JNR, on the other hand, was under the authority of the Ministry of Transportation (Nakamura, 1996). JAL, prior to the complete privatization of the company in 1987, was a public-private company of which the government owned 50% stake. JAL was under the authority of the Ministry of Transport (Time, 2009).

Japanese privatization has been gradual both regarding the totality of the state assets and individual companies. For example, the IPOs of both NTT and JR East comprised only 1.5% of their total assets (Dewenter and Malatesta, 1996:7). Only two companies, TEPCO and JAL, have been fully privatized. Despite continuous divestments of government assets, the Japanese government still owns significant amounts of public enterprise shares.

4.2.2 Methods of Privatization

Apart from SIP, Japan has not used direct sales of the government assets nor has there been voucher privatization. Management buyouts have also been used (OECD, 2007). All the companies in Japan have been privatized through public share issuances which probably reflect developed stock markets and the large size of privatized companies. However, it is a rather difficult task to determine whether SIP or management buyouts have been used since these are not exclusive in Japan unlike in China where restrictions on share trading exist. Employee shareholding has not been encouraged in Japan (Toyama, 1998).

4.3 Korea

4.3.1 Dimensions of Privatization

Several privatization and reform programs have been used in Korea. The privatization programs have taken place in 1968, 1978, 1993, and 2008 (Kim and Kim, 2001; Korea Knowledge Sharing Program, 2010). These programs tend to have formed in the presidential administrations. With the most important reforms driving the process forward were GIE Management Act in 1983, the Corporate Governance Reforms in 1998 (Lim, 2002) established to reform the public sector. The responsibility for privatization has usually belonged to the line ministries. One less important program was the People's Share Programme which was intended to be used in the privatization of POSCO and KEPCO.

Like in Japan, privatization has largely been centralized in Korea where the Privatization Steering Committee is in charge of the overall process and delegates the task of devising industry specific plans to the corresponding line ministries (Asia Development Bank, 2001). However, it could be said that since 1984 privatization had been decentralized. Before 1984, the authority over the PEs was overseen by corresponding ministries. These tasks were transformed in the Basic Law on the Management of Government Investment Corporations to the Auditing Board (Cheung, 2002).

Korean privatization has been very gradual and has proceeded in four, continuous cycles. The first cycle took place between 1968 and 1973. The second phase in the Korean privatization extended from 1978 to 1988. Privatization resumed in 1993 and was boosted by the AFC and subsequent demands from the IMF in 1998. This period lasted until 2002. The last cycle was initiated in 2008 and continued till 2010 (Kim and Kim, 2001: Korea Knowledge Sharing Program, 2010).

4.3.2 Methods of Privatization

In terms of privatization methods, Korea has used SIPs, direct sales, employee shareholding and management buy-outs (Haque, 2000). Direct sales were the dominant privatization method in the earlier privatization phases when the companies were sold to the chaebols which often were the only potential buyers. Another reasons why privatized companies were sold to the chaebols was the chaebols' role in the industrialization plans (Ahn and Kim, 2002; 86-88). This relationship between the state and chaebols was so extensive that some authors question the private status of the chaebols (Lim, 2002:15) In the 1980s, selling state assets to chaebols has been tried to avoid due to growing fears of increasing Chaebols' economic power. In the 1990s, the government even imposed a 7% limit on how many shares chaebols are allowed to acquire (Lim, Public Enterprise Reform and Privatization in Korea: Lessons for Developing Countries: 2).

During this time, Employee shareholding was promoted in the People's Share Programme which was targeted at privatizing six enterprises including POSCO, KEPCO and KTG. Around 20% of the shares were reserved for the employees (Van der Hoeven and Sziráczki, 1997:38). MBOs were also supported during this time and their use has been increasing since the early 2000s (OECD, 2007).

SIPs have been a popular method of privatizing and their use is likely to become more popular due to the development of capital markets. Successful examples of SIPs include the share floating of POSCO which produced an exceptionally large IPO of 3.4 billion USD in 1988 (Megginson and Netter, 1997).

4.4 Conclusion

The following tables summarize the comparison of the dimensions and the use of methods of privatization in East Asia.

	Program	Ad hoc	Centralized	Decentralized	Rapid	Gradual
China	x		x	x	x	x
Japan	x		x			x
Korea	x		x		x	x

Table 1. Dimensions of Privatization.

The use of ad hoc-privatization has been non-existent. Although the programs have not been designated as such it is clear that there were no single privatizations. All privatizations have occurred as a result of political planning and in tandem with other privatizations.

The degree of centralization and decentralization in privatization has strongly varied between the countries. In China, the privatization of the large SOEs has been centrally managed since 2005 but the privatization of many SMEs has been decentralized. In Japan, the privatization has been largely centralized due to the large size of the companies. Likewise, the Korean privatization has been centralized as it has been directed by the central government.

No country has taken a rapid approach similar to the early 1990s Russia practically privatized all state assets overnight. Some smaller and medium-sized companies have been fully privatized very rapidly, especially in China. Also, the post-AFC privatization was carried out in a rapid pace, although not all companies chosen for privatization were fully privatized. In general, the pace of privatization in East Asia has been gradual.

	SIP	Direct Sale	Leasing	Privatization from below
China	x	x	x	x
Japan	x			
Korea	x	x		

Table 2. Methods of Privatization.

With regard to the use of methods, a variety of privatization forms has been used. China and Korea have used more diverse methods of privatization than Japan which has solely relied on the use of SIP. On the other hand, China was the only country to have privatized from below. Although it did not produce private companies in the purest sense of the word, it did manage to lift the major restrictions on entering the market (Naughton, 1994). However, Japan and Korea had had lower barriers to market entry than China. In China, the use of direct sales has been more popular than SIP, although in value production SIPs have been the most used method of privatization. China was also the only country to have used the method of leasing in privatization. In Korea, direct sales were used mainly in the first round of privatization but

since then their use has become much less used. Later on, the methods have become more diverse including SIPs. Similar to China and Japan, SIPs have produced the most value.

5 Factors behind Privatization in East Asia

5.1 Economic Development

In this subsection, economic development is primarily understood as economic growth, in other words, the growth of the GDP per capita¹⁰. Although GDP growth does not fully cover all the nuances of economic development, it is nonetheless an easy and simple tool for a meaningful comparison.

Comparing the GDP rates per capita with the timing of the first privatization in each country, it becomes clear that the first privatizations have all occurred at only a slightly different level of GDP in each country. For example, the mid-1990s GDP per capita in China was around 2,521 USD whereas the Korean GDP per capita in 1968 stood at 1768 USD¹¹.

With the exception of TEPCO, which was privatized in 1951 (TEPCO Corporate History), Japan started privatizing relatively late. There are good reasons to exclude TEPCO from this analysis. The privatization of TEPCO is easily seen as an exception to the timing of other privatizations so it could be speculated that its privatization was a political solution to a certain problem which pushes the case outside the privatization discourse of the 1980s.

Although the Japanese economy had largely been privately led, the GDP had risen to 21 588 USD per capita by 1986. If the case of TEPCO is included, Japan can be said to have started privatizing already at a level of 1873 USD per capita¹². Including TEPCO to the comparison, all the countries have started privatizing at only slightly different levels of GDP; China at 2521, Korea at 1768 and Japan at 1873 USD. However, after the privatization of TEPCO, there was no significant privatization until the 1980s when the Japanese GDP per capita was at the level of a developed country.

¹⁰ The figures are adjusted in purchase power parity.

¹¹ Gapminder: GDP/Capita US\$, Inflation Adjusted. China, Japan and South Korea selected <http://www.gapminder.org> Accessed on Jan 20th, 2012.

¹² GDP per Capita in 1950. http://www.nationmaster.com/graph/eco_gdp_per_cap_in_195-economy-gdp-per-capita-1950 Accessed on Jan 20th, 2011.

The 1980s privatization originated within the international economy itself, not individually in each country. This is why privatization, albeit differently and to a different degree, has occurred across economies of different stages of development. In short, the current privatization trend is not related to any level of economic development.

5.2 Business Cycles and Timing of Privatizations

Business cycles denote the changing cycles of expansions and contractions in economic activity (Investopedia: Business Cycle). According to Bortolotti and Siniscalco (2004), the incidents of privatization increase during times of booming business. This happens due to increasing market prices which makes it attractive for the government to divest its assets. If privatization is timed accurately, the proceeds from divestments can be considerable for the state. On the opposite, if the timing of privatization fails and the company is sold at the market at a wrong time, divestments can turn out be substantially less than expected (Brada and Ma, 2007).

Although it is difficult to pinpoint the exact moment of privatization, whether it is the privatization decisions or moments of divestments which matter, I think it is however possible to approximate the start of a growth cycle and privatization period to see if they correlate. In addition, the nature of the first privatizations has been very different in each country. The Chinese had started partial but very limited privatization in the early 1990s and the mass privatizations of the mid-1990s were only local in nature. When the Korean state started privatizing in 1968, the assets were mainly sold to the chaebols in an attempt to strengthen their role in industrialization. In Japan, the first real privatizations were massive in size and, thus, internationally significant.

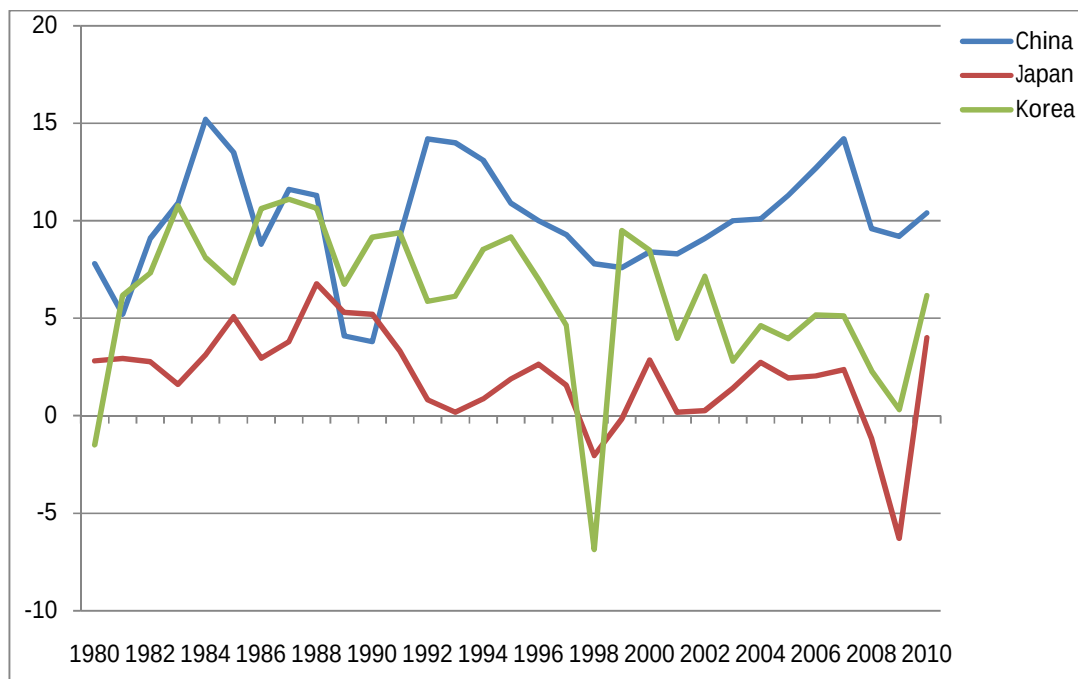


Figure 1. Vertical line: Change in Percentage Horizontal line: Year. East Asia Economic Growth 1980-2008. Source: World Bank Data: Annual Percentage GDP Growth. Compiled by the Author.

5.2.1 Nippon Telecom and Japan Tobacco

In Japan, share floats of NTT and JT failed to produce the expected value. NTT launched its IPO in 1986 after two years of medium economic growth, 3.1 and 5% respectively. The years after NTT's share offering started showing signs of weakening economic growth pressing down the price of NTT stocks. Also, the 1987 stock market crash also affected the prices. This slowed down the process of privatization. The same development applies to JT which launched its IPO in 1994 but was not able to excite the investors (Dewenter and Malatesta, 1996:7).

5.2.2 Japan Railways

JR East launched its IPO in 1993 and the last remaining government-owned shares are sold in 2002 (East Japan Railways Company: Key Dates). The company's IPO was launched during a period of low growth. The previous year's growth rate had been 0.8% and in 1993 it was 0.17%. Japan Central Railway Company was listed in 1997 after 2.6% growth in 1996. West Japan railway listed in 1996 when the previous year's growth had been 1.8% (West Japan Railway Company: History). Despite launching the shares in a period of low growth, the stock prices of JR East have done relatively well to the extent that during the IPO, the

demand for JT's shares was pushing down the prices of all other stocks (Dewenter and Malatesta, 1996:7).

5.2.3 POSCO

POSCO was the first Korean company listed through the People's Share program in 1988 and after 1997 the decisions to fully privatize the company were made. These decisions were implemented in 2000. The first privatization followed strong economic growth of 10.6% and 11.1% in 1986 and 1987. The final shares were sold in an economic upswing following a 9.4% growth in 1999 and 8.4% in 2000 (POSCO: History of POSCO).

5.2.4 KEPCO

A year after POSCO, KEPCO, the biggest PE in Korea, went public in 1989 after strong growth of 10.6% in 1988 and 11.15% in 1987. After the 1997 crisis, the government's ownership of the company was reduced from 69.6% in 1997 to 52.2% in 2000 (Nam, 2004: Table 4.2). Since 2006, the government's ownership of the company has been maintained at around 21% (KEPCO, Shareholder Structure)

5.2.5 KT&G

KT&G was privatized in 1999 as a part of the government's privatization scheme caused by the AFC. The last remaining government shares of Korea Tobacco were sold in 2002 after the economy had recovered (Highbeam Business, 2004). However, the high initial prices of the IPO almost halved by 2002 (Reuters Finance, KT&G Corp)

Privatization in Korea has followed strong economic growth. In terms of timing, the privatizations have been successful. However, the external shock of the AFC and policy pressures from the IMF made the Korean government to engage in a large privatization scheme. Despite the severe economic downturn, the Korean economy was already growing probably both due to the mass privatization of many of its PEs. However, for privatization this was a virtuous cycle of soaring stock prices making privatization a less comfortable option. This development also raises the question to what extent privatization induces economic growth.

5.2.6 Timing of Chinese Privatizations

The Chinese share offerings are more difficult to judge on the basis of privatization timing due to continuous high growth throughout the previous decades. However, the constantly increasing number of companies listing themselves could be a sign of appreciating assets. But at the same time, it can be interpreted as a removal of restrictions towards listing and public share offerings as well as an attempt of the government to increase the listings and market capitalization of its stock exchanges. For example, in the 2000s the growth was accelerating each year until 2008. However, this period of time has also produced the bulk of the privatization proceeds in China; 170.7 billion USD. In comparison, the 1990s produced a mere 20.6 billion USD. Toward the end of the 1990s, the economic growth in China was decelerating until 1998 after which it began rising again (World Bank. Privatization Data 1988-1999 and 2000-2008). This development is more likely due to the successful lift of bans and introduction of share conversion than just expanding economy.

5.2.7 Conclusion

Timing privatization accurately is as easy as predicting future economic growth. There are clear differences to the timing of listing. Thus, it is no wonder that there were clear differences to the timing of privatization. Also even though the timing might be accurate, nothing can guarantee a favorable outcome for the stock prices. In Japan, privatizations of NTT and JT were less successful than the share offering of JR East despite the fact that JR East went public during low economic growth. In Korea, the first privatizations of KEPCO, POSCO and KT&G were implemented after economically favorable years. The later privatizations also took place during good years but were caused by a severe fall in the Korean economy.

So, are there more privatizations during high growth years? Based on this unstatistical analysis, one could say that the governments tend to intentionally avoid share offerings during the bad years but might be compelled to do so like Korea was in 1997. Also, timing privatization in a high growth period is desirable but, due to unknown variables, it might also be unattainable.

5.3 Government Debt

The assumption is that the growing amount of national debt puts pressures on the government to privatize. For example, Bortolotti, Fantini and Siniscalco (2001) link the late 2000s privatization in Korea to the rapid increase of the Korean national debt induced by the AFC in 1997. Looking at the general accumulation of government debt in China, Japan and South Korea seem to verify their proposition on a grand scale.

The levels of debt in East Asia have all accumulated at a very different rate. First of all, the level of the Japanese debt is overwhelming whereas the corresponding figure for Korea is low among developed economies. The Chinese debt is relatively small but during the last 25 years it has increased ten-fold. Apart from these differences, the overall trend in the level of national debts in East Asia during the last 30 years is increasing, although in the case of Korea this development is less unambiguous. The Korean national debt continued decreasing until 1996 when the debt-to-GDP ratio was eight per cent. Since then, the trend has been that of increasing debt. The equivalent ratio for Japan went through a period of decreasing debt between 1987 and 1991. Since then, the ratio has been on the increase every year since 1981 with the exception of the year 2006. The development of the Chinese government debt has been less even. Throughout the 1990s and late 2000s the debt levels have been turbulent but rising (Figure 2.).

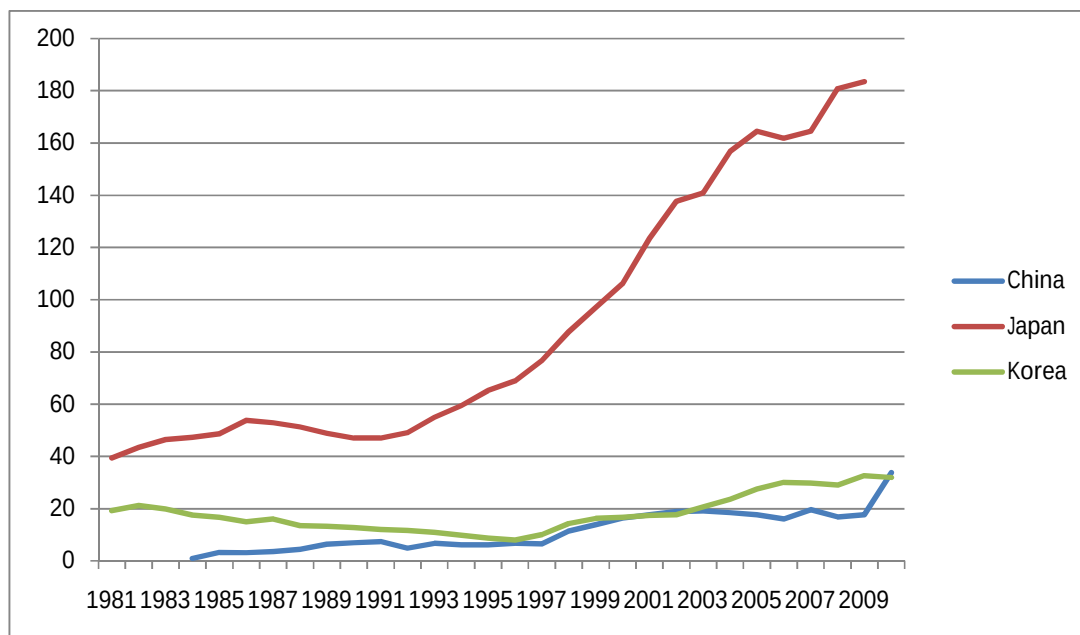


Figure 2. Vertical Line: Percentage of Debt to GDP. Horizontal Line: Year. Central Government Debt to GDP in East Asia. Source: Index Mundi; China Public Debt: OECD Statistics; Central Government Debt. Compiled by the Author.

In fact, the debt levels have risen in all three countries between 1996 and 2000, a period which appears to be a certain kind of a vantage point. The Chinese and Korean government debt more than doubled whereas the Japanese government debt-to-GDP ratio rose from 68.9% to 106.1%. The growing national debt in Japan since 1992 however was a long-term product of the burst of the Japanese bubble which was further contributed by the 1997 crisis.

5.3.1 China

In China, the growth of debt caused by the AFC took place at two levels: the central and local government level. Between 1997 and 1998, the Chinese local government debt grew 48.2% (Institute for New Economic Thinking, 2011). At the same time, the central government had to protect the banks which had financed the SOEs. To finance this, some of the SOEs had to be privatized (World Socialist Web Site, 2011). The campaign of *Protect the Large, Release the Small* was officially started in 1997 when the ownership rights of many state-owned SMEs were transferred to the local government. While the transfer of ownership rights may have saved the central government from excessive debts, it has put the local government's budgets on strain. To conclude, the early Chinese privatization was connected to the rise of both central and local government debt caused by the AFC. Since then, the level of debt had continued rising in spite of privatization. However, the level of debt has not decreased but instead kept on increasing. Between 2008 and 2009, the local government debt growth amounted to 61.9% (Institute for New Economic Thinking, 2011). The reduction of debt between 2004 and 2006 is likely due to the successful program of share conversion which enabled the listing of large SOEs producing proceedings for the government.

5.3.2 Japan

In Japan, debt reduction has been one of the goals associated with the privatization plans. For example, in the late 1980s after the IPOs of NTT and when the highway toll network was privatized in 2005, the national debt was reduced (Laurino and Grimaldi, 2010). Prior to privatization, the levels of debt have been on the increase and after the privatization of the four highway corporations and NTT, the level of debt has also decreased. However, the IPOs of JR in 1993 and JT in 1994 did not have the same effect on the debt levels, even though the privatization of JR was considered a success (See Figure 2.).

5.3.3 Korea

In Korea, the debt level significantly decreased from the mid-1980s until 1997 probably due to the adoption of the 1983 GIE Management Act which itself was affected by the previous rising levels of debt. The subsequent privatizations of the late 1980s and early 1990s were also among the factors affecting the reduction of government debt. The effects of the AFC and subsequent increased in debt on the privatization were positive (Bortolotti, Fantini and Siniscalco, 2001) but the post-crisis privatizations have not pushed the debt levels down. However, the drastic measures taken to counter the crisis were able to revive the economic growth.

5.3.4 Conclusion

During the past 30 years, all three countries have increased their loan taking and the accumulating debt has had an effect on privatization of state-owned assets. Both in Japan and Korea, the rising levels of debt in the early 1980s were encountered with corporate reforms and privatizations. As a result, the growth of debt was tamed and both Japan and Korea went through a period of decreasing government debt. In the early 1990s, the Japanese government debt started growing again and the government resorted to further privatizations which however did not reduce the national debt further. The Korean and Chinese national debt began rising as a result of the AFC. In China, the privatization occurred due to the transfer of ownership rights from the central to the local government and bailing out of the state-owned banks by the central government. In Korea, the harsh privatization program was set up mainly to gain revenue for the state and restore the faith of international organizations and investors. Because of the crisis, the government debt in Japan increased as well. However, despite the privatization measures, the government debt in China, Japan and Korea continued rising. In China, the debt was temporarily reduced in 2004 and 2005 probably due to the share conversion program. In Japan, the liabilities were also temporarily reduced in 2005 with the revenues gained from the privatization of the highway corporations. The late 2000s financial crisis increased the national debts drastically which gives a reason to expect further privatizations.

5.4 Fiscal Impetuses for Privatization

There are both compelling factors and desirable goals which affect the decisions and actual acts of privatization. More often than not, these factors overlap and are interchangeable. For

instance, governments owning unprofitable SOEs are likely to proceed with privatization to both gain revenue and reduce their liabilities. There are also external and structural reasons like foreign pressure, level of economic development and national debt affecting privatization which is not always based on economic considerations either.

In general, following factors are acknowledged as important factors and goals influencing privatization in the literature: government deficits, soft budget constraints, debt, capital market conditions, concerns for efficiency, introduction of more competition and lessening of political interference (Mizutani and Uranishi 2010; Bortolotti, Fantini and Siniscalco, 2001). After looking at the general reasons behind privatization in East Asia, impetuses for privatization are then viewed and analyzed against the structural background of economic development, business cycles, debt and external influences.

5.4.1 China

The privatization pattern of small and medium-sized enterprises followed hardening budget constraints (e.g. companies have to take control of their own finances instead of a bank) (Guo and Yao, 2005). In the mid-late 1990s, the Chinese government sought to reduce the number of SOEs by transferring all but the most important companies to the responsibility of local governments. But at the same time, many banks were constrained in their lending to SOEs and their liquidity regulations which led the local governments to privatize, bankrupt or merge many of their newly acquired SOEs if they were not able to persuade the banks to continue on lending (Yusuf, Nabeshima and Perkins, 2005; Guo and Yao, 2005; Brandt, Li, and Roberts, 2001).

In the case of the most important larger SOEs capable of listing in the stock exchanges, share offerings were meant to diversify the sources of their funding in order to alleviate the domestic banks which had a huge number of non-performing loans. (Yusuf, Nabeshima and Perkins, 2005). One of the key problems with the Chinese SOEs had been debt and it has also been one of the central reasons leading to the late-1990s reforms. After the first economic experiments, SOEs started piling debt assisted by the state-owned banks. In 15 years from 1980 to 1994, the SOEs increased their debts from 18.7 to 79% in relation to their assets. Without financial scrutiny, the amount of non-performing loans had reached around 50% of all bank assets (Sun, Tong and Tong, 2002:12). However, according to a study conducted by Kai Guo and Yang Yao (2005), high levels of debt have been one of the factors preventing

privatization: investors and buyers are not interested in highly indebted companies operating at marginal profits.

5.4.2 Japan

At the time of privatization, Japan was already a developed economy with world-class enterprises. According to Mizutani and Uranishi, the public corporations in a mature economy operating in commercialized industries controlled by few regulators and receiving only few subsidies are more likely to be privatized. (Mizutani and Uranishi 2008:534).

The reforms can also be seen in a more general context; the end of strong growth and subsequent, diminishing tax revenues and increased governmental spending put pressure on fiscal restructuring of the government activities. (Shumpei 1984:146).

According to Cheng (2002), the public corporations had been suffering from low profitability and dependency on government subsidies and, since the 1970s, they had become a fiscal burden on the government. However, PEs had practices and policies similar to those of private companies such as lifetime employment and enterprise unions. The internal structure of PEs was not the factor behind their privatization.

“Privatization was motivated more by the monopoly and public ownership status of these enterprises, which by the 1980s was giving rise to negative impact even on the enterprise management itself.”

(Cheung, 2002)

PEs were subjected to government accounting system which assessed their budgets, profit allocation, prices and business composition and which decided on whether public enterprises were entitled to receive loans. In addition, the PEs were obliged to follow the political promises made by the ruling party, the LDP. To make things worse for the PEs, they were not allowed to expand or acquire other companies to make up for their losses. In short, the PEs were between a rock and a hard place; forced to engage in money-losing activities and financially constrained by the government regulations while not being able to expand. (Ibid., 2002)

The privatization was thus a product of PEs' low profitability and business inflexibility seeking their way out of the government control and government willing to privatize. This

process culminated in the 1980s due to the US pressure, the international economic trends and the conflicting policies concerning the PEs (Ibid., 2002).

5.4.3 Korea

In Korea, the reasons behind privatization have been diverse. The more structural factors were the economic growth and maturation of the Korean economy and consequent liberalization and internalization of the 1980s. At the time, PEs were heavily influenced and dependent on the government policies but these impediments to the growth did not form a major reason to privatization until the late 1990s when the state finances became very restrained due to the AFC. The rationale for privatizations prior to 1997 changed from supporting market economy, financial markets and employee shareholding to gaining extra revenue for the state but they had all been moderate in comparison to the magnitude of the late 1990s and early 2000s privatizations (Korea Knowledge Sharing Program, 2010:20-21).

The privatization of KT in 2002 reflects the multitude of factors influencing privatization in Korea. In addition to the concerns for efficiency and development of telecommunications sector and raising revenue for the government, privatization was also pushed by foreign and domestic interests namely U.S. and chaebols (Kim, 2009:117). Also, in terms of motives for privatization, Korea has probably been most influenced by foreign pressures to privatize in East Asia (See External Influences). Thus, before the crisis, there were problems with the PEs (dependency, lack of financial and business freedom and inefficiency) but there had been no sudden surge to privatize them before the crisis. The impetus being an external shock, the government finances were suddenly restrained and, in order to receive financial help and immediate funding, mass privatization of state assets was one of the key solutions to alleviate the situation. To conclude, government budget constraints presented the overarching reason to privatize. Korea has also intentionally avoided politicization of company management and the conglomerates from growing too strong. For example, POSCO was not privatized on the ground of inefficiency but to prevent the corporation from engaging with politics (Lim, Public Enterprise Reform and Privatization in Korea: Lessons for Developing Countries; Kim: State-Owned Enterprise Reform and Corporate Governance in Korea).

5.4.4 Conclusion

When comparing the impetuses for privatization, it is clear that the fiscal distress has been among the key factors behind privatization. However, the strain on public finances

manifested itself very differently in China, Japan and Korea. In China, the fiscal constraints had to do with the banks which had been lending cheap credit to the SOEs to the extent that the outstanding debt threatened the stability of the banks. The budgets of many SOEs were hardened by limiting the banks' right to lend money. Related to this issue, there was also an objective to make SOEs more efficient and, thus, less dependent on the government and bank funding. In Japan, the situation for many SOEs prior to the privatization was a deadlock. On one hand, they were subjected to rigid regulations governing their production, expansion and monopoly status to guarantee government revenue. Furthermore, they were also used for purely political purposes. On the other hand, the role of SOEs as revenue had started declining due to their growing fiscal dependency on the government caused by their protected statuses. In short, the revenue gained from SOEs was decreasing in relation to their costs. This happened in tandem with the companies themselves unable to turn their losses into profits without a change in the legislation governing their market status.

5.5 External Influences

External influences on privatization can be divided into U.S economic pressure and associated policies and external shocks like the AFC. Furthermore, these factors played their part in shaping privatization policies mainly in Japan and Korea but also to some extent in China. It is worth mentioning that external influences in general tend to play a less significant role in determining privatization policies than, for example, financial constraints.

5.5.1 China, Japan and the Asian Financial Crisis

Although the Chinese economy did not collapse in the AFC due to its lesser penetration in the world economy and protected financial system, the AFC did undoubtedly affect the process of privatization in China. The weaknesses of the SOEs were publicly acknowledged in the 15th Party Congress in 1997 and many of them were ordered to bankruptcies, mergers and privatizations (Sharma, 2002). While this is clear, it is less obvious to what extent the individual Chinese leaders have been influenced by neoliberal economic policies of deregulation and privatization, and how these ideological factors have played out in the Chinese privatization.

The effect of the crisis on Japan stayed minimal when compared to other countries. Although the crisis set in motion three bankruptcies and contracted outward investments, Japan remained relatively unharmed in comparison to China and South Korea. Japan was not

among the victims of the AFC despite its heavy involvement in investing in Southeast Asian nations.

5.5.2 Korea and the Asian Financial Crisis

In the Korean case, the external factors influencing privatization are easy to identify. By 1997, Korea had become more open to investments and crediting. Due to the liberalization of the financial system and access to foreign credit, the badly indebted companies became more vulnerable to external shock and financial speculators. As a result, Korea was badly hit by the AFC in 1997. In fact, although the crisis was not the sole reason for privatization which had been going on for decades, the AFC made the process more imperative than before and hastened the process (Cheung, 2002). The subsequent privatization plan was more extensive than the earlier privatizations. Although the main victims of the crisis were the Korean chaebols and despite the relatively good performance of the Korean PEs, the depleting tax revenues made the government to privatize altogether 61 PEs affecting 78.3% of the enterprises and 61.8% of the employment (Korea Knowledge Sharing Program 2010). In addition to the diminishing tax base in influencing the privatization, The IMF and World Bank were also involved in pressing through the reforms. Although the proposed reforms included more than just privatization, e.g. elimination of cross-debt-payment guarantees, reduction of overdiversification, increase of regulations and accountability, privatization was seen by the Korean leaders as means to show their commitment to the reforms in order to receive loans (Ha and Lee, 2007; Joh, 2004; Kim and Kim, 2001; Letter of Intent of the Government of Korea, IMF, 1998).

5.5.3 U.S. Influence

In terms of privatization, Japan and Korea have been substantially more influenced by foreign factors than China. First of all, the general composition of private and public sector of the Japanese GDP, since the war, tilted toward the private companies. According to Toyama (1998), Japan's small PE sector is due to the strong American influence and, unlike other developed economies, Japan did not engage in massive nationalization of its strategic industries. Secondly, privatizations of single SOEs has from time to time been under the US influence.

According to Marianna Strzyewska-Kaminska (1993:363), in the case of the privatization of NTT "*..the concept of deregulation and privatization has been an American export to*

Japan;” The US, as a first mover in privatization of telecommunications, was pushing other countries to privatize. In the case of NTT, U.S. pressured Japan to privatize the telecommunications industry to increase the presence of American companies in the Japanese service sector to relieve its trade deficits with Japan which was a major telecommunications exporter. At the time, the sector was regulated and protected from international competition, and to relieve its trade deficits with Japan which was a major telecommunications exporter. For similar reasons of market expansion and trade imbalance, the US government pressured Korea to proceed on the privatization of its telecommunications (Jin, 2006). In the 1990s, there were similar disputes concerning a Japanese insurance provider, *Kampo*, an SOE, and other insurance providers competing unfairly with private companies with American companies. Japan has responded that these discrepancies will be taken care by the postal privatization (Cooper, 2011)

5.5.4 Conclusion

To sum up, in comparison, China has been relative untouched but not unaffected by external influences in relation to privatization. The AFC influenced China's privatization but in Korea, the crisis made the government to privatize. In addition, China has not been directly influenced by the US in relation to privatization. In Korea, it was the combination of the AFC and subsequent, conditional help from the IMF what sped up the privatization process. Another but less significant external factor influencing privatization in Korea was the entry to the WTO. In terms of external factors influencing privatization, Japan was the least affected by the AFC. If the crisis had any effect on the decisions to privatize, for instance the IPO of NTT Mobile Communications Network in 1998, the causal relationship is less straightforward than in Korea. In the 1980s, Japan's economy was undoubtedly more international than that of Korea's or China's and thus more susceptible to the politics, trends and pressures of the global economics. In addition, unbalanced trade relations made Japan more exposed to criticism from both international trade interests and US pressure.

6 Outcomes of Privatization

6.1 Proceeds from Privatization

6.1.1 China

Between 1992 and 1999, the Chinese government raised 20.6 billion USD through privatization. From 2000 to 2008, Chinese privatization projects produced 170.7 billion USD. By 2008, altogether 327 companies have been share issue privatized generating 191.3 billion USD for the Chinese government (World Bank. Privatization Data 1988-1999 and 2000-2008). These figures only address the SIP of larger SOEs excluding the smaller firms directly sold to their managers or employees (Direct sale privatization).

6.1.2 Japan

In case of Japan, different proceedings from privatization have apparently been calculated using different variables and historical data by different authors. Due to varying figures on the total value of Japanese privatization, I cannot give an exact figure but I have to make do with estimates. According to Friedrich Schneider, Japanese privatizations have generated 146 billion USD in revenue for the state in the time period between 1961 and 2000 (Schneider, 2003. Table 2.) Very different figures are given by Bernardo Bortolotti, Marcella Fantini and Domenico Siniscalco (2003) who have calculated the privatization proceedings between 1977 and 1999 to amount to 189.4 billion USD. The gap between these calculations amounts to 43.4 billion USD. Even if direct privatizations were integrated, which were non-existent in Japan before the 2000s (Bortolotti, Fantini and Siniscalco, 2003. See PO/Deals ratio) the aggregate value of privatizations would only amount to 183.6 billion (OECD, 2002. Table 1). Between 2000 and 2007, Japanese privatization amounted to 33.2 billion USD (OECD, 2009. Table 1). Taken together, divestment of state assets has yielded 179.2¹³, 216.8 or 222.6 billion USD in a 45 years' time, from 1961 to 2007.

¹³ My own calculation based on the figures given in OECD, 2009 Table 1., Bortolotti, Fantini and Domenico, 2003. Table 2., Schneider, 2003. Table 2. and OECD, 2002. Table 1.

6.1.3 Korea

The exact value of total proceeds gained from privatization in Korea is also difficult to establish due to the lack of reliable data collected on privatization and lack of historical data regarding the earlier privatizations prior to the 1980s. The data presented below rests on the privatization transactions carried out in the mid-1980s and late 1990s.

IMF estimates the Korean privatizations to have generated 15.37 billion (1985 US dollars) in 1985-99 (Brune, Garret and Kogut, 2004, Appendix 1). Similarly, the OECD puts the figure to 14.3 billion USD produced between 1993 and 1999 (OECD, 2001, Recent Privatization Trends, Table 1. Calculations are my own). A completely different figure is offered by Paul Cook and Yuichiro Uchida (2001), according to whom the Korean divestments have generated a mere 2.5 billion USD in 1988-99. In addition to these figures, the post AFC privatizations brought 10.7 billion USD in revenue to the Korean government (Korea Knowledge Share Programme, 2010:24). Added together, the total value of privatization proceeds from the mid-1980s to 2002 amount to somewhere between 25 and 26 billion USD. However, the real figure is most likely at least somewhat higher than that due to the fact that these calculations are based on the figures from 1985 to 2002.

6.2 Post-Privatization Profitability

Improving profitability of SOEs is often one of the leading causes behind privatization. Despite the statistical evidence pointing toward the increased profitability of SOEs through privatization, there is still no consensus on whether privatization actually enhances performance or not. Although, in general, studies indicate that private companies perform more efficiently than non-privatization firms, companies' performance is however affected by a multitude of changing factors, for example, available technology, taxes and price controls. In addition to this, there is also the problem of disentangling privatization from mere reforms. Privatization might boost efficiency but just reforming the corporate sector might produce a similar effect. However, the purpose of this section is not to present evidence supporting one view over another but to show whether the profitability of SOEs in China, Japan and Korea has increased over the years after privatization or reforms.

Profitability can be measured in several ways including return on assets (ROA), return on investment (ROI) or return on equity (ROE) and return on sales (ROS). Some authors prefer

one method to another but it should not matter which method one uses as long they are not used interchangeably.

6.2.1 China

According to Guohua Jiang, Heng Yue and Longkai Zhao (2009), who measured profitability as return on sales (ROS), the initial privatizations and reforms made in the 1980s and early 1990s were ineffective and, in fact, resulted in worsening performance. Prior to the end of the 1990s, Chinese privatization suffered from several problems which also posed problems to the Chinese economy at large. The incentive-suppressing effects affecting SOEs and investors willing to invest included the large amount of non-tradable shares, inexistent protection for investor's rights, unreliable auditing, conflicts of interest in the board of directors and managers, rigid IPO quota, unindependent directors and lack of corporate governance.

Coming to the end of the 1990s, these deficiencies were partly addressed by the China Security Regulatory Commission (CSRC) which made several important improvements including standardized interim reports, annual reports, more transparent securities trading and formalization of issuance of shares and listing of new companies. Taken together, these reforms have had a positive effect on the Chinese stock market but, between 1999 and 2002, in spite of the reforms, SIP firms have undergone a deterioration of profitability. The authors link this to the lack of effective institutions. During this period of time, SIP firms did outdo their state-owned counterparts but in both cases their ROS declined. Therefore, the performance of the SIP firms has only been less worse than firms which have not undergone an SIP (Jiang, Yue and Zhao, 2009).

The continuing decline of profitability has also been observed by Ligang Song and Yang Yao (2004) who applied a return on assets (ROA) to measure profitability. In their calculations which were based on data collected between 1996 and 2001, the fully state-owned companies made losses during the whole period. Partially privatized companies had a better rate of profitability than fully private companies but both their profitability was lower in 2001 than in 1996. (Ibid. Figure 2. Pp.29). Both studies indicate that SIPs had a positive effect on firm profitability.

After the early 2000s, the reforms started fully working as intended by Beijing. Based on Gao Xu's ROA calculations, profitability of both industrial private companies and SOEs started

improving rapidly in the early 2000s. For the SOEs, the strong growth continued until 2007, the onset of the global financial crisis, when their profitability started declining. The profitability of private companies did not decline until 2008 and, even then, the decline was very moderate (Xu, 2010). The ROA of SOEs rose from 0.7 to 6.3% in comparison with 4.5 to 7.9% of private companies (OECD, 2006. Table 6.). There is however some indicators pointing out that the SOEs may be improving their profitability. According to Xinhua, the SASAC administered SOEs were able to raise their profits by 50.1% in 2010 (Xinhuanet, 2010).

6.2.2 Japan

In Japan, the post-privatization performance has improved and competition has increased. Especially, NTT has been able to expand its businesses. In spite of the company's size, NTT is now facing serious competition from other operators and it has lost some of its profits due to increased competition but NTT is still the largest company in the telecommunications sector. After the privatization of NTT, the data and mobile communications were separated to become independent companies. In addition, the company has become more customer-oriented (Toyama, 1998). However, NTT is still only a partially privatized telecommunications giant whose profits have been increasing on an annual basis. In 1999, NTT was Japan's most profitable company (Privatization Task Force, 2004). JT has also managed to raise its profitability. Despite not being a fully private company, JT was the third most profitable tobacco company in the world in 2009 (Japan Tobacco Inc and Japan Tobacco International). In similar fashion, JR has been able to improve its services although not as well as NTT. JR has been able to reverse its spending and start making profit again. As in the case of NTT, competition increased and the needs of customers were better taken into account (Toyama, 1998). In general, almost all JR entities have been able to improve their performance but not all parts have been privatized (Mizutani and Uranishi, 2006).

6.2.3 Korea

In Korea, the company profitability improved sharply after the 1983 introduction of GIE Performance Evaluation System. The profits of GIEs started growing and losses shrinking. The public profitability of the five largest GIEs improved from 13% in 1982 to 18% in 1987 (Shirley, 1989:23. Table 3. citing Korea Development Institute).

Regarding the effects of privatization in Korea, it is difficult to separate privatization from the larger context of reforms. For example, one of the reasons Korea managed to improve the public sector enterprise performance in the 1980s was due to the managerial reforms which included giving managers incentives in form of MBOs but also greater corporate autonomy and less political interference (Shirley and Nellis, 1991:69; Shirley, 1989).

Korea Telecom was privatized in 2002 and, as a result, the company's ROA has improved but its ROS deteriorated. The profitability and efficiency have only slightly improved but these changes occurred in the same time period when other large companies were doing well (Kim, 2009). According to the Korea Knowledge Sharing Program, the reforms following the AFC also improved the privatized companies' profitability (Korea Knowledge Sharing Program 2010 pp. 24)

6.2.4 Conclusion

Generally speaking, East Asian SOEs have definitely become more profitable but to varying degrees. In China, the first privatizations and share offerings were effective to the extent that SOEs managed to reduce their operating losses. The late 1990s reforms were able to increase SOEs' profitability to almost 7% in 2007 when measuring ROA (Xu, 2010) but since then the figures started shrinking due to the international financial crisis. The Japanese government was able to lay off workers to turn JNR to a more profitable company before public share offerings. Obviously in these cases, improvements in profitability cannot be attributed to privatization but to government rearrangements in the public enterprise sector. Meanwhile, the partly-privatized Japanese SOEs like NTT and JT have become global players in their respective fields but it is difficult to connect this development to privatization since the government still owns significant shares of each company. Moreover, both companies have enjoyed monopoly status and consequent economic benefits. Even today, both companies are market leaders in Japan. In Korea, a similar pattern is evident in the aftermath of KT's privatization. The profitability and efficiency improved but likely due to the favorable external conditions and layoffs. To sum up, the privatized SOEs in East Asia have improved their profitability but to varying degrees and due to different causes.

7 Findings

First of all, the national economies of China, Japan and Korea were all different from each other and these structural differences were also reflected in the process of privatization, dimensions and methods of privatization and the causes and results of privatization. Despite the differences, there were also similarities regarding the process of privatization. Not surprisingly, the economies and, consequently, the privatization policies and practices were closest to each other in Korea and Japan: the low share of their SOEs of both labor and GDP, the large conglomerates and similar forms of PEs. SOEs as they exist in China did not exist neither in Japan nor Korea.

7.1.1 Importance of SOEs and Economic Development

The importance of SOEs in China, Japan and Korea before privatizations varied to a great extent. China had the biggest number of SOEs and their share of the GDP was also the highest. Also, their contribution to employment was also highest both in relative and absolute terms. Japan had the fewest SOEs both measured in their contribution to the GDP and workforce. However, the share offerings in Japan have been the most profitable, depending on the calculations. By this measure, China is second and Korea third due to the small size of its economy. In this category, Korea falls somewhere in between China and Japan. There were substantially more PEs in Korea than in Japan and Korean PEs' share of GDP and labor was higher than in Japan but clearly lower than in China. These differences are all rather self-evident when one takes a look at the respective economic histories of China, Japan and Korea. China emerged from a communist plan economy whereas Japan had industrialized already at the turn of the 20th century. Prior to the end of the 1980s, Korea was a military dictatorship recovering from the Korean War. Despite these differences in the level of economic development, all countries started reforming their economies and corporation policies, albeit differently due to different economic structures but approximately at the same time. Early 1980s marked the beginning of corporate reforms in China (12th Central Committee of the CCP in 1982), Korea (the 1983 GIE Basic Management Act) and Japan (the Provisional Commission for Administrative Reform in 1982). The level of GDP being radically different in all countries, this development, in my opinion, points to the changes in the wider international system of political economy.

7.1.2 Timing of Privatization

When it comes to the timing of privatization, countries attempt to time the privatizations so that they take place during a boom season in order to maximize the market capitalization. In

this respect, there are clear differences between all countries. In Japan, share floatings have taken place both after economically viable and negative years. The timing of share floating of both NTT and JT failed to produce the anticipated result whereas the public offering of JR East proved successful in terms of the stock price despite the launch during a period of low growth. In Korea, the first privatizations of KEPCO, POSCO and KT&G were implemented after economically favorable years and the later Korean privatizations also took place during years of economic growth but were caused by a severe fall in the Korean economy. In China, the 1990s did not produce as many IPOs as the 2000s. This was probably due to decelerating growth until 1998 and the tight and unfavorable regulation. The consequences of these two conditions were solved after 1998 when the economic growth started accelerating and bans and excessive restrictions removed. As a result, the 2000s has seen a rapid surge in the number of share offerings in China.

7.1.3 Fiscal Impetuses

When comparing the impetuses for privatization, it is clear that the fiscal distress has been among the key factors behind privatization. However, the strain on public finances manifested itself very differently in China, Japan and Korea. In China, the fiscal constraints had to do with the banks which had been lending cheap credit to the SOEs to the extent that the outstanding debt threatened the stability of the banks. The budgets of many SOEs were hardened by limiting the banks' right to lend money. Related to this issue, there was also an objective to make SOEs more efficient and, thus, less dependent on the government and bank funding. In Japan, the situation for many SOEs prior to the privatization was a legal deadlock. On one hand, they were subjected to rigid regulations governing their production, expansion and monopoly status to guarantee government revenue. Furthermore, they were also used for purely political purposes. On the other hand, the role of SOEs as revenue had started declining due to their growing fiscal dependency on the government caused by their protected statuses. In short, the revenue gained from SOEs was decreasing in relation to their costs. This happened in tandem with the companies themselves unable to turn their losses into profits without a change in the legislation governing their market status. Until the late 1990s privatizations due to the AFC fiscal distress had not been a major reason behind privatization in Korea. Korea had suffered from common problems with SOEs but there had been no sudden need for their privatization. In short, PEs despite their problems had been rather profitable and were themselves not the reason behind privatization but the changes happening in their business environment.

7.1.4 National Debt

Both in Japan and Korea, the rising levels of debt in the early 1980s were encountered with corporate reforms and privatizations. As a result, the growth of debt was tamed and both Japan and Korea went through a period of decreasing government debt. In the early 1990s, the Japanese government debt started growing again and the government resorted to further privatizations which however did not reduce the national debt further. The Korean and Chinese national debt began rising as a result of the AFC. In China, the privatization occurred due to the transfer of ownership rights from the central to the local government and bailing out of the state-owned banks by the central government. In Korea, the harsh privatization program was set up mainly to gain revenue for the state and restore the faith of international organizations and investors. Because of the crisis, the government debt in Japan increased as well. However, despite the privatization measures, the government debt in China, Japan and Korea continued rising. In China, the debt was temporarily reduced in 2004 and 2005 probably due to the share conversion program. In Japan, the liabilities were also temporarily reduced in 2005 with the revenues gained from the privatization of the highway corporations.

7.1.5 External Influences

External influences had the least impact on the Chinese privatization but the AFC did increase China's public spending and government debt which further contributed to the privatization of many of the state-owned SMEs. U.S. influence has been minimal and the AFC did not directly cause any restructuring or privatization. Similarly, Japan faced only minor problems due to the crisis which did not have a direct impact on the privatization. Korea, on the contrary, was vulnerable to the economic shock of the AFC in 1997 and was consequently subordinated to foreign emergency loans via IMF. As a result, Korea engaged in an extensive series of privatizations. Both Japan and Korea had also been influenced by the U.S. economic pressure to liberalize their telecommunications sectors.

7.1.6 Dimensions and Methods of Privatization

Privatization has been centralized in both Korea and Japan. China's has applied both decentralized and centralized strategies to privatization. For SMEs, the approach has been decentralized and for larger companies the SASAC exert authority over the 119 companies. All the countries used privatization programs but their . Ad hoc-approach to privatization may have been used but, based on the data selected and read for this study, no clear case of ad hoc approach was found. Privatization has been gradual in each country but in Korea it has

extended the longest time and in China the shortest time. Furthermore, privatization has also been partial in respect to individual companies. Although both China and Korea have fully privatized some of their companies, the government still owns significant shares of companies, especially in China. Japan has fully privatized only four companies: JAL and three JR subsidiaries. The rest of the Japanese PEs and their subsidiaries are either partly privatized or fully state-owned.

SIPs were used in each country but to a different degree. In Japan, SIP was the only privatization method whereas in China it was the least used method. Direct sales were used in both China and Korea and in China they were the most used method. In addition, China has also used leasing and privatization from below by removing restrictions on entering the market.

7.1.7 Profitability

In general, the profitability of SOEs in East Asia has improved but it is not clear whether the positive effects can be linked to privatization per se or the wider corporate reforms and the favorable growth environment. In China, the corporate reforms of the 1980s and early 1990s did not increase the profitability of SOEs whose performance continued declining until the early 2000s. However, the firms which had issued shares and thus become partially private did perform better than their fully state-owned counterparts but SIPs were not enough to turn their losses into profits. In the end of the 1990s, the declining profitability was encountered with a series of corporate reforms which strengthened their performance and contributed to their growth. The profitability of the SOEs started declining again after 2007, year before the private companies but, since 2010, has returned to growth.

In Japan, the performance-enhancing effect of privatization has been more company-specific. In short, all three core PEs, NTT, JR and JT which are all still partly state-owned, have improved their performance. In comparative terms, NTT has been able to improve its performance most through increased competition and better customer service in the telecommunications sector. JR was able to also raise its profitability but to a lesser extent while three of the six separated transportation entities still belong to the state. JT has also improved its performance to the extent that it has become the world's third most profitable tobacco company.

PEs in Korea have also been improved their performance but like in China and Japan it is unsure whether the cause of enhanced profitability was due to privatization or other corporate reforms. The 1983 GIE Basic Management Act increased the profitability of the SOEs but entailed much less privatization than reforms. Firm profitability also increased after the AFC but again the companies with increased profitability would have probably improved their performance even without privatization such as KT which benefited from overall growth environment.

8 Conclusion

To shortly summarize this thesis, privatization is an economic policy which has had both similarities and differences in its causes, processes and results in East Asia. The increasing trend of privatization since the early 1980s points out to the redefinition of public and private on a global level. In East Asia, this manifested itself in the coincidental timing of the 1980s corporate reforms and privatizations, albeit at different levels of economic development. In addition to the emergence of a global political economic ideology, neoliberalism, the privatization and reforms were further contributed by the AFC which China, Japan and Korea also shared as a common external shock whose effects were however differently experienced. In Japan and Korea, privatization of the telecommunications sectors was influenced by the U.S. foreign policy to a certain extent. When measuring the post-privatization performance, the profitability rates have improved across East Asia but it is unclear whether this development is due to the economic growth in general, corporation reforms or privatization itself.

The biggest differences with respect to privatization were within the initial importance of SOEs and the dimensions and the use of methods of privatization. The domestic structures shaped the dimensions and methods of privatization. In Japan, the sole method of privatization through SIPs probably reflected the sophisticated level of Japan's financial markets and the large size of the SOEs whereas in China the variety of methods used reflected the transitional nature of China's economy. In addition, China's twin approach of centralized and decentralized privatization pointed out to the large amount of SOEs. Furthermore, there were also differences within the factors themselves. For example, with regard to increasing profitability through corporate reforms, China's SOEs suffered from low rates of profitability long after the first corporate reforms whereas the corporate reforms in

Korea in the 1980s clearly improved the profitability of the PEs. Fiscal distress was among the main reasons leading to privatization. However, the constraints on public finances appeared very differently. In China, the constraints originated within the nexus of state, local government, SOEs and banks whereas in Japan the constraints on finances derived from the legal restrictions on SOEs. On the contrary, financial distress has not been the sole reason to privatize with the exception of the post-AFC privatization.

Having addressed and discussed some of the similarities and differences in the causes, processes and results of privatization, this paper also raised some more questions. The roots of modern privatization lay in the transformation of the political economic ideology in the world's leading economies in the 1970s and 1980s but this thesis did not cover the origin of the emergence of neoliberalism. What caused this transformation or to what deeper causes can the rise of neoliberal policies be traced? The oil crises, continuation of Keynesian economic policies and stagflation are often mentioned as examples leading to the change in the economic political ideology. However, there is one macroeconomic factor which is often overlooked when discussing the origins of neoliberal policies: falling ratio of profit-to-investments rate. In the U.S., this ratio had been declining since the Second World War until the early 1980s when it started growing again. Although the connection between the ratio and, for example, stagflation is completely unclear, these two phenomena coincided in the end of the 1970s and early 1980s. Furthermore, it is also unclear how economic reforms and privatizations restored the ratio's growth which continued until.

One area ignored by this paper was the deeper relationship between economic reforms and privatization. Privatization is only one form of a larger set of economic reforms. China, Japan and South Korea have all engaged in reforming their SOEs through redefining their roles, tasks and relationship with the government but, as noted before, economic reforms do not mandate privatization. Privatization is only a policy choice of economic reforms. Under average circumstances, increased profitability and efficiency can be achieved with other means than privatization of SOEs. Also not covered by this study were the differences between partially privatized and fully state-owned companies.

This thesis had other shortcomings as well. The focus was on the comparison of privatization between nations. A more consistent study would have concentrated on a particular economic sector like state-owned banks between more similar economies. However, because East Asia is an economically diverse region with only few nations, regional comparisons have to

include at least the three biggest economies: China, Japan and Korea. An even more specific study could have concentrated on comparing privatization in Japan and Korea but this approach would not have suited my China-oriented studies. Although the results would have been more comparable and consistent between more similar economies, there have been major differences between more homogenous countries as well, for example in Western Europe.

To sum up, privatization, especially how but also with what methods it is carried out, reflects the structures of domestic economies, e.g. the number and size of SOEs, development of financial markets and internal political and economic fragmentation. But privatization is however more than just domestic policies. In the world's economic system, privatization and economic reforms also have their international character which contributes to the causes and process of privatization. Apart from just foreign policies in defense of national economic interests, countries are financially and monetarily more intertwined than ever which means that external economic shocks can severely undermine a nation's economy forcing it to privatize. Moreover, as many partially privatized companies listed in the stock exchanges are counted as some of the world's biggest companies, the states are not only major stakeholders but, through this mechanism, their assets have also become more vulnerable to financial instabilities and international investors. Thus, causes of privatization in form of national debt and business cycles thus take a very ambiguous role where both the domestic and external structures and actors play their part.

9 Abbreviations

AFC	Asian Financial Crisis
GBE	Government-Backed Enterprise
GE	Government Enterprise
GIE	Government-Invested Enterprise
IIE	Indirectly Invested Enterprise
IPO	Initial Public Offering
JAL	Japan Airlines
JR	Japan Railways
JNR	Japan National Railways
JTSPC	Japan Tobacco and Salt Public Corporation

JT	Japan Tobacco
KT	Korea Telecom
KTG	Korea Tobacco and Ginseng Corporation
LDP	Liberal Democratic Party
NTT	Nippon Telegraph and Telephone
PCAR	Provisional Commission for Administrative Reform
PE	Public enterprise
RHSOS	Reduction of holding of State-Owned Shares
SAC	State asset commission
SIP	Share issue privatization
SOE	State-owned Enterprise
TVE	Township and Village Enterprise

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Abstract

Privatization is any process where the state either partially or wholly reduces or transfers its assets to private actors. Privatization can be centralized, decentralized, rapid or gradual or it can be conducted through a privatization program or in an improvised, ad hoc-manner. The most common privatization methods include share issue privatization, direct sale, leasing and privatization from below. Privatization can have multiple causes and the ones examined in this paper include the level of economic development, business cycles, fiscal constraints, national debt and external influences. The outcomes of privatization are viewed in the light of profitability whose improvement is often one of the main objectives of privatization.

Privatization has become an international political economic trend. Based on the level of GDP per capita, privatization was initiated at a somewhat different time in Japan than in Korea or China which both started privatizing as low-income economies. Japan started the privatization of its SOEs in the 1980s when it was already a developed economy.

Dire state of public finances, like elsewhere, was among the leading causes of privatization in East Asia. However, the financial troubles manifested themselves very differently. In China, the constraints originated within the nexus of state, local government, SOEs and banks whereas in Japan the constraints on finances derived from the legal restrictions on SOEs. On the contrary, in Korea, financial distress has not been the sole reason to privatize with the exception of the post-AFC privatization. The rising levels of national debt in the 1980s were encountered with corporation reforms and privatizations in Japan and Korea. The early 1990s privatization in Japan also followed increasing national debt but the privatization of JR and JT did not have a decreasing effect on indebtedness. During the AFC and rapidly rising levels of debt, Korea and China embarked on privatizing but Japan did not.

In Japan, share floatings have taken place both after economically viable and negative years. The timing of share floating of both NTT and JT failed to produce the anticipated result whereas the public offering of JR East proved successful. In Korea, the first privatizations of KEPCO, POSCO and KT&G were implemented after economically favorable years and the later Korean privatizations also took place during years of economic growth but were caused by a severe contraction of the Korean economy. In China, the 1990s did not produce as many

IPOs as the 2000s. This was probably due to decelerating growth until 1998 and the tight and unfavorable regulation.

Privatization in East Asia has also been affected to a certain extent by external factors. The Asian financial crisis affected all countries but their degree of vulnerability to the crisis varied. The U.S. foreign policy has also played a minor role in the privatization of the telecommunications sector in Japan and Korea but not in China.

Privatization programs were used in each country and the general trend has been gradual privatization except in China and Korea in the 1990s when a large number of SOEs were rapidly privatized. Privatization was also centrally directed except in China where decentralized privatization was applied to SMEs. China has applied various privatization methods including share issue privatization, direct sale, leasing and privatization from below. Japan has predominantly relied on the use of share issue privatization. In Korea, direct sales and SIPs have been the most used methods.

Profitability of SOEs has been improving but it is unclear whether this is due to privatization itself, wider corporate reforms or general economic growth. The initial reforms of the 1980s worsened the performance of Chinese SOEs but the profitability rates started improving in the late 1990s and early 2000s due to deepening reforms. In Japan, all major three public enterprises improved their profitability after privatization and reforms. In Korea, public enterprises improved their performance more due to reforms than privatization in the 1980s.

Abstrakt

Privatisierung bezeichnet jeden Prozess, in dem der Staat abgestuft oder gänzlich das öffentliche Vermögen zu privaten Tätern übergibt. Privatisierung kann zentralisiert, dezentralisiert, abgestuft oder schnell, durch ein Privatisierungsprogramm oder spontan (ad hoc) ausgeführt werden. Die üblichsten Privatisierungsarten sind Privatisierung durch Aktienausgabe (share issue privatization), direkter Verkauf an Investoren (direct sale), Leasing und Privatisierung von unten. Privatisierung kann verschiedene Gründe haben: wirtschaftliche Entwicklung, Konjunkturzyklen, fiskalische Belastung, Verschuldung und externe Gründe, z.B. Aussenpolitik oder wirtschaftliche Krise.

Privatisierung ist ein international wirtschaftspolitischer Trend geworden. Basierend auf dem BIP pro Kopf hat Privatisierung zu unterschiedlichen wirtschaftlichen Ebenen begonnen.

China und Korea waren beide einkommenschwache Länder aber Japan war ein ertragsstarkes Land.

Die Fiskale Belastung war, wie auch in anderen Ländern, der hauptsächliche Grund hinter den Privatisierungsentscheidungen in Ostasien. Aus der Sicht der Privatisierung, hat der Druck auf öffentliche Finanzen aber unterschiedlich in jedem Land bekanntgemacht. In China hat sich der Privatisierungsdruck in der Verknüpfung des Staates, Banken und lokalen Regierungen entwickelt. In Japan entstand Privatisierung aus den rechtlichen Beschränkungen auf staatliche Unternehmen. Im Gegenteil zu der Privatisierung in China und Japan war die finanzielle Notlage nicht der wichtigste Grund hinter der Privatisierung, mit der Ausnahme von der Asienkrise. Die steigende Staatsverschuldung in den 1980er Jahren wurde in Japan und Korea mit Korporationsreformen begegnet. Wegen der Asienkrise und schnell steigender Staatsverschuldung wurden viele staatliche Unternehmen in China und Korea privatisiert aber in Japan nicht.

In Japan wurde sowohl in wirtschaftlich guten als auch schlechten Jahren privatisiert. Die Aktienausgaben von NTT und JT waren nicht so erfolgreich wie erwartet aber die Aktienausgabe von JR East hat sich bewährt. In Korea wurden die ersten Privatisierungen von KEPCO, POSCO und KT & G nach wirtschaftlich günstigen Jahren umgesetzt. Die späteren koreanischen Privatisierungen wurden von der Asienkrise verursacht. In China haben die 1990er Jahre nicht so viele Börsengänge wie die 2000er Jahre produziert. Dies war wahrscheinlich aufgrund von gedämpften Wachstums und engen und ungünstigen Regelungen.

Privatisierung in Ostasien wurde auch von externen Faktoren beeinflusst. Die Asienkrise im 1997 beeinflusste Privatisierung jedes Landes aber in verschiedenem Masse. Besonders betroffen war Korea. Die amerikanische Aussenpolitik hat auch Einfluss auf Privatisierung in Japan und Korea gehabt besonders in dem Telekommunikationssektor.

Privatisierungsprogramme wurden in allen drei Ländern verwendet und die Privatisierung war generell in allen drei Ländern graduell, mit der Ausnahme von den Privatisierungen am ende der 1990er in China und Korea. Privatisierung war generell auch zentralisiert ausser in China, wo die Privatisierung der kleinen und mittleren Unternehmen dezentralisiert ausgeführt wurde. China hat auch unterschiedliche Privatisierungsmethode verwendet. Dahingegen hat Japan nur durch die Aktienausgabe privatiziert. Korea hat hauptsächlich direkten Verkauf und Aktienausgabe als Privatisierungsmethode verwendet.

Im zeitlichen Vergleich hat sich die Rentabilität öffentlicher Unternehmen in Ostasien durchschnittlich verbessert aber es ist unklar, wieviel Einfluss Privatisierung darauf gehabt hat im Vergleich mit anderen Faktoren, z.B. generelle Wirtschaftsreforme und -wachstum. Aufgrund der ersten Reforme in China ist die Rentabilität nachgelassen und hat sich erst wieder am ende der 90er Jahre verbessert. In Japan hat sich die Rentabilität der drei grössten Unternehmen nach Privatisierungen deutlich verbessert. In Korea haben die Reforme mehr Einfluss auf die Rentabilität der grossen Staatsunternehmen gehabt als Privatisierung.

CURRICULUM VITAE

Profile

With respect to my studies and this thesis, my academic background has involved studying at three universities. Apart from this, I have very little experience in academic working and I have mainly accumulated work experience in private companies and working for my own projects. In addition to my day job at the university, I am also working as the sales executive for my own firm (ColourFalls Media) and I am currently looking into founding a new firm in the area of China consultancy. From the viewpoint of my future plans, this thesis provided me with a sufficient understanding of China's state-owned sector and its involvement and influence on the remaining Chinese businesses.

Education & Qualifications

2009-Present

University of Vienna
Master Program of East Asian Economy and Society. Graduation in Spring 2012

2004-2009

University of Helsinki
Bachelor of Arts in East Asian Studies.

2007-2008

University of Wuhan
Exchange year in Wuhan, China

2001-2004

Toivonlinna High School.

Work Experience

2008-Present

ColourFalls Media
Sales Executive/Founder

September 2011-August 2012

Helsinki University
Student Administrator
Duties include customer service regarding the university studies, enrollments, fees and enquiries.

June-September, 2010

Institute for Cultural Diplomacy, Berlin

Project Coordinator

The main responsibilities included the maintenance of customer database, contacting customers, and planning and organizing of seminars. Other tasks included providing technical assistance with audio and visual settings during seminars.

June 2009-January 2010

Spirit in Motion, Graz/Vienna

Assistant Managing Director

Responsible for organizing a business trip to China and negotiating with Chinese velotaxi manufacturers. Other duties included creating a company website, test driving velotaxis, instructing new drivers and selling advertisement space on velotaxis.

January-April, 2009

Maasel Fin Oy, Helsinki

Marketing Assistant

Tasks included telephone marketing and advertising, setting up a customer base, proofreading of translations and designing and creating a company website

May-July, 2008

Webropol Oy, Helsinki

Marketing Interviewer

Responsibilities: Dealing with customer enquiries, complaints and suggestions, setting up new customer accounts, conducting marketing research and interviews with the clients.

April-August 2006

Lucky Group Oy, Helsinki

Secretary

Responsibilities included proofreading of documents, contacting and informing customers on new products and organizing company database.

Language Skills

Finnish (mother tongue), English (fluent) IELTS 8.5, German (fluent), Swedish (good), Chinese (good), French (basics) and Korean (basics).

Computer Knowledge

Microsoft Word, Microsoft Excel, Microsoft Publisher, PowerPoint, Photoshop and Voyager.

Hobbies and Interests

Books, Magazines, Languages, Writing, Traveling, Volleyball, Football, Footbag, Jogging, Internet and Wikipedia

