

Privatization and Growth: A Perspective from Emerging Economies

Aimen Tayyab, Rukhsana Bibi and Attiya Yasmin Javid¹

Abstract

The study examines the impact of privatization on growth in emerging economies at the macro level by evaluating that whether privatization leads to economic growth in the presence of control variables, macro-economic indicators and interactive terms for 115 emerging economies for the period 1988 to 2018. The empirical findings depict privatization has a negative impact on economic growth while the interactive terms of privatization with debt and foreign direct investment have a positive impact of privatization on the economic growth of all the emerging countries. The implication of this analysis proves privatization lead to growth at the macro level through proper policy insinuations.

Keywords: privatization, foreign direct investment, emerging economies, macro

JEL Codes: L25, L26

Introduction

In the field of macroeconomics the concept of economic growth is an essential part, depict the long term real crisis that the world is facing. In the emerging economies all individual policies for example aid for investment, human capital investment and population growth are ineffective as a move out from deficient economic growth. Grouping of different factors like education, investment, innovations and technology can lead to a track of long term economic growth (Eásterly, 2001). Moreover Starr (1987) proclaims, a favourable association among government disbursements and privatization of firms on economic growth. Privatization can be considered an important factor in playing a major role in the quest for economic growth. From the last few decades privatization has been spread nearly in each economy of the world and is implemented by many political organisms. Privatization can be a source of creating incentives to induce production, providing fiscal relief, improving efficiency and encouragement for an eclectic title and increasing the strength of recognition for the private sector. Hence, considerable time lapse when privatization in emerging economies is first implemented for evaluating the results at the macroeconomic level. As in the 1980s when privatization policy was preceded there was neither enough knowledge nor contribution to the economic growth. In fact much importance and attention has been paid on determining the scope of privatization (Bennell, 1997). Post privatization performance is assessed by (Megginsong, Nash & Van Randénborgh, 1994; Galal et al, 1995; Boubkri & Cosset, 1998, Megginson & Netter, 2001) incorporated high income developing and industrial countries with small datasets. However, some later studies have tried to examine the undeviating effect on economic growth by the privatization policy from the context of cross country analysis and found a significant association with economic growth (Pane, 1997; Barnett, 2000). However, Cók and Uchída (2001) proves privatization pay a negative role in economic growth as wider socio-political and economic environment add to the economic growth of the country.

There are many studies which considered the influence of privatization on economic growth. But no study encounter life expectancy at birth which captures numerous phases of human capital development which contribute to the growth of the economy, so a deep analysis shed its light on this study. Moreover it analyses and evaluate whether privatization leads to the economic growth of emerging economies. Using a dataset of 115 emerging economies for an extensive period of 1988-2018, the present study considers all those emerging economies that witnessed privatization during the period of 1988 and 2018², observe long term impact of privatization. The study employed a fixed and random effect model recommended by Filipovic (2005) for long term analysis. From a macroeconomic perspective the main determinant of economic growth is firm growth as it contributes to GDP maximization when there is an increase in firm size. Previous studies on the analysis of connotation among privatization and growth at macro level offer mixed results as some studies have shown positive impact and a few have shown a negative impact on economic growth (Cók P & Uchída, 2003). So there was a great need to test this relationship by trying to overcome the issues that were ignored by previous studies i.e., using GDP growth instead of GDP per capita as a growth variable and inclusion of life expectancy extends the literature. Pooled Ordinary Least Square, random effect and fixed-effect models are suitable to control selection bias, which disclosed that privatization has a negative impact on growth but this negative impact is significant only in the case of random effect. Random effect has an advantage that time-invariant variables can be included. Whereas the Hausman test also supports the random effect model results.

¹ Authors are: PhD Scholar, Comsats University, rukhsana.pide@gmail.com, MPhil Scholar and Professor, PIDE, Islamabad

² <http://www.msn.com/en-us>

Literature Review

Theoretical framework

Privatization has been a key component for globalization structures and structural reforms in many economies. The first to argue on privatization was “Adam Smith” in every great monarchy in Europe the sale of the crown lands would produce a very large sum of money, which, if applied to the payment of the public debts, would deliver from mortgage a much greater revenue than any which those lands have ever afforded to the crown. When crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated “ (Yarrow, 1986).

The theoretical framework of following privatization policy is chiefly reliant on the understanding of the conception of property rights. A society in order to advance an extended specified market system must have an effectual way of dealing with abundant dealings that takes place in particular economies. Whereas allocation and specialization of resources depends on truncated operation costs which are uttered by prices at market economies. Property rights can lead to an increase in investments if proper incentives are created as people are confident and secure about their rights of the property. A major facet of privatization is entrenched in the Coase Theorem which plays an indispensable part in the efficiency improvement, linked with privatization policy. Ronald Coase recommends that the "private sector is effective in solving the problem of externalities, through costless bargaining, driven by individual incentives". In view of Coase Theorem the individual entities directly or indirectly will participate in the cost-benefit analysis which will ultimately end in most effectual solutions (Mankiw, 2001). Thus Coase claims the part of the legal system “to establish rights that would allow the private sector to solve the problem of externalities with the most effective solution”. From the outlook of privatization the Coase Theorem (Medema and Zerbe, 1999) suggests that the market will turn out to be more operational in dealing with abundant externalities if the assets are shifted to the private investors from the state. There are many theoretical benefits associated with the process of following the privatization policy.

One of the most important reason is that in order to moderate the government size, the countries follow privatization policy as the government have become enormous and overstretched consisting of gratuitous layers of bureaucracy (Filipovic, 2005). So in order to achieve efficiency restructuring is desirable which can be accomplished through privatization. Secondly, the public sector is not vastly enthused to assign resources and maximize production effectively as a result the government-run at low income, high-cost enterprises. “Privatization directly shifts the focus from political goals to economic goals, which leads to the development of the market economy” and by privatizing, the part of the state in the economy is concentrated, thus there is less probability for the state to negatively influence the economy (Poole, 1996). Thirdly, there can be a positive secondary impact on fiscal deficits if privatization policy is followed. As Easterly (2001) argues that privatization should not be used to settle the forthcoming debts and to finance government expenses. Instead of this, privatization empowers the countries to pay a share of their principal debts and as a result dipping interest rates and floating of investment opportunities. Fourthly, privatization can lead to an increase in foreign direct investment which can possibly play an important role in the pursuit of economic growth. As FDI (World Bank, 2002) has a positive spillover of access to international production systems better management skills and enhanced expertise in developing countries.

Empirical Review

Since last one and a half-decade there is a great acceleration of privatization program witnessed on many economies in the form of attaining macroeconomic stability, high economic growth and reducing subvention to unprofitable state-owned enterprises (SOE's) (White and Bhatia, 1998). There is an extensive itinerary of privatization set by policymakers in emerging economies along with the objectives of resource allocation and efficiency that is implied in the policy settings of organizational reforms agenda. The motivations of privatization policy (UNCTAD, 1996; Yarrow, 1999) include distribution, performance and improved fiscal equity whereas the importance of each motive varies within and between countries. The link and relationship among economic growth and privatization is most directly related to the theories i.e. microeconomic for the validation of privatization. The core of the debate is theoretical standpoints (Alchian & Tullock, 1965; Jensen & Meckling, 1976) on the issue of proprietorship are drawn from principle agent analysis, public choice theory and property right theories. The behaviour of policymakers towards public ownership in developing and developed countries (Cook & Kirkpatrick, 1988; Martin & Parkè, 1997) is influenced by these theories. The main theoretic reasoning of changing ownership to private sector from public is because of the shreds of evidence that i) Economic performance can be improved by a change of ownership by changing the mechanism through which different institutional arrangement has an effect on the managing enterprises incentives (Laffont & Tirole, 1991; Vickers & Yarrow, 1988; Cook & Fabella, 2001). ii) Public ownership outcomes in the tracking down of the objectives that diminished from the maximization of the welfare of the economy (Böykko, Shleifer & Vishny, 1996). If the

followed privatization policy is having efficiency effects and is extensively sufficient then at the macroeconomic level the influence of developed performance can be seen. Thus privatization has a positive impact on growth. The findings regarding the consequences of privatization on economic performance is mixed and evaluation remains a challenge as the literature accumulates (Megginson and Netter 2001, Florio 2004, Guriev and Megginson 2007, IRFA survey 2007, Roland 2008). Privatization improves operational and financial performance confirmation provided by using data set of 127 Chinese firms (Wang, 2011). Yogesh (2012) discern, differences in reform have an influential impact of privatization on the efficiency and productivity which vary among countries, using two privatized subdivisions of Argentina and India. Most of the economic literature regarding privatization has emphasized to the microeconomic features of subsequent efficiency gains of the privatization process (Megginson & Netter 2001, Pintò, Belka & Krajewski, 1993, LaPorta et al., 2000).

According to (Davis, 2000) State-owned enterprises mostly pay excessive wages and are overstaffed, they require subsidies to act as a channel for the government treasury and be operational for the entire economy by simply eliminating the incompetent firms from the government books in order to progress the government fiscal position that can result to the economic growth (Yung, 1998; Pinheiro, Schneider, 2004). The high growth rate of GDP is linked with higher growth of GDP's share of the private sector (Barnett, 2000; Davis et al., 2000) this confirms, firms after the following privatization pay much taxes that will result in filling the gap of fiscal deficit and can help in succeeding growth (Katsoulakos and Likoyanni, 2002; Davis et al., 2000). The lump-sum revenue from the sale of government companies or fiscal crisis can be the major reasons for following the policy of privatization as can be a potential source of solving these problems to reach economic growth. (Pinheiro, Schneider, 2004; Mansoor 1987, Przeworski 1991).

There are some studies that have tried to examine the privatization impact on economic growth with due respect to emerging economies. From macroeconomic perspectives the economic growth is chiefly determined through the growth of the firm as whenever a firm will witness a growth that contributes to GDP growth (Ghosh, 2008). In the studies of Plane (1997), Cook and Uchida (2001) and Bennett et al., (2004) have shown that economic growth is determined by privatization where other factors like the level of trade openness (Edwards, 1998; Vamvakidis, 2002) and external debt (Lin and Sosin, 2001; Pattillo et al., 2002) along with other determinants contribute in economic growth. Certain empirical studies tried to find and studied the impact of privatization on economic growth by employing different techniques. Plane, (1997) conducted research on 35 countries for a period from 1988 to 1992 used Probit and Tobit model and found that privatization has a positive impact on growth.

Whereas the study conducted by (Javad-shahraki, 2011) by employing the ARDL method provides evidence, privatization does not contribute to the economic growth of Iran. Barnett (2000) using country-level panel data on 10 developing and 8 transitional economies also found a positive impact on economic growth, in line with (Katsoulakos & Likoyanni, 2002). Using the Extreme Bound Analysis (EBA) Cook and Uchida (2003) found a negative robust relationship between economic growth and privatization for a sample of 63 emerging economies from 1988 to 1997 by giving valued insights into the likely conceptual and methodological deviations must be followed, Filipovic (2005) concluded that privatization is a successful growth policy that has to be implemented along with other reforms. The main difficulty while constructing an empirical study to find the impact of privatization on economic growth is due to the other policies and factors that have an influential impact on economic growth must be carefully observed. Easterly (2001) has categorised many factors that can influence economic growth and gave the description of the interdependence of these factors with each other. Cook and Uchida (2003) prove neither any correlation between government budget deficit and privatization nor between privatization and World-Bank adjustment loans. Their study eliminates the possibility that privatization variable captures other economic changes. They have found that the existence of a negative correlation between growth and privatization can be because of the fact that as there is a lack of competition in the private sector of emerging economies. Such variables are an important factor in the implementation of economic growth Easterly (2001). So, the privatization variable in a given country should reflect the magnitude of privatization, as a result creating the magnitude of privatization an important dimension which is kept in mind in this study. Most of the literature regarding privatization highlights the macroeconomic aspects of privatization in developed countries. There is less work done on the impact of privatization at a macroeconomic level on growth and the studies mostly worked on developed and transitional economies and ignored developing economies. So in this study this gap is filled through empirically testing: the influence of privatization on economic growth in the presence of Barro regressors and other macro-economic variables in view of emerging economies.

Methodology

The main focus of this study to investigate the link between growth and size of the privatized banks of developing countries. The main hypothesis of this study is to test either Gibrat's law that there is a stochastic or random

relationship between the size of the firm and the growth of the firm. Further, this relationship between the growth and the size of firms also depends on the attributes of the firms.

The law is set by Gibrat in 1931 is used for the special case of privatized banks in developing countries. The regression model to test the Gibrat's law is given below

$$\ln S_{it} = \alpha_i + \delta_t + \beta \ln S_{it-1} + \mu_{it} \quad \dots\dots\dots (3.1)$$

Where $\mu_{it} = \rho \mu_{it-1} + \varepsilon_{it}$

The equation (3.1) in extended form can be written in the form given and followed by (Oliveira & Fortunato, 2008)

$$\text{Growth}_{it} = \ln S_{it} - \ln S_{it-1} = \alpha_i + \delta_t + (\beta - 1) \ln S_{it-1} + \mu_{it} \quad \dots\dots\dots (3.2)$$

Where equation (3.2) is the AR(1) model for the size of firms which is in logarithm form at time t-1 firm of firm i i.e. $\ln S_{it-1}$, whereas the firm growth function follows dynamic panel model with a null hypothesis that firm growth is random with the size of the firm, α_i is firm-specific effect that is unobserved which implies that there is an existence of heterogeneity across firms, δ_t is time-specific effects, β is expressing the relationship between size and Growth_{it} i.e. firm growth and μ is the error term where ρ expresses the serial correlation in the error term in the growth equation and ε_{it} is random disturbance and is assumed to be normal that is IID with $E(\varepsilon_{it}) = 0$ and $\text{var}(\varepsilon_{it}) = \sigma_\varepsilon^2 > 0$.

The equation (3.2) in its generalized form, by following Oliveira & Fortunato (2008) and Goddard *et al.* (2002b)

$$\text{Growth}_{it} = \alpha_i(1 - \rho) + \delta_t + (\beta - 1) \ln S_{it-1} + \rho (\ln S_{it-1} - \ln S_{it-2}) + \eta_{it} \quad \dots\dots\dots (3.3)$$

where $\eta_{it} = \rho(1 - \beta) \ln S_{it-2} + \varepsilon_{it}$
As for the validity of Gibrat's law $\beta=1$
so $\eta_{it} = \varepsilon_{it}$ under $H_0: \beta = 1$

From equation (3.2), equation (3.3) can be written as.

$$\text{Growth}_{it} = \alpha_i(1 - \rho) + \delta_t + (\beta - 1) \ln S_{it-1} + \rho \text{Growth}_{it-1} + \eta_{it} \quad \dots\dots\dots (3.4)$$

This study follows a model developed by Evans (1987a) i.e. dynamic panel model to investigate and test the hypothesis of the relationship between firm growth and its size in the presence of a number of firm attributes.

$$\text{Growth}_{it} = \alpha_i(1 - \rho) + \delta_t + (\beta - 1) \ln S_{it-1} + \rho \text{Growth}_{it-1} + \Omega(X_{it-1}) + \eta_{it} \quad \dots\dots\dots (3.5)$$

Where X_{it} represents firm attributes i.e. labour quality, total assets, productivity, capital intensity, FDI share and leverage. Firm size and firm growth are considered for two successive periods. The models are separately estimated through system GMM method.

Since dynamic panel model (3.5) is for estimation therefore system Generalized method of Moment is most suitable. Arellano and Bond (1991) are the first to present Generalize method of moment (GMM) system estimators developed from the difference GMM estimators, as in this method to remove unobserved time-specific effects α_i . Arellano and Bover (1995) adjusted this method and is finally improved it namely GMM system method by Blundell and Bond (1998), in this method an equation is employed with a difference and with levels. Moreover orthogonal deviation transformation is used to remove unobserved firm-specific effects. Due to endogeneity present in model (3.5) because of lag of depend variable of right hand side making it a dynamic panel model, Moreover the regressors are endogenous as in this case labour quality (an independent variable) are affected by the dependent variable as in this case firm size, then the problem of endogeneity occurs and leads to biased and inconsistent estimators so in this case, system GMM is rational estimation technique (Roodman, 2006) which better suits our study to obtain the desired outcomes.

Data

Our analysis is based on the panel dataset of firm, comprising banks that were privatized before the year 2004. Due attention is paid towards developing countries from 2004-2018. The data is collected from financial reports that include all variables available in the annual financial reports (size, labour quality, labour productivity, total assets, capital intensity, and leverage). However, it excludes the observations of with negative value or missing in annual reports. To avoid biased estimates outlier observations are removed whereas outliers are identified and checked through residuals and the study has employed a balanced panel database and the system GMM technique is followed, as a result there are unbiased estimators with instruments that are valid.

The following table gives the explanation of all the variables used in this analysis

Table 2

Variables and their explanations

Variable name	Explanation
<i>Dependent variables</i>	
Growth	Annual employment growth is measured by logarithmic difference of number of employees between two subsequent years: $\text{Growth}_{it} = \{\ln S_{it} - \ln S_{it-1}\}$
<i>Independent variables</i>	
Size	The firm size is measured by the number of employees for firm
Labour quality	Total income of employees per number of employees
Labour productivity	Total sales are divided by number of employees
Total assets	Book value of total assets
Capital intensity	Total Capital divided by number of employees
Leverage	Book value of Total liabilities divided by total assets
FDI share	Share of foreign direct investment per total registered capital

For the validity of the study, it is better to specify control variables for cross country regressions. The control variables for example: preliminary social, economic and political conditions that are used in the model of growth. Barro-regressors are used as the control variables and the version of Barro-regressor followed somewhat differs from the meaning of Barro-regressor used in original Extreme Bound Analysis (ABA) developed by Léamer (1978) methodology as in some emerging economies there is lack of data availability of certain economic indicators. The control variables are: initial GDP, government consumption, average population growth rate, gross secondary school enrolment, life expectancy at birth and saving are the six control variables. The inclusion of government consumption is basically based on an impression that the magnitude of government spending is considered a proxy for political corruption or other facets of bad supervision, in addition to the direct effects of taxation and non-productive expenditures. (Cook and Uchida, 2003)

Along with six control variables discussed above, four more variables are (inflation, government budget balance, debt and aid for development) added under the head of Z variables in the regression model (3.1). As according to world development index of 2003, inflation variable is basically a proxy for: the form of the investment climate and credit market, needed to be incorporated. According to Filipović (2005) in order to pay for the deficit revenue is created as some countries might be privatizing rather than making privatization choices based on the goalmouth of economic growth so the government budget must be kept in controlled. Similarly, directing the numerous powers of international aid as of viewpoint of policy reforms and economic growth that are being linked to the international aid thus the variable on AID is used in this analysis. Finally, numerous political and economic policies may be influenced by large national debt so the variable signifying (DEBT) total national debt also laid in the model. By following Bannet (2004), Cook and Uchida (2003), and Plane (1997) the magnitude of privatization is measured as total privatization proceeds between 1988 and 2018 as a percentage of GDP. As empirically verified by Filipović (2005) as there is a benefit of not gathering any effect of other economic reforms, this is the plus point of using this specification of privatization variable.

This study is based on analysing and considering the shortcomings of previous studies. With the help of this study the effects of FDI and debt is examined in regard to their collaboration with privatization, as the theory suggests that these variables could play a central part in determining the impact that privatization on economic growth. The inclusion of the interactive term in multiple regression analysis is justified with variation independent GDP, as one of the independent variable fluctuations (privatization) depends on another independent variable (FDI, debt) The inclusion of Foreign Direct Investment in the model is necessary as it results in the spill-over effect that is positive in the presence of improved firm efficiency and new technology, and the theoretical literature also suggests that higher the foreign direct investment the more it facilitates the effectiveness of privatization as a policy for growth that is economic growth.

Results and Discussion

Table 2

Summary statistics

Variable	Mean	Max	Min	Stdev	Obs
Gdp	3.813	89	-50.2	6.885	2272

Gdp initial	3.793	89	-50.2	6.900	2276
Privatization proceeds	0.193	223.205	-1.34337	4.769	2289
Life	63.612	79	27	9.707	2383
Inflation	63.094	23773.1	-16.1	622.066	1984
Population	1.718	17.3	-11	1.632	2412
Consumption	15.066	76	2	6.518	2155
Enrolment	59.377	114	4	29.349	1627
Savings	18.269	77	-36	10.881	1920
Debt	58.642	289.8	4.1	42.114	482
Unemployment	9.448	37.6	0.6	6.641	2058
Aid	4.57E+08	2.21E+10	-9.43E+08	8.35E+08	2266
Deficit	-1.543	129.5	-34.2	6.293	937
PRIVDEBT	4.245	237.775	-38.420	20.89	2302
PRIVFDI	0.999	836.327	-4.299	17.968	2302

Note: The data used for this analysis is an unbalanced data

Unit Root Test

Using Im, Pesaran and Shin (1995) test. Table 3 display the results of the unit root test of all the variables used that Barro-regressors, macro-economic variables, interactive term and dependent variables are at level stationery.

Table 3

Unit Root test Results

Variable	t stat	p-value	Integrating	Stationary/non-stationary
Gdpit	-26.299	0	I(0)	STATIONARY
Ppit	-75.202	0	I(0)	STATIONARY
Lgdpit	-24.446	0	I(0)	STATIONARY
Infit	-635.17	0	I(0)	STATIONARY
Popit	-2.456	0.007	I(0)	STATIONARY
Consumption	-7.572	0	I(0)	STATIONARY
Enrolment	-29.499	0	I(0)	STATIONARY
Savings	-9.463	0	I(0)	STATIONARY
Debt	-5.180	0	I(0)	STATIONARY
Unemployment	-1.985	0.0235	I(0)	STATIONARY
Aid	-10.106	0	I(0)	STATIONARY
Deficit	-48.189	0	I(0)	STATIONARY
Life	-4.187	0	I(0)	STATIONARY
PRIVDEBT	-19.861	0	I(0)	STATIONARY
PRIVFDI	-5.139	0	I(0)	STATIONARY

Estimation results

This section confirms the result of the three regressions, these are (1) common effect model or Pooled Ordinary Least Square (POLS) regression, (2) random effects panel regression and (3) fixed effects panel regression. The robust standard errors are habited, presented in table 4, the Hausman test is used to choose between one, the random effect model or the fixed-effect model.

Regarding, common effect regression the results indicate privatization proceeds have negligibly negative impact on growth. Life expectancy, the interactive term of privatization proceed and debt significantly affect growth. Remaining all other variables have a statistically insignificant effect on growth. Dealing with panel data common effect regression is not well-thought-out to be an ideal model as serial correlation is particularly assumed to arise in panel data, where across the observations the serial correlation of error term exists itself and it arises when there are persistent omitted variables and along country-specific (Stöck & Watson, 2006). It is important to note that OLS estimates are not biased in case of serial correlation but it violates a key assumption that explanatory variables all stay IID (independent and identically distributed) of OLS models, which results in incorrect standard errors that do not yield confidence level. As the downside of Pooled OLS is considering in model “4” Random effect is used to overcome the serial correlation of panel data. The impact of privatization prove negative and significant results on growth, which is in line with Cook and Uchida (2003). Government budget, FDI (Priv*FDI) and Debt (Priv*Debt) are significant positively contributing its part to boost growth however life expectancy, POP. And the interactive term of privatization proceeds has a deleterious effect on growth because unbalanced implementation and execution of competitors in emerging economies enforce founding monopoly in private-owned enterprises.

The fixed-effect model deals with the omitted variables that remain constant over time but vary across sections but in this case it might be an improper assumption that omitted variables remain constant over time. As evident from column (3) Lag GDP, POP, GOVC, Saving, EDU, INF, AID, UNEMP, LIFE Expectancy, PRIV, PRIV*FDI, PRIV*DEBT are statistically insignificant except GOVB which evidently prove positive impact at 10% significance level. The assumption of a fixed effect that makes a country may become unique due to omitted variable, an incorrect supposition during the privatization process many countries implemented instrumental changes and drastically change the structure of the economy. As the fixed and random effect models allow specific effects, In order to assess the consistency of random effect, Hausman (1978) specification test has been performed under the null hypothesis of non-systematic differences amongst coefficients (Gréene, 2008). If they do not statistically differ, the test would not be significant at the conventional levels, then the random-effects model is more efficient (Bortolotti et al., 2003).

Statistically fixed effect models are always reasonable while considering panel data but they may not be the best model for certain analysis. As random effect provides better estimates so it is mull over in this analysis, the random effect is showing statistically significant estimates. Here in this analysis of the Hausman test identify random effect is a better choice and is adopted for this analysis. The most relevant results are random effect model presented in the last column of Table 4, the results of the common effect model and fixed effect model are reported for comparison.

Table 4

Results of growth model

Dependent Variable	Common Effect	Random effect	Fixed effect
GDP	(1)	(2)	(3)
Lag GDP	0.158 (0.116)	0.142 (0.162)	-0.031 (0.135)
POP	-0.967 (0.875)	-1.023 (0.623)**	-2.633 (3.962)
GOVC	-0.160 (0.152)	-0.179 (0.204)	0.048 (0.509)
Saving	0.098 (0.068)	0.105 (0.069)	0.186 (0.161)
EDU	0.019 (0.040)	0.020 (0.035)	-0.095 (0.225)
INF	-0.009 (0.015)	-0.010 (0.011)	-0.032 (0.021)
GOVB	0.188 (0.136)	0.200 (0.125)*	0.645 (0.366)*

AID	-0.002 (0.023)	-0.000618 (0.018)	0.043 (0.045)
UNEMP	-0.026 (0.136)	-0.023 (0.108)	-0.044 (0.535)
LIFE Expectancy	-0.407 (0.133)***	-0.419 (0.225)*	-1.452 (1.245)
PRIV	-9.630 (8.616)	-9.748 (3.494)***	-7.823 (9.363)
PRIV*FDI	5.694 (4.129)	5.868 (2.937)**	3.437 (4.498)
PRIV*DEBT	0.312 (0.180)*	0.314 (0.053)***	0.291 (0.215)
CONSTANT	32.004 (9.161)	32.952 (15.641)	107.104 (72.256)
R-square	0.243	0.236	0.568
SER	5.167	5.099	4.793
F-test	2.047	1.970	1.766
Prob>F	0.022	0.029	0.020
Hausman (P value)			0.033

Note: the table provides results of (1) Pooled Ordinary Least Square (2) Random Effect and (3) Fixed Effect regression, where (), (**), (***) denote statistical significance at least at the 10%, 5%, and 1% levels, respectively. The values in parenthesis are the standard error of estimates.*

Conclusion

Disagreeing to what some of the previous studies have presented, there is an improvement in economic growth led by an increase in the privatization proceeds, this study shows that privatization proceeds have a negative impact on economic growth similar to Cook and Uchida (2005). There is a need to qualify the conclusion as the data witnessed many gaps and (Shelton, 2007) the data of emerging economies inclines to be of poor quality as compared to high-income countries. And the assumption that there are time-invariant omitted variable under fixed-effect model might not be accurate as the privatization process is related with changes in economic and institutional structures, a number of which occurred during the process (Yöung, 1998 & Mc-Faul, 1995).

The struggle for economic growth in emerging economies has gained enormous attention over the past five decades. The theoretical analysis suggests that there is a significant role played by incentives in order for probable achievement in privatization as a major factor influencing the economic growth. When appropriate structural reforms are followed and accompanied by privatization, this results in an increase in investment, creates an incentive to adopt the technologies that are new and to improve economic efficiency. An important point to note is that successful privatization mostly depends on government obligation to legal and regulatory reforms. The study of Cook and Uchida (2003) shows that the negative relationship amongst economic growth and privatization is because of lack of government reforms that are appropriate. It can be concluded that the privatization alone cannot act as a magical tool to the elusive quest of growth.

It can be concluded that over the year privatization process may have transformed world's economy by reducing the role of government in many countries (Hakro and Akram, 2009) but for emerging economies there are not enough significant changes that can lead privatization to positively contribute in economic growth, it is time for emerging economies to access the direction of their policies. Privatisation basically requires suitable legal and political institutions to be set in motion (Bortolotti et al., 2003).

Policy Implications

As according to Ghosh (2008) from a macroeconomic perspective the main determinant of economic growth is firm growth as an increase in the growth of the firms leads to firm growth and GDP. Keeping in view this point this study has checked the impact of privatization at and macro level. Privatization is a widely used phenomenon and is encouraged to act as a means of improving economic efficiency in emerging economies. However this policy remains a controversial topic and other structural reforms like regulation and competition in the process of promoting economic performance remains uncertain (Parker and Kirkpatrick, 2005). In the developing states the process of privatization performs best when the policy is integrated into a wider process of structural reform. Furthermore in order to advance performance over the longer term, privatization needs to be accompanied by policies that encourage effective and competitive state regulation. This study reviews the main empirical evidence on the impact of privatization on economic growth at the macro level by employing data of 115 emerging economies followed the model of Filipovic (2005) for a period of 1988 to 2018 where the results

show that privatization has a negative impact on economic growth in the presence of other macroeconomic variables (foreign aid, government budget balance, inflation and foreign direct investment) and control variables (Government consumption, average population growth rate, gross secondary school enrolment, life expectancy at birth and gross saving) and interactive terms with privatization. A significant point to consider is that successful privatization mainly depends on the public promise to legal and regulatory reforms therefore it can be concluded that the privatization policy alone cannot act as a magical tool to the elusive quest for growth. Whereas privatisation basically requires suitable legal and political institutions to be set in motion (Bortolotti et al., 2003). Thus there is a need to qualify the conclusion as the data has many gaps and the data of emerging economies tends to be of poor quality as compared to high-income countries (Shelton, 2007).

The struggle for economic growth in emerging economies has gained enormous attention and importance over the past few decades. The theoretical analysis suggests that there is a significant role played by incentives for the probable success of privatization as an important economic growth factor. There are not enough significant changes in emerging economies that can result in privatization to positively contribute in achieving economic growth so there is a great demand for emerging economies to access through proper direction of the policy.

Limitation of the study

The emerging economies never provide a great and good library of data and many emerging economies do not have enough excess to data as compared to developed countries. So the basic problem analysing this study is data limitation as only 100 privatized banks are used for empirical analysis due to this data limitation. Whereas at the macro level if certain policies are to be followed along with privatization can lead to significantly higher growth like if property rights and competition are not used in this analysis.

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