

S.6 Economics Notes | PUBLIC ENTERPRISES AND PRIVITISATION

Public enterprise is a business organization which is set up, owned and controlled by the state/government.

Public sector is a part of the economy made up of enterprises which are established, owned and managed by the state or government. Public enterprises include;

- i. Public corporations
- ii. Parastatal organizations
- iii. Local authorities
- iv. Public authorities

Public corporation

This is a business enterprise in which government holds either all the shares or majority of its share capital. It is created by an Act of parliament which clearly defines its aims and objectives.

Examples of public corporations in Uganda include;

- i. National Water and Sewage Corporation
- ii. National Housing and Construction Corporation
- iii. Uganda Broadcasting Corporation
- iv. National Insurance Corporation Etc.

Parastatal organization

This is a state owned enterprise/firm set up by Act of parliament/ Government decree to carry out specific functions/ activities without putting much emphasis on profits.

A parastatal organization is a business organization setup by the government through the Act of Parliament to perform certain specific functions without putting much emphasis on profit making.

Parastatal organization may be a serviceparastatal, marketing parastatal etc.

They are not guided by the profit motive and do not have a share capital. They are managed by people appointed by the government/ states.

Examples of Parastatal organizations include

- i. UNRA

- ii. UNEB
- iii. Uganda Investment Authority (UIA)
- iv. URA
- v. Uganda National Bureau of Standards
- vi. National Identification Registration Authority (NIRA)
- vii. National Agricultural Research Organization

As opposed to a public enterprise, a private enterprise refers to a business unit owned and controlled by private individuals.

Local authorities

Local authority is an administrative body which is established by the government to provide services within a town, municipality or city.

They are set up through the local government Act to ensure provision of services e.g. health care, education, garbage collection construction of market places, road maintainanceetc

Examples of local authorities in Uganda include;

- i. Kampala Capital City Authority (KCCA), town councils, municipal councils. e.t.c.

Advantages/ Merits of public enterprises/ public corporations

1. Provision of employment opportunities

The government appoints individuals to manage these enterprises on its behalf and in addition many people are employed in different capacities in these enterprises.

2. They raise revenue for the government

Some of the public enterprises make profits although it is not their major aim. These profits are source of revenue for the government.

OR

The government gets profits from public corporations and this is part of the government revenue.

3. They carry out investments in ventures that require very large capital which the private individuals may not be able to raise e.g. oil refining.

Note: Raising large capital by public enterprises enables them to undertake large scale enterprises.

OR

Projects which require large/huge initial capital may not be afforded by individual private investors. These include construction of power dams, bridges, railway lines etc, therefore the government undertakes such projects.

4. They mobilize savings from the general public e.g. NSSF
5. They produce and provide essential goods and services to the public at affordable prices e.g. water, electricity etc because the major aim of public enterprises is to improve people's welfare and not to make profits.
6. They provide goods and services of low commercial profitability but of high economic benefit which private individuals would not produce i.e. they provide non profitable but essential goods and services e.g. garbage collection.

OR

They provide essential but non profitable services to the public. Some activities like garbage collection in urban centers are not desired by private investors because of the low profits generated. In such cases government enterprises undertake those activities and provide services in the interest of the public.

7. They promote economic growth in the country either directly through participation in production of goods and services or indirectly through facilitating production in private enterprises

OR

This is because they encourage large scale production which leads to increase in production and output hence contributing to economic growth.

8. They provide goods of strategic importance i.e. those that can't be left for the private individuals to produce e.g. fire arms and ammunition, roads etc

OR

Strategic investments or sensitive activities cannot be left in the hands of the private sector e.g. the manufacture of fire arms in Uganda.

9. They **promote resource exploitation**. This is through utilizing the resources in the production of goods and services.
10. Public enterprises **reduce foreign domination in the economy** i.e. they carryout production instead of leaving such activities to be carried out by foreign individuals and companies in the country.
11. They promote **development of the country's infrastructure** e.g. UNRA which promotes development of infrastructure in the country.
12. They **control/ avoid private monopolies in the country**. This is through producing goods and services similar to those produced by private firms thereby bringing about competition hence eliminating monopoly.
13. They lead to **development of labor skills**. This is through training and also employing different people in the enterprises.
14. They **protect the nationals from exploitation by private enterprises** e.g. UNBS which ensures that private individuals and firms sell goods and services to consumers in appropriate amounts and quality.

OR

Some of the enterprises protect consumers against consumption of undesirable products e.g. in Uganda, UNBS inspects all goods produced with in Uganda and those imported to ensure that they conform to specific quality standards. This checks exploitation of consumers hence safe guarding the health of the consumers.

15. They **promote balanced regional development in the country**. This is because they are usually established and spread throughout the whole country.

OR

Government enterprises have their activities spread out in various parts of the country. This helps the government to reduce regional imbalances in the country because many areas in the country are being catered for.

Demerits of public enterprises

1. They lead to **high government expenditure** since they are owned by the government, it has to pay for their activities, carryout supervision and monitoring, cater for any losses etc
2. They produce **poor quality goods and services**. This is due to lack of competition and the absence of profit motive in the enterprise.

OR

Public enterprises are not faced with competition from the private investors and thus continue to produce poor or low quality products since they have no competitors in the market.

3. They are associated with **a lot of bureaucracy** (red tape) which leads to time wastage. This is because before any decisions are made consultation and approvals have to be got from relevant officials.
4. They lead to **high taxation of the public**e.g. In order to raise money for supervision, supporting maintaining and monitoring the enterprise.
5. They are associated with **low levels of accountability** which leads to losses in the enterprise. This is due to poor supervision and administration by the government officials.
6. They result into **limited consumer sovereignty**. This is because in such enterprises, decisions about what to produce, when to produce are determined by the government officials in the enterprise without considering the consumers' desires.
7. They are associated with **high levels of political interference** e.g. the top officials in these enterprises are politically appointed and therefore their decisions are usually influenced by those that appointed them..
8. They usually **operate on a very large scale** which results into **diseconomies of scale** that lead to high costs of production and losses.
9. They are associated with **limited flexibility in their operations**. This is because of the bureaucracy who hinders quick decision making and quick adjustments.
10. They result into **shortages of goods and services** e.g. in times of break down or where the enterprise has another problem especially in case where it is the only enterprise producing such a commodity.

Qn

What is meant by the term a public corporation (4mks?)

Assess the role of public corporations in an economy (16 marks)

Explain the advantages and disadvantages of public corporations.(16 marks)

Positive roles / Advantages

1. Creates employment opportunities for the people
2. Raise large capital and thus undertake large scale operations.
3. Develop infrastructure
4. Promote economic growth and development ie they are development oriented
5. Provide essential services to the public at affordable prices.
6. They undertake strategic investments/ projects of national importance.
7. They are a source of revenue to the government
8. Ensure consumer protection against undesirable goods.
9. Control private monopoly
10. Reduce foreign domination of the economy.
11. Provide non-profitable but essential goods and services eg garbage collection.
12. Promote fair distribution of resources/ balanced regional development.

Negative roles /Disadvantages

1. They strain the government budget i.e. high government expenditure on managing public corporations.
2. They are associated with bureaucracy in decision making and implementation of policies negatively affects their efficiency.
3. The public is taxed highly to cover the losses made by these public corporations.
4. They lead to poor accountability by public officialsie.corruption and embezzlement of funds resulting into more losses.
They are associated with limited flexibility in operations i.e. slows adoption to changes/ development.
5. They may lead to shortages in times of break down.
6. They are usually Interfered with by politicians e.g. political appointments.
7. They tend to discourage private investments and this is because of the unfair competition.

8. They lead to limited consumer sovereignty
9. Due to large scale operations, they result into diseconomies of scale
10. Providing poor quality goods and services due to lack of competition

1a). What is meant by the term parastatal organization. (4 marks)

b) Discuss the role of parastatal organizations in an economy (16 marks). *(Give only positive roles)*

2a). Distinguish between a public enterprise and private enterprise. (02 marks)

b). Mention 2 reasons for establishment of public enterprises in Uganda

- To produce goods of strategic importance
- To raise revenue
- To avoid duplication and wastage
- To create employment opportunities
- To provide essentials of life at fair prices
- To provide goods and services which have low commercial profitability but having high social economic benefits?
- To mobilize savings
- To ensure social security
- To stabilize prices and incomes
- To complement the private sector and thus avoid monopoly
- To promote utilization of idle resources
- To protect nationals from exploitation.

Problems faced by public enterprises/ challenges/ causes of poor performance of public enterprises

1. Inadequate capital

Due to lack of enough capital/ funding, the enterprises fail to acquire the needed equipment to be used in production and as such, they continue producing low output of goods and services

OR

The government does not have enough money to finance activities of the public enterprises and this limits expansion of the public enterprises and this limits expansion of the public enterprises.

2. Poor infrastructure e.g. inform of inadequate power and energy, poor transport system etc. which hinders effective transportation of products to the market. Some places can't be accessed because of the poor roads.

OR

This is reflected in poor feeder road network. It becomes difficult to move raw materials and final products of public enterprises to the areas where they are needed. This delays marketing of goods thereby limiting operation of public enterprises.

3. High levels of bureaucracy.

Decision making in public enterprises is always delayed because many government officials have to be consulted. This slows down the speed at which plans are implemented in public enterprises. Finally it reduces efficiency in such enterprises.

4. Political interference in the activities of the enterprise.

Government officials and politicians usually dictate policies to be taken in these enterprises which sometimes lead to losses.

There are influential politicians who want to change policies in the enterprises which reduce the efficiency of the enterprises.

5. Foreign interference

Sometimes the activities of the public enterprises are financed using funds from foreign donors who sometimes dictate policies to be taken in these enterprises which sometimes lead to losses.

OR

In some cases, the donors like to dictate to Uganda the specific enterprises that must be financed while others are left out. This limits activities in those public enterprises which are not being supported hence poor performance.

6. Low levels of accountability.

This is due to poor supervision and monitoring and lack of interests in the success of the enterprise by the employees. This also results into losses

OR

Some of the people employed in the enterprise take the money or funds for personal gains. This leaves little money in state enterprises and certain activities are not financed leading to slow growth of the public enterprise.

7. Poor management

This creates inefficiency because activities of public enterprises are not well supervised by the top government officials. In some cases, the managers who are appointed to run the public enterprises are not competent and are lazy.

8. Political instability in some areas of the country.

This disrupts the activities of the enterprises in those areas and sometimes leads to loss of lives and property.

OR

Government diverts money from public enterprises to fight insecurity in some areas. Due to the limited funds from government public enterprises fail to expand their operation.

9. Limited commitment and interest on the part of managers and the workers.

The top officials and workers have a feeling that enterprise do not belong to them. The personal drive and initiative of workers is low since the enterprise is not owned by them. This attitude creates inefficiency, poor supervision, loss of interest in work. This causes poor performance of public enterprise.

OR

This leads to poor supervision and administration of the activities of the enterprises which leads to inefficiency and losses. This limited commitment also arises because these enterprises are not profit motivated.

10. Limited skilled labor.

This leads to low productivity and inefficiency in the activities of the enterprise which leads to losses.

11. Competition from the private sector

In some cases, some enterprises provide goods and services similar to those provided by the private enterprise and are of better quality and are also provided more efficiently which outcompetes those of the public enterprises.

The public enterprises face competition from the private sector. This reduces market for the public enterprises leading to losses.

12. Poor techniques of production

Due to limited funds, many of the enterprises continue to use out dated technology which leads to poor quality of goods and services compared to those produced by the private enterprise hence outcompeting those of the public enterprises.

13. Limited supply of raw materials

This leads to low output of goods and services produced by the enterprises which sometimes leads to losses.

14. Small market

This forces the public enterprises to produce at excess capacity which leads to under utilization of resources and losses due to low output on the market.

Qns.

State four problems faced by public enterprises in Uganda

Why did government setup public enterprises.

Account for the existence of public enterprises in Uganda.

Why is it necessary to operate public enterprises in Uganda?

PRIVATIZATION

Privatization refers to the transfer of ownership of public enterprises from the government to private individuals and companies.

OR

Privatization of public enterprises refers to the transfer of ownership of public assets or state enterprises to individuals or private investors.

OR

It refers to the transfer of ownership of government enterprises or public sector firms or public owned firms to private individuals to private sector or private investors.

This transfer may be through totally selling the enterprises, leasing the enterprises to private individuals, selling part of the enterprises. Hence the different forms of privatization.

Privatization is one of the conditionalities or structural adjustment programmes of the IMF which conditions the developing countries are required to fulfill before getting assistance from IMF. Other conditionalities being; Devaluation and Liberalization.

Mention any four forms of structural adjustment programmes that have been implemented in Uganda.

1. Privatization/ expanding the role of the private sector.
2. Liberalization of trade or economy.
3. Restructuring of the public service.
4. **Demobilization of workers or soldiers.**
5. Devaluation.
6. Tightening of the monetary and credit policies.
7. Strengthening of the tax administration system.

FORMS OF PRIVATISATION

1. DIVESTITURE

Divestiture refers to the total sale of the public enterprise to the private individuals and companies. This implies that all the shares and assets of the enterprise are sold to private individuals or companies. This is the outright or total transfer of government enterprises to private investors.

2. PARTIAL SALE OR PARTIAL PRIVATISATION

This is whereby a given part of the enterprise is sold to private individuals to operate. This happens with companies that have various lines of production and one or a few are sold to private to private individuals.

This is whereby a given part or segment of the enterprise is sold to private individuals or companies.

3. JOINT VENTURE

This is whereby the enterprise is owned and run jointly by the government and private individuals. This implies that some of the shares are sold to private individuals, usually, the government retains 51% of the share and a private individuals and companies get the remaining shares.

4. LEASING/ MORTAGAGING.

This is where by the public enterprise is sold to private individuals to manage and run it for specified period of time after which it is returned to the government.

This is where the management and running of the enterprise is sold or transferred to the private individuals to manage and run it for a specified period of time after which it is returned to government.

5. CONTRACTING.

This is where the management of the enterprise is sold to the private individuals to operate it on behalf of the government for a given period of time as per the agreement signed.

This is where the government leaves the management in the hand of either local or foreign private firms while retaining ownership. This may involve signing of management contracts between the government and the private firm.

6. DENATIONALISATION

This is whereby the nationalized enterprises are returned to the original private owners to operate and run them. It involves government returning some enterprises that had been nationalized to their respective owners.

Question.

Mention four ways by which public enterprises are privatized in an economy.

- Divestiture
- Partial sale
- Joint venture
- Leasing/ mortgaging
- Contacting
- Denationalization

Merits of privatization

1. It leads to an increase in the level of efficiency in the running of the enterprise. This comes about as a result of the close supervision and monitoring of the activities in the enterprise that lead to lower costs hence increasing efficiency.
2. It reduces the levels of corruption and embezzlement within the enterprises. This results due to the close supervision of the activities in the enterprises given that private individuals are interested in the levels of accountability.
3. It leads to foreign investment into the country. This is because many foreign individuals and companies participate in buying or taking over the ownership from the government but in addition, foreign investors are greatly interested in a private led sector economy. Therefore privatization gives them assurance hence attracting them to come and carry out more investment.
4. It leads to reduction in government expenditure since after privatization of public enterprises, the government no longer has to pay money for subsidizing the enterprises, paying employees of the enterprise etc.

5. It results into production of better quality commodities. This results from the competition within the private sector, and the profit motive which forces the private owners of the enterprise to adopt better production methods that result into quality products.
6. It leads to a reduction in bureaucracy in the affairs of the enterprise. I.e. there are fewer consultations that have to be made under private enterprises and this leads to easy decision making.
7. It leads to an increase in employment opportunities in the long run due to the increased efficiency in the enterprises, more profits are made which leads to expansion in the size of the enterprises though ploughing back the profit which leads to creation of more employment opportunities.
8. It increases revenue for the government. This arises from the taxation of the profits made by the enterprises as well as the profits from the sale of the enterprises to the private individuals and companies.
9. It leads to an increase in the level of exploitation of the country's resources. After privatizing the enterprises, the level off efficiency increases which leads to expansion in the size of the enterprises hence the need for more inputs and therefore exploitation of more resources.
10. Privatization enables a country to fulfill one of the IMF conditionalities which is creating a private sector ledeconomy so as obtain assistance from IMF.
11. It increases the level of creativity and innovativeness. This arises from competition in the private sector and the desire for maximizing profits.
12. It gives a chance to the government to concentrate on provision of social services e.g. medical services, education etc. after leaving some of the productive activities to be carried out by the private individuals and companies.
13. It leads to an improvement in the country's balance of payment position. This arises from the increased goods and services that result into more exports thus increasing the country's earnings from abroad but also reducing the need for some imports hence reducing the country's expenditure abroad.
14. It leads to an increase in domestic output of goods and services hence economic growth. This comes about as a result of increased investments by the private individuals.

OR

As privatized firms become efficient, greater volumes of goods and services are produced hence promoting economic growth.

15. It leads to provision of a wide variety of goods and services by these enterprises. Due to the need of maximizing profits the private individuals produce different varieties commodities to cater for the different tastes of the consumers hence widening their choices.
16. It controls structural inflation. This results from the increase in the domestic production of goods and services which alleviates the shortages of goods and services.
17. Improved relations between Uganda and the international community especially the donors. Privatization strengthens co-operation with other countries as a result of hosting foreign owned firms which have taken over formerly owned state enterprises. This leads to increased volumes of trade between Uganda and other countries.
18. It gives rise to improved skills among the workers. Private enterprises undertake to train and finance the training of employees to equip them with better job skills. This is done through "on job training programmes" or in service training.

Demerits of privatization.

It leads to an increase in income and wealth inequalities. This comes as a result of the profits realized by the private individuals.

It results into unemployment in the short run. This is because the private individuals tend to employ more capital intensive methods of production because of the desire to produce more output and of better quality hence laying off many of the workers.

It leads to emergence of private monopolies. This arises when the initially statutory monopoly firms are taken over by the private individuals hence leading to exploitation of consumers.

It leads to price fluctuation. This is because the private individuals base their decision on the market forces of demand and supply, therefore increases in demand lead to higher prices while decreases in demand leads to lower prices.

It results into duplication and wastage of resources. This comes about as a result of wasteful competition in the private sector.

It leads to profit repatriation as in some cases, some of the public enterprises are taken over by foreign investors who tend to take back the profits to their mother countries given the fact that most local individuals do not have required funds for purchasing these enterprises.

It leads to losses on the side of the government. This is because in some cases, the enterprises are undervalued and sold at a give away price to private individuals but also in some cases the government spends a lot of money on renovating the enterprises before selling them.

It results into consumer exploitation due to over charging the products of the enterprises by the private owners in order to maximize profits.

It leads to high government expenditure on the process i.e. high expenditures on renovating the public enterprises because some of them are in a poor state. In addition to huge expenses on advertising the sale of the enterprises in the domestic and foreign markets.

It leads to irrational exploitation of resources leading to environmental degradation and depletion of some resources. This is because the private individuals only consider maximizing profits at the expenses of ensuring a sustainable use of country's resources.

Provision of essential/ vital goods is ignored. Private investors put emphasis on profit making and therefore ignore the production of essential or merit goods which used to be provided by the state enterprises e.g. those of low commercial gains.

It leads to resentment of the government by the public. This is because many of the individuals in the country or public are not in for privatizing enterprises and therefore develop a negative attitude towards the government because of selling these enterprises.

NOTE: if impacts are asked in paper 1 don't answer using the past tense but use the present simple e.g. reduces/ worsens/ increases

Question UNEB 2011

Account for the privatization of public enterprises in your country.

(reasons for privatization of public enterprises in my country)

To enable firms operate more efficiently

To reduce corruption tendencies which is rampant in state enterprises.

To attract foreign investments.

To reduce government expenditure on subsidization.

To encourage competition hence increased quality output.

To meet the IMF conditionality of creating a private sector led economy.

To expand the tax base.

To create more employment opportunities in a long run,

To improve or increase the level of resource utilization.

To reduce bureaucratic tendencies and resultant negative effect.

To encourage creativity and innovations.

To increase output hence economic growth.

To control structural inflation.

To improve on the balance of payment position.

To allow government concentration on provision of social services.

1a) Distinguish between privatization and divestiture.

b) Why is there need to carry out privatization in your country.

2a) Account for the divestiture of public enterprises in your country.

b) What problems have been encountered in the privatization of public enterprises in your country.

c) Account for the privatization of public enterprise in your country.

3) Discuss the role of parastatal organizations in an economy. *give only positive roles*

**Problems encountered in the process of privatization of public enterprises
(Factors limiting).**

NB: Here we basically consider the hindrances within the privatization process i.e those factors that tend to slow down or frustrate the process of privatization in Uganda. **These must not be confused with the demerits of privatizations. The factors include;**

1. High levels of corruption within the privatization units. Some of the officials in the privatization unit ask for bribes from the intending buyers which discourages them for fear of the high cost which could be incurred. In doing this they prevent the potential buyers from buying the enterprises.
2. Opposition from the public. Some members of the public do not support privatisation, and tend to demonstrate, organize boycott etc. so as to discourage the selling of these enterprises basing on the argument that the government officials are going to steal the money got from selling these enterprises.
3. Poor valuation of the enterprises. Sometimes the enterprises are overvalued and thus sold at a very high price which discourages the intending buyers for fear of making losses.
4. Poor state of the enterprises. Some of the public enterprises are in a poor state and as such private individuals and companies are not willing to purchase them for fear of spending a lot of money in rehabilitation so as to put them in proper shape.
NB: the poor state of enterprises makes it hard to sell them.
5. The small market. Small market for the products of the enterprise discourage the intending buyers of these enterprises due to fear of making losses after taking on ownership of these enterprises

OR

This discourages potential buyers because with a small market, they cannot sell all the output to make reasonable profits i.e. it is not viable for a private investor to invest their resources where the markets are small.

6. Unscrupulous buyers sometimes some of the individuals intending to buy the enterprises are connemen who don't have the money to buy the enterprises thus prevent potential buyers from buying the enterprises.

OR

Some buyers are not straight forward i.e. some express interest to buy the enterprise but later they pull out of the deal which delays the process of privatization of the enterprises.

7. Political instabilities in the areas where some of the enterprises are located. This creates a situation of uncertainty to private investors. There is fear for loss of life and property and this discourages potential private investors from buying state owed enterprises hence limiting effective implementation of the privatization process.
8. Political sabotage e.g whereby some members of the parliament may block bills about privatization.
9. Ideological differences. Some of the officials in the government believe in having a private sector led economy and therefore support privatization while others believe in a public sector led economy and therefore do not support the process. These differences result into long debates hence delaying the process.
10. High levels of poverty among the nationals, which leads to failure to raise funds for purchasing these enterprises hence forcing the government to sell them to foreigners.
11. High costs of the process of privatization .e.g.on renovation of the enterprises, advertising the enterprises on sale, costs incurred in employing valuers, paying salaries to officials in the government which has limited financial resources and this leads to delays in the process of privatization.

Question

- 1a) Distinguish between Privatization and Nationalization of enterprises.
- b) Examine the impact of privatization in Uganda.

NATIONALIZATION OF ENTERPRISES

This refers to the taking over by the states the ownership, control and management of the formally privately owned business enterprises.

OR

It refers to a situation where government deliberately takes over control and ownership of privately owned enterprises.

In Uganda, nationalization was carried out in 1972 when the government of Idi Amin took over ownership of business enterprises from the expelled Indians.

Merits/ advantages of nationalization of private enterprises/ positive implications

- 1. Reduces wasteful competition and duplication of resources and activities.** This is because instead of having many private enterprises dealing in the same activity, the government nationalizes them and it establishes one enterprise to run that activity. This minimizes resources duplication and wastage of resources..

OR

This is because the government does not aim at making profits and thus is not involved in wasteful competition and also due to government control of activities.

- 2. It encourages large scale production.** Since after taking over ownership of such enterprises, government usually injects more capital in the enterprises which leads to their expansion.
- 3. It reduces consumer exploitation.** Since after nationalization, the enterprises charge affordable prices because they are not aiming at maximizing profits.

OR

The goods and services produced by the nationalized enterprises are always provided to the public at fair prices. This enables the public to get access to such goods and services e.g. public utilities at affordable prices which improves people's welfare.

4. **The enterprises quickly and easily respond to structural changes in the economy** e.g. adjustment to changes in market conditions may be quick. This is because they are under government control.
5. It leads to a **reduction in foreign domination**. This is because of the reduction in foreign ownership and control of enterprises in the country since they are now taken over by the government..

OR

This arises where the government takes over ownership or control of enterprises from foreign investors. This reduces foreign investors and enables the country to become self reliant in the long run.

6. It **promotes economic stability** especially price stability, since the prices of products of such enterprises are controlled by the government through price controls instead of being determined by market forces of demand and supply.

OR

The government easily implements price controls on those goods by nationalized enterprises/ industries such as price controls enable a country to attain stability in prices.

7. Promotes an **equitable distribution of income and wealth**. This is because it becomes possible for government to allocate resources in fair proportions among the nationalized enterprises e.g. fair wage payments to all workers. This promotes equitable income distribution among workers in the nationalized enterprises.
8. It **reduces profit repatriation**. This comes about as a result of the reduction in foreign ownership of the enterprises in the country.

OR

Nationalization puts many enterprises under the control of the government. Nationalized enterprises produce those goods which would have been produced by foreign investors, therefore ownership of enterprises by foreign investors reduces. This helps to check profit and income repatriation by foreign investors.

9. It facilitates or **encourages government management and control of vital/strategic enterprises** since the enterprises are owned and controlled by the government.

OR

The government uses nationalized enterprises to undertake production of strategic goods such as military ammunitions/weapons.

- 10. It reduces social costs** since the government now owns the enterprises and it is more concerned with protection of the environment than maximizing profits.

OR

Environment protection measures are strictly enforced by the government to check or minimize social costs such as pollution which are generated by the nationalized enterprises.

- 11. It controls private monopoly** and the associated negative effects. Production of goods by nationalized enterprises helps to fight the possibility of having private monopoly firms which exploit consumers by restricting supply to charge high prices. Goods which would have been produced by private monopoly firms are produced by the nationalized industries.

OR

This is after nationalizing the private monopoly firms and they begin producing goods which would have been produced by private monopoly firms

- 12. It generates revenue for the government** i.e. the profits made by the nationalized enterprises go to the government as revenue.

- 13. It protects consumers against consumption of undesirable products.** In nationalized enterprises, government is able to check or regulate the production of undesirable goods such as alcoholic drinks, cigarettes etc.

OR

This is due to government control of the activities of nationalized enterprises and the prices charged by the enterprises.

- 14. It increases employment opportunities.** Nationalized industries or enterprises create jobs for skilled and semi-skilled people which enables them to earn incomes for improving their welfare..

Demerits of nationalization of enterprises/ negative implications/effects

NB: These are related to the disadvantages of government ownership of public enterprises.

1. It leads to inefficiency in the operation and running of the enterprises. This is due to the reduction in competition and absence of the profit motive in the enterprise.

OR

Nationalized enterprises are not faced with competition from private investors. They continue to produce poor or low quality products since they do not have competitors in the market.

2. It encourages corruption through the misuse of funds by the government officials. This is due to lack of interest and effective supervision by the government officials which results into more losses.
3. Leads to limited choice for consumers because of the limited variety of goods and services. This is due to lack of competition and absence of the profit motive.
4. Nationalization is associated with bureaucracy which leads to delays in decision making. This is because as the nationalized enterprises are now owned by government. The relevant government departments and officials have to be consulted before any decisions are made.
5. It leads to high government expenditure on running nationalized enterprise e.g. through paying the workers, subsidizing the enterprises etc.

OR

In some cases, the nationals are subjected to high taxes in order for the government to raise sufficient tax revenue to finance the activities in nationalized enterprises.

6. It results into political interference in the running of the enterprises e.g. through political appointments of managers and other key officials in the enterprise in addition to influencing the decisions in the enterprises by the politicians.

OR

Political interference in the running of nationalized enterprises e.g. there is political appointment of managers and other key officials in the enterprise in addition to influencing the decisions in the enterprises by the politicians

7. It leads to misallocation of resources. This is because resource allocation in the enterprises is directed and controlled by the government instead of leaving them for the price mechanism i.e. market forces of demand and supply.
8. It discourages private investment. This is because private investors would fear that if they put up investment in the country, such investments would also be taken over by the government.

OR

Some activities which would have been undertaken by private investors are taken on by the nationalized enterprises which are funded by the government. The private investors pull out of such activities and this finally reduces private investment in the country.

9. Production of poor quality goods. This is due to lack of competition

TRADE LIBERALISATION

This refers to the removal of unnecessary controls on trade hence giving people the liberty to trade without undue government controls.

The removal of undue controls on trade results into an increase in the number of investors in the country which results into various economic activities hence resulting into numerous benefits.

The undue government controls that are removed through trade liberalization include price controls, unnecessary trade barriers like quotas, tariffs etc.

Trade liberalization is one of the conditions under Structural Adjustment Programmes (SAPs) given to developing countries by World Bank and IMF

Qn

Mention any four forms of structural adjustment programmes that have been implemented in your country.

- i. Privatization/ Expanding the role of private sector
- ii. Liberalization of trade

- iii. Restructuring of public service/ demobilization of workers
- iv. Devaluation
- v. Tightening of monetary and credit policies
- vi. Restructuring of the tax administration

NB: In Uganda, trade liberalization is manifested in the following;

- i. Liberalization of foreign exchange markets
- ii. Liberalization of the tele communication sector
- iii. Liberalization of University education/ tertiary education etc

Advantages of trade liberalization/ merits/positive effects/impacts/consequences

1. It leads to increased employment opportunities. This is due to the increased investments after removal of unnecessary government controls on trade.

OR

It opens up trade activities to private investors. As more economic activities are undertaken by the private investors, this leads to creation of more jobs for the people.

2. It leads to increases in the level of output and economic growth. This comes about as a result of the increase in investments which results into increase in production and output hence economic growth.

OR

Since investors are free to participate in economic activities. There is greater output of goods and services and with increased production of goods and services it results into higher levels of economic growth.

3. Leads to increase in the level of resource utilization in the country. This comes about as a result of increase in investment in the country by private individuals.
4. Encourages innovations and inventions. This is brought about by the increased competition as a result of the increase in the number of investors.

OR

Due to existence of liberalized trade, a competitive environment is created and the business entrepreneurs also strive to introduce new ways of production and also improve on the existing technology which encourages technological development.

5. It leads to an increase in the level of efficiency within the business firms. This is because of the increased competition in businesses.
6. It leads to an improvement in the quality of goods produced. This results from the increased competition which arises from the increased number of investors.

OR

Liberalization gives rise to stiff competition among producers which forces firms to be more efficient in order to remain in business. This competition also compels firms to improve quality of goods produced and services rendered to the public.

7. It leads to increased revenue for the government ie from taxation on the increased number of business activities in the country or from the taxes imposed on investments and trade activities carried on by private individuals.

OR

Since many economic activities are setup as a result of trade liberalization, the country's tax base is widened. The government is now able to levy taxes on the various economic activities hence more tax revenue is collected by the government.

8. It leads to a reduction in corruption. This comes as a result of the removal of government controls which reduces the necessity and influence of government officials in the business activities.

OR

This is as a result of the removal of government controls on which government officials would base to ask for bribes.

9. It tends to control structural inflation. This is due to the increase in the level of investment by private individuals which leads to increase in output of goods and services.

OR

Trade liberalization attracts more investors which leads to increased production of goods and services hence leading to increased output which reduces shortages and thereby controlling structural inflation.

10. Trade liberalization encourages or attracts foreign investors. This results from the influx of foreign investors after removal of undue government controls.

OR

Many foreign investors are encouraged to come and invest in the country due to removal of undue government controls and as a result, the level of investment increases in the country.

11. It leads to an improvement in the country's balance of payment position. This results from the increased output of goods and services some of which is exported which increases the country's foreign exchange earnings from abroad.

12. Encourages consumer sovereignty. This arises because of the increased number of investors and the competition for the buyers.

NB: where trade is liberalized, production is guided by the consumers' desires and what they demand therefore determines the type of commodity to be produced.

13. Reduces income and wealth inequalities. This arises because of the increase in investment and employment opportunities in the country.

14. Leads to increase in the variety of commodities produced which widens consumer choices. This results from the increase in the number of investors and producers which promotes competition.

OR

This comes about due to the increase in the number of producers or investors who produce a wide variety of products.

15. Encourages infrastructural development. This arises due to the increased number of investors in the different sectors of the country's economy's like telecommunication systems, hence developing infrastructure.

16. Promotes economic diversification. This comes about as a result of the increased number of investors in the different sectors of the country's economy.

DEMERITS OF TRADE LIBERALISATION/ NEGATIVE EFFECTS/ IMPACTS/ CONSEQUENCES

1. Leads to unemployment. This is due to excessive competition among the producers who tend to produce better quality products thus employing more of capital intensive techniques of production.

OR

This is due to competition as the inefficient firms are out competed and pushed out of production which causes unemployment.

2. It subjects the economy to economic instabilities especially price fluctuation. This is because of the removal of government controls and leaving the economic activities to be determined by market forces of demand and supply.

3. Leads to collapse of indigenous/ local firms. This is because of the excessive competition resulting from the increasing number of investors hence slowing down the pace of economic growth..

4. There is a danger of resource misallocation which may arise because of the removal of government controls i.e.as government controls on resource allocation have been removed.

5. Results into wasteful duplication and wastages of resources. This is because of the excessive competition resulting from the increase in the number of investors.

6. Results into depletion of some resources due to overexploitation. This comes about as a result of the increase in the number of investors after removal of undue government controls on trade.

7. Results into flooding of markets which sometimes forces prices to go very low to an unacceptable level. This comes as a result of increase in the number of producers in the market.

8. Leads to distortion of consumer choices. This is due to intensive sales promotional activities and increased advertisement that result from increased competition.

9. Results into consumer exploitation. This comes about due to the removal of government controls that would otherwise protect consumers from exploitation.

OR

This is due to consumer ignorance about market conditions which results into overcharging of consumers by private individuals.

10. Encourages capital outflow e.g. through profit repatriation which comes as a result of the increased number of foreign investors who tend to take the profits made to their home countries.

OR

As a result of liberalization, many foreign investors are attracted to the country, they make profits out of their investments which are repatriated to their mother countries.

11. It promotes foreign economic domination. This is due to the increase number of foreign investors after removal of undue government controls on trade.
12. It exposes the consumers to harmful products. This is because of lack of government controls that would otherwise protect consumers from such products.
13. It leads to over exploitation and depletion of some resources. This comes about as a result of the increases number of investors after removal of undue government controls.

OR

This is because private investors produce as much as possible in order to maximize profits and so they tend to put a lot of resources to use..

14. It may give rise to monopoly and its associated evils. In a liberalized economy, strong business firms usually outcompete the small and inefficient firms. The stronger firms that remain in the industry attain monopoly power and its associated evils like overcharging consumers, production of low quality goods etc.
15. It leads to income and wealth inequalities. The rich and prosperous continue to dominate liberalized activities in the economy. They make high economic gains at the expense of the poor who are unable to invest which worsens income inequality if the government does not come out to control it.

Questions.

- 1a) What is meant by the term trade liberalization.
- b) Examine the merits and demerits of trade liberalization in Uganda.
- 2a) Distinguish between Denationalization and Trade liberalization.
- b) Assess the impacts of trade liberalization.

- 3a) Distinguish between trade creation and trade liberalization.
- b) Examine the implications of trade liberalization on the economy of developing countries.

Positive implications

1. Increases employment opportunities.
2. Increases the level of output hence economic growth.
3. Encourages resource utilization/ increases resource exploitation.
4. Improves quality.
5. Encourages innovations and inventions.
6. Increases revenue through taxation.
7. Fights corruption.
8. Competition forces firms to be efficient in order to remain in business
9. Improves the B.O.P position as exports are encouraged.
10. Encourages foreign investment.
11. Reduces income and wealth inequalities.
12. Tends to control structural inflation.
13. Upholds consumer sovereignty.
14. Wide variety of goods are produced.
15. Promotes economic diversification.

Negative impacts

1. Collapse of local firms due to competition.
2. Makes the economy susceptible to economic instabilities.
3. Depletion of some resources due to over exploitation.
4. Encourages capital outflow.
5. Danger of resources misallocation.
6. Exposes consumers to harmful products.
7. Duplication and hence resource wastage.
8. Consumer exploitation due to harmful products.
9. Flooding of markets that some times forces prices to go very low to unacceptable levels.
10. Leads to unemployment.
11. Environmental degradation is accelerated.

