

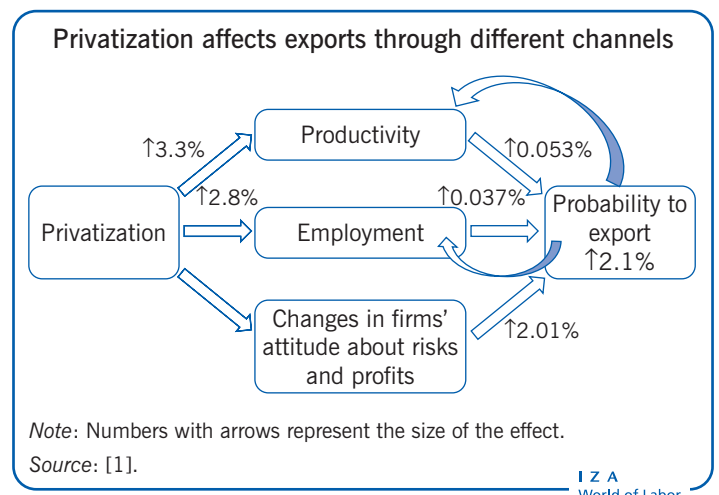
The effects of privatization on exports and jobs

Can the privatization of state-owned enterprises generate a virtuous cycle between exports and employment?

Keywords: privatization, exports, employment, state-owned enterprises, transition economies

ELEVATOR PITCH

The privatization of state-owned enterprises (SOE) in transition economies has often been found to improve employment and productivity of privatized SOEs, despite policymakers' fears regarding possible job cuts. This positive effect can be enhanced if privatization also promotes firms' exports. A recent firm-level analysis of China reveals that privatization has indeed a positive effect on export propensity, employment, and productivity in both the short and long term. The effect mostly stems from changes in firms' attitudes about profits and risks due to competitive pressure.



KEY FINDINGS

Pros

- ⊕ The privatization of SOEs in transition economies increases employment and productivity.
- ⊕ The probability that firms export increases due to privatization, primarily because their attitudes about risks and profits change.
- ⊕ Privatization may lead to a virtuous cycle among productivity, exports, and employment.
- ⊕ Restrictions on marginal ownership and institutional reforms help maximize the benefits of privatization.

Cons

- ⊖ The estimated effect of privatization on export propensity is based primarily on small- and medium-sized SOEs.
- ⊖ There is hardly any empirical evidence on the effects of privatization for large SOEs.
- ⊖ Because the estimated effect of privatization is drawn mostly from China and the former Soviet Union, it is not clear whether the results can be applied to privatization in less developed countries.

AUTHOR'S MAIN MESSAGE

Governments in transition and emerging economies should not fear the potential negative effects of privatization on employment; instead, they should recognize its positive impacts on employment and productivity. Moreover, privatization promotes exports, which in turn generates a virtuous cycle between employment, productivity, and exports. To maximize its benefits, privatization should be associated with restrictions on how involved managers can be in the ownership of privatized firms and institutional reforms should be implemented that promote trade openness, financial freedom, and anti-corruption.