



# Models of Privatization in Latin America

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**Abstract:** The existing models of privatization also study, to locate the type of privatizations that were used in Mexico and Latin America. It is analyzed and conclude the causes and consequences of the privatizations in Latin America, in specify the countries of Argentina, Brazil, Chile and Mexico, In order to complete the investigation different indicators from the years 1999 - 2004 were analyzed, which give to an idea of the economic similarity between the mentioned countries and a social and the future economic tendency us of these countries, all of this using the historical, dialectic, analyses and synthesis methodologies.

**Keywords:** Privatization Models, Public Enterprises, Latin America

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## 1. Introduction

This work aims to monitor the privatization of public enterprises, assess and finalize the results have had from the post-revolutionary era in Mexico, reaching its peak in the years 1982 - 2000 and ending with what happened in 2005. This detailed what the role of the state in this process, since that privatization has a strong impact on economic growth and welfare of the Mexican society. Existing models of privatization, defined by the objectives and methods are analyzed and subsequently reviewed and results of cases similar to Mexico conclude privatizations in Latin America are Argentina, Brazil and Chile.

## 2. Contextual of the Privatization Models

### 2.1. Background

To start this issue we must remember that the neoliberal model is based on the belief that market forces allocate resources, wages, goods and services more effectively and efficiently than state forces intervening. Applying this to the first world countries that were pioneers in applying this theory is that the doctrines had structured its development under the administrations of Margaret Thatcher in Britain and Ronald Reagan in the United States, which extended their experiences throughout the countries of this first world such as Italy, France, Canada, etc. The three approaches under which these countries were based were:

- Consider keeping separate social and private sectors,

according to the scope and extent under consideration.

- Stresses the social and political aspects of the privatization process. Try to link the privatization and argues his chances of emergence and expansion possibilities.
- The privatization process should be linked and adapted to each society's own cultural characteristics.
- The third approach discussed the content analyzing problems that can lead to implementation. No longer see society as different but as sub-sectors.

In this globalized world environment first several points to consider are presented:

1. The export model defined as key to success of economic development deepens.
2. Domestic markets and imports necessary to ensure the competitiveness required for export growth are released.
3. Increase the efficiency of companies and public services based on the assumption that the private sector is more efficient in the public sector.
4. Existence of a strong private sector and capital market developed.
5. Autonomy of public administration to the public control.

### 2.2. Methods and Objectives of the Privatization Process

The objectives of the processes of privatization and reducing the role of government in the economy are basically the following [1]:

1. Financial objectives: monetization, reduced public spending, finding new ways of financing, capital market expansion.

2. Economic objectives: efficiency targets derived from subjecting the company to market discipline both goods and services and capital market.
3. Policy objectives: reducing the state role in the economy, market liberalization, reduction of union

power

The detailed objectives are linked to the methods of privatization [2] and [3], to understand about this relationship presents the following Table 1, Table 2.

**Table 1.** Methods and objectives of privatization.

Methods	Objectives allocative efficiency	Economic efficiency	Income prosecutors	requirements
Sale of assets (Monopolies)	Not	Yes	Yes	Existence of regulation to prevent monopolistic abuses
Sale of assets (Companies n competitive markets)	Yes	Yes	Yes	
Deregulation	Yes In markets Competitive	Yes	Yes	
(With sale of assets) Deregulation	Yes In competitive markets	Yes	Not	
(without sale of assets) Franchise	Yes If the auction is competitive	Yes If the losses are subsidized If the contract is compatible with incentives	Not	Existence of authority that directs and controls the contracts
Franchise (monopoly rents)	Not	Yes	Yes	Existence of authority that directs and controls the contracts

Source: Domerger, S./Piggott, J. , Italy, 1986.

**Table 2.** Conditions for the success of privatization.

Entorno de la empresa: mercado		
Competitive markets	Not competitive markets	Context of country
Privatize	Regulators authorities. Create and development	Regulatory capacity of the country Management skills.
Privatize	Agreements with the private sectors to separate monopolistic activities from the rest	Poor regulatory capacity
Development of mechanisms of defense of the competition	Installing a regulatory framework before privatization	capital Markets undeveloped
Management contracts	Contracts of private management contracting out or assignments	Poor capacities

Source: The Lessons of experience, The World Bank, States unit, 1990.

### 2.3. Models of Privatization

1. Transfer of assets and basic formulas of disposal [4]
  - Negotiated sales of assents
  - Out to the stock exchange
  - Public offer of selling

- Capital increases not open to the public shareholders
- The certificate of staff
- The technique of special action and hard core
- Franchising or contracting external

2. Deregulation like necessary condition in the privatization process

On the another hand, it is important to mention what are de basic rules to the privatization, according to Rivas [5]

1. Ensure the transparency and fairness of the process
2. adjusted the sales price
3. Stimulate competition and avoid creating another monopoly
4. Give independence to regulators
5. Privatize first to companies that perform poorly, to reduce social opposition
6. diversify to the buyers

## 3. Experience of Privatization in Latin America

The origin of Latin American companies is in the interventionist economic policies of governments in the region began in the nineteen thirties, as a result of the Great Depression. This famous economic crisis led to a significant decline in exports from the countries of the region. The

policy of import substitution, it is worsened from the forties and lasted until almost completed the decade of the eighties. The state took an active role in the economic process, creating a number of companies acting as a monopoly in strategic areas such as transport, telecommunications, oil, gas, steel, food and textile sectors, with the primary aim of protecting domestic industry against foreign and accelerate industrialization producers. Imports slowed with a protectionist policy.

*Table 3. Economic and social evolution of Latin America.*

Period	Economic develop	Social change
1880 - 1900	Start of trade policy	Creating a high social class, appearance of a commercial sector and a professional class
1900 - 1930	Foreign trade growth	Emergence of the middle class and the proletariat beginning
1930 - 1960	Start policy and import substitution industrialization stagnation in import	Formation of an entrepreneurial class
1960 - 1980	substitution policy commencement of an export policy	Social conflicts, emergence of guerrilla movements
1980 - 1990	Trade shortages, exacerbated by the debt crisis, economic recession, inflation performance	Loss of welfare and repression of guerrilla movements
1990 - 2000	Opening up, privatization, macroeconomic stability, creation of regional trade areas and sensitivity of micro enterprises and microcredit	"Strengthening the middle class, poverty reduction, role of NGOs, democratization, peace and sensitivity to the problem of indigenous peoples".

Source: Economic develop and social change in Latin America, Modern Latin America, Second Edition, Thomas E. Skidmore and Peter H. Smith, Argentina, 2000.

### **3.1. Changes in the Role of State in the Late 80s**

Since the late eighties the Latin American governments launched a series of structural reforms that have allowed the opening of their economies to international competition. These reforms include macroeconomic stability, openness to trade with greater orientation of export economies, reducing state intervention and public spending levels, major programs of privatization, tariff reductions, controlling the amount of money, improved external financing, higher production efficiency and conquest of foreign markets. The causes of these changes in the economic policy would be found in:

1. The brilliant results they were getting the economies of Southeast Asia (China, South Korea, Thailand, Japan, Philippines, Malaysia and Singapore).
2. The questioning of Keynesian theory and the emergence of a younger group of neoliberal economists who are asked to participate in the management and implementation of the reform process.
3. The pace of growth of the Chilean economy that has

served as a model for other experiences in and outside the region.

### **3.2. Analysis of the Main Economic Indicators of Latin American Countries, to the Effects of Comparison: Argentina, Brazil, Chile**

#### **3.2.1. Case of Argentina**

The big privatization expansion occurs under successive governments of Menem, who fully identified with the liberating discourse of markets and policies of the International Monetary Fund (IMF).

Methods of privatization, the methods used in Argentina as in most Latin American countries such as Chile and Brazil, are the total sale, transfer, including the model of the "Cono Sur" stands in Argentina (1992), which led to the division of the industry into five functions: generation, dispatch, transmission, distribution, and supply networks [6].

The methods more used by Argentina are:

1. Total Sales
2. Transfer
3. Sale of assets
4. Concession Contracts

Privatized sectors, below are named some of the most important privatizations made in Argentina:

1. Electricity
2. Water and sewerage services
3. Gas industry
4. Telephones, transportation, water, gas, electricity, garbage collection and some strategic companies mining and natural resources.
5. Telecommunications
6. Transport

#### **3.2.2. Case of Brazil**

Selling public companies in Brazil since the eighties, the schedule of privatization, it is worth remembering, it was developed in the government of Fernando Collor de Mello [7].

Between October 1991 and June 1996 fifty large state enterprises, including steel mills of Minas Gerais (Usiminas), the National Steel Company (CSN), Copesul and LIGHT, receiving the Brazilian state 11 billion dollars were privatized. In the same period, external debt had grown from 123 billion to 175 billion dollars. They have participated in the privatization of Endesa, Enersis, Iberdrola, EDF, EDP, CMS, AES Corporation (the last three American) and Brazil's VBC. For this purpose privatized: Endesa, Enersis and that control now Cerj EDT (Rio) and Coelce (Fortaleza in Ceará), who stayed with Iberdrola Coeba (Bay) and Cosern (Rio Grande do Norte); EDF of France, which now owns Light (Rio) and Eletropaulo Metropolitana.

The Brazilian groups have gained strength were: Petrobras SA which is engaged in oil exploration and exploitation in different countries (Angola, Libya, USA, etc), Odebrecht (heavy wool mill, metallurgy, technology). Throughout the year 1997, Brazil received 21.5 billion from the sale of state assets, and 26 billions in 1998.

Among the most important privatizations are the biggest state companies as they are: Electricity (Eletronorte), Eletrosul, Eletropaulo, Furnas, Gerasul, Electrica de Mina Gerais, Cesp, etc.), oil (Petrobras) gas distributors (Comgas Bahiagas) ports (Tecon, Sepetiba) railways (Flumintrens, Fepasa, Ferroeste, Ferro Teresa Cristina, Raffsa) and telecommunications (Embratel, Telebras (which includes 27 telephone companies) the Riograndense de Telecomunicões, Band B Amazon (cell phone), banks (Bank of Minas, Credireal).

Methods of privatization, the methods used in Brazil as in the rest of Latin America are full, transfer sales, the model of the "Southern Cone".

The busiest methods in Brazil are:

1. Total sale (auction)
2. Concessions
3. Transfers
4. Sale of assets
5. Concession Contracts
6. Mergers

Privatized sectors, in Brazil the main privatized sectors were Telecommunications Company Riograndense - CRT Rio Grande do Sul in 1997, TELESP São Paulo and cell Telesudeste. The energy sector was also privatized (Iberdrola, in Coelba Electric Company of Bahia, Bahia, Rio de Janeiro Gas, Electricity Company of Rio Grande do Norte etc.), trade Bank, West Bank and the State Bank of São Paulo.

### 3.2.3. Case of Chile

Chile is a model country to implement free market policies. But public and private shelters have a exceptionally high dynamic external debt, which has been serving the vast privatization and concentration of wealth. In This sense it has many of the Characteristics of the bubble economies of Southeast Asia [8].

Privatization methods, Chile used the auction during the late seventies and early eighties to sell not only small businesses, but also large state enterprises.

Investors are allowed to offer cash or credit terms for the actions of companies, added to this the following privatization methods used:

1. Infrastructure and rolling stock is sold, without requirement investment plans.
2. Leased (long term) of infrastructure and rolling stock, specifying minimum levels of service.
3. Management of infrastructure and the use or ownership of rolling stock concession with requirements relating to quality of service and investments Chile.

## 4. Case of Mexico: Privatization of Public Enterprises

### 4.1. Privatization Models [9]

1. Transfer of Assets and Disposition basic formulas. a) Sale of assets traded, b) exit to the bag, c) public offer of sale, d) Capital increases not open to public

subscription for shareholders, e) bonds staff, f) The technique of the special action and the hard core.

2. Franchising or contracting out. a) Through an auction b) ensure that the producer contract bid the maximum capital excess In the case of privatization in Mexico can deduce that the following models were used:

- a. Franchises
- b. Public offer of sell

### 4.2. Privatized Public Enterprises from 2000 to 2005

We begin this section with reference to data that provides the Technical Secretariat of the inter-ministerial committees of Finance and Privatization expenditure, as indicated in Table 4, on the downsizing of the state sector [10].

Table 4. Downsizing of the state sector, 2001-2005<sup>1/</sup>.

Concept	2001 2/	2002 3/	2003 3/	2004 4/	2005 5/
Universe of entities at beginning of period	202	205	207	210	209
Divestiture process completed	3	1	1	2	
settlement and extension	3	1	1	1	
Fusion					
Transfer to state governments					
Transfer or sale				1	
Creation of new entities	6	3	4	1	3
Universe of entities at end of period	205	207	210	209	212
Disincorporation in process	28	27	37	39	40
settlement and extension	16	15	28	27	28
Fusion				7	7
Transfer to state governments					
Transfer or sale	12	12	9	5	5
existing entities	177	180	173	170	172
Decentralized agencies	77	79	83	84	86
Majority state-owned companies	80	81	71	67	67
public trusts	20	20	19	19	19

Source: Technical Secretariat of the interministerial committees of expense in Finance and Privatization. 1/ The blank spaces indicate the absence of movement. 2/ data from decembre 1, 2000 to 31 of december of 2001. It is included as creating the National Savings Bank and Financial Services, S.N.C. 3/ data from january 1, 2002 to 31 of december of 2003. 4/ data from January 1, to december 31, 2004. September 15 was published the Official Gazette the resolution authorizing it to carry out the divestiture process began, through the mechanism of fusion of the seven subsidiaries of Pemex-Petrochemicals, and the 21 September 2004, the CID ruled favorably restart the process of divestiture of National hotel, SA de C.V. and Recro-Mex, S.A. of C.V. ; reason why 2004 data differ from those published in the Fourth Report on Implementation of the NDP. 5 / Data from January 1, to 31 July 2005.

The main objective of privatization of public enterprises in Mexico until our days been a political objective, but are managed, economic or financial, this has happened since the country made commitments with various agencies such as the

IMF (International Monetary Fund), WB (world Bank), letters of intent, and clearest way to implant the neoliberal model, where they have been conditioned to reduce the state's role in the economy by privatizing public enterprises. Unfortunately, many companies are privatized including strategic, some companies have been redefined derived from PEMEX for possible privatization and / or concession.

## 5. Discussion

Throughout their history, public companies have had the function of making a "first step"; we see it in its social objectives: maintain natural monopolies, control strategic sectors, to promote the development and maintenance of employment levels and prices, cross-sectoral and cross-sectoral coordination, avoid anti-competitive behavior, supporting key industries, redistribute income and wealth.

Hence their existence is can be said as a necessity of public control, because the free market has its anticompetitive behavior, poor distribution of income and wealth, and even coordination of sectoral policies. Liberalization and privatization is not against the public company and therefore not something full of drawbacks: reactive competition the market due to lower costs of production, distribution and marketing of both goods and services, with the concentration of companies.

But that increased competition may also eliminate monopolies or excessive concentration of companies and thus give precedence to multinational and large companies, to the detriment of SMEs, which even now lack a sectoral and regional politics. Second, and related to this, we can analyze whether the privatization of companies would lead to a reduction of the burden of public deficit and even would increase revenues to the public sector by the total or partial sale of companies, the third reason is used as the argument for privatization is the global adaptation to the market economy. Among these, one might highlight the ability of the public company to maintain employment, which in many cases is the only reason for keeping a public company. The state must create an appropriate framework for carrying out market economic principles; and not increase the size of the public sector, that is, not to make public companies with a "hospital business", but to improve management so you can

increase competition and thus efficiency, without having to opt only for privatization. The Objectively public company must improve its organization and management.

## 6. Conclusion and Recommendations

From this one might conclude that privatization is favorable, but it is also true that a developing country cannot bear the full burden the public sector, which at that time flimsy and is low the funding capacity. Therein lays the primary objective of the public company, which is to ensure a minimum supply of goods and services (public provision) and come with their funding which a private company would not dare to reach for the significant capital investment. This is the social interest "made strong" public versus private enterprise.

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