PART TWO

TRANSNATIONAL CORPORATIONS AND THE INFRASTRUCTURE CHALLENGE

INTRODUCTION

Infrastructure – especially electricity, telecommunications, transport and water – is important for all economies. They provide goods and services that are crucial for the efficiency, competitiveness and growth of production activity. Furthermore, access to affordable electricity and drinking water is an important determinant of the living standards of a country's population. The fundamental role of infrastructure has been brought into sharp relief in recent years, as a steadily growing number of countries across the entire developing world have been drawn into a cycle of growth and a greater participation in the global economy, but by doing so are finding further growth constrained by the quantity and quality of their infrastructure.

Many low-income countries face huge infrastructure investment needs but lack the necessary capacity domestically to meet them. Mobilizing financial and other resources to respond to these needs, especially in the least developed countries (LDCs), are among the main challenges which beset governments and the international community. The formidable gap between these needs and the availability of necessary resources has been one of the drivers behind the fundamental change in the role of the State in the provision of infrastructure around the world.

Governments in both developed and developing countries have opened up infrastructure industries to much greater involvement by the private sector – including TNCs. This new relationship between the State and the private sector has in some cases been facilitated and shaped by technological changes. These changes have opened up options for the introduction of competition in industries that are in the process of shedding their natural monopoly characteristics. This has been the case, especially in telecommunications and in parts of the electricity industry, such as power generation. As a result of greater openness in many countries, TNCs have come to assume a significant role in the provision of some infrastructure services.

The internationalization of infrastructure has taken varying trajectories in different parts of the world. Developed countries witnessed the birth of several large infrastructure TNCs in the 1990s. They typically arose out of former public monopolies. Their overseas expansion contributed to increased FDI and other forms of TNC participation, such as concessions and management contracts, among developed countries as well as in some developing and transition economies. In the latter, new investment opportunities emerged from major privatization programmes of State-owned infrastructure assets. In addition, the liberalization of infrastructure industries in developing countries has contributed to the emergence in the South of a number of TNCs in these industries.

Policymakers today have a menu of options for maintaining and developing their countries' infrastructure. The challenge is to assess the potential costs and benefits associated with different options, such as retaining infrastructure services within the public sector, offering concessions to prospective investors and full privatization to the private sector, including TNCs. Some countries have experimented with different solutions for over two decades, and various lessons have been learned. Other countries are still in the process of opening up to foreign involvement. Governments need to consider many factors when deciding whether or not to involve TNCs and, if so, in what way they should promote such involvement.

Which modes of participation have the greatest chances of maximizing the net benefits of TNC entry, for example, in terms of improved service supply and reduced costs? What does it take to attract desirable forms of TNC involvement? The responses to these and other questions depend on the context. There are no one-size-fits all solutions. Governments need to determine what kinds of policies they will put in place in order to secure the desired outcomes, including helping to eliminate poverty and attain the Millennium Development Goals (MDGs).

After two decades of experience with TNC involvement in the infrastructure industries of many developing countries - including its failures as well as successes - an understanding of the nature, extent and implications of that involvement is just emerging. Mobilizing and facilitating greater financial flows to developing countries, and especially to LDCs, remain a challenge for the international community. It is against the background of the economic and social importance of infrastructure that this year's *World Investment Report* is devoted to the issue of *Transnational Corporations and the Infrastructure Challenge*.

Part Two is organized as follows. Chapter III presents new data on the role and evolution of TNC participation in infrastructure. It explores the characteristics, trends and evolution of infrastructure industries, including the changing role of the state, the rise of new players and an assessment of infrastructure needs (and investment gaps) in developing economies. It goes on to examine the trends and patterns of TNC involvement in different industries, and offer an insight into the universe of infrastructure TNCs, and their competitive advantages, drivers and strategies. Chapter IV assesses the extent to which TNC participation has contributed to achieving various infrastructure-related development objectives. Finally, chapter V maps recent policy developments and considers the implications of the findings of chapter IV for national and international policies to harness TNC participation in infrastructure industries. Particular attention is given to how different forms of financing, whether domestic or foreign, and including overseas development assistance (ODA), can be leveraged in a complementary fashion to meet the specific infrastructure needs of developing countries, particularly LDCs.