

CONCLUSION

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This book has thus far discussed private initiatives in the provision of public services and infrastructure building in the developed as well as developing countries. Boundaries between the public and private sector are not defined a priori, but rather attention is given to historical background, stage of economic development, and the economic systems of each country. With the progress of innovations in technology, finance, and management, as well as the globalization of the world economy, the private sector is expected to expand its role. Even developing countries are being faced with the same trend. The issues to be considered are summarized as follows.

(1) **Mixture of public-private partnership:** Whether the public or private sector takes the dominant role in public services provision depends on the type of public services and infrastructure. Namely, it depends on technological aspects which determine the cost function such as economies of scale and economies of network, and on the demand function of end users which is reflected by their needs. In the latter, for example, whether priority is given to price, quality, or stable supply, determines the degree of government intervention. There is no clearly defined theory as to what circumstances the private sector with profit maximizing behavior has an advantage over the public sector of which behavior is to balance revenues and costs. The optimal mixture of public-private partnership requires a more theoretical foundation.

(2) **Mechanism design:** In order for private initiatives to have improved performance, it is essential to design the proper mechanism of private participation, which satisfies conditions such as incentive compatibility, governance, creditability, and transparency. The mechanism has to provide incentives for the private sector to bear risks, and the contract should clarify their responsibilities and roles. In order to maximize value for money, the private sector has to take leadership, and intervention of the public sector must be minimized. Disclosure of information and transparency, particularly the bidding system is required. Regarding these issues, developing countries, even Japan, have a weak tradition. In

the UK, there are many procedures involved from identifying necessary projects to signing the final contract so as to maintain transparency, although this lengthy process increases costs for private firms to participate in the bidding process. Creditability of the mechanism is also important for developing countries, since foreign investors and multinational enterprises are thought to be major participants of projects. They face various political as well as country risks, particularly in developing countries. Without creditability of the mechanism, they will not be able to attract enough investment.

(3) Supplementary measures for the introduction of private initiatives: Private initiatives are quite new to some countries, and it is often the case that they do not have the economic fundamentals for it. They must establish those fundamentals on which performance of the private sector depends and seek ways of coordinating with other systems. Deregulation and the establishment of a legal system, for example, are prerequisites for private initiatives, and without these, they cannot be expected to work well. Thus, private initiatives require a transformation in domestic systems. Domestic reform in developing countries, however, is a sensitive issue, since their economic activities are based on traditional systems, some of which contradict reform. Even though it is difficult to transform an economy, reform should not be selected arbitrarily. If it is, this may give rise to more harmful results. A good example is the East Asian economic crisis of 1997. Because of deregulation and liberalization of the economy, substantial foreign direct investment came into the region, and this gave rise to the so-called East Asian miracle, and East Asia was referred to as the growth center of the world. However, an economic crisis was triggered by speculation in East Asian currencies by foreign hedge funds. Such speculation was inevitable, since they retained the traditional fixed exchange rate system. Financial liberalization such as opening offshore markets and the fixed exchange rate system contradicted each other. While it was helped that the former would attract foreign funds, they also wished to maintain the latter to expand exports to the US.

(4) Environmental issues: One of the most sharply opposing issues among developed and developing countries is related to the environment. In terms of infrastructure building, the electric power industry which utilizes fossil fuel is typical. Certain types of pollution such as acid rain

affect neighboring countries as well. It is difficult, however, to reach an agreement on environmental protection, since developing countries still give priority to economic growth, while developed countries wish to regulate uncontrolled emission of pollution-causing agents. Schemes which satisfy both developing and developed countries have to be sought, and continued negotiations are required.