

Effective Factors on the Area Collaboration in Public-Private Partnerships of Infrastructure in Middle East with Emphasis on Iran

Maysam Musai

Full Professor, University of Tehran

E-mail: mousaaei@ut.ac.ir

Mahdi Rezai

Member of Institute for Trade Studies and Research

Mohsen Mehrara

Associate Professor, University of Tehran

Abstract

Infrastructures are necessary for economical growth of countries and the slow economic growth of these countries is because of their poor infrastructure. It usually needs huge capital, advanced technology and knowledge of management which developing countries with low income can't afford them; so they need cooperation of foreign countries.

In this paper, we try to find a solution for that and find how the existing collaborations and partnerships of other countries are on basis of infrastructure in Iran and what are the improving and strengthening of this cooperation?

We use the analytical and qualified description statics of other countries experiences in field of direct investment (FDI) in infrastructures.

The results show that Iran has an average position in attraction of foreign investment in comparison of other countries in Middle East; it means Iran is more successful of some countries and is less successful of another countries. We conclude that liberalization, privatization and the restructuring of infrastructure sectors are considered as the majority solutions for promotion of Iranian contribution in FDI attraction for infrastructures.

Keywords: Iran, Public and private partnerships, Foreign Direct Investment, Middle East countries.

1. Introduction

The collaboration importance of public sectors with private sector is because of being more desirable of market mechanism than government mechanism in production and supply. When the infrastructure services are similar to like a public good and the market failure is because of their production, so its preparation does not occur by the private and local sector of Arabs. When the creation and management of infrastructures are putted the private sector (wholly or in partnership), the infrastructures would be excluded from public goods. However some concerns and sensitivities are for some infrastructure area according to society situation. By this way, these sensitivities are different from one economy to another economy. Although most of the infrastructures are performed by government but evidences show that most of developing countries are trying to push the infrastructures to collaboration with private sector by privatization and changing the rules (Parker et al, 2006).

Collaboration with foreigners as foreign direct investment (FDI) has many advantages for investors and acceptor-capital country, so the process of FDI continues to grow after passing its recent economic downturn (UNCTAD, WIR, 2011). As the definition, the foreign direct investment is a process that origin country achieves the other country ownership of assets (host country) to control of production, distribution and other activities. FDI is dealing with long-term investment; reflect of long-term advantages and control of economic entity in host country (Moosa; 2002, UNCTAD; WIR; 1999, p. 316, and IMF, 2006; pp.73-7). This long-term relationship ensures the foreign investor considers to advantages and disadvantages of infrastructure of investment and consequently the development benefits of infrastructure improvements. Infrastructures are necessary for economical growth of country and move towards a market economy of developing countries. Even for accelerate economic growth of developed countries need some infrastructure improvements. Most reports shows the low economic growth of countries are because of inadequate infrastructures especially communications infrastructure. They report the investment of these infrastructures will improve the economic. The universal statics indicated that whole countries especially developing countries attract many foreign direct investments in services sector especially in infrastructures in comparison of last decade. There are some challenges about private sector collaboration related to infrastructures and is exposure in foreigners' partnerships. The important question is when the government cannot rely to internal private sector for preparing and management of infrastructure; how it can rely to foreigners?

This paper investigates about the quality of foreigner collaborations in Iranian infrastructures and Iran is compared with west Asian countries. Then the effective factors on FDI attraction in Iranian infrastructures are studied. Also, some solutions are given according to underhand problems of collaboration with foreigners in Iranian infrastructures and global experiences.

1. Foreign direct investment and the third section of economy

Foreign collaboration is important in third section of economy in whole countries. The import values of FDI in sections and sub-sections of economy of developing, in transition and developed countries show the plant industries attracted more FDI than other industries in developing countries from 1989 to 1991, while 46.5, 31 and 11% of FDI are for plant industries, services and first-hand industries; respectively. So, it seems the FDI performance in service sector of developing countries is more important than other industries in two last decades, but at the same time, the FDI performance is desire in plant industrial sectors of developed countries. After passing two decades, the attraction of FDI in services sectors are increasing in developing countries (this contribution is increasing near 82% from 1989-91 to 2005-7) while the plant industrial contribution increased and the first section of economic contribution are almost constant. The services contribution is also increased in developed countries (increasing from 55% to 60% in two last decades) and the first section of economic contribution is increased from 6 to 12%.

In years, the services sections attracted very little FDI in comparison of other sections and most of FDI was for plant production industries especially oil and gas industries, but the recent years, services sections could well attract FDI. Most of the performed FDI in west Asia is done from transnational companies of developed countries; however developing countries are also trying to perform FDI in west Asia. The majority contribution of performed FDI in west Asia is for Kingdom of Saudi Arabia, United Arab Emirates and Turkey. This is because of facility of rules for FDI attraction in services sectors (especially financial, communication and estate sections), promotion of privatization programs and improvement of the growth economical workplace indicator. The main stimulus of FDI attraction in service section of west Asian countries is this section release from west Asian countries economics and Merge & Accusation (M&A) between the members of Persian Gulf Cooperation Council. These kinds of FDI are almost flowing to estate and financial activities. In financial section, the role of Islamic finance significantly helped to FDI attraction in financial section. Jordan was so active in FDI attraction in communication section with M&A (UNCTAD, WIR, 2007).

In Table 1, the performed M&A in west Asia, the foreign companies stocks or FDI attraction and also M&A of west Asian countries in comparison of other countries (buy stocks of other countries or performance of FDI in foreign countries) are showed for two years of 2009 and 2010 (as million \$). It is showed that the purchases are less than 2009 selling. Also, from 2009, it can be seen increases in buying and decreasing in selling, so the most important resources of FDI for west Asian countries are Greenfield FDI in 2010, and the services section was active in buy and sell in comparison of other economic section of west Asian countries.

Table 1: buy and sell of west Asian countries stock in 2009 and 2010 (million \$)

Description	Buy		Sell	
	2009	2010	2009	2010
Total	3.543	4.617	26.843	-15.560
The first section	8	170	52	1.484
Plant industries	199	2.126	142	8
services	3.336	2.321	26.648	-17.052
Water, gas and power	2.361	-59	724	400
Construction	78	14	-	-
Business	85	74	85	12
Hotel and restaurant	-	331	-	-15
Transportation, storage and communication	41	100	1.645	-10.736
Financial	550	1.637	24.510	-1.897
Work services	120	146	297	556
Public administration and defense	-	-	-612	-5.372
Social care and health	100	112	-	-
Social and personal service activities	-	-38	-	-

Source: UNCTAD; WIR, 2011, p. 52, Table D.

As can be seen, FDI attraction in services section of west Asian countries is more than FDI performed by countries located in west Asian in comparison with countries located out of west Asia. Also, financial subsection of services is the strongest subsection of all economic subsections of west Asian countries in FDI attraction and FDI export area, for example in 2009, nearly 92% of attraction FDI is service section and 91% of FDI attraction is for financial of subsections. West Asian countries invest directly in work services, hotel and restaurants, transportation, storage and business subsection by M&D in other countries. Other subsections such as water, power and gas supply, business, transportation and storage, communication and work services attract FDI by M&D. Also, it can be noted, west Asian countries are active in broad range of subsections related services in performance and attraction of FDI. The last statistics and values of foreigners' contribution in third part of services of west Asian countries are shown in Table. 2.

Table 2. Accumulation of FDI incoming in economy and third parts of west Asian countries economy in 2009 and 2010 (million \$ and current)

Oman			Iran		
Activity	Accumulation in 2009	Contribution (percent)	Activity	Accumulation in 2010	Contribution (percent)
Financial	1817	13.9	Hotel and restaurant managing	2418	7.1
Transportation, storage and communication	319	2.4	Financial	855	2.5
construction	415	3.2	Transportation, storage and communication	1828	5.3
Water, power and gas supply	170	1.3	construction	906	2.7
Hotel and restaurant managing	163	1.2	Water, power and gas supply	4.772	14
Wholesale and retail	383	2.9	Directors Public Sector and Defense	357	1
			Not classified of third section	64	0.2
Total accumulation of third section	3266	25	Total accumulation of third section	11198	32.8
Total economic accumulation	13086	-	Total economic accumulation	34186	-
Turkey			Kingdom of Saudi Arabia		
Activity	Accumulation in 2009	Contribution (percent)	Activity	Accumulation in 2010	Contribution (percent)
Construction	15378	10.5	Water, power and gas supply	12210	6.8
Financial	16144	11	Financial	45621	25.3
Transportation, storage and communication	7787	5.3	Wholesale and retail	21025	11.7
Wholesale and retail	4536	3.1	Construction	1223	0.7
Water, power and gas supply	6402	4.4	Transportation, storage and communication	30388	16.9
Hotel and restaurant managing	784	0.5	Social care and health	1678	0.9

			Individual and social services	4264	2.4
			Hotel and restaurant managing	671	0.4
			Education	17	0
Total accumulation of third section	51031	34.7	Total accumulation of third section	117097	65
Total economic accumulation	147144		Total economic accumulation	180224	

Source: International Trade Centre; *Investment Map*; 2011

As can be seen, Kingdom of Saudi Arabia and Turkey have the most FDI accumulation between 4 countries of west Asian countries. The third economic section in total economic accumulation of FDI shows Turkey is first of these countries with 65% of contribution. Iran and Kingdom of Saudi Arabia is similar to each other and Oman has the last ranking between these 4 countries.

Iran has 34.2 milliard dollar of FDI accumulation in 2009 and 32.8% of it is for third section of economy. It is seen that Iran is more active in power, water and gas supply, hotel and restaurant managing, transportation, storage and communication subsections in comparison of others with foreign collaboration. These three infrastructures are allocated of 26.4% and 32.8% of total accumulation. The most important of Oman third part economy is financial subsection.

2. Performed studies

The most performed studies about foreign collaboration and infrastructures are located to effect of infrastructures on FDI attraction. It means that the infrastructure effect such as hard and soft infrastructures on the FDI attraction and quantitative studies about FDI attraction were performed. It is tried to identify the common properties of FDI attraction in infrastructure, in this section.

Frank Sader (2000) has survived FDI flow on developing countries infrastructures and found that this flow is sensitive to infrastructure of countries like FDI attraction of every section of economy and economical dangers.

Ivar Kolstad and Espen Villanger (2004) told that FDI in third part of economy is non-exchange nature; they are not sensitive to open economy and these kinds of foreign collaboration are interested to advantage of accepting countries. But FDI in third part of economy is like FDI of plant production and take positive effect from past FDI; however they have different effects on every infrastructure. The financial services section is fast influenced from growth performance of FDI in plant production section and encourages foreigners to invest of financial infrastructures.

Colin Kirkpatrick et al. (2006) studied about effective factors on FDI importance to global countries subsection. They concluded that FDI attraction on infrastructure is most affected by variables which showing good governance elements.

Unctadm (2008) showed by his survey that investment promotion agencies are so important for attraction of foreigners' collaboration; but the effort of these agencies failed in most developing countries because of the government nature of them and also the managed by government.

3. Limitation of foreign collaboration in third part of economy

The size of limitation of transnational companies is different for services subsections and between different area and countries. Asia has more constrains for FDI attraction in third section of economy on basis of import flow of FDI and its equivalence with GDP in comparison with other continents and areas (Unctad, 2006). The west Asian countries have been created many limitations for importance of transnational companies.

The global average of FDI importance limitation to services section on basis of FDI importance flow is 0.32 and its GDP equivalence is 0.28. Between Middle East countries on basis of FDI flow, Qatar and King Saudi Arabia have the most limitations for importance of transnational companies in services section (Unctad, 2006)

4. Investigation the effective factors on foreign collaboration in third part of Iranian economy and comparison of it with other Middle East countries

The country situation of development for FDI attraction can be searched in potential indicator for FDI attraction. On the basis of the Electric hypothesis for occurring of FDI, these terms should be achieved.

1. Existence of advantages of property in host country for investor, 2. Presence of spatial advantage in host country, and 3. Presence of clear business benefits in agency, in contrast a separate relationship between investor and FDI acceptor (Moosa, 2002). The first and third terms especially determine agencies for FDI and the second term is spatial character and has important effect on FDI flow of one country. Under this condition, the especial advantages of agencies should combine with spatial advantages of host countries; for example big market or low cost of resources and clear infrastructures. This property indicate that why some areas and countries are successful in attraction of transnational companies.

The initial condition for presence of foreign country (transnational) in host country for investing is liberation. The importance of FDI liberation policy as a determinant is because of inability of FDI importance to another country.

Table. 4 shows the universal ranking of west Asian country in economic liberation and their scores in liberation indexes of business and investment in 2011.

Table 4: economical and business liberation and investment of west Asian countries in 2011

	Universal ranking	Scores in total liberty index	Business Liberty	Capital liberty
Qatar	27	70.5	70.3	45
Oman	34	69.8	69.4	55
Jordan	38	68.9	65.8	70
United Arab Emirates	47	67.8	67.3	35
Saudi Arabia	46	66.2	86.1	40
Kuwait	61	64.9	64.4	55
Turkey	67	64.2	68.7	70
Lebanon 60.0	89	60.1	57.5	60
Syria	140	51.3	55.9	20
Iran	117	42.1	69.4	0

Source: The Heritage Foundation, *Index of Economic Freedom*, 2011

Qatar has 27th universal ranking and its economic liberty is so high between Middle East countries and also in world. Oman and Jordan also have high economic liberty and they are similar to each other. It has been seen that Syria and Iran has the lowest economic liberty. The economic liberty rankings of these countries are 140 and 170, respectively. The low economic liberty index in Iran is affected more business index than other indexes. It can be conclude that however the business liberty of Iran is appropriate but the investment liberty with zero value is not suitable. Also, Iran has the 176th universal ranking of investment liberty index.

The rules and regulations decrease the political danger for investors. It should be noted that political dangers with other dangers are important for investors. In fact, the country risks which a investor face with them are political, financial and economical risks, which the political risks has the most important role in country risks between them. The rules decrease the risks, so they are important for investment and every economical activity. Table 5 shows the ranking of west Asian countries in good governance, the average value of these rankings are also listed in this table. In spite of economic liberty index, the reporting of this index is a way that high ranking shows the better quality of that country.

Table 5: Ranking of good governance of Middle East countries in 2010

	Answer	Political stability	Government effectiveness	Regulation quality	Rule of law	Corruption control	Average
Qatar	19.4	86.8	78	69.9	75.8	91.4	70.2
Oman	24.2	75.9	76.1	62.2	63	80.4	63.6
Oman	17.5	70.3	69.4	68.4	68.2	67.9	60.3
Kuwait	32.2	60.8	58.9	55.5	65.9	67	56.7
Turkey	43.1	16	66	61.2	58.3	57.9	50.4
Jordan	26.5	34.4	57.4	57.4	61.1	58.9	49.3
Saudi	3.8	35.8	52.6	55	60.2	62.2	49.9
Lebanon	35.5	8.5	43.1	53.6	30.3	21.5	32.1
Syria	4.7	21.7	34.9	18.7	35.1	14.8	21.7
Iran	6.6	6.1	36.8	2.9	20.4	19.6	15.4
Iraq	17.1	1.9	9.1	14.8	1.9	4.8	8.3

World Bank, Aggregate Governance Indicators, 2011

On the basis of average column, Qatar has the 70.2th ranking in world and first ranking in Middle East. Iran, Syria and Iraq have the suitable situation. For better understanding of regulation quality of Iran, this index is given for Iran and Turkey as successful countries in foreign investment attraction and in third part of economy and also the universal ranking of them is given for 2008-2010 in Table 6.

Table 6: Quality of provision index for Iran and Turkey in 2008-2010 and their ranking in this index

	2008		2009		2010	
	Ranking	value	ranking	value	Ranking	value
Iran	3.39	-1.5	2.34	-1.65	2.85	-1.6
Turkey	59.7	0.28	61.24	0.3	61.24	0.38

World Bank, Aggregate Governance Indicators, 2011

The value of provision quality was negative between 2008 -2010 in Iran. It has been seen Iranian Ranking in this index decreased from 2008 to 2009 and it improve a little from 2009 to

2010. But Iran is one of the unsuitable countries in quality of provision from 2008 to 2010; this index is investigated for Turkey and it is indicated that this country had a positive and improvement index in this period. Also, the ranking of Turkey in quality of provision is always better than Iran from 2008 to 2010.

For relating of public-private partnerships status with studied indexes for west Asian countries (including good governance and economic liberation), Table 7 shows the value of public-private partnerships status in hard infrastructures of average and low income countries in west Asia from 1990 to 2011. Also, it should be noted that the statics of public-private partnerships has a longer time comparison with liberation and good governance values from 1990 to 2011, so if the size of public-private partnerships is depends on developmental index, their time period should be fitted with infrastructures. Also, the statics of public-private partnerships were investigated in infrastructures of countries from 1995 to 2011. Furthermore these statics were shown government, private and foreign investors' collaboration. But the hypothesis of more liberation of infrastructures for collaboration with private section can attract more FDI is not so far.

Table 7: The public-private partnerships in infrastructures of low and average income west Asian countries from 1990 to 2011 (million dollar and current)

Section	Energy	Communication	Transportation	Water and wastewater	Total
Turkey	22847	29884	8190	942	61862
Iraq	590	5961	500	0	7051
Jordan	989	2622	1562	1120	6293
Iran	650	2715	0	0	3365
Syria	0	956	82	0	1038
Lebanon	0	674	153	0	827

Source: World Bank, *Public-Private Infrastructure (PPI) Advisory Facility*, 2011

Table 7 shows Turkey with 61 million dollar of public-private partnerships in hard infrastructures has the highest ranking between low and average income west Asian countries and has big difference with other countries. Also, Iraq and Jordan have the better situation in comparison of Iran and Iran has the fourth ranking, however GDP of Turkey is only higher than Iran and GDP of other countries are lower than Iran.

Furthermore this Table shows that other countries except of Turkey and Jordan does not have public-private partnerships from 1990 to 2011. The published statics and values of world- Bank show that Iran didn't have any public-private partnerships in infrastructures before 2004 (see World Bank, PPI, 2011). Generally, before 2002, low FDI attracted to Iran, but after the new law approval about foreign investment (attraction and support of foreign investors rule) in 2002,

the FDI attraction to economical sections including extract, plant production and services has been more increased.

5. Restructuring of infrastructure activities

As it has been seen in this report, there is much fear about privatization which the private section manages or owns of infrastructure. Also, it was mentioned that the public-private partnerships need liberations; however it can be achieved with fears of private intervention in infrastructures. The given solution for eliminate this fear is the restructuring of infrastructure which is performed by many countries. Almost since the early 80, the tendency of countries to privatization, rule elimination and restructure in infrastructure activities are observed because of following items:

1. The different countries experience explored the inefficiency of government intervention in economic clearly. The new-liberalism thoughts of decades of 60 and 70 has very important role in make outstanding of these inefficiencies.
2. Many experimental evidences are according to profitable activity of exclusive agencies (government or under rule regulations) in parts of these activities and create many doubt about these activities have the natural exclusive property (P. Grossman and Cole, 2003).
3. The performed technical changes in infrastructure industries such as appearance of communication technologies without physical network need or power production possibility by small generators.
4. Extension of request range for produced goods and services by infrastructure activities and promotes exchanges of these services in broad geographical limits; power exchanges between neighbors' countries is the most obvious of samples in this field.

Performed structure changes in infrastructure (for privatization, elimination of rules and restructuring) in most countries are almost compatible with unified path which is described here briefly, 1. Separation (organizational separation, separation of value chain activities, geographical separation, technical separation), 2. Commercialization and competition creation in sections which suppliers can compete in there, 3. Codification of rules and regulation for supervision on the competition of market participant and also regulation of exclusive behavior in non-competition sections, 4. Moving toward to divestiture of governmental agencies to private sections, 5. modeling and regulation adjustment conformation for price control and goods quality and infrastructure industrial services and prevention of collusion or exclusion formation. It doesn't necessary to follow the mentioned order, in other hand the covered route is different in every country and is compatible with their variables. In many cases, in some periods, covering there stages are occurred simultaneously and in same direction.

Conclusion

In this paper, the third part economy situation of west Asian countries especially Iran on FDI attraction were studied. The investigation of Iran status in FDI attraction of infrastructures show that Iran has lower FDI attraction those other countries and also the third part economy partnership in this attraction is also low in comparison of them. Liberalization is the first step for FDI attraction of economy. In the view of economic Freedom especially investment freedom, Iran doesn't have proper situation in west Asia. This result concluded that Iran could not create foreigners partnership in infrastructures.

So the first step for FDI attraction in Iranian infrastructures is investment freedom in this section of Iranian economy. Some of worry affect to government for prevention of foreigners and private section in intervention of infrastructures. Iran can use the reconstructing that is common in most of countries for private partnership in creation and management of infrastructures. Iran should improve its indexes such as good governance and regulation qualities for FDI attraction of its economy sections, so it should be used other countries experiences.

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