

Infrastructure Developments as Catalysts of Massive Regional Development Projects Made by PPPs

1st Virtual Global Super Projects Conference

(summary of the presentation)

It has been recognized for a long time that well prepared and well done super-projects can have an intensive, very positive impact on economic growth and development. Usually multi billion dollar projects, usually infrastructure developments have been done and experiences made mostly in the world top economies. Exceptions are rather rare, simply because weaker economies would hardly gather and afford the huge investments and, very important, if the investments should come from private business resources, it would be extremely difficult to guarantee profitable returns.

Up to that, the experience shows that if a large infrastructure development has been done in an economy in transition or in a developing one, usually very limited economic growth follows, in difference with the top economies results.

The explanation has been rather simple, unfortunately not generally understood.

In a very rough evaluation it can be expected that the infrastructure development needs of a 10 million of citizens top economy with \$30 000 yearly GDP/head would be around \$15 bn, which represents the value of 5% of the GDP of this economy, while the infrastructure completion needs of a \$5 000 GDP/head economy in transition of the same size could be around \$50 bn, which is the same number as the value of a yearly GDP of this whole economy. If developing economies are investigated with \$1 000 or even (sometimes essentially) less GDP/head, the comparison will be essentially worse.

It can be concluded that these economies simply cannot afford to finance such infrastructure completion goals. If they should, they would need to be essentially stronger, at best to be at the same top position of (now) about \$30 000 GDP/head.

But the even more difficult problem has been the following: if the infrastructure completion costs are huge, the economic convergency costs are giant. It may be evaluated, and all the experience of successful economic transformations confirms it, that the starting costs of such an economic goal are roughly \$100 000 per a workplace, therefore around \$500 bn for a 10 million of citizens economy (half of them economically active), which need to be invested in 10 or at worst in 15 years: such giant investments are needed to put the economy in transition onto an irreversible road to convergency - this road has to be followed with the same successfully invested economic activities for some more years, say 8 to 20, depending on the original strength.

These numbers explain two things: at first, if infrastructure completion needs represent only roughly 1/10 of the (initial) economic transformation costs, nobody can expect that the resting 9/10 of the investments comes through an invisible hand of the market only once the infrastructure is (theoretically) ready: in the terminology mathematicians enjoy to use, infrastructure completion is an (almost) necessary condition of a successful economic transformation but (far) not a sufficient one. At second, if the infrastructure completion costs are actually unaccessible for the weaker economies, the convergency costs are completely unaccessible.

(Let us note that the experiences of the East Asia tigers can be hardly followed now: these very closed economies made their move decades ago and, much more important, the global open economy of nowadays represents a completely different challenge).

The solution would be to invite foreign investors, at best private ones. The problem is that nobody will be able to finance the total transformation of the whole 10 million of citizens economy at one blow; \$500 bn amount will be unaccessible, at least practically (note: it has been done in transformations of Strathclyde, Lorrain, Rhine region and, recently in transformation of the former East Germany).

As a possible way, transformations of well prepared regions of several million of citizens with well prepared development projects centered around a huge infrastructure development could be practically feasible and they can be understood as a potentially very profitable challenge for the private business - the new requirement is that a very high degree of cooperation would be needed among private business in participation and, of course, between the private business and all the concerned public institutions of the region: Public/Private Partnership technologies can be applied provided they are enhanced to a new dimension of cooperation, investments and results.

In other terms: the goal has to be a massive economic development far not only infrastructure development. In fact an isle of a top economy will be the goal. High benefits for the local community will go hand in hand with a potential of essential profits for private investors.

We are preparing several concrete projects of this kind, the most advanced and most prominent being the Hub Airport Complex project, another one in an early phase of preparations is the Completing the Highways Network of the Czech Republic project.

A handwritten signature in black ink, appearing to read "Dymacek", written in a cursive style.

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