Globalization’s New Hybrids: Unbounding Public Services in Europe:

Across the twentieth century, Transnational Corporations (TNCs) and public services provider were largely perceived as organisations evolving in separate, not to say antagonistic, economic, social and ideological spheres. Whilst TNCs were associated with privately owned, profit-maximising and rent seeking behaviour, eager to expand aggressively abroad, public services providers were conceived of as being locally or nationally based entities providing welfare, development and defence, subject to state regulation and, in many cases, state-ownership and non market oriented. It is both dramatic and unprecedented, therefore, that, in recent years, an important number of public services - Electricité de France, Telefonica, Deutsche Telekom, E.On, RWE, France Telecom, Endesa, Enel, Deutsche-Post-DHL, EDP-Hidrocantábrico, Telmex-America Movil, Singtel, DP World, Gazprom and so on - have emerged among the leading TNCs in the developed and developing world. Whereas most firm transnationalisation from the 1950s was dominated by the manufacturing, oil and financial sectors, usually originating from the United States (US), this new and emerging phase of transnationalisation is in services, and originates in multiple countries, particularly, but by no means exclusively, Europe. But these services include public services – ‘public’ in the sense that the services operate in the public interest, rather than meaning that the services are necessarily publicly owned. These transnationalised services, therefore, include those that provide basic welfare upon which households and communities are directly dependent on a daily basis: water, electricity, gas, telecommunications, post, railways, buses and even air and sea transportation.

The transnationalisation of public network service infrastructures – sometimes referred to as ‘large technical systems’ due to their webs of physical networks linking individual households and industrial users to complex hubs or nodes and vast sites of
production - constitutes a crucial experiment when examining the impact of globalization upon the state. For the duration of the twentieth century, these networks were deeply embedded geographically, institutionally, politically and psychologically within the confines of the nation state. Previously, during the nineteenth century, railways, ports and the telegraph and, later, telecommunications and electricity, integrated isolated villages and towns. Private investment with financial state guarantees or collateral was crucial during this period, but was mainly interested in cream skimming - profitably linking centres including those in the colonies – and failed to link the peripheries. State activity was channelled towards offering these investors subsidies and guarantees to invest in the peripheries. It also fell to the state to secure agreements for interconnection, interoperability and technical norms (railways, telecommunications and electricity) within the national and international systems.

As state intervention increased, particularly from the interwar period, governments used networks to protect borders (both physical, in the case of railways, ports, shipping, energy and telecommunication, and psychological, in the case of broadcasting), to separate those inside from those outside, to forge a common identity and to help consolidate a centralised authority. Networks, then, were used physically and psychologically to help forge the nation state. Their strategic, social and economic importance were used to justify state running of network utilities in most countries around the world and, often, state ownership but also private monopolies under exclusive concessions. Regulation of the networks was oriented to ensure welfare objectives such as universality and accessibility through policies such as cross-subsidisation of common tariffs. National networks, in other words, became to the state what arteries and veins are to the body; they linked the vital organs so the whole could function.

As foreign direct investment (FDI) inflows towards (flows from and towards) public service providers grew to unprecedented levels from the late 1990s as result of privatisation in foreign countries, some were of the public service providers pushed to the top of the world ranking of TNCs (UNCTAD 2004.. the shift to services); since this is still a recent and ongoing phenomenon, however, little attention has been paid to this within International Political Economy (IPE). Given their deep coincidence with the borders and institutions of the nation state across the twentieth century, their transnationalisation offers an important case to enquire about one of the central problematics of contemporary IPE, that is, the consequences of globalisation upon the state.

The main argument of this paper is that the recent and still ongoing transnationalisation of public services challenges globalisation analyses that posit that globalisation is increasingly ‘hollowing out’ the nation state. This argument is based on three, interrelated arguments. Firstly, the recent transformation of public service networks is resulting in increased organizational complexity, blurring formerly distinct categories. The transnationalisation of public services is producing new entities which combine, simultaneously, the public and private, the domestic and foreign, the state-bound and transnational. The rise of new public service transnationals are thus cases par excellence of Sassen’s ‘hybrids’, unstable and emergent new formations, which render the dichotomous categories used in much social science analysis increasingly irrelevant. The state itself becomes an active, even aggressive transnational actor in an increasingly privatized world, and its behaviour cannot be always be easily
distinguished from that of other private, transnationalising actors. At the same time, profit and rent-seeking ambitions of private actors are tamed and subjected to norms and rules set and enforced by national and supranational institutions...

Secondly, the operation and activities of this new Public Service Corporations and the effective provision of service at global or regional scale requires the interconnection and the interoperability of the national networks of infrastructures (transports, energy and communication) and even the construction of missing links at international scales that again redefine the roles of the states, of the public services providers and other pressure groups (given that the required infrastructure for the network operations has not been finance automatically by FDI or market oriented corporations).

Thirdly, public service transnationalisation has been accompanied by a transformation of state functions and, in particular, has led to greater pressures for the state to engage in new, more complex, and sometimes transnational, regulation. This trend was probably first captured by Majone’s concept of the ‘regulatory state’. Binding the first and second arguments together, the emerging ‘regulatory state’ engages in multiple, sometimes contradictory, forms of new regulation – anti trust, competition, accessibility, infrastructure investment, corporate governance, public service obligation and new social and environmental regulation - some of which are intended to satisfy (and indeed are captured by) transnational business lobbies, others parts of which aim to satisfy social actors, even to the extent of constructing a novel transnational social citizenship in the European case, although the leading public service providers are labelled transnational, much of their activity tends to be shaped by regional forces. So, these transnationalised public service providers, at the beginning of the twenty first century, more ‘regional’ than ‘global’, reminds us of the state’s voluntary (active) membership of this regional body as opposed to being a ‘passive victim’ of globalization. A states’ very regionalization can be read as a sign of state activity, rather than passivity, even though regionalization means a simultaneous loss and gain of powers. Regional integration zones matter: they can shape, filter and even block global forces. Since states voluntarily entered into these regional agreements accepting the inevitable trade-offs between cooperation and autonomy, calculating how this would simultaneously enable and restrict its action, they are far from passive victims. At the same time, between the local and the global, the state can act at the regional level in a contingent way to promote (transnational project i.e. national or regional champions though mergers and acquisitions, infrastructure projects or common regulations) or reject the forces of marketization (protecting form hostile or unwished take overs, restricting transnational ventures and projects or different regulations) , swayed by the political ends it must satisfy at the domestic level. In sum, the ongoing transnationalisation of public services is accompanied by an active, albeit transformed state, where former divisions between state and TNC, public and private, and global and local are being eroded.

The rest of this paper is divided into four parts. Firstly, the way in which globalization theory has tended to conceptualise the effects of globalization on the state, particularly through TNCs understood as agents of globalization, is briefly analysed. The rise of the new public service transnationals from the late 1990s is sketched out in the second section, and it is argued their formation resembles hybrids, bridging public-private, TNC-state and local-global. In the third section, quantitative and qualitative evidence is presented to identify these public service transnational leaders, and
assess what consequences the transnationalization of public service providers may have for the state. Conclusions follow.

**States and TNCs in the era of globalisation**

One of the central problematics unifying much analysis of globalisation over the last decade has been concern about the consequence of globalisation upon the state. Despite the fact that the globalisation literature is vast and probably even unmanageable, many analysts concur that there has been a systematic focus on two overriding concerns. The first regards how unprecedented and significant globalisation is. So-called ´hyperglobalists´ claim globalisation is an unprecedented development, opening out markets in a new borderless world, where goods and services freely flow, and where the state is gradually losing its sovereign power in a ´runaway world´. Globalisation sceptics emphasise historical precedents, arguing there has been no major discontinuity. The state remains important, whilst regionalisation or internationalisation better characterise the world system. For some within this school, globalisation is even a ´myth´.

The second major strand of analysis concerns what globalisation means for the nation state. Underlying much of this analysis is an assumption that it is either global forces or the nation state which come out winner from some kind of battle. This approach, referred to as a ´zero-sum game´ or ´tug-of-war´, however, is coming under increased criticism by several globalisation experts. Generally, much more nuanced ways of understanding the impact of globalisation on states are being sought. In particular, more attention is being paid to better theorise the (dynamic) relation between global forces and the state that does not necessarily resort to a crude and deterministic winner-and-looser scenario. Rather, it is increasingly being stressed, from different theoretical perspectives, the outcome between the encounter between global and state is multiple, complex and contingent. At the centre of much of this new analysis are attempts to theorise a much more active state. The ´varieties of capitalism´ approach is used, for instance, to explain why some states behave differently to others in the face of apparently similar global pressures. In general, there is growing recognition that too much globalisation analysis focused on how economic integration or regional cooperation constrains states whilst underplaying the opportunities that globalisation generates which may allow states to transform and even expand. More stress is being placed on the state´s capacity to self-transform in an era of globalisation, since a host of novel tasks for the state to enact are created, such as complex regulation of newly emerging transnational economic actors. Moreover, whilst much globalisation analysis simplifies the analysis by considering the state vis-à-vis global forces, the importance of regionalism is underplayed, leaving the relationship between globalization and regionalism under-theorised. Regionalism is important for the debate on the impotency or otherwise of the state, since regional agreements involve a voluntarily decision by states to construct a zone of integration, accepting a calculated trade off. The relationship between globalization and regionalism may be contingent, since regionalisms may shape, act as a catalyst or attempt to block global forces. Vertically, then, regionalism must be ´brought back into´
the analysis, as it symbolises a simultaneous and voluntary enabling and disabling of state power.

Sassen has argued that the analytical separation of the state and globalization is becoming increasingly blurred in practice. This is because globalisation requires a physical and geographical space in which to implant itself: it is not always ‘out there’ in cyberspace but becomes embedded inside institutions or locations, both of which reside inside state borders, circumscribed by laws, regulations and norms established and upheld by states. When spaces within state borders are globalized, this has the effect of blurring significantly what is ‘public’ and what is ‘private’, what is ‘foreign’ and what is ‘national’. Old categories lose their definitional power since new hybrids emerge that refuse easy definition. Conceptually, then, horizontal spaces thought of as belonging to the public sphere or the state and belonging to private, foreign interests, are becoming merged.

Most IPE analysis of TNCs during the 1980s and 1990s can be read as a microcosm of the debate on globalization, so a great deal of discussion has been dominated by the ‘zero sum game’ approach. Though analysts have differed vastly in their interpretation of the consequences of TNCs for the state, most start from the premise that the state and the TNC are clearly conceptually separate categories, and proceeded to analyse them as distinct actors, whether friends or foes. Often, TNCs figure as a major challenge to state sovereignty, along with international financial institutions such as the International Monetary Fund or the World Bank. These ‘new global villains’ are held responsible for weakening democracy, undermining states’ capacities to regulate and encourage unfair labour practices. Other experts stress the way in which the state-TNC relationship has evolved over time, claiming that the hostility and mutual suspicion of the 1970s had been replaced with cooperation and consensus in the 1990s. Independent of whether TNCs are viewed as global villains or heroes, however, they tend to be treated as unitary ‘black boxes’. Little attention has been paid to looking into this black box until recently: it has generally been assumed TNCs are private actors and follow rational profit-making and rent seeking criterion pressuring and lobbying for norms rules, regulatory frameworks and infrastructures networks for their own interest and, in most cases, against their competitor or rival, (and this despite the fact that there have been many important public-owned TNCs throughout the twentieth century). Dunning’s classic ‘eclectic paradigm’, which sought to explain the major rationales for why firms ventured abroad, is a good case in point. The reason for this dominant view is logical: the rise of TNCs from the 1950s was indeed dominated by US private firms in the financial, oil and manufacturing sectors. From this perspective, it is understandable that analysts have stressed profit-making and rent seeking behaviour of these enterprises, rather than considering their internal struggles or the impact upon society and welfare as a consequence of their transnationalisation.

An example of the division and antagonistic perspectives that assume on the one hand that national or supranational states pursued the public interest implementing well designed independent regulations in the interest of the citizens, while TNC pursued profit oriented interest in a competitive market environment.

Beyond the traditional perception of state pursuing public interest, implementing well designed regulation while TNC pursuing profit or rent seeking orientation, it seems
relevante from an IPE perspective to revisited the transnational role of lobbying, business and other pressure groups behaviour, political interest and specific state interest in international regional institutions and agreements. In the EU from the end of the 1980s it has been relevant the transnationalisation of infrastructure networks (Trans European Networks: TENs .. ). This networks has been presented and could be considered in a naive way as common interest policy implemented by the European Commission for the creation of a Single Market in face of globalisation to reinforce economic and social cohesion (Chapter XV of the Treaty (Art 154, 155, 156). Furthermore, for certain authors the transnational networks are a consequence of globalization (Johnson and Turner: 2007) as a part of the “inevitable market” solutions to Europe’s general economic and competitiveness ills, transforming national networks into larger systems, promoting private competition (privatisation and liberalisation), improving the infrastructure and interconnection of the system responding to the market and business needs. While for other is the result of the requirements of business groups that were transforming in transnational actor (from public enterprises to European champions). Clearly, this new TNC have been lobbying (European Roundtable of Industrialist: ERT) for public investment in physical networks to increase their strategic interest (to maintain and increase their power in large monopolistic competitive markets). Since the 1980s the lobbying activity has been presented as part of European interest in a twofold, on the one hand promoting “Euro-champions” (ERT) and on the other promoting liberalisation of services (European Service Forum: EFS). Though an intensive lobbing campaign which specifically targeted national transport, communication and energy ministers, the ERT will place TENS in EU’s political agenda (JCMS p. 503 Setting the Agenda for a New European: the ERT and EC 1992)²⁷

The rise of the public service transnational

If most of public services providers where working at home, when a public service provider decide to invest and control a business abroad undertake FDI (merger, acquisitions or green field investment. FDI occurs when a firm invests directly in facilities to operate in a foreign country. Foreign Direct Investment (FDI) is a key indicator of economic globalization since it entails a shift from domestic to foreign-controlled economic activity, in fact once a firm or a public organisation undertake FDI became a TNC. The 1990s marked an important shift in FDI world flows. Prior to the 1990s, FDI was concentrated in the industrial, financial and oil sectors, much of this originating in the US. From the late 1990s, however, services, including public services, become the upcoming destination for FDI, whilst Europe replaced the US as the leading source of FDI. So, if the archetypal TNC in the 1950s was Ford or General Electric, and Toyota or Mitsubishi in the 1980s, at the beginning of the twenty-first century, it may now be Vodafone, France Telecom, E.On or Deutsche Telekom. The dramatic influx of foreign capital towards the public services could be interpreted, at first glance, as being evidence that the welfare settlement of the twentieth century forged between the state and citizens, symbolised by taxes and the vote, is being eroded at the expense of state capacity to provide public services. Deeper analysis of the emergence of transnational public services however points in other directions.
Firstly, though public services providing water, electricity, gas, communications and transport have transnationalised rapidly into many countries worldwide since the 1990s, the overwhelming bulk of this activity is concentrated in specific zones, above all, Europe. Thus, it has to be questioned whether this is an example of the state ‘loosing out’ to global forces or an example of upcoming configurations of public services within formally integrated regional zones. Regionalization, rather than globalization, is more important as an organizing agent overall for this transformation of transnational actors. Secondly, and increasingly, the world of the upcoming public service transnational blurs and undermines the formerly neat categories of what is considered public, private, national and transnational. As former state-owned national public service corporations invest abroad, some start to act like any other private concern. This may lead to the paradox that public service transnationals, even those that are still largely state-owned at home, (though increasingly subject to competition), move abroad aggressively seeking private partners to make profit and undermine competitors. At the same time, the geographical and psychological border separating transnationalised public service providers at home and abroad is subject to transformation in the sense that any scandal abroad tarnishes a brand as a public service provider in the eyes of the general public opinion, shareholders and the government reputation: corruption or mismanagement breed scandals whose consequences on the brand respects no borders. Public norms and customs may still be embedded in private spaces. Most privatised public service transnationals are still subject to major control by two sources of state power: firstly, the regulatory regime at home to which they must conform, secondly, the regime of the (foreign) national host government, all of which are products of state institutions, additionally, they are increasing subject to supranational regulatory agencies and institutions such as European Commissioners in charge of health and consumer protections, Competition and merger and acquisition, Transport and Energy, the European , the Council of European Energy Regulators (CEER), the European Regulators’ Group for electricity and gas (ERGEG), which the European Commission set up on 11 November 2003 by Decision 2003/796/EC, as a group of independent national regulatory authorities to assist the Commission in consolidating the Internal Market for electricity and gas in the EU and the European Economic Area or internationally World Bank Group institution that mediate between member countries and foreign investors through the Multilateral International Guarantee Agency (MIGA) and the International Centre for Settlements of International Disputes where the European TNC (Telefónica, Telecom France, France Telecom, EDF, AES, Duke Energy, Suez, Gas Natural among other have been settling disputes with countries such as Argentina, Mexico, Venezuela, Ecuador, Romania or Turkey that in the 1990s implemented active privatisation attracting FDI in public services). Some privatised public services even receive considerable state interference in executing their business strategies.

Now, in contrast to typical FDI activities in the twentieth century, basically involving manufacturing, oil or financial enterprises, the transnationalisation of public services, which provide fundamental services on a daily basis for citizens and organizations, has profound consequences for welfare and society. Citizens around the world are increasingly receiving public services from foreign, often privately owned companies. Telecommunications provision across Latin America is dominated by rivals Spanish Telefonica or Mexican Telmex and América Móvil both owned by Grupo Carso Telecom; many public services in Eastern Europe have recently been acquired by German, Austria, Italian and other western European firms. Sometimes, the foreign
service-provider is still largely or partially state-owned. Many Londoners, for instance, are provided water, energy and telecommunications by partially state-owned EDF, France Telecom (Orange) or privatised in the last decade such as Suez, E.On or Telefonica (02): the foreign state involvement in the provision of welfare to another state has huge implications for state theory and transnational regulation policies. Now, all these cross-border arrangements may breed resentment, especially where the control of public services is perceived as opportunism, or as evidence of expansionism or neo-colonialism of the TNCs of the largest and richest countries. If, in the 1950s what was good for General Motors was good for America,28 at the beginning of the twenty-first century, a good direct investment in public service infrastructure abroad may be disastrous for international diplomacy and even for regional cooperation.

Finally, national publicly-owned enterprises which provide services at home may opt to aggressively pursue new activities abroad and in even monopolistic exclusive rights opened out by foreign privatisation programmes: thus it opens the publicly sensitive brand up to new risks in the case that problems or scandals develop abroad, as the case of publicly-owned Canadian electricity enterprises involved in the California energy crisis29, or Spanish Airport Authority AENA through Airport Concessions and Development Limited for risky investment through public finance in 27 airports in Mexico, Colombia, Cuba, Costa Rica and Bolivia), in the EU (United Kingdom and Sweden) and the US (AENA annual report 2007). These transnationalised enterprises include both formerly publicly owned and run monopolies which have been recently privatised, as well as corporations which remain in partially or wholly in state hands. They also include privatised enterprises that are still subject to major control or interference by the state.

Treatment of TNCs as a black box, particularly when these TNCs provide public services, ignores the important consequences their transformation is having upon the state and upon societies. The transnationalisation of public services is an important case to illustrate how new, and increasingly complex regulatory tasks are generated for the state to manage and impose. Whilst private authority is indeed on the rise in the global economy,30 the state undergoes a transformation to a ´regulatory state´, sometimes on multiple levels, such as domestically and transnationally.31 Networks require complex rules to impose fair interconnections between rival domestic, foreign, public and private actors, with the public interest in mind. Regionalism, however, plays an important role in the transnationalization of state functions. Moreover, it becomes increasingly difficult to operationalise the terms ´public´, and ´private´: when a publicly owned public services transnationalises to aggressively grow and gain monopolistic power in privatised markets abroad, is this public or private? When a recently privatised enterprise transnationalises, but follows the dictates of its home government acting as a geopolitical interest, is this public or private?

In the twenty-first century, the newly emerging public service transnationals are cases of ´new hybrids´:33 they are messy, complex structures, where the private is embedded in the public and the public in the private, the global in the national, via the regional, and the national in the global. A more detailed picture of this recent transformation will be shown in the next section based on quantitative and qualitative evidence. Firstly, patterns of FDI in the public services is analysed to reveal the importance of the regional level. Secondly, the changing behaviour, attitude and organization of some key transnational public services are analysed.
Public service transnationalization

Public services, encapsulated within the nation state during the twentieth century, are being increasingly transnationalised at the beginning of the twenty first century. But what kind of transnationalization is this? Is this a truly global phenomenon or it is more regional? Does the influx of private capital render the state obsolete in their management?

One useful way of operationalising the terms ´globalization´ and ´regionalization´ is to 1) quantify the extent of public service activity beyond the nation state in order to identify and rank the main public service transnational actors and 2) disaggregate this transnational activity according to place of destination to assess whether this is global or regional. Probably the most comprehensive datasets on firm transnationalisation are published by the UNCTAD in its annual World Investment Report. Although Fortune 500 global publish annually a ranking of the world largest corporations, this list doesn’t distinguished the level of transnationalisation of of the firms in terms of foreing assets, employees or turnovers. This report provides detailed databases on the world’s top TNCs, categorising TNCs by country of origin, main industrial or service activity, and ranks them by size of their foreign assets and by ‘Transnationality Index’. The Transnationality Index is the average of three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment. The destination of transnational activity is not explained, however, so this must be derived from individual company annual reports.

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<td>E.G.W.</td>
<td>78</td>
<td>81</td>
<td>87</td>
<td>91</td>
<td>45.6</td>
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<td>Telecom</td>
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<td>34</td>
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<td>50</td>
<td>78</td>
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<td>Telecom</td>
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<td>CA</td>
<td>Telecom</td>
<td>57</td>
<td>49</td>
<td>76</td>
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<td>Telecom</td>
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<td>US</td>
<td>E.G.W.</td>
<td>44</td>
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<td>Mirant - Southern Company</td>
<td>US</td>
<td>E.G.W.</td>
<td>81</td>
<td>77</td>
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The ranking of major public services that have become transnationalised in recent years is shown in Table 1. Clearly, this process has been dramatic: in 1996, there were only two public services listed among World’s top 100 non-financial TNC in terms of foreign assets: News Corporation (44) and Vivendi Universal-Générale des Eaux (77). By 2004 as reported by UNCTAD (2006), there were 24 among top 100 and 15 among top 50 TNC, including firms in the electricity, gas, water, telecommunications and media sectors. Most of the new transnationalised public services among are based in large European economies. Both ‘vintage’ players and new entrants alike are active: in the telecommunications sector, for example, the main actors include Vodafone (greenfield), Verizon (a newly formed company resulting from the merger of Bell Atlantic and GTE), and traditional players (Telefónica and Southern Bell Communications). Of these transnationalised public services, at least one third of all their activity is now transnational, with Vodafone (87.1%) leading the pack. Though, as mentioned, networks expanded across borders in the nineteenth century, this sustained and dramatic experiment with transnationalisation in the early twenty first century is unprecedented.

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It is undisputable therefore that private capital has entered formerly nationally bound public services as never before. This leads to multiple questions concerning the state, privatization and transnationalization. To what extent has the state become irrelevant in the ownership of public service providers? Is this increased transnational activity coterminous with state withdrawal from the public service firms? What is the relationship between privatization, state withdrawal and transnationalization, for example? The answers are contingent on the firms in question. However, certain generalizations can be made.

Firstly, privatization has been important in all public service sectors, but particularly so in the case of telecommunications. However, even here, state ownership is far from dead. It is true that state ownership of telecommunications enterprises has been reduced drastically through national privatisation programmes. This has not been even, however, across countries or firms, as is shown in Table 2 (column 2). In 2005, state ownership in Deutsche Telekom, France Télécom, Telia Sonera and, to a lesser extent, KPN, was still significant.35 It should be stressed, however, that even privatization does not necessarily mean the state has completely withdrawn. States often maintain a small but powerful golden share in the firm, and may remain sensitive to protecting what is perceived as the national interest. When German and Italian firms attempted to takeover privatised Spanish energy companies, the Spanish government responded by being highly active in shaping this deal. Finally, after excluding the Germans, an agreement was made between the Spanish and Italian governments to mutually ‘swap’ shares of national public service providers in 2007.

Secondly, the relationship between privatization and transnationalization is not automatic: BT was one of the first telecoms operators to undergo privatization, but is one of the least transnational of the large European operators. Moreover, the relationship between privatization and transnationalization is asymmetric: for transnationalization to occur, privatization abroad is necessary, but not at home. In other words, while outward FDI usually requires privatisation (abroad), the firm
pursuing a transnationalisation strategy does not necessarily have to be a private actor. This leads to the paradox that a state-owned public service operator can actively go transnational through a second state’s privatization programme. In terms of the sequence of development, the privatization of a public service operator may lead to a new bold management strategy to go transnational. However, France Télécom, for example, embarked on its internationalisation strategy before privatisation set in: it was French public servants who sought out new markets in the first instance. In this way, internationalisation activities drove the privatisation of firms, rather than vice versa.36 Moreover, even though the state’s interest has more recently been vastly reduced in France Télécom, the state maintains a high level of control over the company. Similarly, Gazprom, the huge Russian gas firm, has been privatised but remains quite tightly controlled by the government and ex KGB nomenclatura, who manage its search for new business abroad.37

Since the days of the Soviet Union, when the KGB served as the eyes and ears of the Communist regime, former officers have put their discipline, knowledge and sources to good use in private industry and even the murky world of the black economy. One third of 17 Gazprom management committee members had know KGB lings, In 2004, Valery Golubyev, a former KGB general that served in St Petesburb in the 1990’s as Putin was appointed deputy chief executive at the state-owned Gazprom

The Gazprom chairman, Dmitri Medvedev, is First Deputy Prime Minister and tipped as a possible successor to Mr Putin when the President is constitutionally bound to stand down in 2008 after two terms in office. Gazprom's "seeming insatiable appetite for asset acquisitions" has been at the expense of a focus on its core business, the OECD said. Russians joke that Gazprom - the world's biggest gas company - is not just a state within a state, but the state itself. Hardly surprising then, that there are rumours in Moscow that Mr Putin intends to do a job swap with Mr Medvedev at Gazprom when he leaves the presidency in 2008. "EU countries decided that Putin is not a market reformer and a nasty man and they can't trust him. This perception will have been reinforced by the Litvinenko affair. It reinforces what people want to believe," said Professor Stern.

According to one of Moscow's dynamic young businessmen, Alexander Izosimov, who is CEO of Beeline, a leading mobile telephone company. "We are at a historic moment, when Russian capital for the first time is investing outside, and so far it's not welcome. The government is taking protective measures in response to that." He said the Russian government would ensure that some industries, including the military and energy, would be out of reach for Western capitalists, as the Kremlin intends to create "national champions" that will pull the economy behind them.

In what direction is this transnationalisation? If firms are truly global, their activity will be based on multiple countries, rather than on a regional logic. In order to ascertain whether these are global or regional players, it is important to disaggregate their activities abroad. Of the top public services actively transnationalising, by far the most consistently transnational are those in the telecommunications sector. When these telecommunications firms earn revenue abroad, what percentage is derived globally, and what from Europe? Using individual company annual reports, the evolution of revenue earned abroad as a percentage of total revenue from 1999 to 2005 earned is shown in Table 2 (column 3). Column 4 shows international revenue as a percentage
of total revenue earned specifically in the European Union between 2003 and 2005. Though the results are not even there is a clear trend: the bulk of foreign revenue earned by Vodafone, Tele2, TeleDanmark, France Télécom, KPN, Telia-Sonera and Deutsche Telekom was in Europe. The extent to which Europe dominates foreign-earned revenue is visualised in Graph 1. The closer a firm is to the diagonal line, the more its foreign revenues were from Europe. There are clear exceptions to the European dominance of foreign-earned revenues. Spanish operator Telefonica prioritised foreign activities in Latin America, whilst Cable and Wireless focused (unsuccessfully) on the Caribbean region. Vodafone recently sold its activities in Japan and thus should be shifted closer to the diagonal line.

To sum up the quantitative evidence presented here, an important number of public service providers have recently emerged as the world’s leading transnational players: their revenues, assets and employees are increasingly located abroad. The telecommunications sector is consistently the most transnationalised of the public service sectors: however, even in this sector, when foreign revenue is disaggregated by destination, the bulk is from Europe. Tentatively then, there is a trend towards the ‘regionalization’ of public service activity, dominated by the European experience, rather than a generalised ‘globalization’. However, this is a general rule with exceptions: some public service providers have not gone transnational at all, others are mavericks opting for investment outside Europe.

The fact that this trend is dominated by Europe does not mean these transformations are only occurring in Europe: the NAFTA is another important site for public service transnationalisation. From Mexico, for example, has emerged the former nationally-based public telecommunications monopoly, Telmex, controlled by multi-billionaire Carlos Slim. Telmex has expanded throughout Latin America and made incursions into North America (and recently failed to enter Europe), and is now one of the top ‘trans-latinos’, leading the UNCTAD list of TNCs in developing economies. Telmex, along with América Móvil, competes head on with Telefonica in its quest to control Latin American telecommunications markets. Canadian public service providers have also rushed to find new markets in the US, such as in hydroelectricity.

The transnationalisation of public service providers does not necessarily mean the state has withdrawn either in ownership or in control of the firm. Rather, public service providers are undergoing transformation, from being state-controlled and run public services to new hybrids, unevenly transformed by global and regional ownership and activities, straddling the worlds of private business and the public interest.

**Public service transnationals**

As public service providers become transnationalised, how does their behaviour and outlook change? Once confined to nationally inscribed regulatory frameworks, when these firms go abroad, do they start to act like any other private firm operating in a competitive global market? Once the state ‘loses’ its participation via ownership in public service provision, does its role whither away, or is it transformed in novel ways?

After decades of organization as nationally inscribed state owned and run entities, transnationalised public service providers seeking to make profit abroad as any other
business face a dilemma. Whether privatised fully or partially at home, they remain public service providers subject to national or local regulation. Abroad, they must respect foreign regulation, which may be more or less lax than their own. However, there are signs of growing transformation, some of which is aggressive, on the part of some public service providers abroad. For instance, some of the most dynamic Canadian hydro-electricity publicly owned enterprises have embarked on highly aggressive transnationalisation activities, preferring new private partners over public ones in their new ventures abroad. These firms have gradually adapted their businesses more in line with US regulatory standards rather than the various provincial regulatory demands of Canadian states.\textsuperscript{38} Publicly owned and accountable firms are aware of the possible pitfalls in the challenges of their transnationalization. The British Broadcasting Corporation, a public corporation, has been highly sensitive to the need to protect its image as a public service broadcaster at home whilst expanding its international activities through joint ventures with private commercial operators such as Sky. Certainly, in many cases, the terms ‘public’ and ‘private’ are less useful, when public organizations get involved in private business abroad, when privately-owned firms go abroad but are subject to significant state control. Public service transnationalisation is blurring the utility of these terms, since they encapsulate both, usually unevenly and temporarily.

Unquestionably, public service transnationalisation means a gradual denationalisation of former state public service provision via ownership and management responsibilities. The state’s role, however, has been transformed in the sense that it has become responsible for the emergence of a new transnational regulatory framework designed to protect its citizens from possible negative consequences brought on by public service privatization and transnationalisation. The European case is a pioneer in this respect.

From the middle of the 1990s, national programmes to privatise, liberalise and deregulate public services were accompanied by the introduction of new regulatory frameworks to ensure competitive markets but, in addition, social guarantees. In continental Europe, as privatization took off seriously, two of the European Union’s social partners (the European Trade Union Confederation and the Centre for
European Public Enterprise) jointly delivered a draft ‘Charter of Services of General Interest’ to the European Commission. Influenced by continental legal tradition, the aim of this Charter was not to oppose the privatization or liberalization of public services, but to demand more legal certainty for their social regulation in order to guarantee users properly working, high quality, accessible and affordable public services regardless of their ownership status. The UK and Holland swiftly opposed this continental response to privatization, backed particularly by the French and Belgians. They instead proposed a charter for public services more inspired by Anglo-Saxon New Public Management. The Commission ended up reaching a compromise, in an attempt to satisfy both parties, which was published in the White Paper on Services of General interest in 2004. At the heart of these ongoing efforts is an attempt to construct a novel transnational citizenship within Europe, whereby citizens are awarded rights to certain standards in public service provision, regardless of whether that provider is public or private, or whether that provider is domestic or foreign.

The European approach to public service social regulation is another example of hybridisation, in this case, of a complex Europeanisation. States’ efforts to construct citizens’ rights to public services reflect neither a purely continental effort, nor do they mirror solely an Anglo-Saxon New Public Management obsession with consumer rights. Rather, states in Europe have engaged politically and come to an agreement that mixes both traditions in unequal measure.

This hybrid approach, forged bottom-up, is now being unevenly imposed top-down on all new Member States. Since many EU documents on public services have not been translated into multiple native languages and, since many of the legal concepts of public services differ profoundly to those inherited from the Soviets during the Cold War, the result is of this long-winded process tends to be great complexity and some confusion. The emergence and spread, however, of these new layers of transnational social regulation certainly point to the fact that public service reform has induced new complex regulatory functions for the state at the transnational level, at least, in the European context. Now, each nation state must continue to enforce national regulations, whilst being conscious of a new transnational complimentary layer. Though this regulation is not legally binding yet, its power could be compared to other so-called ‘soft’ law, such as the Open Method of Coordination. In this way, the state has expanded its sphere of responsibility, though it is brandishing soft, not hard, power. This development towards a social approach to regulation is less obvious in the context of NAFTA. The reason for the difference is because NAFTA is primarily an economic integration zone with a dominant economic actor, in contrast to the EU’s efforts to forge economic, social and political union, constituted of various strong economic actors.

Conclusions

Public service providers, state-run and often state-owned across the twentieth century, associated with welfare, universality and often monopolies, are emerging as some of the world’s leading TNCs at the beginning of the twenty first century. This important development is still new and ongoing and, logically, very little attention has yet been paid to it in IPE. The main argument of this paper was that this recent transnationalization of public services could shed new light on key questions about
globalization, TNCs and the state. In particular, it was argued that the ‘winner and looser’ approach used to explain the consequences of globalization was of limited utility for a combination of interrelated reasons, most critical of which is that, not withstanding unprecedented private flows of capital into public services, it would be wrong to conclude that the state is increasingly obsolete in this development. It is indeed ironic that privatization programmes, often justified by the stated inherent superiority of private over public ownership and management, has actually resulted in a blurring of what is private and public. These newly emerging public service transnationals are complex, hybrid creatures. Their new geography is complex, for, they are embedded at home, often as national public service providers, but reach abroad to identify and conquer new, private markets. Thus, they straddle the border between the public and the private, the global and the national. Categories such as private and public are, therefore, loosing their explanatory power.

The transnationalisation of these public services has been accompanied by a growth in state regulatory functions, Majone’s regulatory state. The new regulatory state functions, however, pull in multiple directions, towards satisfying both the public and private spheres of economic and social life. In the context of a social Europe, the transnational regulation of public services, accompanied by efforts to construct a novel transnational citizenship with associated rights, has grown from the 1990s. States within Europe have been denationalised, when foreigners acquire the public services they formerly owned, yet states have also been required to expand and increase the complexity of their regulatory responsibility. European states were pushed, bottom-up, to embark on social regulation by social partners and certain Member States.

Despite the dramatic phenomenon of public service transnationalisation in recent years, quantitative analysis reveals that regionalization is a better overall explanation towards the pattern of transnationalization than a general globalization. Regionalization is an agreement into which states voluntarily entered; they are not its passive victims. At this regional level, states can resolve to attempt to block, hinder or encourage global forces, choosing a combination of policies that protect social goals and favour international business.

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1 The term transnational corporation (TNC), rather than multinational corporation (MNC) is used, following the United Nations Conference on Trade and Development (UNCTAD), to refer to enterprises that comprise private, public or mixed ownership ‘entities in more than one country which operate under a system of decision-making that permits coherent policies and a common strategy. The entities are so linked, by ownership or otherwise, that one or more of them may be able to exercise a significant influence over the others and, in particular, to share knowledge, resources and responsibilities with the others’. See UNCTAD (2004) World Investment Report: The Shift towards Services. United Nations: New York and Geneva.


This question is taken up by Alan Rugman (2005) in *The Regional Multinationals: MNEs and “Global” Strategic Management*, Cambridge University Press.

A good survey is Guillén (2001) ‘Is globalization civilizing, destructive or feeble?’ *Annual Review of Sociology* and Sassen, ibid.


The globalization debate has been critiqued along these lines: see Saskia Sassen (2002) *Global Networks/Linked Cities*, Routledge, New York and London.

Conceiving those who emphasise the effects of globalisation as structuralists, and those who highlight the state’s continued power as agency theorists, John M. Hobson and M. Ramesh ‘Globalisation Makes of States What States Make of It: Between Agency and Structure in the State/Globalisation Debate’ *New Political Economy* 7(1)(2002) use a ‘structurationist’ approach, synthesising both approaches in order to explain how states bolster their power through or with global forces in a co-constitutive relationship. In this way, both ‘win-win’ and ‘lose-lose’ situations may be the outcome.


Linda Weiss argues that there is increasingly less discussion about the retreat of the state as about the transformation of the state. In particular, she argues that previous globalisation analysis underplayed the new opportunities that enable states to transform and even expand. See Linda Weiss (2005) ‘The State-augmenting Effects of Globalisation’ *New Political Economy* 10 (3).

There are a number of important accounts that stress the need for increased state intervention in the face of globalisation. Giandomenico Majone’s (1996) *Regulating Europe*, Routledge argues that state has been transformed into a ‘regulatory state’ as its functions increasingly focus on the rise of new and complex regulatory activities. Various authors, including Sylvia Walby (1999) ‘The new regulatory state: the social powers of the European Union’ *British Journal of Sociology* and Linda Weiss (2005) ‘The State augmenting effects of globalization’ *New Political Economy* and Philip G. Cerny (1999)’Globalising the Political and Politicising the Global: Concluding Reflections on International Political Economy as a Vocation’, *New Political Economy* Vol 4 (1) argue that globalisation both enables and restricts the state, though most globalisation analysis focuses largely on state restriction.


The July 1998 3(2) issue of New Political Economy was dedicated to the role of TNCs in the global economy.


This was famously stated by General Motors Chief Executive Charles Wilson in 1953.


Majone (1996) ibid.


This contrasts with the approach taken by Fortune, whereby only sales are considered.

Patrick Fridenson makes the point that the French government is determined to intervene in the running of France Télécom, independent of increased private investment, through its maintenance of its ´golden share´. See Patrick Fridenson (2007) in Clifton, Comín and Díaz-Fuentes ibid.


Marina Klínova (2007) ´The transformation of state enterprises in Russiannetworks 1990-2005´ in Clifton, Comín and Díaz-Fuentes (2007) ibid. Asked by Kurt Lauk (EPP-ED, DE) on what should be done about state owned firms, such as Gazprom, moving into competitive markets, and by Sahra Wagenknecht (GUE/NGK, DE) about the Commission’s approach to the Landesbank Berlin sale, Ms Kroes stressed repeatedly that the question of private or public ownership was not an issue in competition policy, and was one on which the Commission was neutral. Regarding Gazprom specifically, she said the issue was more that the company was both producer and deliverer of energy products and where it also owned the infrastructure there would be a risk of dependency.


See Radaelli 2004, ibid.