Columbia FDI Perspectives

Perspectives on topical foreign direct investment issues by
the Vale Columbia Center on Sustainable International Investment

No. 36 April 25, 2011

Editor-in-Chief: Karl P. Sauvant (Karl.Sauvant@law.columbia.edu)
Editor: Ken Davies (Kenneth.Davies@law.columbia.edu)
Managing Editor: Alma Zadic (az2242@columbia.edu)

Are resurging state-owned enterprises impeding competition overseas?

by
Nilgün Gökgür[*]

There are no up-to-date systematic data on the size, composition, ownership structure, and economic weight of state-owned enterprises (SOEs),[1] so we are unable to assess the impact of SOE performance on stakeholders in domestic and overseas markets. Yet there is sufficient evidence of their expansion, especially following the 2008 financial crisis. Emerging markets, led by China, are now increasingly encouraging their SOEs to expand globally as multinational enterprises (MNEs).[2]

The competitive advantage of SOEs is enhanced by Treasury guarantees for financing from state-owned financial institutions. Governments as majority or full owners of state-owned banks accept a lower rate of return on their invested capital than private investors and so can offer favorable borrowing terms. For example, Chinese state ownership and control over the entire banking sector, except for Minsheng Bank, is well documented.[3] Sixteen of eighteen Chinese MNEs–most or all state-owned–have apparently taken the lead in the country's international expansion with "easier access to bank loans and financial markets."[4] Chinese SOEs in African markets are supported by other Chinese SOEs in banking and

---

[*] Nilgün Gökgür (nilgun.gokgur@gmail.com) is an independent development economist working on state-owned enterprise reforms and private participation in infrastructure for governments and international organizations. The author wishes to thank Harry Broadman, Hans Christiansen, Jose Gomez-Ibanez, and John Nellis for their helpful comments on this *Perspective*. The views expressed by the individual author of this *Perspective* do not necessarily reflect the opinions of Columbia University or its partners and supporters. *Columbia FDI Perspectives* (ISSN 2158-3579) is a peer-reviewed series.

[1] The single document that assembled and analyzed the latest data on SOEs in developing countries is a World Bank publication, *Bureaucrats in Business: The Economics and Politics of Government Ownership* (New York: Oxford University Press, 1995), with no subsequent follow-up thereafter. The OECD has recently been trying to measure the dimensions of the state-enterprise sectors of its members. There are hardly any systematic data worldwide on the dimensions of enterprises owned by sub-national governments and municipalities.

[2] Ian Bremmer, *The End of Free market: Who Wins the War Between State and Corporations?* (New York: Portfolio, 2010), pp. 85-145.

[3] Working Group on Privatization and Corporate Governance of State-Owned Assets, "State enterprises in China: reviewing the evidence," OECD, *Occasional Paper*, January 2009, pp. 6-7.

[4] Fudan University and Vale Columbia Center on Sustainable International Investment (VCC), "Second ranking survey finds strong growth in the foreign assets of Chinese multinationals," December 17, 2009, p. 3, available at www.vcc.columbia.edu.

logistics.[5] Chinese state-owned MNEs deter private competitors in African markets as they tilt the playing field to their advantage. Non-transparent government-to-government deal-making reduces the welfare of stakeholders.[6]

Backing from state-controlled financial institutions is not confined to state-owned MNEs, but is provided to privately owned MNEs as well as they enter international infrastructure markets in the form of public-private partnerships (PPPs). Recently, for example, a consortium led by a privately-owned Turkish construction conglomerate won a competitive tender to build a € 100 million airport in Kosovo—raising 80% of the financing from a state-controlled Turkish bank and 20% from the consortium.[7] Other bidders may not have enjoyed similar access to such bank loans.

The international development community has begun to promote PPPs in infrastructure sectors, expecting the private sector to bring private investments and technical know-how, with competitive tenders delivering the intended development outcomes. This is doubtful if state-owned and controlled banks back privately-owned MNEs, hinder competition overseas and unintentionally reduce the intended benefits to domestic entrepreneurs as they fail to enter and win PPP concessions.

We can only know how much SOEs impede competition if there is a single entity worldwide collecting and analyzing consistent cross-country and cross-sectoral data on all SOEs. Only with proper data *and* analysis we can measure the size, magnitude, economic weight, and performance of SOEs, including state-owned banks, worldwide. The World Bank does not engage in such data collection, but the IMF might. With such data, we can assess SOEs' impact on consumers, labor, enterprise performance, owners and operators, taxpayers, competitors, communities, and the environment. We could then draw policy conclusions, maximize the development impact of the SOEs at home *and* overseas, and ensure that PPPs produce desired outcomes.

For further information please contact: Vale Columbia Center on Sustainable International Investment, Ken Davies, Kenneth.Davies@law.columbia.edu.

The Vale Columbia Center on Sustainable International Investment (VCC), led by Dr. Karl P. Sauvant, is a joint center of Columbia Law School and The Earth Institute at Columbia University. It seeks to be a leader on issues related to foreign direct investment (FDI) in the global economy. VCC focuses on the analysis and teaching of the implications of FDI for public policy and international investment law.

---

[5] Keith Campbell, "800 Chinese state-owned enterprises active in Africa, covering every country," *Mining Weekly*, September 28, 2007, pp. 2-3.

[6] Harry G. Broadman, "China and India go to Africa", *Foreign Affairs*, vol. 87 (March/April 2008), pp. 95-109.

[7] Vakif Bank, majority owned by the Directorate of Public Foundations and managed by the Prime Minister, can afford to seek a lower rate of return on invested capital compared to private banks; the details of this transaction are available at http://www.invest-ks.org.

Most recent *Columbia FDI Perspectives*

- No. 35, Giorgio Sacerdoti, "Is the party-appointed arbitrator a "pernicious institution"? A reply to Professor Hans Smit," December 14, 2010.
- No. 34, Harry G. Broadman, "The backstory of China and India's growing investment and trade with Africa: Separating the wheat from the chaff," February 17, 2011.
- No. 33, Hans Smit, "The pernicious institution of the party-appointed arbitrator," December 14, 2010.
- No. 32, Michael D. Nolan and Frédéric G. Sourgens, "State-controlled entities as claimants in international investment arbitration: an early assessment," December 2, 2010.
- No. 31, Jason Yackee, "How much do U.S. corporations know (and care) about bilateral investment treaties? Some hints from new survey evidence," November 23, 2010.
- No. 30, Karl P. Sauvant and Ken Davies, "What will an appreciation of China's currency do to inward and outward FDI?" October 18, 2010.
- No. 29, Alexandre de Gramont, "Mining for facts: PacRim Cayman LLC v. El Salvador," September 8, 2010.

All previous *FDI Perspectives* are available at http://www.vcc.columbia.edu/content/fdi-perspectives