An Open Note: Competition Neutrality at Regional and International Levels

Dr Graham Mott
Economic Affairs Officer, CCPB
Emergence of a new SOE

• State companies make up 80% of the value of the stockmarket in China, 62% in Russia and 38% in Brazil

• The rise of quasi-state companies
  – The Chinese state is the largest shareholder in the country’s 150 largest companies
SOEs, International Level

- *Fortune* Global 500
  - In 2005 Global 500 included 67 SOEs
  - In 2011 Global 500 included 106 SOEs

“The 13 biggest oil firms, which between them have a grip on more than three-quarters of the world’s oil reserves, are all state-backed. So is the world’s biggest natural-gas company, Russia’s Gazprom. But successful state firms can be found in almost any industry. China Mobile is a mobile-phone goliath with 600m customers. Saudi Basic Industries Corporation is one of the world’s most profitable chemical companies. Russia’s Sberbank is Europe’s third-largest bank by market capitalisation. Dubai Ports is the world’s third-largest ports operator. The airline Emirates is growing at 20% a year.”

_The Visible Hand_, The Economist, 21st January 2012
Sovereign Wealth Funds

• Funds totaling $20 trillion
  – Assets under management
  – Pension funds, development funds etc.
  – Foreign exchange reserves

• Transparency
  – IMF Santiago Principles

• Investment Strategy
  – Purchase of Infrastructure Assets
  – Takeover of Australia’s Optus by Singtel in 2001
  – Reactions: United States, Germany,
Narrowing of Policy Space (1)

- Promotion and Protection
  - Asian tigers, Japan and South Korea in the 1950s, Germany in the 1870s, England 1600s
  - Overall sophistication of its export bundle is that of a country with an income per-capita level three times higher
Narrowing of Policy Space (2)

• Foreign investors were straddled with requirements to:
  • transfer technology to local partners
  • source their inputs locally
  • enter into joint ventures with domestic firms (in mobile phones and in computers).

• Weak enforcement of intellectual protection laws

• Domestic markets were protected to attract market-seeking investors, fear of prosecution.

• Localities were given substantial freedoms to follow their own policies of stimulation and support,

• “China’s technological acquisition strategy is clear: It allows foreign firms access to the domestic market in exchange for technology transfer through joint production or joint ventures” Huchet (1997)
International Framework

• Article III:4 of GATT
  – Prohibits discriminatory treatment of imported goods

• OECD Guidelines
  – SOEs should not be exempt from the application of general laws and regulations

• UN Set
  – multilateral agreement on competition policy
International Framework

• US has BITs with 40 countries and FTAs with 17 partners
• Increasing use to limit SOEs under competition rules rather than trade rules
  – EU-Korea FTA, Chapter 11
  – US-Singapore FTA, art 12.3 (2)(d)(ii)
    • SOE refrain from certain anti-competitive conduct
• US new proposal in the Trans-Pacific Partnership (TPP) create binding trade and investment and competition commitments
Worldwide Welfare Improving?

- Poverty reduction
  - Chinese Economic ‘Miracle’ has lifted hundreds of millions from deep poverty
  - Improvements in health, education etc.
- Infrastructure as aid
  - Sinohydro, SoE, 50% worldwide projects
Thank you for your attention