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An Open Note: Competition Neutrality at Regional and International Levels



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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
- *What's So Special about China's Exports?* D Rodrik (2006)
 - Overall sophistication of its export bundle is that of a country with an income per-capita level three times higher
- *India's Pattern of Development: What Happened, What Follows?* IMF Working Paper (2006)

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



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