October 19, 2016

Levelling the playing field: seeking solutions

Karl P. Sauvant
Thank you very much, Mr. Chairman, and good morning, ladies and gentlemen.

Thank you also for the opportunity to speak at this event. FDI by SOEs has recently received some attention in the media and in policy circles, although I have the impression that this attention has receded a bit in recent times. Yet, it remains an important topic.

To stimulate the discussion, I’d like to make three brief points, if I may.

The first one is that

1. **FDI by SOEs is nothing new**

Long before the discussions started a few years ago about FDI by SOEs, SOEs had been important outward investors. They hailed overwhelmingly from developed countries and were active primarily in the natural resources sector. And, of course, FDI by SOEs headquartered in developed countries continues to be very important today. Just to give you two examples of significant outward investors that are SOEs: the German Railway is an SOE that owns, among other assets, DHL, the logistic company; and Sweden’s Vattenfall is an important energy company with assets in many countries.

A more general picture can be obtained by looking at the world’s 100 largest non-financial MNEs and the 100 largest non-financial MNEs headquartered in emerging markets, as tabulated by UNCTAD. The 49 SOE MNEs among these 200 firms had, in 2010, foreign assets worth about US$2 trillion. Of these US$2 trillion, SOEs headquartered in developed countries controlled about $1.4 trillion in foreign assets and SOEs headquartered in emerging markets controlled about $400 billion in foreign assets. In other words, the foreign assets of SOE MNEs headquartered in developed countries were more than three times as high as the foreign assets of SOE MNEs headquartered in emerging markets.

What is new, of course, is that outward FDI by emerging markets has become an important factor in the world FDI market, accounting in 2015 for almost 30% of
world FDI outflows. And many of the important outward investing firms from emerging markets are SOEs, especially in the case of China.

My hunch is that the emergence of these new competitors explains to a large extent the current interest in FDI by SOEs. But if we pursue this interest, we need to be aware that any disciplines regarding FDI by SOEs presumably are equally relevant – if not more so – for SOE MNEs headquartered in developed markets as they are for SOE MNEs headquartered in emerging markets.

However, the issue is broader than disciplines for SOEs that are MNEs. And that brings me to my second point, namely:

2. Why focus only on SOEs when seeking a level playing field (the topic of this session)

The annotation of this panel asks the question of “what can be done by home and host countries to ensure investment remains open with assurances that all companies compete on a level playing field?”

Obviously, the implication of this question is that SOE MNEs have certain advantages when investing abroad. I concur that this may well be the case, regardless of whether SOE MNEs are headquartered in developed countries or emerging markets. I could also imagine that some emerging markets give more support to their SOEs investing abroad than other countries – China’s “going global” policy might be a good example –, but I am not sure we have systematic evidence in this respect.

More importantly, the issue of having a level playing field for outward investors is broader than the help that SOEs investing abroad might get. The reason is that non-SOEs also receive help from their home country governments. At least that is the case for virtually all developed countries. These countries have an array of measures in place that help their firms invest abroad, ranging from the provision of information, to financial help to fiscal advantages.

This situation, in turn, differs considerably from that of emerging markets, where only a very limited number of governments help their firms invest abroad, with China, Singapore and Malaysia being the most prominent examples.

The obvious question arises for all other emerging markets that do not facilitate, support or promote outward FDI by their firms (and there are over 120 emerging markets that have reported outward investment): do they, too, need to put in place policies to help their own firms invest abroad, lest their outward investors face a competitive disadvantage when seeking to enter foreign markets through FDI?

My prediction is that more and more countries will, indeed, adopt policies to help their firms invest abroad, in the interest of strengthening the international
competitiveness of their firms. And if that occurs, we will arrive at a situation similar to the one we have on the inward FDI side, where virtually all countries (and units within countries) compete with each other through various incentives to attract FDI.

Growing competition to help firms invest abroad is a situation, I submit to you, that is not desirable: it distorts not only markets, but also, in most cases, may waste resources.

This brings me to my third and final point, namely,

3. **What to do?**

If rising competition among governments to help their firms invest abroad is not desirable, it may indeed be worthwhile to agree internationally to discipline outward FDI incentives competition.

But if international agreement is being sought, it should be agreement that **covers all MNEs**, not one class of MNEs only, namely SOEs. Only then can we assure – as the annotation of our roundtable says – that “all companies compete on a level playing field”.

Thank you very much for your attention.