PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

Comments: IMF Fiscal Monitor State-Owned Enterprises The Other Government

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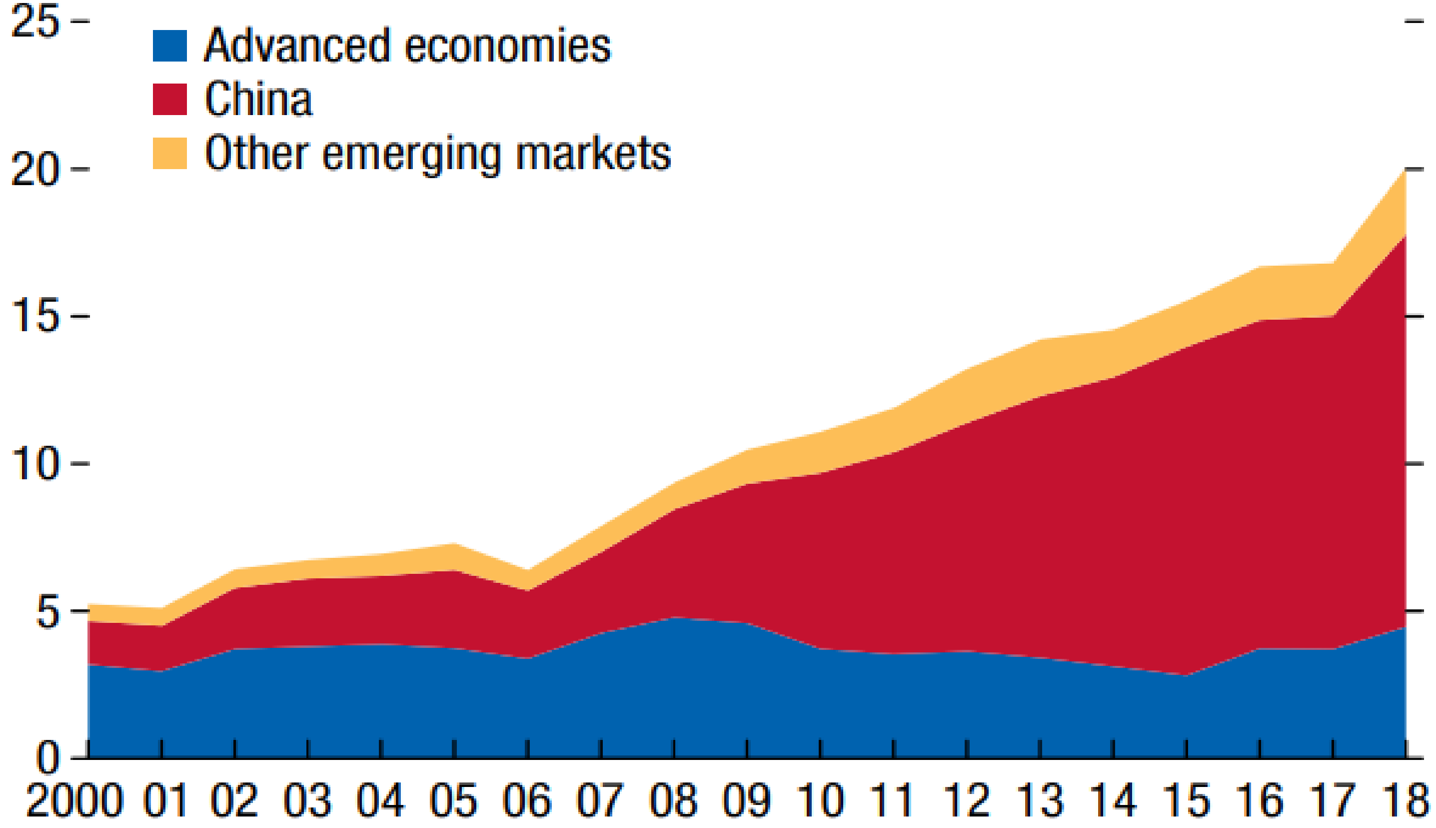
SOEs big players on international stage

- Operate in every country; number in the thousands
- Especially prevalent in banking, utilities and transport
- Public banks hold more than 20% of assets in half of G20 and largest developing countries
- SOE share of largest 2,000 firms assets is 20%
- Most have mix of public and private ownership
- Over 1,500 SOE multinationals

One country drives growing concern: China

1. Emerging Market Economies Account for the Increasing Importance of SOEs
(Percent of assets of largest firms)



Fiscal Monitor Recommendations:

Review and clarify public mandate

Make mandate transparent

Raise performance by

- Linking support to mandate
- Aligning other financial incentives to performance on meeting mandate
- Enhancing oversight & corporate governance

Fiscal reforms constrain, not end subsidies

- SOEs are a conduit for subsidies that affect the competitive position of other firms in own, home, and 3rd markets.
- Best fiscal practices do not stop these competitive effects.
- As a result, SOE reform and “subsidy” reform overlap
- Hence, SOE reform invokes search for “competitive neutrality” – an ideal of undistorted market competition

Existing WTO subsidy rules limited

Rules require notification of all subsidies, including those that favor SOEs, but…

- Countries slow in notifying
- Without facts, no challenges possible or difficult

Transparency is only tip of iceberg

- Many supports are implicit or indirect
- Damage occurs before challenges are adjudicated
- Remedies have no teeth

Trilateral statement pushes reforms harder

Japan, EU and USA seek reform of rules to:

- Identify new unconditionally prohibited subsidies
- Reverse the burden of proof for particular subsidies
- Prohibit subsidies not notified but identified by others
- Advocate for alternative calculation of domestic input prices when these are deemed non-market
- Expand definition of “public body” to include SOEs

Drill down harder on “competitive neutrality”

Why is reform elusive? Because some mandates incompatible with competitive neutrality

With economies of scale, subsidies may raise global surplus but not produce mutual gains.

If so, domestic-welfare-maximizing mandate met by disrupting market equilibrium.

Examples:

- Large fixed assets, high cyclicality (e.g. steel)
- Large fixed assets, high rents (e.g. internet platforms)
- Large fixed assets & spillovers (e.g. semiconductors)

National security interests add another dimension

Fiscal reforms needed, but not enough

- The fiscal reforms promoted today will help countries more effectively meet public mandates.
- But some mandates have effects outside national borders. Reforms that help countries achieve these mandates may raise, not reduce, conflict.
- "Competitive neutrality" cannot fully resolve these conflicts. We need new thinking.