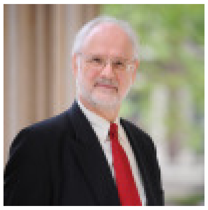
PROJECT SYNDICATE



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Equal Treatment for Outward Investors

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NEW YORK – During the past decade, emerging economies have become important players in the global foreign-direct-investment market. Indeed, the share of world FDI outflows of the more than 30,000 multinational enterprises (MNEs) headquartered in emerging markets rose from roughly 5% in 1990 to more than one-quarter today. These new players – many of which are state-owned enterprises (SOEs) and sovereign-wealth funds (SWFs) – have become serious competitors for long-established MNEs in many sectors.

Among developed countries, these investors' arrival has inspired concerns that have been pursued by the OECD, in the Trans-Pacific Partnership negotiations, and at the national level. In particular, there are two sources of anxiety.

First, some developed countries worry that governments will use such state-controlled entities for foreign-policy purposes. While there is no systematic evidence that these investors have predominantly non-commercial objectives, the possibility that they do cannot be excluded. Given this prospect, some developed countries have strengthened their regulatory framework to allow for the review of mergers and acquisitions by state-controlled entities, especially in sensitive industries or critical infrastructure.

Second, SOEs and SWFs may receive various kinds of support from their governments – thereby distorting "competitive neutrality" vis-à-vis private-sector firms. For example, governments could provide information about investment opportunities, access to cheap capital, fiscal incentives, financial support for specific projects, credit guarantees, reduced disclosure requirements, official development assistance tied to FDI projects, or political support.

In acting on these concerns, developed countries must bear in mind that state-controlled entities are important players in the global FDI market – and theirs more so than those of emerging markets. While SWFs account for only about $100 billion worth of FDI, the 49 largest non-financial SOEs control roughly $1.8 trillion in foreign assets. Of these, the 29 that are headquartered in emerging markets control total foreign assets worth $400 billion, compared to roughly $1.4 trillion for the 20 headquartered in developed countries. As a result, rules established for state-controlled MNEs are more relevant to those based in developed countries than to those – more numerous but less powerful – in emerging markets.

And, while state-controlled entities receive support from their governments, so do privately owned MNEs. Because internationally competitive firms are seen to benefit the country's economy, governments – especially in developed countries, but increasingly also in emerging markets – support both state-controlled and private firms in FDI-driven foreign expansion.

In order to address concerns about "competitive neutrality," policies must address the extent to which firms – whether state-controlled or privately owned – receive official support for their outward investment. More transparency in this area should be established as a basis for informed policymaking. Beyond that, any official action would require more policy restraint by developed-country governments than by their emerging-market counterparts.

Whether undertaken by state-controlled entities or private firms, FDI can contribute to economic growth and development. There is no need for special treatment of state-controlled entities beyond addressing national-security concerns. In fact, special treatment for one group of investors can lead only to the fragmentation of a non-discriminatory international investment regime, which is hardly a desirable outcome.