



## Columbia FDI Perspectives

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### State-controlled entities control nearly US\$ 2 trillion in foreign assets

by

Karl P. Sauvant and Jonathan Strauss\*

Developing country sovereign wealth funds (SWFs) as players in the world foreign direct investment (FDI) market have received considerable attention. While outward FDI from emerging markets has indeed risen dramatically,<sup>1</sup> that by SWFs has been negligible: their outward FDI stock is around US\$ 100 billion (compared to a world FDI stock of US\$ 20 trillion in 2010).<sup>2</sup>

On the other hand, state-owned enterprises (SOEs)<sup>3</sup> -- another class of state-controlled entities (SCEs) -- are serious players in the world FDI market. UNCTAD identified more than 650 SOEs that are multinational enterprises (MNEs).<sup>4</sup> They hail from both emerging markets and developed countries.<sup>5</sup> (There are also many important financial SOEs that are MNEs.)

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<sup>1</sup> See e.g., Karl P. Sauvant et al., eds., *Foreign Direct Investment from Emerging Markets* (New York: Macmillan, 2010).

<sup>2</sup> UNCTAD, *World Investment Report 2011* (Geneva: UNCTAD, 2011).

<sup>3</sup> Following UNCTAD, *ibid.*, p. 28, “SOEs” are defined as enterprises in which the government has a controlling interest, with “control” defined as a stake of 10% or more of voting power. Ownership can be direct or indirect (including through e. g. government-controlled pension funds, other government-owned firms) or involve special circumstances (e.g. golden shares). It can be passive, even if a government holds (directly or indirectly) more than half of the shares. “SOE” should therefore be read accordingly -- and it draws attention to the need for research on this matter.

<sup>4</sup> *Ibid.*

<sup>5</sup> The country classification follows UNCTAD, *ibid.*

More specifically, research on the 200 largest non-financial MNEs identified by UNCTAD for 2010<sup>6</sup> yields 49 SOEs that are MNEs (see the supporting tables below). The 2010 foreign assets<sup>7</sup> of these 49 together account for US\$ 1.8 trillion, with US\$ 1.1 trillion in aggregate foreign revenue. Of these 49:

- 23 were at least 50% owned directly or indirectly by states; their foreign assets were US\$ 570 billion.
- If the state ownership threshold is lowered to 10%, 26 more firms are added; their foreign assets were US\$ 1.16 trillion.

20 of the 49 SOEs are headquartered in developed countries and 29 in emerging markets, with foreign assets of US\$ 1.4 trillion and US\$ 0.4 trillion, respectively. They operate in many sectors.<sup>8</sup>

Thus, SOEs are among leading players in the world FDI market. They are more numerous among the leading MNEs headquartered in emerging markets, but the foreign assets of those headquartered in developed countries are considerably higher than those of the SOEs from emerging markets.

FDI by SOEs is likely to grow further. For example, in the case of China -- in 2010 the world's fourth largest outward investor in terms of flows (not counting Hong Kong) -- SOEs control the bulk of the country's growing outward FDI; one prediction is that Chinese firms will invest US\$ 1-2 trillion abroad over the coming decade.<sup>9</sup> To that, one would have to add the likely growth of FDI by SWFs.

Not surprisingly, regulatory attention has begun to focus on FDI by SCEs. It is fueled by the concern that SCEs may pursue objectives other than commercial interests<sup>10</sup> (and therefore might constitute a national security risk for host countries) and that they receive benefits from their governments that put them into a competitive advantage vis-à-vis their private counterparts.<sup>11</sup> To address the first concern, especially developed countries have passed laws or clarified regulations that foresee special treatment for SCEs, creating a separate class of foreign investors. An example is the Foreign Investment and National Security Act of the United States: it establishes a presumption that an investigation needs to be undertaken by the Committee on Foreign Investment in the United States if a merger or acquisition in the United States is undertaken by a SCE. (It remains to be seen to what extent this kind of distinction is permitted in

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<sup>6</sup> *Ibid.* The firms researched were the 100 largest non-financial MNEs globally and the 100 largest non-financial MNEs headquartered in emerging markets, ranked by foreign assets.

<sup>7</sup> "Foreign assets" of MNEs are the current and fixed assets abroad that they control. They are usually much larger than their outward FDI.

<sup>8</sup> The three most important are: natural resources (12); telecommunications (10); utilities (6).

<sup>9</sup> Thilo Hanemann and Daniel Rosen, "Chinese FDI in the United States is taking off: How to maximize its benefits?," *Columbia FDI Perspective*, No. 49, October 24, 2011, p. 2.

<sup>10</sup> See Karl P. Sauvant, Lisa E. Sachs and Wouter P.F. Schmit Jongbloed, eds., *Sovereign Investment: Concerns and Policy Reactions* (New York: OUP, forthcoming).

<sup>11</sup> However, non-SCE MNEs also receive a range of benefits.

light of international investment law.) The second concern has given rise to a discussion of “competitive neutrality.”

FDI can make an important contribution to economic growth and development. There is no systematic evidence that such investment by SCEs cannot make the same contribution that private firms can make. The special treatment that seems to be emerging for these entities needs to be watched carefully, including from the perspective as to what extent such a fragmentation in the treatment of a certain class of foreign investors serves the broader and longer-term purposes of a non-discriminatory international investment law regime.

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**Table 1. Non-financial MNEs with 50% or more government ownership stake, 2010<sup>a</sup>**

| SOE                                  | Economy              | Industry                             | Total assets (Millions) | Foreign assets (Millions) | Total revenues (Millions) | Foreign revenues (Millions) | Total employment (Number) | Foreign employment (Number) | Government stake           |
|--------------------------------------|----------------------|--------------------------------------|-------------------------|---------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|----------------------------|
| Électricité de France                | France               | Utilities                            | 321,431                 | 165,413                   | 86,311                    | 33,737                      | 158,842                   | 54,924                      | 84.51% French State        |
| Vattenfall AB                        | Sweden               | Electricity, gas and water           | 80,694                  | 54,013                    | 29,632                    | 22,606                      | 40,363                    | 30,994                      | 100% Swedish State         |
| Statoil ASA                          | Norway               | Natural resources                    | 109,728                 | 50,927                    | 87,144                    | 19,315                      | 30,344                    | 11,506                      | 67% Norwegian State        |
| CITIC                                | China                | Diversified                          | 315,433                 | 43,814                    | 30,605                    | 10,878                      | 125,215                   | 25,285                      | 100% Chinese State         |
| Petroleum Nasional Berhad (Petronas) | Malaysia             | Natural resources                    | 145,099                 | 38,787                    | 76,822                    | 34,817                      | 40,992                    | 8,198                       | 100% Malaysian State       |
| Japan Tobacco Inc.                   | Japan                | Food/processing                      | 43,108                  | 31,475                    | 72,273                    | 30,943                      | 48,472                    | 23,902                      | 50% Japanese State         |
| China Ocean Shipping                 | China                | Transportation, shipping and storage | 36,287                  | 28,092                    | 27,908                    | 18,354                      | 71,584                    | 4,207                       | 100% Chinese State         |
| Singapore Telecommunications Ltd     | Singapore            | Telecommunications                   | 27,151                  | 22,557                    | 11,814                    | 7,616                       | 23,000                    | 10,417                      | 54.46% Singaporean State   |
| Qatar Telecom                        | Qatar                | Telecommunications                   | 23,335                  | 18,355                    | 6,600                     | 5,054                       | 1,900                     | 1,495                       | 55% Qatar State            |
| Petroleo Brasileiro SA               | Brazil               | Natural resources                    | 200,270                 | 14,914                    | 115,892                   | 28,709                      | 76,919                    | 7,967                       | 66% Brazilian State        |
| Abu Dhabi National Energy Company    | United Arab Emirates | Utilities                            | 25,009                  | 14,282                    | 4,590                     | 3,086                       | 3,654                     | 2,819                       | 100% UAE                   |
| Petróleos de Venezuela SA            | Venezuela            | Natural resources                    | 149,601                 | 11,983                    | 74,996                    | 32,576                      | 91,949                    | 5,159                       | 100% Venezuelan State      |
| China National Petroleum             | China                | Natural resources                    | 325,327                 | 11,594                    | 178,343                   | 4,732                       | 1,585,000                 | 29,877                      | 100% Chinese State         |
| Oil and Natural Gas Corporation      | India                | Natural resources                    | 37,223                  | 10,447                    | 21,445                    | 2,912                       | 32,826                    | 3,896                       | 74.14% Indian State        |
| DP World Limited                     | United Arab Emirates | Transport and storage                | 18,961                  | 9,238                     | 2,929                     | 1,181                       | 30,000                    | 14,617                      | 80.45% Government of Dubai |

|                                        |                  |                            |           |         |         |         |           |         |                        |
|----------------------------------------|------------------|----------------------------|-----------|---------|---------|---------|-----------|---------|------------------------|
| Axiata                                 | Malaysia         | Telecommunications         | 10,847    | 8,958   | 3,719   | 1,936   | 25,000    | 21,250  | 97.72% Malaysian State |
| Sinochem Group                         | China            | Natural resources          | 25,132    | 8,124   | 35,577  | 27,492  | 42,282    | 225     | 100% Chinese State     |
| China Resources Enterprises            | Hong Kong, China | Natural resources          | 9,731     | 7,805   | 8,273   | 7,387   | 152,000   | 144,400 | 51.38% Chinese State   |
| China National Offshore Oil Corp.      | China            | Natural resources          | 75,913    | 6,648   | 30,680  | 4,898   | 51,000    | 1,739   | 100% Chinese State     |
| Sime Darby Berhad                      | Malaysia         | Diversified                | 10,061    | 4,307   | 8,827   | 6,065   | 100,000   | 25,432  | 51.93% Malaysian State |
| China Railway Construction Corporation | China            | Construction               | 41,444    | 3,580   | 50,501  | 3,265   | 209,103   | 20,426  | 100% Chinese State     |
| China Minmetals Corp.                  | China            | Natural resources          | 18,889    | 2,352   | 24,956  | 3,994   | 100,656   | 12,535  | 100% Chinese State     |
| Neptune Orient Lines Ltd.              | Singapore        | Transportation and storage | 5,341     | 2,192   | 6,516   | 4,915   | 11,498    | 3,608   | 68% Singaporean State  |
| TOTAL                                  |                  |                            | 2,056,015 | 569,857 | 996,353 | 316,468 | 3,052,599 | 464,878 |                        |

Source: The authors, based on UNCTAD, *World Investment Report 2011: Non-Equity Modes of International Production and Development* (Geneva: UNCTAD, 2011), annual reports, financial registration documents, company corporate websites, and Thomson Worldscope database.

<sup>a</sup> Whenever available, the table reflects the government's share of voting rights. However, due to lack of information, the table uses in some cases shares in capital or other variables as reported by the companies (sometimes, however, it is unclear what variables are being used). Note, moreover, that recent information (especially on MNEs based in emerging markets) could not be obtained for all of the 200 firms contained in the sample, particularly as far as indirect ownership is concerned. Thus, there may be additional firms among the 200 that should be included in table 1 and/or table 2. Moreover, as a rule only state ownership stakes by the government of the country in which a MNE is based are reported here (and not ownership shares of foreign government entities, e. g. via SWFs). In some cases, government ownership may be temporary, and in some cases, the data refer to earlier or later years.

**Table 2. Non-financial MNEs with 10-50% government ownership stake, 2010<sup>b</sup>**

| SOE                     | Economy      | Industry                             | Total assets (Millions) | Foreign assets (Millions) | Total revenues (Millions) | Foreign revenues (Millions) | Total employment (Number) | Foreign employment (Number) | Government stake                    |
|-------------------------|--------------|--------------------------------------|-------------------------|---------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|-------------------------------------|
| Volkswagen Group        | Germany      | Automobile                           | 266,426                 | 167,773                   | 168,046                   | 130,030                     | 388,000                   | 210,000                     | 20% German State                    |
| GDF Suez                | France       | Utilities                            | 246,736                 | 151,984                   | 111,891                   | 70,167                      | 211,413                   | 103,865                     | 36.5% French State <sup>c</sup>     |
| EnelSpA                 | Italy        | Electricity, gas and water           | 224,548                 | 121,415                   | 95,289                    | 54,538                      | 78,313                    | 40,930                      | 31.24% Italian State <sup>d</sup>   |
| Eni Group               | Italy        | Natural resources                    | 176,189                 | 106,638                   | 130,494                   | 67,180                      | 79,941                    | 45,967                      | 30.3% Italian State <sup>e</sup>    |
| Deutsche Telekom AG     | Germany      | Telecommunications                   | 170,780                 | 104,342                   | 82,677                    | 46,560                      | 252,494                   | 103,230                     | 32% German State                    |
| Eads                    | Netherlands  | Defense                              | 111,153                 | 69,931                    | 60,599                    | 54,742                      | 121,691                   | 76,111                      | 22.4% SOGEADE <sup>f</sup>          |
| General Motors          | USA          | Automobile                           | 138,898                 | 69,662                    | 135,592                   | 56,446                      | 202,000                   | 106,000                     | 32% United States                   |
| France Telecom          | France       | Telecommunications                   | 125,970                 | 63,217                    | 60,269                    | 24,870                      | 161,392                   | 51,576                      | 26.97% French State                 |
| Veolia Environnement SA | France       | Electricity, gas and water           | 68,829                  | 52,721                    | 46,075                    | 29,482                      | 317,034                   | 216,194                     | 13.74% French State                 |
| Vale SA                 | Brazil       | Mining                               | 129,139                 | 49,176                    | 46,481                    | 38,331                      | 70,785                    | 15,573                      | 39.7% Brazilian States <sup>g</sup> |
| Deutsche Post           | Germany      | Transportation, shipping and storage | 50,458                  | 39,073                    | 68,187                    | 46,297                      | 424,686                   | 257,806                     | 30.5% German State                  |
| Renault                 | France       | Automobile                           | 93,676                  | 32,476                    | 51,617                    | 34,800                      | 122,615                   | 68,352                      | 17.86% French State                 |
| TeliaSonera AB          | Sweden       | Telecommunications                   | 37,342                  | 30,881                    | 14,788                    | 9,694                       | 28,945                    | 20,008                      | 37.3% Swedish State                 |
| Zain                    | Kuwait       | Telecommunications                   | 19,863                  | 19,019                    | 8,054                     | 6,833                       | 13,000                    | 12,447                      | 49.2% Kuwaiti State                 |
| Tata Steel Ltd          | India        | Metal and metal products             | 24,419                  | 15,606                    | 21,580                    | 15,921                      | 81,269                    | 47,168                      | 15.74% Indian State                 |
| MTN Group Limited       | South Africa | Telecommunications                   | 21,170                  | 14,420                    | 13,344                    | 8,606                       | 34,243                    | 22,930                      | 17.63% South African State          |

|                                    |                    |                                     |           |           |           |         |           |                        |                                        |
|------------------------------------|--------------------|-------------------------------------|-----------|-----------|-----------|---------|-----------|------------------------|----------------------------------------|
| Capitaland Limited                 | Singapore          | Construction and real estate        | 21,495    | 10,256    | 2,033     | 1,360   | 6,399     | 3,053                  | 40.9 Singaporean State                 |
| First Pacific Company Limited      | Hong Kong, China   | Electrical and electronic equipment | 9,397     | 9,161     | 3,926     | 3,926   | 68,416    | 68,379                 | 10.37% Chinese State                   |
| Sasol Limited                      | South Africa       | Chemicals                           | 18,977    | 6,679     | 21,676    | 7,781   | 34,000    | 6,041                  | 30.0% South African State <sup>h</sup> |
| Steinhoff International Holdings   | South Africa       | Diversified                         | 7,194     | 5,060     | 5,636     | 3,492   | 41,493    | 15,397                 | 14.89% South African State             |
| Sappi Limited                      | South Africa       | Wood and paper products             | 7,297     | 4,788     | 5,369     | 4,190   | 16,427    | 9,046                  | 11.9% South African State              |
| Lenovo Group                       | China              | Electrical and electronic equipment | 8,956     | 3,957     | 16,605    | 8,713   | 22,205    | 5,130                  | 42% Legend Holdings <sup>i</sup>       |
| VimpelCom                          | Russian Federation | Telecommunications                  | 15,725    | 3,726     | 10,117    | 1,520   | 38,403    | 10,233 (from WIR 2010) | 36.36% Telenor <sup>i</sup>            |
| Agility Public Warehousing Company | Kuwait             | Construction and real estate        | 6,221     | 3,377     | 5,976     | 3,494   | 32,000    | 17,372                 | 15% Kuwaiti State                      |
| ZTE Corp.                          | China              | Telecommunication and manufacturing | 10,173    | 3,017     | 8,823     | 4,372   | 70,345    | 21,821                 | 32.45% Chinese State                   |
| TPV Technology Limited             | China              | Wholesale trade                     | 4,155     | 2,669     | 8,032     | 5,652   | 29,479    | 18,935                 | 35.06% Chinese State                   |
| TOTAL                              |                    |                                     | 2,015,186 | 1,161,024 | 1,203,176 | 738,997 | 2,946,988 | 1,563,331              |                                        |

Source: The authors, based on UNCTAD, *World Investment Report 2011: Non-Equity Modes of International Production and Development* (Geneva: UNCTAD, 2011), annual reports, financial registration documents, company corporate websites, and Thomson Worldscope database.

<sup>b</sup> See footnote a of table 1.

<sup>c</sup> The French State holds one golden share.

<sup>d</sup> The Italian government also has some “special powers”.

<sup>e</sup> The Italian government also has some “special powers.”

<sup>f</sup> SOGEADE is 50% owned by SOGEPA, a wholly state-owned French enterprise.

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<sup>g</sup> The Brazilian government holds directly 5.6% of Vale's capital via BNDESPAR, a wholly-owned subsidiary of BNDES; Valepar, which is controlled by independent pension funds of government-controlled companies (especially Banco do Brasil, Petrobras and Caixa Economica Federal) holds another 34.1% of the capital. The government also holds 12 golden shares that entitle it to veto certain actions in certain areas.

<sup>h</sup> Of which Government Employees Pension Fund owns 13.3% of ordinary shares.

<sup>i</sup> 36% of Legend is held by the Chinese State.

<sup>j</sup> 53.97% of Telenor held by the Norwegian State.