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Research Report

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

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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,¹ 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).²

On the other hand, state-owned enterprises (SOEs)³ -- 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).⁴ They hail from both emerging markets and developed countries.⁵ (There are also many important financial SOEs that are MNEs.)

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

² UNCTAD, *World Investment Report 2011* (Geneva: UNCTAD, 2011).

³ 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.

⁴ *Ibid.*

⁵ The country classification follows UNCTAD, *ibid.*

More specifically, research on the 200 largest non-financial MNEs identified by UNCTAD for 2010⁶ yields 49 SOEs that are MNEs (see the supporting tables below). The 2010 foreign assets⁷ 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.⁸

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.⁹ 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 interests¹⁰ (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.¹¹ 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

⁶ *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.

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

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

⁹ 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.

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

¹¹ 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^a

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.

^a 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^b

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 ^c
EnelSpA	Italy	Electricity, gas and water	224,548	121,415	95,289	54,538	78,313	40,930	31.24% Italian State ^d
Eni Group	Italy	Natural resources	176,189	106,638	130,494	67,180	79,941	45,967	30.3% Italian State ^e
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 ^f
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 ^g
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 ^h
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 ⁱ
VimpelCom	Russian Federation	Telecommunications	15,725	3,726	10,117	1,520	38,403	10,233 (from WIR 2010)	36.36% Telenor ⁱ
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	Telecomcommunication 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.

^b See footnote a of table 1.

^c The French State holds one golden share.

^d The Italian government also has some “special powers”.

^e The Italian government also has some “special powers.”

^f SOGEADE is 50% owned by SOGEPA, a wholly state-owned French enterprise.

^g 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.

^h Of which Government Employees Pension Fund owns 13.3% of ordinary shares.

ⁱ 36% of Legend is held by the Chinese State.

^j 53.97% of Telenor held by the Norwegian State.