



Addressing Economic Distortions in the Indo-Pacific: The Role of Industrial Subsidies and State-owned Enterprises

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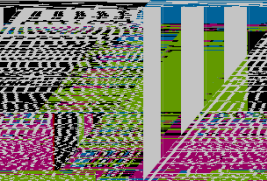


INDUSTRIAL SUBSIDIES AND STATE-OWNED ENTERPRISES
IN THE INDO-PACIFIC REGION



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- Level playing field and **distortions to competition** (beggar-thy-neighbour)
 - Encourages **investment in capacity that not otherwise built**, or keeps uneconomic capacity alive (with effects on prices, jobs)
 - Impacts on **important social and economic goals** (governance, environment)
 - **Undermines faith in global markets and a fair global economy**
 - **Support is a growth industry.....and is hard to reform**







Lots of reasons for a bigger role for the state

(i) Significant

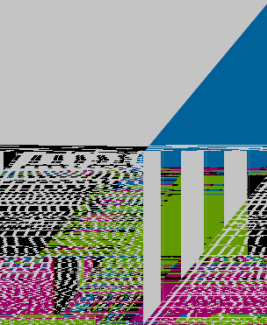
- Design matters – how you go in affects how/if you come out
- How you go out also matters – loan

(ii) Resilient supply chains

- Role of state inc...

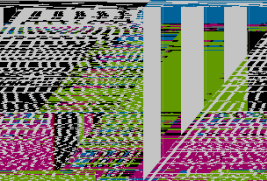
(iii) ...

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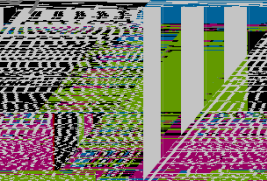


- **Work to date**

- ! Commodity (aluminium)
- ! High-tech sector (semiconductors)
- ! Below market finance (horizontal)
- ! Ongoing work on rolling stock, energy inputs, SOEs



- To assess government support in industrial sectors, we looked at
 - ! Necessary given lack of policy transparency
 - ! Enables greater granularity (e.g., of subnational measures)
 - ! Enables identification of support beyond traditional forms (e.g., below market finance)



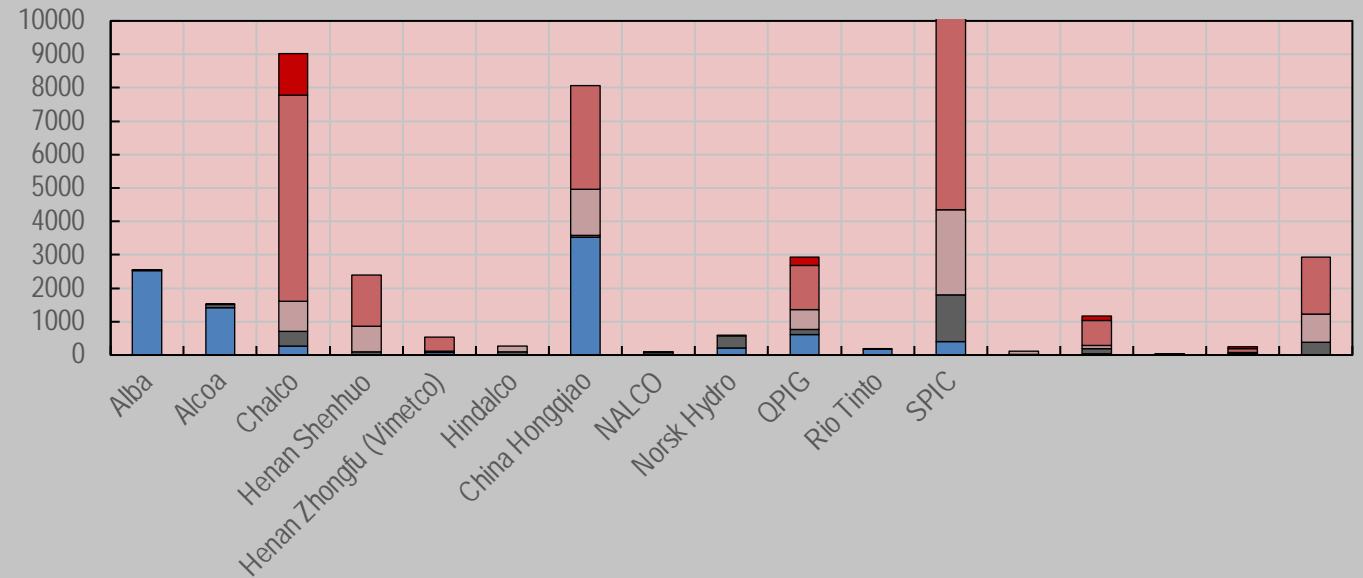


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– Need to take a

Support mostly takes the form of
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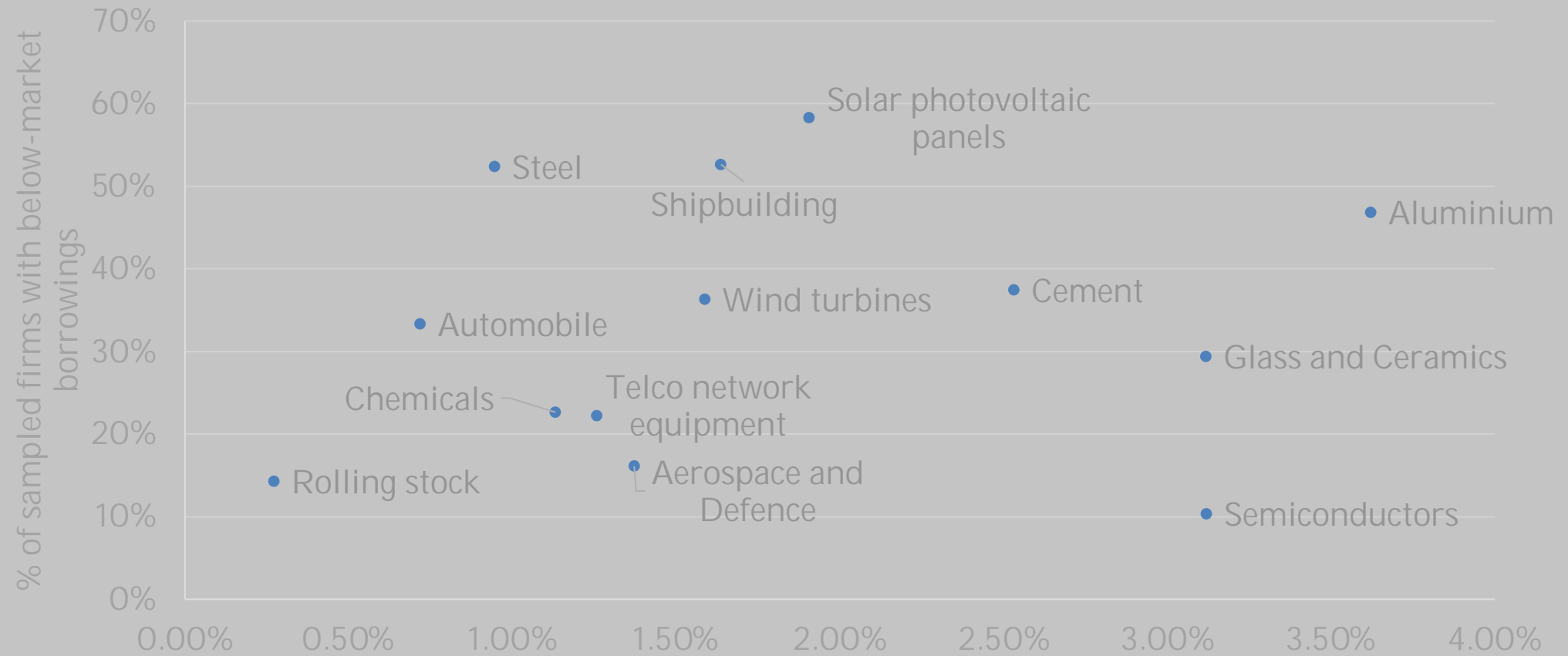
- ! Below-market financing is hard to measure but even conservative estimates suggest it is significant. (USD 7-56 billion)
- ! Aluminium multinationals obtain support in the different countries in which they operate, but large SOEs get most support from their home countries.



There is in
the aluminium value chain, and SOEs are both
recipients and providers of support:

- ! SOEs account for almost half of all smelting capacity
- ! Cheap finance (debt) is often delivered through state-owned financial institutions
- ! Issues for transparency



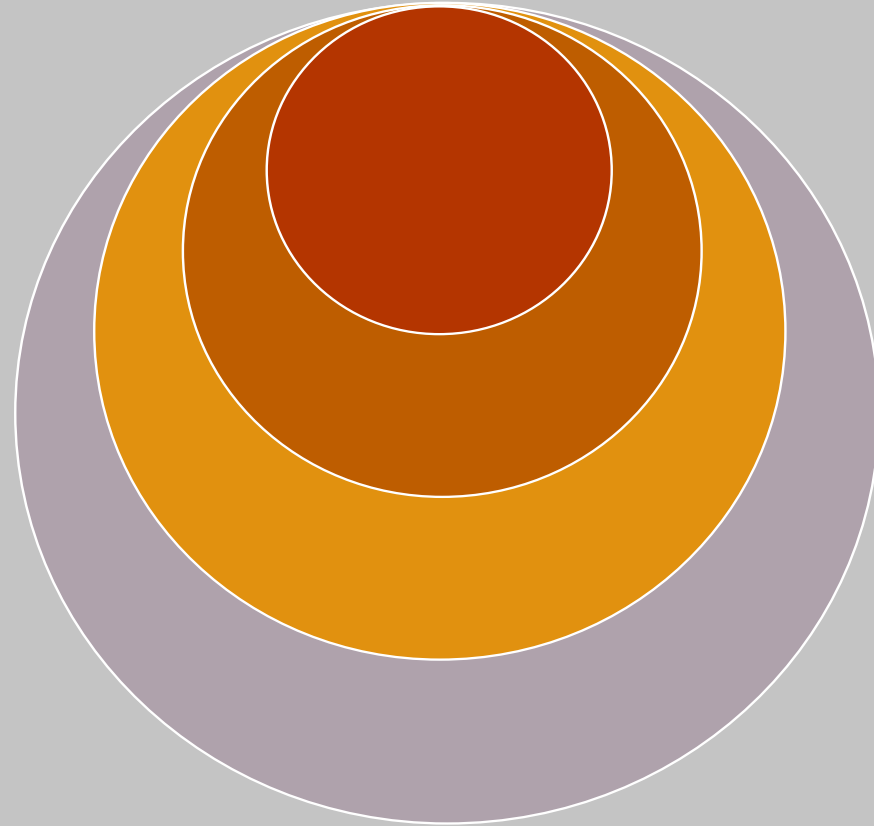


Below-market borrowings in % of revenue, sectoral average of benefitting firms only



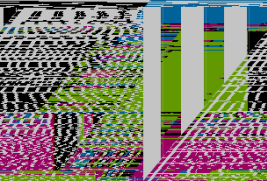


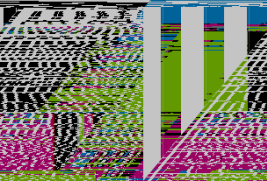
Support estimates differ in precision and complexity





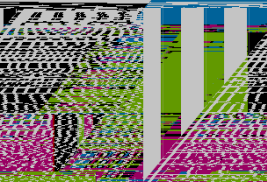
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- State support is different from public service obligations





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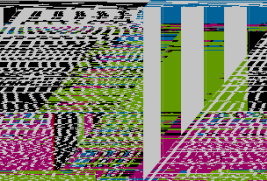
– Often 50% or majority ownership, but also other factors

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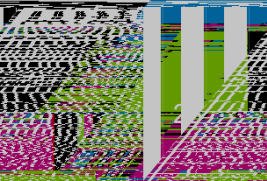
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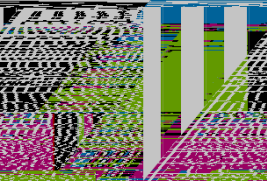


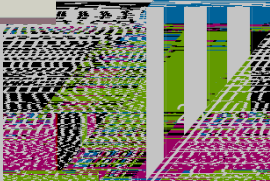
- **Lack of transparency masks government support** by giving appearance of regular commercial transactions
- State investment is the plumbing through which a range of support can flow
 - Grants, loans, equity
 - But also less direct benefits (information, competitors self-censor)
- Other reasons, e.g.,
 - ! National security - FDI screening, M&A
 - ! Market distortions (e.g., under-pricing in internationally competitive tenders, M&A bids)
 - ! Economic coercion (unwritten instructions)
 - ! Forced tech transfer





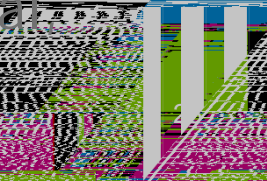
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- Reform of government support requires 4 interconnected things
 - (what's going on)
 - (lock in, baseline)
 - (starting with the most egregious)
 - (tomorrow's subsidisers in tomorrow's

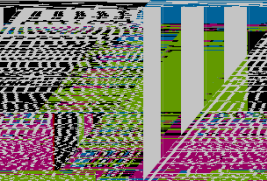


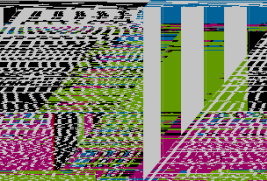




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- - - ! International competition
 - ! Subnational competition
 - ! Impacts on productivity
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 - - ! Who pays, who benefits?
 - - Investments in the public interest (education, infrastructure – including digital health systems)









Market-based rate
= **required rate of return**
assets

