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Asia's Government-Linked Companies on Course to Becoming New Sources of Friction

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Following the financial crisis of the late 1990s, Asian economies have entered a new stage of development. The conventional model of governments being deeply involved in the cultivation of industry and the management of public sector enterprises has effectively collapsed, and there are increasing instances of companies with governments onboard as large shareholders heightening their presence on the international marketplace. There is in fact the possibility that such Asian companies, which cannot be called pure private sector operations, will emerge as new sources of friction with Japanese companies as well.

“Developmental States” Vanishing from the Scene

In East Asia, there used to be nations that were referred to as “developmental states.” That term refers to the states where the governments engage in active intervention in the cultivation of industry, corporate management and other areas in efforts to act as engines in powering the particular country down the road to modernization and industrialization. In recent years, however, fewer and fewer countries can be said to fit this definition.

In Malaysia, the public company Hicom was launched to deal with steelworks, motorcycle and engine manufacture and other fields, and worked to develop that nation's industry. However, the industrial policy focused on this company turned out to be a painful failure. Hicom was sold to the private sector in 1996, and consolidated into the conglomerate known as DRB Hicom. In Indonesia, furthermore, with the elimination of the “strategic industry” promotion system that became a symbol of the Suharto era, the very use of the term “strategic industry” became a taboo in the country.

In Thailand, tougher lending standards of the Financial Institutions Development Fund (FIDF), which has traditionally acted as a backup for banks in extending major financing to specified industries or companies, has rendered it difficult to carry out policy-driven loans. The Board of Investment (BOI), the body that determined preferential tax measures for specified companies, is also moving to downsize its tax break systems. In South Korea, the approach of having the government take the initiative in the allocation of financing funds to selected industries has been junked. Even China is expanding the sphere of resources distributed in accordance with market mechanism, with an accompanying decrease in the number of sectors that are placed under the direct management of the government.

Thus, while the so-called developmental state style approach to the formation of industrial policy has yet to vanish from the scene altogether, it is highly unlikely that we

will see an overall relapse to the status of “developmental states” in the typical sense of the word.

Steady Overseas Advances by Government-Linked Companies

Worthy of attention in this area is the fact that Asian governments have begun to intervene in economic matters in different formats. In China and the countries of Southeast Asia, state-owned enterprises and government-linked companies in which the state is a major shareholder are starting to take on greater roles. What’s more, these companies differ widely from conventional type of state-owned enterprises on the following two key points.

First, the states stress the importance of efficiency and profitability in government-linked companies. To a certain degree, there are increasing cases of these companies being managed autonomously and out from under the supervision of government offices, with professional managers who have accumulated experience in the private sector being appointed to take the helm. Moreover, stringent demands are being leveled with regard to management efficiency. Privatization is also being advanced to some measure in these countries, fueling an increasingly clear trend for energetic state-run and government-linked companies to become the focus of the national economies.

The second point is that the governments are striving to advance the internationalization of these state-run and government-linked companies, and ensure that they become influential global players. As this comes to pass, these companies are strengthening their moves to take active stances in carrying out initial public offerings (IPO) of their stock, raise capital from international capital markets, expand their businesses overseas and acquire foreign companies.

A leading example of a prominent government-linked company moving toward the globalization of its operations is Tema Sek Holdings, a Singapore holding and investment company. Tema Sek maintains a group of 21 families domestically in Singapore, and effectively exercises control over another 80 or so firms under them. About one-third of these 80 firms are listed, and collectively account for a 21% share of the total market value of all listed companies in Singapore. Recently, Tema Sek acquired Shin Corporation of Thailand, and is also investing in China, Indonesia, India and Malaysia. Forecasts are that it will be making full-fledged advances into Europe and North America from here on as well.

In Malaysia, Khazanah Nasional and other government-linked investment and holding companies have been established, using Tema Sek as their model. Khazanah has invested in around 50 companies spanning 14 different industries, and has rapidly raised its status on the strength of strategic acquisitions. This includes the purchase of core companies in the Lennon Group, a corporate family that ranks as one of Malaysia’s largest conglomerates. In China as well, the recently established State-Owned Assets Supervision and Administration Commission (SASAC) will most likely evolve into a government-affiliated investment and holding company in the future.

Similar examples may also be seen in the mining and manufacturing industries. Keppel Energy of Singapore, for instance, is the dominant player on the global market for oilrigs used in offshore oil drilling. Though Thailand is not a major oil-producing country,

the company PTT was established as a multinational state-run oil, gas and petrochemical enterprise in 2001, and has raised its international presence ever since. PTT's current market valuation ranks it 265th in the world in that category, qualifying it as one of Asia's most profitable corporate entities. Most of the companies in China advancing their globalization with the greatest vigor are either state run or consist of groups that are close to being state run. Lenovo, notable for its acquisition of IBM's personal computer division, since inception has had the Chinese Academy of Science onboard as its leading shareholder. The Haier Group, China's largest consumer electronics concern, is a collective ownership company under the supervision of Tsingtao City.

Competition with Private Companies Not Exactly Equal

In the countries I have examined, where the might of private sector companies still cannot be said to be adequate to triumph in the arena of global competition, state-run and government-linked enterprises are beginning to take on the role of engines positioned to raise international competitiveness.

While these companies are managed in the same way as private sector enterprises, obvious differences remain. For example, they are infused with public funds and have no real fear of bankruptcy. Besides this, while they can acquire other companies, the odds that they will be bought up by outside firms are close to nil. Accordingly, the terms of market competition for these companies are not necessarily equal to those of normal private sector enterprises.

Over the years to come, these government-linked companies can be expected to accelerate their overseas advances, while becoming key stakeholders in companies (or acquiring local businesses) not only in the developing countries but in the advanced nations as well. It is quite conceivable, furthermore, that Japanese companies will also become the targets of such enterprises in the not-so-distant future. Such dynamics promise to change the underlying structure of international competition, while most likely also becoming the source of new friction.

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