New Threat to Economic Role of the State*

The economically successful developing countries like Malaysia are characterized as having a strong developmental state'. But this role of the state is coming under attack in new global rules being created.

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Two new trade agreements involving the two economic giants, the United States and European Union, are leading a charge against the role of the state in the economy in developing countries.

Attention should be paid to this initiative as it has serious repercussions on the future development plans and prospects of the developing countries.The role of the state, or of government, in development is a subject of long-standing and important discussion.In fact some economists and analysts consider it perhaps the most important issue that determines the difference between economic success or failure in developing countries.The immediate post-colonial period saw a tendency to a strong state, including government ownership of some key sectors, including industry and banking.Past decades have witnessed a wave of privatization across both rich and developing countries. But the state still owns or controls utilities, infrastructure, public services, banks and a few strategic industries in many developing countries.

State enterprises or commercially-run companies owned by or partially linked to the government play an important role in many a developing country.

Private companies also receive state assistance and support in many ways, including loans to small and medium enterprises and farmers, subsidies and tax breaks for research and development or technology purchase, preferences in government procurement, infrastructure provision including in special economic zones.Countries provide incentives for foreign companies, such as tax-free status. However, the state also has special treatment for local companies, such as grants, cheaper-than-normal credit and subsidies, and government contracts.

The developmental role of the state in developing countries is now coming under attack from developed countries.This is promoted by the big companies in the US, Europe and Japan, which seek to enter the markets of developing countries which are the source of their future profits.

The support given by the state to domestic companies are seen by the multinational companies as a hindrance to their quest for expanded market share in developing countries.They are thus seeking to change the worldview and policy framework in developing countries, to get them to reduce the role of state enterprises as well as to curb the government's promotion of local private companies.

The two latest big attempts towards this are through the Trans-Pacific Partnership Agreement (TPPA) and the Trans-Atlantic Trade and Investment Partnership (TTIP). A sub-chapter on state-owned enterprises (SOEs) is a prominent part of the TPPA, which was negotiated in Kota Kinabalu.

The United States and Australia are leading the move to have rules to discipline the role of the government in the economy, through a two-pronged approach. First, to get government or other monopolies to behave in a 'non-discriminatory' way, including when they buy or sell goods and services. This includes that they may not give preferences or incentives to the local firms.

Second, companies that are linked to the government (including through a minority share) should not get advantages vis-à-vis other firms in commercial activities. Of course, the developed countries that are proposing this are thinking of their companies – how they can get more access to developing countries' markets.

In the TTIP, a US-European Union agreement, negotiations for which started earlier in July, the European Union is preparing a sub-chapter on state-owned enterprises, with rules that seem quite similar to what the US and Australia are proposing in the TPPA.

Although the TTIP only involves Europe and the US directly, the rules it sets are intended to have consequences for other countries.According to press reports, the two economic giants are planning that the rules they set in the TTIP will become the standard or template for future bilateral agreements that also include developing countries.They also hope that these rules will be internationalized in the World Trade Organization, which has over 130 member states.

The EU's position paper on SOEs says that its aim is to 'create an ambitious and comprehensive standard to discipline state involvement and influence in private and public enterprises'. It adds that 'this can pave the way to other bilateral agreements to follow a similar approach and eventually contribute to a future multilateral engagement'. In other words, the constraints on the role of the state, and the reduction of the space for the behaviour or operations of state-linked companies, will become the way of the future for all countries, if the US and European plans succeed.

What is moving these countries in this direction? It is quite well known that the negotiating positions of the developed countries are greatly influenced and in fact driven by their big companies.Their trade policy makers and negotiators usually act on behalf of these companies.Reports by the specialist trade bulletin *Inside US Trade* show how corporate groups like the US Chamber of Commerce and the Coalition of Services Industries have been pushing for the new rules on state-owned enterprises, and also how they are targeting to open up the markets of developing countries, especially China.

These attempts to curb the role of the state in the economy are worthy of serious study and counter-action.Developing countries that succeeded in economic development were able to combine the roles of the public and private sectors in a partnership that advanced overall national development.Asian countries, including Japan, South Korea, Malaysia, Singapore, and China, have pioneered this model of public sector collaboration with the private sector.

Those few developing countries that managed to get development going were all driven by the 'developmental state', or the leadership role of government in establishing the framework of economic strategy, and the collaboration between the state, state enterprises, and commercial companies, including those in which the state has an interest.

If developing countries like Malaysia have to come under new international rules that curb the role of the state and that re-shape the structure of their economy, then the prospects for future development will be adversely affected.

*November 2013. http://www.southcentre.int/question/new-threat-to-economic-role-of-the-state/