



**Asia-Pacific  
Economic Cooperation**

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## **Competitive Neutrality - Facts on Subsidy, Ownership and Competition**

Submitted by: Gakushuin University



**Free Trade Area of the Asia-Pacific Policy  
Dialogue on Competition Related Provisions  
from a Business Perspective  
17-18 September 2020**

# Competitive Neutrality

## Facts on Subsidy, Ownership and Competition

Mariko Watanabe<sup>1</sup>

\*Faculty of Economics  
Gakushuin University

Policy Dialogue on FTAAP Competition Policy  
17-18 September 2020

## 1 Motivation

- Subsidy, Ownership and Competition
- Institutions on Subsidy

## 2 Empirical Findings from Cases of Several Industries

- Ship Building
- Iron and Steel
- Semiconductor

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# A Summary: Subsidy, Ownership and Competition.

- Subsidy is a focus.
  - Potential Source of **Uneven Playing Field**
- Ex Post vs Ex Ante Subsidy
- Subsidies towards SOEs vs Private
  - SOE: Ex post subsidy and **distorting pricing**
  - SOE: Ex ante subsidy and **neutrally wasteful(?)**
  - Private? Ex ante subsidy and accomplishment and **positive externalities**

# Good Subsidy vs Bad Subsidy

- Good Subsidies? .
  - Positive Externality to the Industry
  - As long as the benefit is fairly distributed to the world
- Bad Subsidies?
  - Distorting Competition
  - Agreement of Subsidy and Countervailing Measures (SCMA) defines explicitly.

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# Explicit Subsidy or Implicit One?

- **Explicit Subsidy** is sufficiently problematic.
  - This will be disciplined by the Agreement of Subsidy and Countervailing Measures (SCMA).
- Implicit Subsidy is not the point.



# Should be Disciplined Subsidies in WTO

- Subsidies with natures below should be disciplined.
  - **Government or public bodies** provides
  - **Specific and Profitable** Explicitly provide to specific firms and it is profitable.
  - **Distorting** Market prices or competition.
- Subsidies for **R&D** , **environmental protection** are **NOT** subject to discipline.
- Source: Agreement of Subsidies and Countervailing Measures.

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- Subsidy reallocated ship building production to China from Japan and South Korea
  - Kalouptisdi (2018)
- Entry subsidies are wasteful.
- Targeting subsidies is less distorting and better off for the firm. But it is **specific**.
  - Jia-Barwick, Kalouptisidi, and Zahur (2019)
- Do not identify the ownership impact

**Table 10:** Impact of Subsidies on Ship Prices

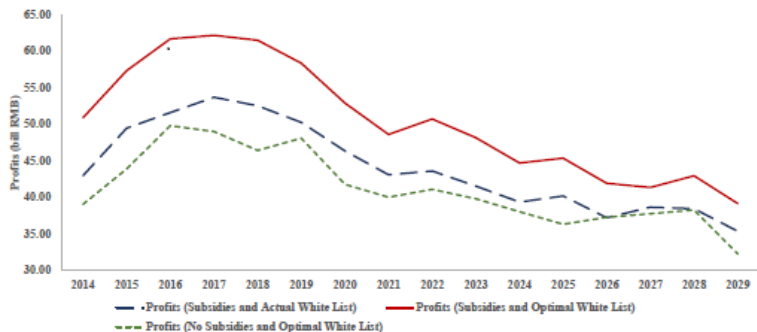
	Bulk	Tanker	Container
Subsidies, 2006-08	16.3	20.0	17.2
No subsidies, 2006-08	17.6	21.2	17.7
% difference	8.2%	6.2%	3.1%
Subsidies, 2009-13	8.8	8.1	9.2
No Subsidies, 2009-13	10.2	9.0	9.5
% difference	16.5%	10.6%	3.7%

<sup>1</sup> Prices in 1000 RMB/CGT

*Source* Jia-Barwik, Kolouptisidi and Zahur 2019

# Targeted subsidy is better off, but not competitive neutral

Figure 11: Industry Profits Under Different White Lists



Source Jia-Barwik, Kolouptisidi and Zahur 2019

## 1 Motivation

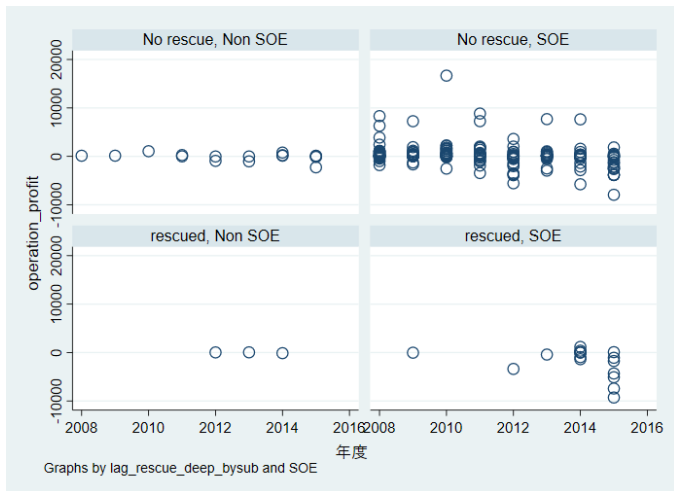
- Subsidy, Ownership and Competition
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## 2 Empirical Findings from Cases of Several Industries

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- Ex post subsidies maintained deficit
- Ex post suppressed the market steel price
  - Watanabe (2020)
  - Data: Annual Reports 42 steel firms listed in stock exchanges in China from Sinofin Database . Industrial Yearbook.

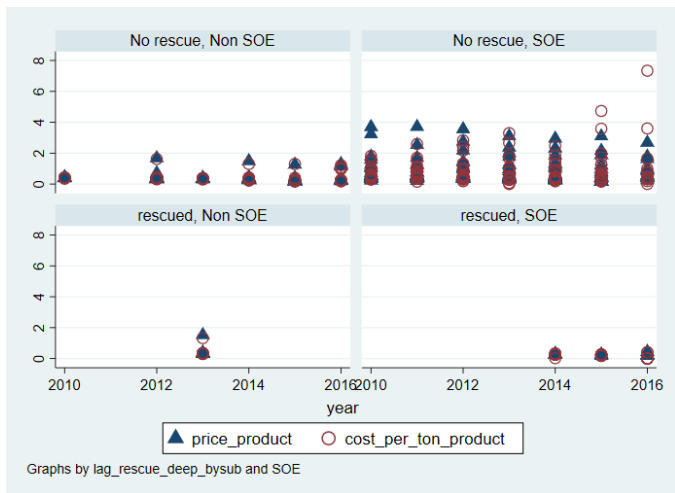
# Subsidized SOE maintains deficit



Source Watanabe 2020



# Subsidized SOE suppressed the price: Bad Subsidies



Source Watanabe 2020

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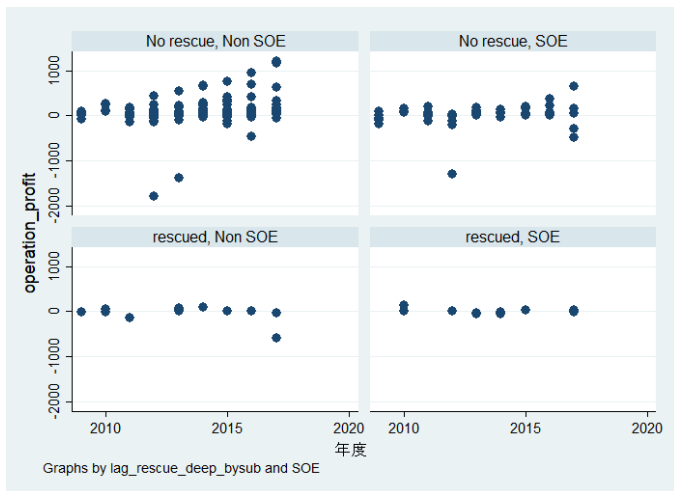
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# Semiconductor: Subsidies goes to profitable firm

- The industry is key frontier of technological development
- OK under the WTO rules Subsidy
- Profitable firms received subsidies
  - Data : Sinofin Database
- Positive Externalities to consumer products
  - Subsidies to Qualcomm has increased investment and consumer surplus, **positive externalites**, in smart phone market in the United States.
  - Yang (2019)
- Subsidies in the industry is Good Subsidies

# Semiconductor: Subsidies goes to profitable firm



Source Sinofin Database

# Subsidies increased social welfare: Good subsidies

## Subsidy, and Change of Surpluses and Investment

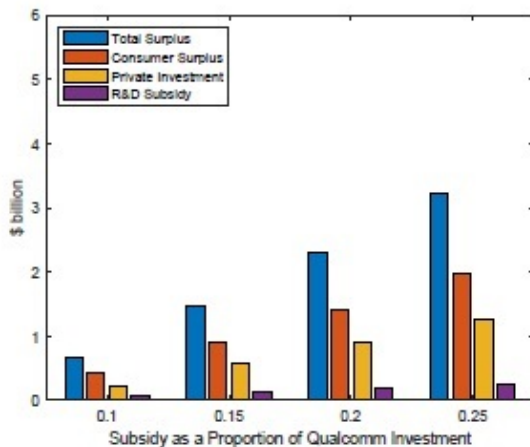


Figure10.jpg

Source Yang(2020) Figure 10

# Summary and Messages

- The **first** Ex post subsidy is harmful.
- The **second** Ex ante subsidy is wasteful. Or has positive externalities. Arguable.
  - If wasteful, easy to agree on a reasonable discipline.
  - If positive external, no discipline need to be imposed.
- The **third** Targeted subsidy is less harmful, but **specific** in terms of SCMA framework.
- Ex post **rescue-type-subsidies** are harmful.
  - Discipline in the trade and competition is feasible.



Panle JIA-BARWICK, M. KALLOUPTSIDI, and Nahim Bin ZAHUR  
China's Industrial Policy: An Empirical Evaluation.  
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Myrto KALOUPTSIDI

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Mariko WATANABE

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