

# Centre for International Economics

## Global Economic Development

INSTRUCTOR

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### COURSE AIMS AND DESCRIPTION OF CONTENT

#### Overview

The international business environment becomes ever more complex. This is driven not only by the phenomenon of *globalisation* but also by the different roles played by different types of corporate entity – most notably privately owned publicly traded<sup>1</sup> limited liability corporations (PTCs) and state or municipal owned enterprises (SOEs).<sup>2</sup>

In both instances there are demands for greater accountability and responsibility in terms of commitment to sustainable financially and economically viable commercially development the one hand and an engaged and verifiable responsiveness in responding to a variety of social and economic concerns.<sup>3</sup>

The course will examine the history and the development of both types of corporate entity. In doing so the commercial evolution of the limited liability corporation in Anglo/American, European and other jurisdictions<sup>4</sup>, including China, will be explored.

In parallel a similar assessment will be made of SOEs their history and their evolution. In doing so the specific factors that have shaped in economic policy in Europe, the Americas and Asia will be considered.

Case studies will be used where appropriate

#### The organisation of the course

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<sup>1</sup> Corporate entities established subject to the laws of limited liability.

<sup>2</sup> SOEs take many different forms but are often created by special statute or legislation which set out the powers of the entity in question and the arrangements in respect of its objectives, governance and liquidation.

<sup>3</sup> These are commonly referred to as KPI (key performance indicators) in assessing the performance of PTCs which are increasingly used in assessing how far the objectives of SOEs are being achieved.

<sup>4</sup> This will include an assessment of the OECD's Framework for Corporate Governance.

The course is divided into four separate but linked topics as follows:

**Topic 1** The size and structure of the modern global economy; key stages of development; the factors driving the creation of *charter* corporations<sup>5</sup> in Europe; the forces shaping the passing of laws on limited liability in the mid 19<sup>th</sup> century Europe and later in America; the surge in the growth of limited liability companies and ultimately PTCs; the history and evolution of SOEs in different jurisdictions and the wide ranging conventions and laws which govern their behaviour.

**Topic 2** The way in which the limited liability corporate entity has shaped economic development; its leading edge role in the industrial revolution; the building and shaping of capital markets, and *norms* of regulation and investor protection; the different traditions that have emerged in different Western jurisdictions<sup>6</sup> and elsewhere. The particular circumstances of China and its unique path of economic and political development will be explored; the Open Door Policy (1970s), The Special Economic Zones (1980s), Market Reform (1990s), membership of the WTO (World Trade Organisation) 2002 and Reform of SOEs (2012 onwards).

**Topic 3** The unique role of SOEs in the realisation of wider socio economic goals; the development of *commanding height* concepts of economic development.<sup>7</sup> Case Study of EDF - French *nationalisation* as a policy development tool in post-war Europe. The historical experience of nationalisation and de-nationalisation in Britain and elsewhere. Responding to crises of industrial setback. Case study of Rolls Royce Plc (British) - regeneration as a public good. Case Study of General Motors (American) economic collapse, nationalisation and re-privatisation.

**Topic 4** The quest for convergence of treatment as between SOEs and other limited liability enterprises and PTCs; the search for a fair and level *playing field* supported by strong and effective governance reforms; explaining and understanding how traditions of CSR within PTCs have often mimicked the intended behaviour of SOEs in claiming to address matters of public concern; an assessment of the pros and cons of preserving and promoting different forms of corporate enterprise with distinctive missions and funding and their accountability and governance arrangements.

### **Course Methodology**

The course will be taught in nine four-hour classes, including a full review session. This will be followed by a written examination lasting two hours. All classes will begin with a formal presentation by the instructor. This will be followed by a discussion period and questions and answers based on content including assigned reading.

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<sup>5</sup> Such charters were approved by the Roman Church and Kings and Queens at various stages in Europe.

<sup>6</sup> A reference to the spread of political ideas spawned first in Britain and exported to colonial countries under British rule and countries established by English-speaking people.

<sup>7</sup> A notable example of this is described as *Les Trente Glorieuse* (The Glorious Thirty). This refers to the thirty years of French economic development from 1945 to 1975 following the end of the Second World War.

### **Participation**

Students are required to attend all teaching sessions and participate in class discussions. **This aspect will count for 20% of the final grade.**

### **Written Assignment**

A 2000-word written assignment is to be submitted before the start of class seven. Assignments based on a list of relevant topical questions to be distributed will be discussed and agreed with each student. This work will be marked and returned by class nine. **This will count for 40% of the final grade**

### **Written examination**

An end-of-session closed book exam will be held. Students will be expected to write four short essay-type answers from a choice of twenty covering the different topics covered. **This will count for 40% of the final grade.**

## INTENDED LEARNING OUTCOMES

### **Key (Assessed) Learning Outcomes:**

On completion of this course, students will be equipped to address the following challenges:

1. To be able to understand and explain the laws undergirding private and public companies; how these compare with the creation in law of the SOE and the governance and other regulatory arrangements that have evolved in different jurisdictions to address these different entities.
2. To be able to understand and explain the different roles that SOEs have played in economic development in different jurisdictions and the reasons that explain this; the challenges that have arisen between the private and public sectors in terms of missions, governance and regulation in different jurisdictions.
3. To be able to understand and explain how different corporate entities, as defined in law, have different and distinctive roles to play in economic development and the determination of the corporate *DNA*<sup>8</sup> (Deoxyribonucleic Acid) that has emerged in respect of SOEs and PTCs in different jurisdictions.
4. To be able to understand and comment critically upon the type and content of reform initiatives that are currently in force or have yet to be articulated.

### **Supplementary Learning Outcomes:**

It is anticipated that students will develop the following:

5. Insight into the complexity of establishing credible comprehensive criteria for defining and fostering verifiable *sustainable* financial and economic activity in a global context.

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<sup>8</sup> A reference to the development of different traditions in Social Market Economies in Europe as distinct from free market/ *laissez-faire* models of development more common in Anglo American jurisdictions.

6. Insight into the complexity of establishing acceptable criteria for SOEs charged with responsibility for addressing wider social and economic concerns; resolving commercial and economic policy conflicts with PTCs.
7. Insight into the aims and objectives of corporate governance within PTCs and SOEs.
8. Insight into specific reform issues facing SOEs and PTCs and how these can be best addressed.

## TEACHING AND LEARNING

The objectives of the course will be realised using a combination of selected chapters from the required reading, articles, case studies videos (where appropriate) class lectures and most importantly the collective sharing of insights and experience as part of on-going class discussion.

## CLASS CONTENT AND SCHEDULE

Nine four hour classes will cover the following topics

### TOPIC 1

#### **The global economy and the forms of “enterprise” that drive development**

- The key international statistics covering GDP and per capita incomes; the output, employment and valuation of PTCs and SOEs
- The arrival and demise of *charter* corporations in early European development; the rise and dominance of limited liability corporate entities during and after the industrial revolution
- The creation of *nationalised* or state/municipal-owned industries in OECD countries and the concept of the *public utility* in social and economic development
- The French experience with *commanding height* industries; the comparative experience of Britain and other countries
- *Path dependent* development – why countries different in terms of social and economic development policies and priorities
- The challenge of reconciling the commercial development priorities of PTCs with SOEs and their governance priorities

### Summary

The international economy has been transformed in the 20<sup>th</sup> and 21<sup>st</sup> centuries as free trade has advanced in importance giving way to the modern globalised economy. Globalisation is characterised by the increasing integration of supply chains and product and capital markets; and to a lesser but significant degree the movement of labour between regions. The ideological objective in the post second war period was the regeneration of the free trading

system – commonly referred to as the Bretton Woods system.<sup>9</sup> From the late 1980s the fixed exchange rate system was gradually abandoned. De-regulation of foreign exchange markets and capital movements then followed. These deregulations over a period of time have resulted in *globalisation*. This has fundamentally transformed the basis of trade and ultimately challenged the win/win logic of classical *comparative advantage* - a matter of increasing controversy.

These points will be developed in comprehensive class notes ahead of the meeting(s).

Readings:

- (i) The World Economy – A Millennial Perspective – Angus Maddison OECD 2003 (readings as directed)
- (ii) The Size and Sectoral Distribution of SOEs in OECD and Partner Countries 2014 OECD (reading as directed)
- (iii) Working Party on State Ownership and Privatisation Practices Broadening the ownership of state-owned enterprises: a comparative report DAF/CA/SOPP(2015)1/FINAL April 2015 (full document)
- (iv) SOEs: Catalysts for public value creation- PWC 2015 (reading as directed)
- (v) Appropriate OECD and IMF datasets
- (vi) [The Looming Corporate Calamity Chapter 2

## TOPIC 2

### The shaping of economic institutions and regulatory norms in the 20<sup>th</sup> Century

- The importance of the role of the limited liability company and most notably PTCs in long term economic development and prosperity; how these entities have shaped economic outcomes during and after the industrial revolution and influenced public policy and law making in modern times; the emergence of the pervasive Efficient Markets Hypothesis (EMH) as an example of how capital market orthodoxy has been shaped along with corporate governance and other regulatory arrangements.
- The exceptions to that general rule – the distinctive leading edge role of SOEs in French<sup>10</sup> and Italian<sup>11</sup> economic and social development and elsewhere notably in Rhineland countries and Scandinavia; the sharp ideological contrasts in addressing these matters notably in Britain and the US and other English speaking countries.
- How the norms of corporate governance have evolved in response to the demands of capital markets; the role of the EMH in that process.
- The different traditions of governance of PTCs in OECD countries – unitary boards (Anglo American) versus independent supervisory boards (Northern European) and

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<sup>9</sup> This is a reference to the 1944 Bretton Woods Conference and the establishment of the *New Order* following the catastrophic failures in the trading system in the 1930s.

<sup>10</sup> The role of SOEs in France shaping and driving innovation and social progress has been catalytic.

<sup>11</sup> The challenge of the Italian *mezzogiorno* – the relatively underdeveloped region of southern Italy – and the role of SOEs in stimulating prosperity has not yielded the same benefits to the Italian economy when compared with the success of French SOEs in stimulating regional growth.

hybrids (Japan); ideological conflicts and tensions - shareholder primacy in governance versus full stakeholder participation expressed by independent board<sup>12</sup> governance and self determination in the workplace.

- The crucial role of SOEs in China's economic and social development.<sup>13</sup>
- The serious and worsening agent/principal problem with PTCs in Anglo American jurisdictions
- Reviewing the purposes of boardroom power in Anglo American unitary boards and the countervailing influence of independent supervisory boards in other jurisdictions.

**These points will be developed in comprehensive class notes ahead of the meeting(s).**

### **Summary**

The role PTCs has been crucial in determining codes of corporate behaviour governance best practice and the institutional framework of OECD capital markets. This has been heavily influenced by Anglo American orthodoxy throughout as exemplified by the EFM and shareholder primacy. Things have evolved differently in other jurisdictions. In a number of European and Nordic jurisdictions governance has relied on the establishment of independent supervisory boards. These arrangements have been instrumental in stimulating full stakeholder, including shareholder engagement, and co-determination in the governance of the corporation. SOEs have also played a key socio-economic development role in some countries, notably France, Italy and Germany, though scarcely in Britain or the US. The reasons which explain this will be explored. The scale of Chinese SOEs - in their many forms - and their impact of social and economic development will be examined along with government reform objectives.

The Agent/Principal problem<sup>14</sup> in Anglo American jurisdictions has been avoided in other jurisdictions. Corporate power in those other jurisdictions, as a consequence, is also more dispersed. This provides greater countervailing influence and more effective democratic engagement. The participation of the workforce through work place co-determination is a key feature.

**These points will be developed in comprehensive class notes ahead of the meeting(s).**

Readings:

- (i) SOEs Catalysts for public value creation - PWC 2015 (reading as directed)
- (ii) A Comparative Theory of Corporate Governance: Allen F and Gale D Wharton Business School, December 2002. (14 pages)

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<sup>12</sup> A reference to the way in which Northern European PTCs are controlled by independent Supervisory Boards whose role is to monitor the actions of Management Board directors

<sup>13</sup> The number of SOEs listed in Chinese stock exchanges dwarfs all other economies in the world. All of the – approximately - 120 business groups are overseen by the state ownership agency, the State-Owned Assets Supervision and Administration Commission.

<sup>14</sup> A consequence of the progressive detachment from the day to day running of the business has created a tension between the shareholders as owners and the directors as managers which has never been resolved and cannot be resolved within unitary board frameworks.

(ii) The Looming Corporate Calamity Richard Tudway - Chapters 1 to 6

### TOPIC 3

#### The unique role of SOEs in economic development

- The French experience and how French SOEs have successfully driven French economic development
- British and American experience – the ideological well font of British and American antipathy towards nationalisation<sup>15</sup> and SOEs. Case studies of Rolls Royce Plc and General Motors
- How SOEs in some OECD countries been used to drive economic development - case study the creation of Air New Zealand as national enterprise or SOE, its privatisation and re-nationalisation as the national carrier
- Providing appropriate safeguards for investors in SOEs in terms of fully transparent corporate governance where stock exchange listing is concerned
- Developing policies aimed at establishing a level playing field
- The verification, authentication and SOE corporate claims – an assessment of problems in addressing these challenges where PTCs are concerned
- The role of CSR (corporate social responsibility)
- The pervasive challenge of distinguishing between *Greenwash* and Reality

**These points will be developed in comprehensive class notes ahead of the meeting(s).**

#### Summary

SOEs have played in varying degrees, a crucial role in economic and social development. Within the OECD there are perspectives and outcomes in various countries. France is outstanding in terms of its strategic commitment to using SOEs as a vehicle for reaching out to establish economic and social *commanding heights* in terms of economic development. This is a well told event in *Les Trente Glorieuse*.<sup>16</sup> Other countries have shared common experiences.

Elsewhere the picture is very different. In Britain there has been an ideological hostility towards nationalisation. The widespread nationalisation of basic industries in Britain – coal, steel and rail transport - were viewed negatively as examples of economic and commercial interference by the state. The same applies to the municipalisation of utilities, gas, electricity and water. This explains the *Thatcherite* drive to privatise all state and municipal controlled industries in Britain in the 1980s onwards. These changes of ownership have not conferred any long term benefits to the economy. The one outstanding success story is the nationalisation of Rolls Royce in the early 70s and its eventual privatisation. This investigates how a company that was unable to survive as a privately owned enterprise survived under nationalisation and later privatisation to contribute significantly to wider British economic growth and development.

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<sup>15</sup> Nationalisation in American English is often referred to as *conservatorship*

<sup>16</sup> *Les Trente Glorieuse* by Jean Fourastié 1979

There has been significant debate however about the terms and conditions that govern fair economic competition between SOEs and other private sector companies. The size and importance of the SOE sector in the Emerging Market and Developing Economies group of countries will intensify the debate in coming years. Policies will need to ensure that the unique contributions that SOEs are able to make to wider economic development are clearly defined in terms of their economic activities, their governance and the law. However these wider economic contributions are defined there is a need to ensure that they are clearly defined if claims of unfair competition are to be avoided along with *greenwash* and other misrepresented claims.

**These points will be developed in comprehensive class notes ahead of the meeting(s).**

Readings:

- (i) SOEs Catalysts for public value creation - PWC 2015 (reading as directed)
- (ii) Working Party on State Ownership and Privatisation Practices Broadening the ownership of state-owned enterprises: a comparative report DAF/CA/SOPP(2015)1/FINAL April 2015 (full document)
- (iii) The Looming Corporate Calamity – Richard Tudway Chapter 9

**Written Assignments to be agreed and issued**

#### **TOPIC 4**

##### **Creating a level playing field**

- The quest for convergence of treatment as between SOEs and other limited liability enterprises and PTCs
- the search for a fair and level *playing field* supported by strong and effective governance reforms
- explaining and understanding how traditions of CSR within PTCs have in effect mimicked the intended behaviour of SOEs in claiming to address matters of public concern
- an assessing of the *pros and cons* of preserving and promoting different forms of corporate enterprise with distinctive missions and funding
- the priorities in terms of corporate governance arrangements
- identifying the high ground of reform.

##### **Summary**

SOEs are often, though not always, expected to meet criteria wider than the commercial objectives PTCs. The blurring of these criteria needs to be addressed. Public policy needs to reflect clearly how and why SOEs are expected to and required to meet wider social objectives. The attainment or otherwise of these objectives needs to be reflected in terms of appropriate incentives at every level of the organisation to achieve these objectives.

Reaching globally acceptable and verifiable standards of achievement will be crucial to the success of reform. How for example can the global standards articulated by national

institutions, the UN, the ILO and the OECD be enforced? Where PTCs are concerned there is compelling evidence that they have too often failed to internalise these standards within their domestic and international operations. How differently will SOEs be treated if imbalances in performance are to be remedied?

What has been learnt from the pitfalls and difficulties that PTCs face operating through subsidiaries in different legal jurisdictions and the particular challenges of supply chain management? How these can challenges to best addressed if SOEs are expected to meet higher standards than those commonly achieved by PTCs. Apple and Nike, amongst other major PTCs have faced serious reputational and financial damage as a result of human rights abuses have arisen in their own supply chains.

How can PTCs or SOEs best address the complex challenges of *sustainability*? What role can regulators play in addressing these matters? How, specifically, can systems of corporate governance address these multilateral challenges?

**These points will be developed in comprehensive class notes ahead of the meeting(s).**

Readings:

- (i) Working Party on State Ownership and Privatisation Practices Broadening the ownership of state-owned enterprises: a comparative report DAF/CA/SOPP(2015)1/FINAL April 2015 (full document)
- (ii) UN Global Compact (10 pages)
- (iii) EU Green Paper on CSR – 2009 (12 pages)
- (iv) The ILO Tripartite Agreement (10 pages)

**The written assignment due electronically on [date to be inserted]**

## **CLASS 9**

**6 June 10.00 onwards & 9 June**

### **Revision & Examination**

A full session will be set aside to cover the revision of the elements covered in the course in preparation of the examination on 6 June 14.30 – 16.30

### **GRADING CRITERIA**

A

This exceptional grade is assigned only to work that has persistently outstanding quality in both substance and presentation. The student must demonstrate a sustained capacity for independent thought and convincing well expressed analysis.

A-

This is awarded for work that shows original thinking, as well as being clearly focused, analytical and well expressed. A small number of minor errors, whether factual or grammatical, may be allowed.

B+    B    B-

This range of grades indicates that the student has shown some evidence of original thought

and intellectual initiative. The work will require to show thoughtful management of material, and a good grasp of the issues.

C+    C    C-

Work in this grade range is not satisfactory in terms of the material used and its interpretation.

D    F

This grading reflects work that is fatally flawed in one or more ways. Evidence of plagiarism will attract this grading.

Grade	Percentage range
A	93-100
A-	89-92
B+	85-88
B	81-84
B-	77-80
C+	73-76
C	69-72
C-	65-68
D	60-64
F	Below 60

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