

Balancing the Market: The Role of State-Owned Enterprises in Post-Conflict Recovery

By Omar Khattaly · 7 January 2020

The Rise and Structure of State-Owned Enterprises

Even though the first thoughts that come to many when hearing the words “state-owned” next to “economic recovery” are socialism, government control, and bureaucracy, according to the accounting firm PwC, the proportion of State-Owned Enterprises (SOEs) among the Fortune Global 500 grew from 9% in 2005 to 23% in 2014. One can only pause and wonder why government-owned companies have been on the rise and have enjoyed such success across all continents, with no exceptions.

Roughly 115 of the Fortune Global 500 businesses in 2022 were controlled by a

government. Demonstrating remarkable performance and significant profitability, two-thirds of these enterprises are headquartered in China. However, this trend extends far beyond Asia. For example, one of the biggest generators of heat and energy in Europe, Vattenfall AB of Sweden, is a fully state-owned company with operations spanning all over the continent. Similarly, in the United States, both the National Railroad Passenger Corporation (Amtrak) and South Dakota Miller—one of the largest flour mills in the country—are federally and state-owned, respectively. There are countless instances of outstanding and prosperous state-owned businesses operating throughout North America, Europe, Asia, and the Middle East.

That leads us to the questions: What exactly are these SOEs, why has governments' appetite for them increased, and what role can they play in sustaining domestic economic growth and helping to contribute to societal value creation in post-conflict areas such as Libya, Yemen, and Syria?

By definition, SOEs are business entities or companies in which a domestic or foreign government owns either a majority or a minority share. These companies can be owned directly by the central government, or by a regional or municipal governing body. Furthermore, SOEs can operate in any industry, including public utilities such as water, transportation, and electric power; communications; financial services, such as banks and insurance companies; and social services, such as educational institutions, healthcare services, and hospitals.

The Global Impact and Macroeconomic Context of SOEs

Globally, including in non-conflict environments, SOEs have played a pivotal role in the economies of both developing and developed nations. These enterprises have become a staple ingredient at both the state and municipal levels in many Western governments' economic plans to provide services, employment, and profits, with a large number of them maintaining an international presence in the global economy. According to a study published by the OECD, out of the Fortune Global 2000 companies in 2010–2011, 204 were majority-owned SOEs with a presence spanning 37 countries.

In the Arab world, Saudi Arabia provided an excellent example of state involvement in developing and bolstering domestic businesses through direct budgetary investments during the first eight months of 2023. The Saudis made billion-dollar investments in every conceivable sector of the local economy, from pharmaceutical businesses to hospital construction. They invested heavily in hotels, cutting-edge megacities, low- and high-tech industries, dairy products, vegetable seeds, and camel farms—all with the intention of diversifying the nation's economy, raising GDP, and

bringing down the high rate of unemployment, which stood at 10.3% at the time.

The Free-Market Debate

Opponents of a strong SOE presence base their arguments on the idea that these enterprises enjoy an unfair competitive advantage over the private sector. They contend that government involvement, with its high levels of regulation and bureaucracy, can have damaging effects on innovation and the human entrepreneurial spirit. Historically, however, free-market philosophy has never provided full economic and social protection from systemic failures. Lessons from the last century give us clear examples of this, from the 1933 U.S. market collapse to the 1980s recession and the financial market collapse of 2007. Globally, we have seen similar vulnerabilities during the Latin American debt crisis of the early 1980s, the Asian financial crisis of 1998, and subsequent cyclical recessions in Europe and America.

The Role of SOEs in Post-Conflict Reconstruction

In a post-conflict environment, if managed properly, SOEs can help bring economic and political stability to a region by increasing economic production, addressing severe unemployment issues, and strengthening the government's public image and the perception that it is in control. After years of war and destruction, central and local governments must find ways to rebuild socially, politically, and—most importantly—economically.

Without creating new jobs for former combatants and the general population, political stability is incredibly hard to sustain. Historically, and particularly in post-conflict environments, the local private sector is rarely ready to take on the immediate challenge and responsibility of creating large-scale employment and rebuilding an entire economy. In addition, foreign investors' appetite for entering war-torn countries is usually very low, at least for the first five years following an improvement in security.

Structural Challenges of SOEs in Fragile States

Unfortunately, in post-conflict environments, SOEs are often infected with the exact same elements that led to the original conflict, including racial and regional sensitivities, corruption, income inequality, and a lack of fair opportunity for all. In developing nations, SOEs can become a haven for the corrupt and underskilled at all levels of operations and management. Therefore, it is no surprise that the struggle

for control over these entities frequently becomes a baseline for continuing conflict.

In the Middle East and Africa, the voices calling for privatization have been the loudest, particularly in post-conflict environments such as Iraq, Libya, Afghanistan, and Liberia. Some of these privatization efforts have met with success. Others, however, have fallen short—especially where the push for privatization came at the expense of a strong government role in building State-Owned Enterprises meant to fill the void left by an absent private sector.

The Precedent of Post-Invasion Iraq

For example, at the time of the fall of Saddam Hussein's regime in Iraq, the government possessed over 500 SOEs that employed roughly 500,000 out of a total workforce of 4,000,000. Following the regime's collapse, the Coalition Provisional Authority pushed for a free-market economy and full, rapid privatization. This decision was rooted in ideological theories rather than the practical realities of the local environment.

Crucially, this approach failed to take into account the urgent need to provide immediate employment opportunities to young Iraqis—opportunities that the weak local private sector was entirely unequipped to create. The immediate dismantling of existing government and commercial institutions had a crippling effect on the country and its society. In fact, its repercussions are still visible today, more than 15 years after the U.S.-led invasion. Because young people were left with no means to provide for their families, sectarian groups found a prime opportunity to recruit by filling this financial void. The Provisional Authority in Iraq failed to realize that the immediate restoration of economic growth was vital to sustainable peace, and they completely ignored SOEs as a viable solution.

SOEs as a Foundation for Lasting Peace

The fact remains, however, that because of their sheer size and structural presence, these enterprises can serve as a stepping stone on the long road toward peace, stability, and economic and political recovery. The successful operation and management of SOEs can generate the basic security and market stability necessary to encourage foreign investors to inject capital, which in turn helps the private sector grow. During the critical early stages of a post-conflict era, SOEs can provide the essential foundation upon which both local and foreign investors can build and grow.

The importance of SOEs in bringing political stability to post-conflict states was best summarized in a report by Neil Efird, a former UNMIK (United Nations Mission in

Kosovo) official, who wrote:

“SOEs offer opportunities for advancing the political strategy behind post-conflict stabilization and reconstruction—opportunities poorly understood by political strategists and tacticians. Getting SOEs working right offers immediate, tangible benefits to local populations whose support is essential for earning trust and credibility... because in post-conflict situations, local populations are traumatized, so providing concrete improvements to daily life that they can see gives arms and legs to go along with hearts and minds.”

According to that same report, the first step in building and strengthening these SOEs is to conduct a thorough assessment of the physical and financial damage suffered in order to determine which enterprises can be saved and at what cost. A comprehensive study of both domestic and international markets can subsequently help shape a product's focus on commercial operations.

Furthermore, strong governance and transparency are key to long-term success. Depoliticizing both the workforce and executive management is highly recommended, as is the potential hiring of a foreign manager to lead the initial phase of restructuring. Moving forward, priority should be given to enterprises that provide essential services to the public, such as electric power, telecommunications, transportation, and basic infrastructure-based companies.

Ultimately, countries like Libya, Syria, and Yemen will need to design comprehensive programs through their SOEs, complete with short- and long-term plans to provide immediate employment for returning refugees, former combatants, and thousands of displaced families. However, these governments must remain cautious not to cripple these enterprises through over-employment, or via weak and opportunistic management.

The success of these SOEs in a post-conflict environment will depend heavily on government leadership and the restructuring approaches they adopt. According to PwC, governments must implement a formula that includes a vision and clear objectives for each enterprise. Internal structures must be built around innovation, environmental protection, and human capital growth. Prioritizing transparency, strong governance, and strict financial discipline is essential. Furthermore, executive management should be given clear mandates, tasks, and roles, and external auditing mechanisms must be implemented. If managed properly with the assistance of international organizations such as the OECD, the World Bank, and the IMF, these enterprises can achieve the level of stability desperately needed in a post-conflict environment.

So, what lessons can be learned from all this? Obviously, capitalism and free-market economies cannot function in a vacuum without government safeguards. This was clearly demonstrated in 2008 when the U.S. government spent $49.5 billion for a 61% stake in the automaker General Motors to save it from bankruptcy and avoid liquidation. According to the Center for Automotive Research, this intervention saved over 2.63 million jobs across the U.S. economy in 2009. On the other hand, SOEs cannot shoulder the entire responsibility of building an economy without the inherent flexibility and innovation of the private sector.

In my opinion, a strong government presence in key domestic industries is necessary during both stable and post-conflict periods to safeguard against systemic market failures. This is precisely where SOEs can play a vital role, by creating a healthy balance between the public and private sectors. Ultimately, establishing and safeguarding a nation's economy from external market fluctuations can be effectively achieved through state-owned enterprises—provided that proficient management is maintained and the private sector is granted the freedom to operate without hindrance or disruption.

References

- **Organization for Economic Co-operation and Development (OECD).** *OECD Guidelines on Corporate Governance of State-Owned Enterprises.*
- **OECD.** *Ownership and Governance of State-Owned Enterprises.*
- **Neil Efird.** *The State-Owned Enterprise as a Vehicle for Stability.* U.S. Army Peacekeeping and Stability Operations Institute.
- **The World Bank.** *Libya Economic Monitor — Redefining the Role of State-Owned Enterprises in Libya.*
- **U.S. Department of State.** *2024 Investment Climate Statements: Libya — State-Owned Enterprises.*
- **U.S. Department of Defense / Coalition Provisional Authority and related Iraq reconstruction literature.** *Economic and Institutional Reconstruction in Post-2003 Iraq.*
- **The Washington Institute for Near East Policy.** *Economics of Iraqi Security: Employment.*
- **Center for Automotive Research (CAR).** *The Effect on the U.S. Economy of the Successful Restructuring of General Motors.*
- **U.S. Government Accountability Office (GAO).** *TARP: Treasury's Exit from*

GM and Chrysler Highlights Competing Goals.

- **International Monetary Fund (IMF).** *Government Involvement in the Automotive Industry and the Restructuring of General Motors and Chrysler.*
- **Fortune.** *The Fortune Global 500.*
- **World Bank.** *Libya Country Overview.*
- **OECD.** *Good Practices for Strengthening State Ownership.*
- **OECD.** *State-Owned Enterprises and Sustainability.*