

Role of State-Owned Holdings in Economic Stability and Strategic Development

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Abstract. This paper examines contemporary models of state-owned enterprises, with a specific focus on the creation and role of state-owned holding companies in large-scale investment projects. The primary aim of the study is to analyze how these companies contribute to national security, economic stability, and innovation. The study highlights four main models of state-owned holding companies: horizontal, vertical, conglomerate, and investment. Each model serves different strategic objectives, shaped by factors such as industry focus, political priorities, and developmental needs. Horizontal holding companies foster industry synergy, vertical ones integrate various stages of production, conglomerates diversify across sectors, and investment companies manage asset portfolios. The results indicate that state-owned holding companies are crucial in consolidating strategic sectors, such as transportation, energy, and telecommunications, thereby enabling governments to exert control and promote economic growth. These companies also contribute to social responsibility and ethical standards while driving innovation and technological advancement. Despite the growing importance of such companies, there remains a gap in understanding their full impact on global competitiveness. The study concludes that state-owned holding companies are vital instruments for achieving long-term economic and social goals, ensuring sustainability and resilience in a globalized economy. **Keywords:** State-owned holding companies, Strategic development, Economic stability.

1 Introduction

The development of state-owned enterprises is a significant element of contemporary economic growth and national policy in many countries. In an era of globalization and intensified competition, governments increasingly employ various forms of active participation in the economy, including the creation of state-owned holding companies. These structures enable the consolidation of resources and enhance control over strategically important sectors of the economy, which is particularly relevant for countries seeking sustainable development, national security, and social stability.

The relevance of this research is determined by the need for an in-depth analysis of international experience in the formation of state-owned holding companies and the

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identification of their impact on the development of national economies. In recent decades, many countries have successfully utilized state-owned holding companies as a tool for achieving strategic goals such as enhancing global competitiveness, ensuring technological progress, developing infrastructure, and stimulating innovation.

The purpose of this paper is to study the primary characteristics of state-owned enterprise models based on international practice and to identify the key factors contributing to the successful implementation of strategic objectives through state-owned holding companies.

2 Materials And Methods

International experience in the formation and development of state-owned enterprise models demonstrates that the implementation of large-scale investment projects often necessitates the creation of state-owned holding companies. Such structures represent a conglomerate of assets owned by the state, encompassing shares in various companies and sectors of the economy. These holding companies may include both fully state-owned enterprises and stakes in private companies.

The creation of state-owned holding companies is typically driven by government policies aimed at strengthening control over key sectors of the economy or regions, as well as achieving strategic national development goals [1]. State-owned holding companies play a crucial role in ensuring control over strategically significant assets such as transportation, energy, telecommunications infrastructure, and other areas essential for the functioning of the economy. Moreover, depending on the specific situation, such structures may address issues related to national security, the accessibility of services for the population, and the stimulation of economic growth [2].

The consolidation of resources within a state-owned holding company allows for the formation of a stronger economic entity capable of competing with private corporations on the international stage. The role of state-owned holding companies often manifests in the management and control of large sectors of the economy, ensuring the stability and competitiveness of the national economy [3]. Furthermore, such holding companies contribute to the development of innovation, scientific research, and the adoption of innovative technologies, thereby strengthening the state's position on the global market [4].

Figure 1 summarizes the main characteristics of state-owned holding companies. Issues of ownership and control over a state-owned holding company determine the degree of government influence on its operations and management. This aspect includes the following elements: ownership stake, level of control, and the rights and obligations of shareholders. The legal status of a state-owned holding company defines its legal nature, structure, and relationships with other economic actors. This aspect includes the following elements: organizational form, legislative framework, and governance structure.

| State property | Strategic relevance | Social Responsibility | Corporate Governance | Political lobbying |
|--|--|---|---|--|
| <ul style="list-style-type: none"> • Assets belong to the state, legal status determines the management structure • Various levels of government control | <ul style="list-style-type: none"> • The holding's activities are of strategic importance for the independence and security of the country • Stimulating economic growth | <ul style="list-style-type: none"> • Implementation of social and environmental programs and support of local communities • High requirements for business ethics and official behavior | <ul style="list-style-type: none"> • More complex corporate governance structure • Specific requirements for transparency, reporting and protection of shareholder rights | <ul style="list-style-type: none"> • State holdings may have a special status and certain benefits • The influence of political elites on the management activities of the holding |

Fig.1. Characteristics of State-Owned Holding Companies

Social responsibility is also a significant aspect of the activities of state-owned holding companies. They participate in addressing social issues by investing in local community development, improving education and healthcare, and engaging in environmental initiatives. State-owned holding companies adhere to ambitious standards of ethics and corporate governance, contributing to their sustainable development and strengthening public trust.

Corporate governance of state-owned holding companies is a complex process, given their multi-level structure and interaction with subsidiaries. Management decisions in such structures are subject to enhanced scrutiny, requiring a balance of interests among shareholders, managers, and the state to achieve effective management and the implementation of strategic objectives [5].

State representatives are frequently appointed to the boards of directors of companies within state-owned holding companies. This is due to the need for the state to exercise control and influence over key strategic decisions, as well as to ensure that the activities of companies align with national priorities. However, this approach may create a risk of conflicts of interest among state representatives, which requires addressing within the framework of corporate governance of state-owned companies.

State-owned holding companies ensure a prominent level of transparency and accountability to government agencies, shareholders, and the public. This is demonstrated through the regular provision of reports on financial performance, social responsibility, and other operational aspects, fostering trust among all stakeholders.

Consequently, the characteristics examined highlight the distinctive nature of state-owned holding companies and their pivotal role as a key instrument of state economic policy. The influence of economic factors stimulates the development of four main models of state-owned holding companies:

1. Horizontal holding companies are entities where the state owns multiple companies operating within the same industry.
2. Vertical holding companies exert control over companies operating at various stages of the value or supply chain within a single industry.
3. Conglomerate holding companies are structures that encompass enterprises from different sectors of the economy.
4. Investment holding companies are a form of business organization where the state invests in a portfolio of securities and other assets to achieve its financial objectives.

The formation of these models is shaped by a confluence of factors: economic structure and development level, political priorities, sociocultural norms, and international conditions.

Horizontal holding companies are specifically designed to foster synergy among businesses operating in the same industry, thereby enhancing their collective competitiveness, reducing costs, and optimizing production processes. This enables them to effectively mitigate risks stemming from market fluctuations.

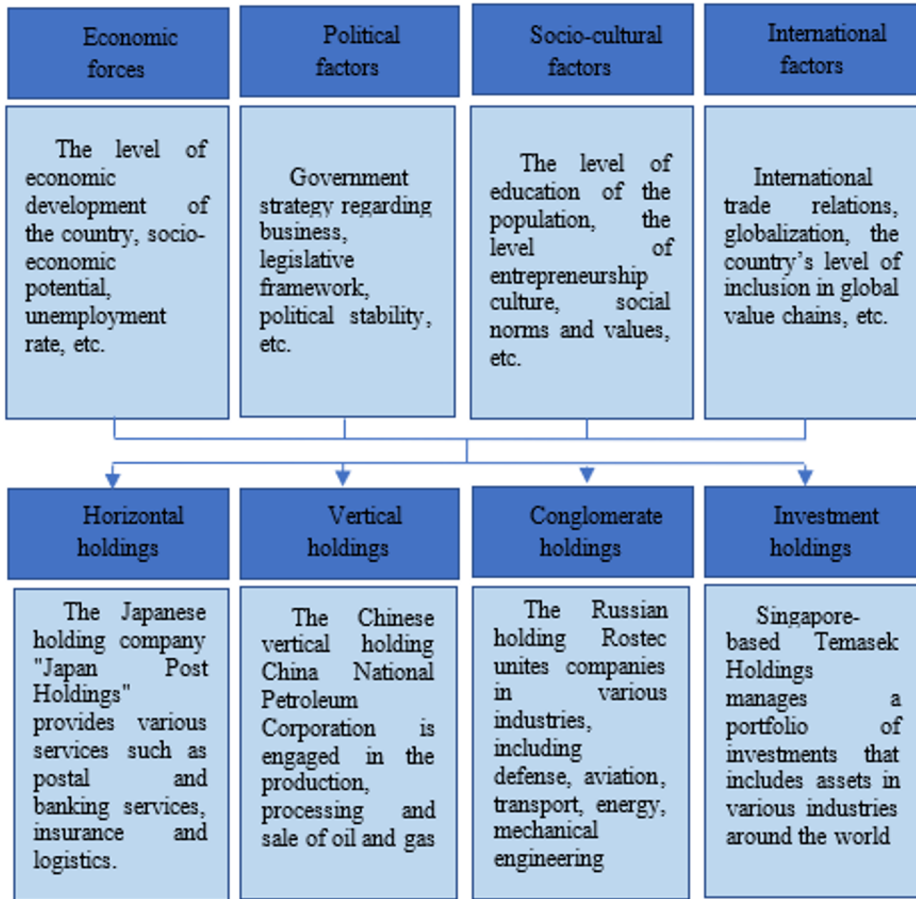


Fig2. Classification of primary state holding company structures

Vertical holding companies are characterized by their ability to integrate various stages of the production process under a unified management structure. For example, in the oil industry, such a holding company might encompass enterprises involved in oil extraction, refining, and product distribution, leading to more efficient production, lower costs, and a stable supply chain. A reliable resource base is essential for these holdings, mitigating dependence on external suppliers and ensuring uninterrupted operations [6].

Conglomerate holdings are distinguished by their diversified asset base, which mitigates risks associated with fluctuations in a single industry or region. By managing assets across diverse sectors such as finance, telecommunications, energy, transportation, healthcare, and technology, conglomerates ensure business resilience.

Investment holdings strategically allocate their funds across various asset classes, including stocks, bonds, real estate, commodities, and other financial instruments. They actively manage their investment portfolios, conducting market analysis and asset

assessments to make informed decisions regarding purchases, sales, or holding investments in alignment with the company's financial objectives and strategy.

Overall, state-owned holdings play a pivotal role in enhancing the efficiency and competitiveness of the national economy. By effectively managing and controlling strategically important sectors, governments can maximize their socioeconomic potential. While advocating market principles, states often maintain state control and support for key industries. A crucial question in this context is determining the optimal structure and governance methods for state-owned holdings. Two primary models exist:

- a centralized model, where management is overseen by government executive bodies.
- and a corporate model, where controlling shares are transferred to specialized institutions.

In a centralized model, the management of a state-owned holding company is overseen by authorized bodies or committees tasked with strategic planning and decision-making on behalf of the state. These structures may encompass ministries, departments, or agencies designated by the government to manage specific holdings or assets. Government bodies exercise oversight over various sectors within their purview, making key decisions regarding strategy, investments, risk management, and financial planning in accordance with central directives.

3 Results

The governing bodies of such holdings are frequently led by professionals with expertise in business management or specific industries. These specialists are accountable to the government and implement the approved state strategy. However, the efficacy of this model hinges on the qualifications of the appointed managers, their professionalism, and their independence from political influence. Ensuring transparency and accountability to the public is also paramount to minimize the risks of corruption and conflicts of interest.

A prime example of a centralized model of state-owned holdings is China, where major enterprises like State Grid Corporation of China, China National Petroleum Corporation, China Railway Construction Corporation, and China Mobile Communications Group Company Limited operate. Corporate governance in these holdings is characterized by significant government oversight and involvement, evident in the state-sanctioned appointment of top management and the Communist Party of China's active role in strategic decision-making. A key governance element is party control, exercised through party committees within companies, ensuring alignment with the state's ideological and political objectives. These enterprises play a crucial role in advancing national policy goals, such as infrastructure development, domestic market support, and social stability. Their operations are grounded in vertical integration and a strict hierarchical structure, with key decisions made at the highest level and rigorous accountability as a cornerstone. In recent years, the Chinese government has intensified its control over private technology giants like Huawei, Alibaba, and Tencent, steering their activities towards state interests [7].

In the corporate model, state-owned assets are frequently entrusted to specialized management entities, such as dedicated companies, funds, or financial institutions. This approach harnesses the expertise of professional managers to oversee these assets. These management entities may operate independently or under government oversight. Independent funds, in particular, benefit from greater flexibility and can make decisions more expeditiously, fostering transparency and efficiency.

Public-private partnerships are prevalent in this model. State-owned enterprises frequently collaborate with private businesses to manage assets or undertake joint ventures,

fostering more efficient resource utilization. Moreover, state assets can be strategically invested in various financial instruments to diversify risks and generate returns.

Government or independent bodies oversee management companies to ensure compliance with laws, the achievement of objectives, and the protection of state interests. This approach guarantees professional asset management while retaining government control over strategic decisions.

Singapore, particularly with its state-owned holding company Temasek, has achieved remarkable success in this area. A key feature of Temasek's management is its ability to operate as an independent commercial entity, despite being state-owned. The balance between state ownership and commercial autonomy is achieved by limiting the government's involvement to ownership, thereby providing the company with the necessary independence to make strategic decisions.

Temasek manages a diverse investment portfolio encompassing companies across various industries and regions, including financial institutions, telecommunications, transportation, logistics, manufacturing, and technology startups.

The growth in Temasek's net portfolio value is depicted in Figure 3.

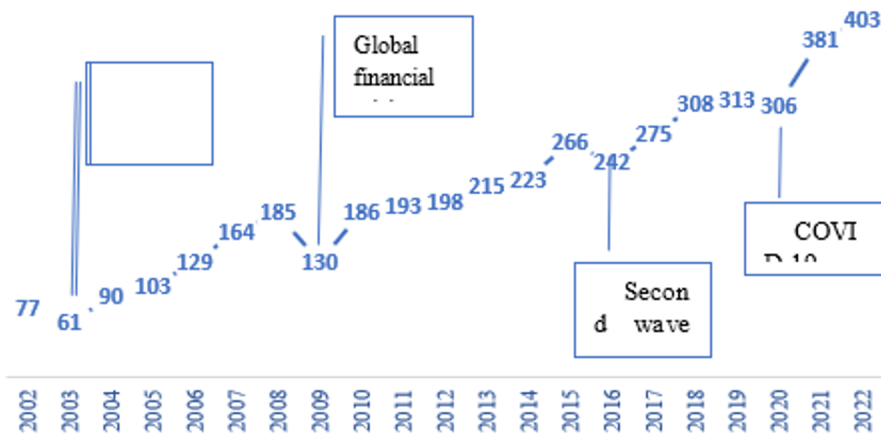


Fig. 3. Net Asset Value of Temasek Holdings Portfolio (USD billion)

Over the past 20 years, the net asset value of Temasek's investment portfolio has more than quintupled, reaching \$403 billion in 2022 compared to \$77 billion at the beginning of the period [8]. Temasek has consistently maintained the highest global credit ratings of "Aaa/AAA" from Moody's and Standard & Poor's since 2004 when the company was first rated.

Temasek's investments have a significant impact on the global economy, driving the growth of companies and innovation across various sectors and regions. These investments support job creation, stimulate technological progress, and contribute to sustainable economic growth. The company is actively involved in managing its assets, and its long-term portfolio strategy is based on four key trends: digitalization, sustainability, the future of consumption, and increasing longevity.

Singapore's GIC Private Limited also plays a significant role in global investments. The Singapore government, through the Ministry of Finance, mandates GIC to manage national assets with the aim of achieving long-term returns. GIC is granted an investment mandate that sets out the terms of appointment, objectives, risks, and investment horizons, as well as

management guidelines for the reserves.

GIC has a standard governance structure: the board of directors is responsible for long-term asset allocation and the company's overall performance, while GIC management formulates and implements investment strategies. The International Advisory Council, which also participates in governance, provides the board and management with global and regional assessments of geopolitical, economic, and market conditions, investment trends, and new growth opportunities.

State-owned holding companies that operate as natural monopolies in specific industries warrant particular attention. A natural monopoly occurs when a single entity can most efficiently provide goods or services due to substantial fixed costs or technological advantages.

In numerous countries, state-owned holding companies supply electricity to the entire population and industrial sector. For instance, Electricité de France, a French holding company, is the largest producer and supplier of electricity in France and Europe. China's State Grid Corporation of China manages the largest power grid system, spanning 26 provinces and covering 88% of the country's territory. In South Korea, Korea Electric Power Corporation generates up to 93% of the total electricity produced in the nation.

State-owned holding companies also dominate the railway transport sector (China Railway Corporation, Indian Railways, Deutsche Bahn AG) and utility services such as water supply, gas supply, and telecommunications (Beijing Enterprises Water Group, La Poste, Qatar Petroleum, and others) [9].

Table 1 provides a summary of the financial performance of the world's largest state-owned holding companies.

Table 1. The World's Largest State-Owned Holding Companies in 2022

| Company Name | Industry and country | Total Assets, \$bn | Net Income, \$bn | Return on Capital Employed (ROCE), % | Number of employees (in thousands) |
|--------------------------------------|---|--------------------|------------------|--------------------------------------|------------------------------------|
| Saudi Aramco | Saudi Arabian Oil Company | 664,8 | 161 | 31,6 | 70 |
| China National Petroleum Corporation | China National Petroleum Corporation (CNPC) | 615,3 | 25,3 | 19,2 | 1 090 |
| State Grid Corporation of China | State Grid Corporation of China | 735,4 | 7,2 | 1,7 | 871,1 |
| Sinopec Group | China Petrochemical Corporation (Sinopec) | 380,7 | 8,3 | 14,1 | 542,2 |
| Gazprom | Russian Energy Company | 343,4 | 10,6 | 14,4 | 492,2 |
| Rosneft | Russian Oil Company | 235,7 | 14,3 | 18,7 | 323,9 |

| | | | | | |
|------------------------------|-----------------------|-------|------|------|-------|
| Temasek Holdings | Temasek SOE | 497,5 | 15,5 | 5,6 | 0,9 |
| Kuwait Petroleum Corporation | Kuwait Oil Industry | 164,0 | 8,48 | 1,2 | 22 |
| QatarEnergy | Qatar Energy Company | 162,1 | 42,4 | 26,7 | 12 |
| Petróleos Mexicanos (Pemex) | Mexican Energy sector | 99,7 | 14,3 | 12,5 | 123,8 |

Saudi Aramco, the national oil company of Saudi Arabia, ranked second in the world in terms of revenue in the 2022 Fortune Global 500. It also boasts the world's second-largest proven oil reserves, exceeding 270 billion barrels. China National Petroleum Corporation, China's state-owned oil and gas giant, ranked fourth in the same Fortune Global 500 ranking.

An analysis of the sectoral affiliation of state-owned holding companies reveals their significant presence in the oil and gas sector. This is attributed to the high returns on investment in this field, contributing to economic growth. The oil and gas industry is considered strategically important, and governments seek to control it through state-owned holding companies to ensure national security and economic stability. Revenues from oil and gas exports can significantly replenish state budgets, allowing for the financing of social programs, infrastructure projects, and other priority areas. Control over oil and gas resources also provides countries with the ability to influence global energy markets and achieve strategic advantages in international politics.

Beyond the oil and gas sector, state-owned holding companies often concentrate assets in other key economic sectors, including:

- Energy, encompassing coal mining and processing, as well as nuclear energy.
- Telecommunications, including carriers, equipment manufacturers, and internet service providers.
- State banks and financial institutions, ensuring economic stability and support.
- Construction and management of infrastructure facilities such as roads, bridges, railways, ports, and airports.

Expanding state ownership has a positive impact on key economic sectors in countries such as China, Russia, Saudi Arabia, Singapore, the UAE, Malaysia, and others. Even OECD countries recognize the important role of state-owned holding companies and support their creation as a tool for improving corporate governance. The OECD Guidelines on Corporate Governance of State-Owned Enterprises emphasize the need for centralizing ownership rights, which simplifies decision-making and increases accountability for the holdings' performance [10].

State-owned holding companies also operate successfully in Europe. For example, in Spain, SEPI (Sociedad Estatal de Participaciones Industriales) was established in 1995. Its portfolio includes controlling stakes in fifteen companies and minority stakes in over 100, including Correos (the national postal service), Navantia (a shipbuilding company), and Red Eléctrica de España (an energy company). SEPI makes a significant contribution to the development and competitiveness of state-owned enterprises, ensuring their alignment with national strategic goals [11].

In Italy, until 1992, IRI (Istituto per la Ricostruzione Industriale) managed significant assets in the banking and insurance sectors, as well as investing in engineering, chemicals, and transportation. Today's Italian holding company, Cassa Depositi e Prestiti (CDP), holds

controlling stakes in companies in the energy, telecommunications, and shipbuilding sectors, but its role is limited to passive asset ownership with the goal of maximizing profits. CDP also supports industrial enterprises affected by the pandemic through a €44 billion tranche [12].

The French holding company Agence des Participations de l'État (APE), created in 2004, manages the state's stakes in major French companies such as Air France-KLM, Électricité de France, Orange, Renault, and others. APE actively participates in mergers, restructurings, and capital investments, protecting the interests of the state and maximizing asset value.

In many countries, state-owned holding companies are an effective tool of industrial policy, helping to address global challenges such as climate change, decarbonization, digitalization of the economy, and reducing inequality [13]. State-owned holding companies play a key role in managing economic development, ensuring national security, and social stability.

4 Discussion

This research examined various aspects of the state-owned enterprise model and its impact on economic development, national security, and strategic state interests. The results confirm that state-owned holding companies play a significant role in ensuring stability and sustainable growth in several key economic sectors, such as energy, telecommunications, oil and gas, and infrastructure.

The analysis showed that in countries with high natural resource revenues, such as Saudi Arabia and Russia, control over oil and gas resources through state-owned holding companies allows the state to manage the national economy and actively influence international energy markets. Saudi Aramco serves as an example, holding a pivotal position in the Saudi Arabian economy, ranking second globally in terms of revenue and possessing the world's largest oil reserves.

The research also confirmed the importance of public-private partnerships in managing state assets, which allows for attracting private investment and sharing risks between public and private partners. This contributes to improving the efficiency of state asset management, as exemplified by the Chinese model, where oil and gas holding companies collaborate with the private sector to achieve long-term strategic goals.

A significant finding of the research was the identification of successful examples of state-owned holding company management in European countries. For instance, SEPI in Spain and Agence des Participations de l'État in France have successfully supported national strategic interests through active involvement in key economic sectors. These examples demonstrate that effective management of state assets contributes to addressing important socio-economic challenges such as maintaining employment levels and developing infrastructure.

The study also revealed that countries actively managing their holdings can utilize them as a tool to achieve long-term strategic objectives. Holding companies facilitate not only the management of national resources but also the adaptation of the economy to evolving global market conditions, a crucial factor in the era of globalization.

5 Conclusion

The research has demonstrated that state-owned holding companies play a pivotal role in ensuring economic stability, national security, and strategic development of countries. Their

significance is particularly pronounced in resource-dependent economies such as Saudi Arabia, Russia, and China, where control over the extraction and processing of natural resources enables governments to influence domestic economies and international markets. The ability to generate substantial revenues, which are then channeled into social programs, infrastructure development, and economic stabilization, is a critical element of the success of companies like Saudi Aramco and China National Petroleum Corporation.

State-owned holding companies are not limited to the resource sector. Their presence in sectors such as energy, telecommunications, transportation, and finance ensure the stable operation of infrastructure that is vital to society. For instance, state-owned holding companies in France and Spain actively participate in strategic sectors like energy, aviation, and shipbuilding, thereby strengthening national economies and safeguarding employment.

A significant finding of the research was the confirmation that public-private partnerships are an effective model for asset management, ensuring professional governance and risk sharing. China provides a case in point, where active involvement of private investors and strategic state management enables the implementation of long-term projects with high levels of efficiency.

Furthermore, successful examples of European holding companies demonstrate that centralized asset management through specially created state institutions or funds allows for more effective coordination of actions and supporting the competitiveness of the national economy. This is particularly relevant for countries seeking to reindustrialize and modernize their economies in the face of global challenges.

Finally, the research confirms that state-owned holding companies can be a valuable tool for achieving long-term goals of government policy, such as digitalization, the transition to sustainable development, reducing social inequality, and adapting to demographic changes. Thus, they play a crucial role in sustainable development and maintaining competitiveness on the global stage.

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