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State transformations in the global political economy:

The rise of transnational state capital in the 21st century

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Publication date

2021

[Link to publication](#)

Citation for published version (APA):

Babic, M. (2021). *State transformations in the global political economy: The rise of transnational state capital in the 21st century*. [Thesis, fully internal, Universiteit van Amsterdam].

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Chapter 2: States versus corporations: rethinking the power of business in international politics⁶

Abstract:

Over 25 years ago, Susan Strange urged IR scholars to include multinational corporations in their analysis. Within IR and IPE discussions, this was either mostly ignored or reflected in an empirically and methodologically unsatisfactory way. We reiterate Strange's call by sketching a fine-grained theoretical and empirical approach that includes both states and corporations as juxtaposed actors that interact in transnational networks inherent to the contemporary international political economy. This realistic, juxtaposed, actor-and relations-centered perspective on state and corporate power in the global system is empirically illustrated by the example of the transnationalization of state ownership. This chapter describes how the rise of transnational state capital affects the relations between states and corporations (subquestion two from the introduction).

⁶ This chapter is adapted from Babić, M., Fichtner, J., & Heemskerk, E.M. (2017). States versus Corporations: Rethinking the Power of Business in International Politics. *The International Spectator*, 52 (4), 20-43.

1. Introduction

"[I]t seems to me that so many writers and teachers in conventional international relations are like the orthodox theologians in Galileo's time. They are like Flat Earthers who refuse utterly to recognise that the earth is round and revolves around the sun. Similarly, they refuse to see that the relations between states is but one aspect of the international political economy, and that in that international political economy, the producers of wealth – the transnational corporations – play a key role."

(Strange, 1991, 246)

In her criticism of the state of International Relations (IR) over 25 years ago, Susan Strange directly addressed the discipline's core questions: "What is power in the world system / international political economy? And who has it?" (ibid.). She compellingly argued that if IR is serious about developing an answer to these fundamental questions, the discipline necessarily needs to integrate international business and its growing power into the investigation of international politics. Failure to do so not only leads to a partial and incomplete understanding of global power relations, it also gravely diminishes our ability to develop valid explanations of why we see particular outcomes of this global power play: who wins and who loses. Writing in the closing decade of the 20th century, Strange registered that the ongoing rise of big multinational corporations (MNCs) as well as similar developments, such as the emergence of a global and highly concentrated professional corporate service industry, fundamentally altered the power balance in the international political economy.

Yet, Strange's *cri de coeur* has left the discipline largely unaffected; the role of business as a transnational actor has remained a side phenomenon in the study of international politics. Every now and then a disturbing study underscores the ongoing importance of Strange's critique, ranging from Naomi Klein's *No Logo*, to the study by Stefania Vitali *et al.* showing that nearly 40 percent of the control over the economic value of MNCs in the world is held, via a complicated web of ownership relations, by a group of only 147 MNCs (Klein, 2000; Vitali *et al.*, 2011). But besides these revealing yet piecemeal contributions, the corporation has yet to emerge as a broadly accepted and systematically analyzed object of research in international politics. This bias is problematic, given the sizable increase in significance and power of internationally operating corporations *vis-à-vis* nation states in the course of globalization (Brinkmann & Brinkmann, 2002), as well as the fundamental role of big corporations in shaping neoliberal capitalism since the 1980s (Crouch 2011, 49; Carroll, 2010; van Apeldoorn, 2002). The transnationalization, or de-nationalization, of production and finance has created new and growing opportunities for firms to shift production, participate in complex global value chains that are difficult to regulate, and circumvent state attempts to regulate and tax corporate activities. As a result, big business has developed a profound structural power position on the global scale (van Apeldoorn & de Graaff, 2017; Winecoff, 2015; Fuchs, 2007; Marsh & Lewis, 2014). This implies a permanent

transformation of the relations between state and capital (van Apeldoorn et al., 2012), especially in international politics. State and corporate power are no longer exclusively exercised in the iron cage of the nation state, but in the overarching sphere of global capitalism.

These recent developments in global politics are at odds with the persistent shadowy existence of the study of corporations in the disciplines of IR and International Political Economy (IPE). We therefore seek to contribute to the systematic study of corporations and corporate power in international politics by providing researchers with an updated view on global power relations research, in which corporations are taken seriously. To be clear, we do not argue that corporations are not taken seriously at all in the extant literature. In it, we see two major opposing perspectives in IR and IPE regarding the role of multinational corporations in the global system. Neither account, however, conforms to Strange's call in a satisfactory way as both study corporate and state power as one predominating over the other. On the one hand, there is substantive work on the role of MNCs in the international state system pioneered by scholars such as Raymond Vernon or Robert Gilpin (Vernon, 1971; Gilpin, 1976; 1987). This 'classical' IR perspective understands multinationals as subordinated to state power: at most, they influence the relations between states, but are not perceived as juxtaposed actors in the system. We see this as a dominantly state-centric view. On the other hand, scholars of transnational capitalism (Robinson, 2004) or global governance (May, 2015) theorize corporate power beyond the nation state. Especially the transnational capitalism perspective considers corporate power and, with it, transnationally organized power as the primary factor in the era of globalization (Sklair, 2001). State power here is limited and constrained vis-à-vis the mobility and agility of transnational capital that is detached from the old world of nation states. While state-centrism runs the risk of understating corporate power in contemporary international politics, transnational capitalism's convincing observation that the "nation state phase of capitalism" (Robinson & Harris 2000, 17) is over implies that the role of states in global capitalism has ceased to be relevant to understanding global power relations.

We believe that in order to advance our understanding of the role of business in international politics, we must establish a dialogue between these two perspectives. We aim to contribute to this dialogue with a set of theoretical and methodological interventions and suggestions. The three theoretical interventions we make are, first, that the study of international politics needs to be made more *realistic* by integrating corporate power into its analyses; second, that corporations should not be studied as subordinate, but rather as *juxtaposed* to states in the global system; and third, that these analyses need to be *actor-and relation-focused*, that is, they have to incorporate agency and structural features of the global system. Our main methodological intervention is to depict these three characteristics with a network-analytical approach that can be applied to the study of large sets of different relations between state and corporate power in the global system. Our approach thus consists of three theoretical

extensions and their respective empirical implementations, which can be summarized as *realistic, juxtaposed, actor- and relations-centered* perspective on state and corporate power in the global system. It helps us to understand power in international politics in a specific and at the same time systematic way.

The following analysis thereby exemplifies a key concept delineated in Chapter 1 of this thesis, namely the idea of a transnational agency space. The power relations which states and corporations are engaged in do not take place in a vacuum, but in the sphere of global capitalism. To locate those relations in a transnational agency space is not only an intellectual game, but eminently important if we seek to create a basis for empirically analyzing those relations. By building the analysis on the non-geographical space where states and corporations engage with each other, the conceptual value of the transnational agency space is empirically illustrated in this chapter.

We proceed as follows. The next section positions our approach as advancing and bridging the literature on corporate power in international politics. The subsequent section provides an empirical illustration of our suggested approach, highlighting a typically overlooked phenomenon in international politics: how states can potentially use state-owned enterprises not only in their domestic policies, but also how those enterprises themselves create reverberations for international politics when they transnationalize. This illustrates the specific power relations arising out of the networks in which states and corporations are tied together in global capitalism, relations that are not one-dimensional but multi-faceted: states and corporations are not subordinate to each other, but juxtaposed and intertwined; they use each other to increase their respective power positions. As such, we sketch a starting point for further research on the power of business in international politics, which will hopefully lead to a better understanding of the complex power structures that shape the contemporary international political economy.

2. State power, corporate power and international politics revisited

It goes largely undisputed that states and corporations are interdependent. Corporations rely on the state for the provision of security and the enforcement of property rights in order to be able to engage in business transactions. At the same time, states also depend on corporations for the employment of their citizens and as a basis for taxation. But the role of corporations in international politics remains a neglected issue. We distinguish between two major positions that theorize and investigate the role of corporate power in the analysis of international politics: on the one hand, the state-centric view pioneered especially by Robert Gilpin and, on the other, the transnational capitalism perspective exemplified by the work of William I. Robinson (Gilpin, 1976; 1987; Robinson, 2004). While the state-

centrists emphasize the analytical priority of the nation state, the transnational capitalism approach downgrades its relevance for the analysis of globalization. In this sense, both positions take different stands towards Strange's core question of who holds power in the international system. Both are of course ideal-typical summaries of more differentiated accounts, but they represent the main alteration of thinking that occurred with the breakthrough of globalization in the 1980s.

We acknowledge that there are more variations and relevant positions than our idealized two: approaches like James H. Nolt's "corporatist" re-calibration of business power within the history of IR stand somewhere between the aforementioned positions (Nolt, 2015). But, as will become clear in the following, our primary focus is not to renew IR theory, but to bring back the relevance of MNCs in international politics. To achieve this, we provide arguments for a dialogue between two positions that analyze this phenomenon from their specific angle. Nolt – and others, like Jeffrey Frieden (Frieden, 1988) – analyze the translation of business power from domestic into international politics. We, however, narrow our focus down to the core question of understanding the role of corporations as *actors within global power relations* from a pragmatic and constructive angle.

2.1 State-centrism and the challenge of multinational corporations

Exponents of the state-centric perspective provided some of the first comprehensive analyses of the role of multinationals in international politics. Coming from the postwar period of "embedded liberalism" (Ruggie, 1982), Raymond Vernon's seminal study laid out the multifold challenges for the nation state system arising from the growth of MNCs (Vernon, 1971). In the very state-centric postwar world, shaped by capital controls, fixed exchange rates and limited free trade agreements, the nation state was able to regulate the national economy often via corporatist arrangements as in Western Europe. This changed with the end of Bretton Woods in 1971 and major advances in information and communication technologies; the transformations in international patterns of production led to the breakup of obstacles for cross-border financial flows (Cox, 2012, 3). This profound structural change enabled corporations to internationalize: the flow of foreign direct investment (FDI) doubled from 1972 to 1975⁷ and rose to unprecedented levels in the coming decades; the transnationalization of production accelerated and MNCs became a major force in the new era of financialized capitalism.

With this change in power relations away from the nation state, Vernon proposed to understand the realm of nation states and the realm of multinationals as "two systems [...], each potentially useful to the other, yet each containing features antagonistic to the other" (Vernon, 1971, 191). The aim of his

⁷ See World Bank Open Data (<https://data.worldbank.org>).

approach was to outline the tensions and possible solutions that accompany the relations between these “systems”. But, although they were named multinationals, the companies Vernon and other scholars theorized about were mostly a North Atlantic phenomenon: until the late 1970s, the global FDI stock was largely split between the US, UK and the Netherlands (Jones, 2005, 88; see also van der Pijl, 2012).

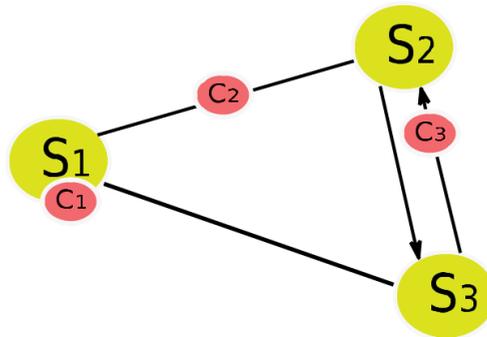


Figure 1: *State-centric perspective on state and corporate power in the international system. S_x represent states, C_x corporations. The relation between states can be conflicting (as between S_2 and S_3), cooperative (as between S_1 and S_2) or neutral (as between S_1 and S_3). Corporations can play different roles, such as being shared by S_1 and S_2 (C_2), used by S_3 against S_2 (C_3) or used as an asset (“national champion”) of S_1 (C_1).*

Furthermore, it was the American state that successfully managed to transform the Bretton Woods order into the subsequent structure of neoliberal globalization (Panitch & Gindin, 2013, 147). Consequently, IR scholars at that time pointed out that “the MNC exists as a transnational actor today because it reflects perceived national interests of the world’s dominant power, the United States” (Gilpin, 1976, 190). The “two systems” perspective was thus nuanced by a more state-centric view of the role of the MNC, which emphasized American hegemony in combination with corporate power as the main driver of globalization. Gilpin summarized the development as “a complex pattern of relationships among corporations, home governments, and host countries that has increasingly politicized foreign investment both at home and abroad” (Gilpin, 1987, 262). Although recognizing the potential power of the MNC, this perspective can be evaluated as redefining national sovereignty in early times of globalization. Thus, although redefined, sovereign states remain the main actors in the international system.

Figure 1 represents the state-centric idea of the international environment as dominated by the nation state. In this realist and state-centric perspective, the role that corporations play is, at the most, one

that influences the relevant relations between states, which can be, broadly speaking, cooperative, conflictual or neutral. Corporations can, for instance, be used to enhance relations between two countries (S1 and S2 in Figure 1) or to promote the geopolitical interests of state S2 against state S3. Although the contributions of scholars like Gilpin and Vernon, as realist international political economists interested in the subject of rising corporate power, were early works, the state-centrism in this perspective has not changed substantially since then. “The role of actors other than states” is described by Robert Keohane in 2009 as one of the major challenges that “IPE should come to grips with” (Keohane, 2009, 34). While posed as a task for the future of the discipline, there is ample evidence that this future is already here.

2.2 Transnational capitalism perspective: only corporate power counts?

Scholars of transnational capitalism started to reject this state-centrism in critical accounts of the changing international environment in the 1980s and 1990s. In particular, they pointed at the growing size and overall dominance of corporate actors in the global political economy. As the global FDI stocks (as a percentage of world GDP) grew exponentially after the end of the Cold War (and more than doubled by the end of the decade) (Subramanian & Kessler, 2013, 40) and transnational business communities started growing closer together, the emerging new world economic order was dubbed “transnational” or “global” capitalism (van Apeldoorn, 2002; Sklair, 2001; Robinson & Harris, 2000; Robinson, 2004; Carroll & Fennema, 2002; Carroll, 2010).

A key driver behind this accelerated corporate internationalization is the growing number of cross-border mergers and acquisitions (M&A). Figure 2 shows how worldwide M&A has skyrocketed from around USD 500 billion per annum in the early 1990s to peaks of nearly USD 5,000 billion in 2007 and 2015. Concomitant to the persistent trend of growing overall worldwide M&A, the share of cross-border deals has continued to increase steadily since the 1980s and is, for the first time, approaching 50 percent in 2017. This surge in M&A has contributed to the development that large MNCs have become bigger than most states in terms of revenue.

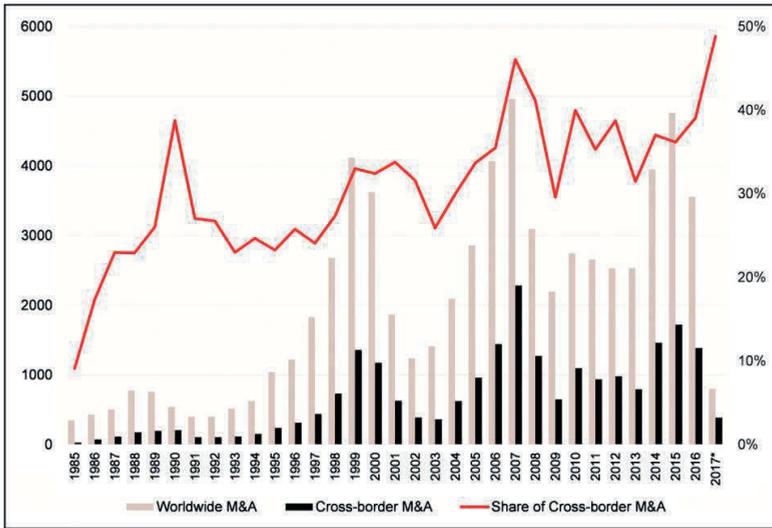


Figure 2: Global mergers & acquisitions 1985-2017 (bn USD). Note: Data for 2017 is for the first quarter. Source: Calculations by the authors based on Institute of Mergers, Acquisitions and Alliances, “M&A Statistics”, <https://imaa-institute.org/mergers-and-acquisitions-statistics/>.

The transnational capitalism literature looks at this growing transnationalization from a perspective of transnationally integrating (and contested) hegemony, which also includes transnational elites (Gill & Law, 1989). The “new constitutionalism” is advanced by these transnational elites, institutionalized global governance, and legal practices that are often separate from the direct influence of nation states and their electorates on a global level (Gill & Cutler, 2014). Hence, the comparatively high mobility of capital and organizational capacity of transnational elites changes global power relations in such a way that states can no longer be seen as the only relevant actors within this structure. In addition, more governance-oriented scholars point out the role of production and wealth networks in which corporations are embedded and which define the space required for exercising corporate power (May, 2015; Seabrooke & Wigan, 2017). These views of a new power position of corporations within the historical structure of transnational capitalism emphasize the relative autonomy of the firm vis-à-vis other social forces, especially the state. Thus “much of the time, within their own networks [firms] are the primary agent of governance and not necessarily dependent on other actors or social institutions for their legitimacy” (May, 2015, 9). This notion of a transnational terrain of power and contestation put forward by the transnational capitalism literature is captured in the concept of a transnational agency space as described in Chapter 1.

Fig. 3 describes the transnational capitalism perspective. Under this umbrella, we summarize all accounts that in one way or another understand corporate power as dominating the global

environment today. Besides the seminal work of Robinson (Robinson, 2004), this also includes other critical IPE perspectives like those of Stephen Gill and A. Claire Cutler (Gill & Cutler, 2014), class-analytical analyses like those of Leslie Sklair (Sklair, 2001) and network-oriented accounts of global corporate power (May, 2015; Carroll, 2010; Dreiling & Darves, 2016; Winecoff, 2015). These perspectives emphasize the dominance of corporate power within transnational capitalism. The relevant corporate actors are more or less detached from the respective nation states and dominate international politics as their owners and managers are tightly interwoven with state elites. The centers of power are moved to the transnational level, where national regulations and controls are suspended or at least limited in a transnational agency space.

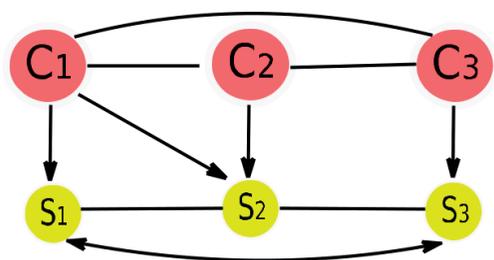


Figure 3: *Transnational capitalism perspective on state and corporate power in the international system. Sx represent states, Cx corporations. Corporate power is mostly detached from the realm of international politics and is exercised upon states. Relations between states (for example conflicting between S1 and S3) and corporations (for example neutral between C2 and C3, cooperative between C1 and C2) exist separately.*

3. Towards a realistic understanding of corporate and state power

Proponents of both the state-centric and the transnational capital perspective have good arguments to support their particular view of contemporary power relations in the global political economy. From a state-centric view, the transnationalization of production does not imply the end of the nation state: there is substantial evidence that (some) states, as a specific form of political organization, can translate their power into the new era of global capitalism. Sean Starrs (Starrs, 2013) and Jan Fichtner (Fichtner, 2016), for instance, have shown how transnational capitalism led to the *globalization* of American economic power rather than to its decline. And arguably, the most relevant challenge to US hegemony is not a multinational, but the Chinese state. States also remain dominant players vis-à-vis corporate actors in certain strategic sectors through sovereign wealth funds (SWFs) and state-owned enterprises

(SOEs). At the same time, the arguments for the transnational capitalism perspective are that the new global constellation structurally favors corporations over states. This shift has enabled the much more flexible and agile MNCs to influence global power relations in ways that increasingly diminish the agency of states in international politics⁸. The resulting transnational agency space is occupied by corporate elites, professional corporate services and transnational patterns of production, trade and ownership that exclude (nation) state power to a great extent. In sum, the globalization process has restricted the nation state's space for agency and increased that of the MNC.

Given this, there can be no serious empirical or theoretical doubt about the change in power relations between corporate and state power in the last decades. Our approach hence acknowledges the changed, but still relevant role of nation states on the one hand, and the profound structural transformation into transnational capitalism on the other. Our basic argument is that the specific dynamics playing out within these power relations need to be understood and explained in their actual context: even though we live in a world of transnational capitalism, state power has not disappeared, but merely been transformed. Contemporary phenomena in international politics are in this sense never determined by either state or corporate power, but need to be examined as shaped by power relations between the two of them. How exactly state power transforms and enters the transnational agency space as state-owned capital is closely delineated in the following two chapters.

To delineate our point, we first state the theoretical considerations that propose answers to the questions of who holds power in the global system, how these actors are to be framed analytically and how they are related to each other. Second, we outline an empirical strategy to identify and analyze the power relations between these actors in different situations with regard to international politics. This results in four core elements of our approach, of which three are theoretical and one the empirical consequence of these. They are meant to bridge the discussion between the two positions and lead to our *realistic, juxtaposed and actor-relations focused approach* to international power politics.

First, regarding the *realistic* element of our approach, we understand the underlying realism of state-centrist accounts as a necessary element of corporate and state power in international politics. Power, interests and hegemony are for us the prevailing motives for (structural) change in the international environment. In this sense, we adopt parts of the realists' assumption about the nature of (international) politics. At the same time, we connect this realism to transnational capitalism's major contribution: the theoretization of the role of corporate power. We do not assume that the reasons corporations and states are engaging in the global system are identical, but that they are both driven

⁸ For offshore finance and corporate power, see especially Zucman 2014. For the role of corporate power in the European Integration process, see van Apeldoorn 2002.

by motives of interest enforcement and power extension. Where these interests meet or collide is where we can analyze them as phenomena of international politics. We thus extend the realist framework to the corporation as an actor in the international environment and consequently frame our approach as a realistic perspective.

Second, this realistic perspective leads to a *juxtapositioning* of state and corporate actors as two relevant and empirically specifiable actors for the study of the international political economy. This bridges the state-centric idea of the relevance of identifiable actors and transnational capitalism's emphasis on corporate power in international politics. We stress that this does not imply a complete similarity of state and corporate power (they are not 'the same'); but that the concrete (empirical) constellations in which they meet, compete or cooperate for power should be analyzed without predetermining these power relations. In this sense, this juxtaposition is dynamic: in some cases, states are able to control corporations (as with state ownership) and in others corporate power is able to prevail over states (as may be the case with offshore finance⁹). We thus integrate corporate power in international politics by giving it a relevant place as a juxtaposed actor and do not subordinate it automatically to state power.

Third, and related to the juxtaposition factor, we draw attention to the relevance of the *relations* between the juxtaposed actors as crucial for the analysis. These relations together constitute networks, reveal systematic patterns of action and strategy and allow for a comprehensive analysis of global relevance. This bridges the actor focus of state-centrism with the more network-oriented analyses of the transnational capitalism perspective. We thus suggest that recognizing the networked character of globalized power relations in which states and corporations are embedded as actors requires a theoretical and empirical focus on these relations rather than on the isolated strategies and attributes of the single actors.

Fourth, and related to the third point, we use network analysis as the main tool to analyze these power relations. By framing states and corporations as actors (realistic), using a bottom-up, data-driven approach (juxtapositioned) and depicting global power relations in networks (actor-relations focused), we propose a fine-grained, precise and empirically rich way of understanding the role of states and corporations in contemporary international politics. Network analysis, as a tool to represent empirical reality, thus comes closest to our theoretical considerations explained above. In addition, recent advances in network analytic techniques combined with rapidly emerging new and large relational datasets on state and corporate behavior now open up new avenues for systematic, empirical research

⁹ Novel insights on the interplay between (offshore) jurisdictions and MNCs can be found in Garcia-Bernardo et al. 2017.

into global power relations. This can include various relations such as ownership relations, value chains, shared elite members, membership in international organizations, policy planning groups and so on. We utilize the recent coming together of large datasets on corporate ownership and new analytical methods for large-scale (network) analysis (Heemskerk & Takes, 2016; Heemskerk et al., 2018; Vitali et al., 2011).

The fine-grained, firm-level large-scale data we are now able to study allows us to understand global power relations systematically and comprehensively. Furthermore, this thorough empirical focus closes a methodological gap that accompanies analyses of global capitalism, namely the use of national-level data to explain transnational trends. With new large-scale *firm-level* data, we can now use a bottom-up approach that avoids the national/transnational divide and analyses the relations directly instead of indirectly using national statistics¹⁰. With respect to the other two positions described, our approach can thus be represented as follows and as shown in Figure 4.

MNCs and states are, in this sense, foci of social forces competing for power and enforcement of their interests within global capitalism. They are embedded in relations represented as networks of power that combine different features, that is, they can be ownership, elite and/or other networks. This implies going beyond the popular idea of states and 'markets' as opposed principles or systems in the international environment. Figure 4 represents this realistic perspective. We do not frame corporations as subordinate, but juxtaposed to states in the global system. Likewise, we understand the relations between them as varied: a state-owned corporation C1 could be cross-border owned by state S1 and thus support the geopolitical ambitions of S1 against state S2. Likewise, state S3 could be threatened by the activities of C1 and decide to join S2 in antagonizing C1. One step further, multinational C3 could use the jurisdiction of S1 for tax avoidance, which leads to an advantage over its competitor C1 and so on.

¹⁰ For a discussion and application of this approach with regard to global elite formation, see Heemskerk et al. 2016.

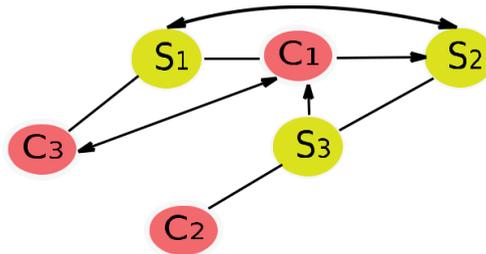


Figure 4: A realistic perspective on state and corporate power in the international system. *C_x* and *S_x* are corporate, respectively state actors that meet each other as juxtaposed in the global system. The resulting relations can be conflicting (for example C1 and C3), cooperative (for example C2, S3 and S2) or neutral.

Our theoretical extensions and empirical implementations are summarized in Table 1. Taken together, the theoretical elements and their empirical implementation bridge rather separate accounts of international politics and can thus help to lay out a research agenda that recognizes and places corporate power research in the realm of international politics in a comprehensive, fine-grained and empirically and theoretically powerful way. Within this framework, states and corporations can both subjugate or dominate each other in specific constellations. In the following section, we exemplify the case of state ownership and its consequences for global power relations. As we will see, these relations are not merely one-dimensional, but involve patterns of mutual dependency and domination: states can own and control firms in order to participate in global capitalism; and firms can create ties through internationalization that have a feedback on state power. In this sense, our example is a site of inquiry, where we can observe this two-way nature of relations between state and corporate power within global politics.

Extension	Theoretical Reasoning	Empirical Implementation
<i>Realistic approach</i>	Bringing in state-centric realism and extending it to the role of corporate power.	Framing both states and corporations as relevant actors within global relations.
<i>Juxtaposition of states and corporations</i>	Understanding the global environment as agency space for different actors that are not per se different in their abilities to exercise power.	Bottom-up, data-driven approach: assumed power capacities are case-dependent and not to be determined prior to the analysis.
<i>Actor-relations focus</i>	International actors are always related to each other and these (power) relations are instructive for the analysis.	Using a network approach and studying these networks in order to understand global power relations.

Table 1: *Our theoretical and empirical contribution for a dialogue between state centrism and corporate power research.*

4. State capitalism and the global network of transnational state-owned enterprises

In recent years, different ‘emerging powers’ such as Brazil, China or Russia have been associated with a development model that embraces high degrees of corporate state ownership. Often framed as alternatives to an ideal-type of free market capitalism, scholars have labelled these models as “state capitalism”, “political capitalism” or “state-led market economy”¹¹. At their core, these labels suggest a growth model that stands in contrast to ideal-type Western liberal economies; one that is characterized by “a variety of formal and informal cooperative relationships between various public authorities and individual companies” (Nölke, 2014b, 4).

State capitalism is typically studied from a comparative capitalism (CC) perspective that analyses particular institutional settings encompassing the formal and informal relationships between business and the state, such as high levels of state ownership, low labor protection standards and comparatively lower inward FDI levels (Nölke et al., 2015). The main interest lies in understanding the specificities of the institutional arrangements within particular countries, in line with the varieties of capitalism literature (Hall & Soskice, 2001; Becker, 2013). While this is certainly a valid approach, it leaves us with little understanding of the consequences of state capitalism for international politics. How can we explain global political economic dynamics; what are their forms and effects? Existing accounts discuss

¹¹ Respectively Mussachio & Lazzarini, 2014; Schwartz, 2012; Lambin, 2014.

these questions on a rather unsystematic level. Diagnoses like the “return of statism” (Kurlantzick, 2016) or the “end of the free market” (Bremmer, 2010) warn that the rise of state capitalism has severe implications for international politics. But the rather anecdotal evidence and ambiguous concepts do not capture the specifics of these state-corporate relations and their consequences for the global political economy.

The state capitalism literature can in this sense be regarded as a good testing ground for our approach: the CC-literature, on the one hand, regards the transnational mainly relevant as consequence of national institutional varieties, while on the other hand the existing literature on the inter- and transnational aspect of state capitalism remains rudimentary in its analytical scope. In accordance with our actor-relations approach, we suggest to go beyond the state capitalism literature and empirically analyze the transnationalization of *state capital* in the form of *state ownership* of firms. This makes it possible to re-focus away from the specificities of particular national political economies (the domain of CC) to the global sphere, and hence foreground the need for the research of systemic consequences of state capitalism. We understand both states and corporations as *actors* that enforce and enable the transnationalization of capital. The translation of the geopolitical (or financial or other) interest of states in the global system can be advanced via transnational state-owned enterprises (TSOEs), but then states are dependent on the ability, performance and will of corporations (or, in fact, their managers) to do so. This is therefore not a one-way relationship and both actors are therefore juxtaposed.

Utilizing the recent wealth of available data on corporate ownership, we can now map SOEs, and in particular globally active TSOEs, comprehensively. With this, we are able to develop a systematic empirical analysis of how state capitalism plays out in the global political economy. Our account serves to illustrate the benefits of our realistic actor-relations approach. Our findings reflect the *potential* structural power positions of states and corporations in the global system. We consequently do not engage in detailed discussions, whether this is an expression of *actual* geopolitical strategy by those actors or not. In fact, the discussion as to what extent TSOEs influence the economy of other states and are a means toward achieving geopolitical goals creates a lot of controversy (Sultan Balbuena, 2016). In order to answer this, we would need to investigate the details of this phenomenon, for example, what (sectoral) strategies states apply, which specific corporations are involved, how they behave strategically and so on. This type of work is conducted in chapters three and four. The following depiction of outgoing and incoming state investment *illustrates* how relations between two (or more) states can potentially be affected by the positioning and agency of the actors involved (states and corporations) in the international environment.

4.1 Outward investment: which states own globally?

Figure 5 presents an original snapshot of the extent of transnational state-owned enterprises across the globe. We trace those corporations that are majority-owned by a state (a state is the ultimate global owner with 50.01 percent ownership or more) and have an operating revenue of more than zero. In doing so, we make sure that the TSOEs we include are definitely under state control (which is not always the case for under 50.01 percent ownership), actually exist and are relevant firms with an operating revenue. For practical purposes, in our analysis of TSOEs we disregard the many differentiations between various existing state ownership models. We consider all possible ownership relations, be they direct ownership, or through investment vehicles, pension funds, one or multiple state agencies, SWFs and the like. We retrieved data on corporate ownership from Bureau van Dijk's ORBIS database, which includes information on approximately 200 million firms worldwide¹².

Through our approach, we were able to identify 258,215 state-owned enterprises worldwide, of which 77,921 have an operating revenue of more than zero. The large majority of SOEs operate domestically in typical sectors of public services such as utilities, healthcare and transportation. However, a sizable group of state-owned enterprises are qualitatively different as they operate in foreign countries. We were able to identify 5,994 cases of such TSOEs. A TSOE can be seen to create a direct tie from the state that owns the company to the state where the SOE is based. Both figures 5 and 6 give a visual representation of this network of 5,994 TSOE ties.

Figure 5 shows the extent of cross-border state ownership globally. We can clearly identify the dominant position of China, which owns about 19.5 percent of all TSOEs (Table 2). This empirically corroborates other accounts of the role of the state in the Chinese economy and its internationalization strategy (McNally, 2012). Equally, the central position of Russia (owning 9.5 percent) reflects the Russian model of state-centric economic development, including strong ownership ties to Ukraine, Turkey and Cyprus. Perhaps more strikingly, we recognize a central position of core European countries, with France owning 14.5 percent of all TSOEs, and Germany 7.7 percent. This strong position of the two core countries in Europe echoes the traditionally strong role of the state in these coordinated market economies. A closer look reveals that the majority of French and German TSOEs are focused on the transportation sector (222 ties from Germany, 360 from France). In the German case, these ties are foremost formed by Deutsche Bahn's subsidiary, Schenker, which is also the top company in terms of operating revenue.

¹² <https://www.bvdinfo.com/it-it/our-products/company-information/international-products/orbis>. See Garcia-Bernardo & Takes, 2018, on the issue of data quality.

This first mapping of cross-border state ownership already reveals that the TSOE phenomenon clearly goes beyond emerging markets and is prevalent in the industrialized West as well. Interestingly, the other two BRIC countries show comparatively low numbers. Brazil, with 0.5 percent, and India, with 0.38 percent, are far from being as dominant international owners as China and Russia. The BRIC narrative thus does not hold true for the global picture of internationalized state ownership.

The set of TSOE relations binds these countries together in a global network. Obviously, some states are more connected to each other than to others and assembled in pockets or communities in this network. We used a community detection algorithm to identify those states that are more invested in each other¹³. The nodes in Figures 5 and 6 are colored¹⁴ by their community membership. The community structure again underscores China's global dominance: the Chinese-led Asian community (color: red¹⁵) reaches out to South America, Africa and Australia, so Chinese state ownership is geographically widely spread. As an example, China owns 5.2 percent of all TSOEs in the Anglo-American sphere of influence¹⁶, and also reaches out to Brazil and central Europe. Another striking feature of the community structure is the focused North European group (blue¹⁷) and the far more extensive West European/African/Middle Eastern group (purple¹⁸) with Germany and France, respectively, as dominant owners. The blue group is restricted to Germany, Scandinavia, the Baltics and parts of Eastern Europe, whereas the France-dominated purple group reaches out to Africa, the Middle East, and North America. Russia (green¹⁹) is a big, but locally limited owner without relevant far-reaching ties. Similarly, the orange group entailing Austria and some central Eastern European countries forms a regionally focused community. This cluster entails the former Yugoslavian republics and thus reflects the still relevant economic ties between those countries.

¹³ For related examples of this approach, see Heemskerk & Takes, 2016; Heemskerk, Fennema, & Carroll, 2016.

¹⁴ In the printed version, the nodes have different layouts instead of colours

¹⁵ In the printed version: grey nodes with slightly dashed border (like CN).

¹⁶ We framed the following countries as belonging to Anglo-America: Australia, Bermuda, Canada, United Kingdom, Ireland, Cayman Islands, the US and Virgin Islands. For a deeper discussion see Fichtner, 2016.

¹⁷ In the printed version: grey nodes without border (like DE).

¹⁸ In the printed version: square, grey nodes without border (like FR).

¹⁹ In the printed version: grey nodes with strongly dashed border (like RU).

	Country	Outdegree (weighted)
1	China	1168
2	France	870
3	Russia	564
4	Germany	461
5	Arab Emirates	305
6	Austria	197
7	Singapore	195
8	Norway	162
9	Finland	161
10	Sweden	134

Table 2: *The top 10 global owners by weighted outdegree. Source: This table is based on the calculations from the analysis in Figure 5.*

4.2 Inward investment: where do states own globally?

We now turn to the other side of TSOE investment, namely its target states, and thus complete the network-perspective on TSOE relations. In Figure 6, the node size indicates how popular a state is as a target for TSOE investments by other states. It highlights that, in general, transnational state ownership flows into rather ‘safe’ jurisdictions, with European countries making up the majority in the Top 10 (Table 3), while Anglo-America remains also popular (the UK and Australia in the top 10, and the US 13th and Ireland 15th) (Fichtner, 2016).

Both Germany and France are preferred destinations of TSOEs. Besides being active transnational owners, the core European countries seem to attract state capital systematically and thus form “hubs” for transnational state investment. This is in line with recent observations that German and French policymakers show high interest and support for overseas SWF investments in their economies as a source of patient capital (Thatcher & Vlandas, 2016) (and portfolio investment was not even included in the analysis, something that would probably have strengthened the tendency).

The case of the Ukraine (5th in indegree) is mostly explained by a high number of Russian TSOEs, ranging from energy companies to banks. Other non-European countries such as Brazil also appear as a preferred destination, especially for Chinese TSOEs, which might have further implications for the BRIC perspective: what does it mean for the power relations between two members, if one is heavily invested in the other? At the beginning of 2017, the Chinese TSOE State Grid – the largest utility company worldwide and in 13th place on the largest states/corporations list (see Table A1) – took over

the third largest Brazilian energy firm, CPFL. Further important Chinese overseas investments in Brazil are food giant COFCO or Sinochem Brazil. Whether these kinds of activities should be understood as enhancing economic cohesion or as a leveraged Chinese power position towards Brazil, needs to be determined in more detailed studies.

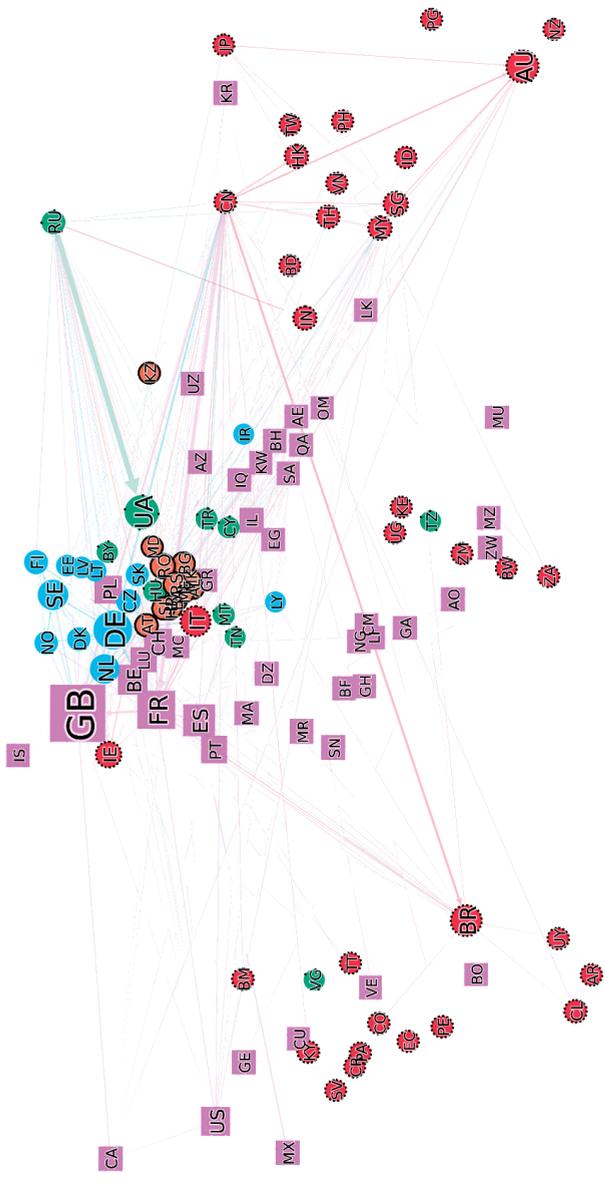


Figure 6: The global network of transnational state-owned enterprise by weighted indegree. A directed edge exists if a state (sender) owns a corporation that is domiciled in another state's territory (receiver). Edges are weighted by the number of TSOEs. Node size is proportional to weighted indegree. Node color (in the printed version: node layout) reflects community membership based on modularity maximization. Edge color reflects receiver's country community (not in the printed version). Note: The layout is Gephi's Geolayout, so the position of the nodes represents their geographical location.

	Country	Outdegree (weighted)
1	United Kingdom	841
2	Germany	476
3	France	375
4	Ukraine	346
5	Australia	296
6	Brazil	262
7	Sweden	252
8	Italy	235
9	Netherlands	231
10	Spain	207

Table 3: *The top 10 of global state ownership target states by weighted indegree. Source: This table is based on the calculations from the analysis in Figure 6.*

5. What does this mean for international politics?

For the study of international politics, four major points can be derived from this explorative but systematic inward and outward state ownership analysis. First, the role of the ‘statist’ BRIC countries needs to be put into perspective, since only China and Russia appear to be seriously involved in transnationalization through TSOEs. The notion that these countries represent a major bloc challenging the ‘Washington consensus’ free-market politics is, in this perspective, possibly overstated. Reasons for this comparatively low involvement of Brazilian and Indian TSOEs may be that, as in the case of Brazil, a large part of state participation stays under the 50 percent ownership threshold (as in the cases of the mining multinational Vale or meat producing giant JBS, with lower state stakes). Further research, incorporating different threshold ownership levels or case studies can shed more light on state transnationalization through minority ownership investments. This task is taken up in the next chapter, which covers all ownership levels.

Second, China dominates the network with its globally widespread TSOEs. This includes subsidiaries of conglomerates such as the mentioned State Grid or Sinochem Group, but also acquisitions like the Italian tire manufacturer Pirelli. The strategy of state-led transnationalization has been investigated in the case of National Oil Companies, which is closely tied to geopolitical ambitions of energy security²⁰. This explains only one part of the complete cross-border state ownership picture, however, which needs to be analyzed further (see also Meunier et al., 2014). Given the widespread ownership profile,

²⁰ See for example the contributions by de Graaff, 2011, as well as Amineh & Guang, 2014.

we can conclude that Chinese TSOEs give China a strong base in the global environment. The following two chapters, which use a much larger database, corroborate this finding.

Third, we see that the phenomena of transnational state ownership (and its hosting) are not restricted to state capitalist countries, but are to be found in Europe. Germany and France have a strong focus on the transportation sector in their cross-border state ownership and also function as hubs for inward and outward state investment as they are the preferred targets of non-European state ownership investments (especially China and Russia). The centrality of Europe as a target of foreign state investment on the basis of majority ownership stakes (like it is the case for TSOEs) is closely analyzed and discussed in Chapter 4.

Fourth, the preferred targets of state investment remain safe jurisdictions like European core countries and the Anglo-American sphere. This suggests that state ownership transnationalization is strongly connected to the structure of transnational capitalism: TSOEs target the same safe havens as non-state investment. As Robinson argued for the transnationally oriented BRICS elites (Robinson, 2015), this integration into already existing structures of the global economy can be observed for different segments of 'statist' economies. From this, we can conclude that states use TSOEs to integrate into the global economy, thereby using the transnational agency space created by neoliberal globalization (see Chapter 1). Chapter 4 demonstrates, which segments of the global economy are targeted by which types of state investment, with Europe being the destination of majority investment, while North America remains the target of portfolio inflows.

This empirical exploration underscores, how a realistic, actor-relations oriented framework helps to develop a practical, systematic, and original empirical strategy to study global power relations. The creation of politically relevant ownership ties requires both, state ownership of TSOEs as well as the corporations themselves to be set up cross-border. This indicates, how state power is being transformed through the rise of corporate power within a transnational agency space.

This exploration as conducted here also has two major limitations: first, it does only incorporate one type of ownership level (majority ownership). This limits the analysis to TSOEs, which is only one segment of the totality of transnational state ownership. Chapter 3 remedies this constraint by incorporating a broader databasis in their analysis. Second, the analysis takes state-to-state-ties as the basis for exploring the impact of TSOEs on international politics. This approach is later nuanced and refined in Chapter 4. For this chapter, the fact that we look at TSOEs only as well as the explorative nature of the analysis justify to not go beyond state-to-state ties. Furthermore, the analysis of the target jurisdictions provides an additional benefit of this approach that the later developed geoeconomic approach does not incorporate: there, the targets are geo-industrial clusters rather than other states.

6. Conclusion

Susan Strange boldly condemned conventional International Relations scholars as “Flat Earthers”, who refuse to acknowledge that next to states, multinational corporations play a key role in the international political economy and hence are crucial to understanding global politics. We wholeheartedly agree with Strange’s call for bringing the corporation back to the center of scholarly attention in the fields of IR and IPE. During the past decade, we have been confronted with numerous puzzling and unexpected events that warrant acknowledgement of the role of corporations in international politics. Obviously, the 2008 financial crisis and its causes and consequences is the most prominent of these events, but certainly not the only one. In this contribution, we have highlighted an empirical example that underscores the need for an *actor-relations oriented, realistic analytical framework* in which state-corporation relations are center stage: the inward and outward movement of TSOE investment.

We have argued that only a proper analytical focus on corporations as actors, embedded in global power relations, can pave the way for a systematic understanding of their (structural) power in the global system. In the study of international politics, we need to consider corporations as a social force analytically equivalent to states. We illustrated this need in our empirical example. With regard to the phenomenon of transnationalization of state ownership, we showed how the state as an owner can use firms to build up power potential and affect international politics by reaching outside its own borders. Furthermore, we saw that some insights from the CC literature, such as China’s exceptional development model and its consequences for the global economic order, can be recognized in the transnational state ownership network. The scope of this article does not allow us to delve further into these questions, but it does make it possible to ask them in a systematic way. It also allows us to show the agency potential of firms: the transnationalization of large transnational state owners is achieved via the firms that form the ties we depicted in the inward and outwards state investment discussion. The fine-grained, actor-oriented framework that takes corporations into account can help us understand the particularities of these observations better.

The example of TSOEs is, in many respects, rather arbitrary: our choice was inspired by our ongoing research agenda and interests. While we hope that some readers may be inspired to do further work on this particular issue, the aim of this contribution goes beyond the specificities of the empirical illustration. State ownership of MNCs predominantly represents one side of our argument: how states use corporations for their interests; the other side is how MNCs use states to advance their interests. Due to space constraints, we could not elaborate on this complementary perspective here, but one obvious example is offshore finance (Palan, 2002). This pivotal phenomenon involves both states and corporations as active and juxtaposed actors: offshore financial centers (or tax havens) have commercialized their sovereignty in order to attract financial activities from foreign private individuals

and MNCs, mostly at the expense of 'onshore' states. MNCs utilize tax havens to minimize their global tax payments and to avoid regulation and accountability. Recent contributions have shown that using firm-level network data makes it possible to produce novel insights into the interplay between (offshore) jurisdictions and MNCs (Garcia-Bernardo et al., 2017).

We see the persistent reluctance to integrate (structural) corporate power into the study of international politics as part of a broader problem. The structural power of business "languished for two decades in the less fashionable circles in contemporary political science" and as a consequence arguably developed a "labeling problem, if not a toxic brand name recognition" (Culpepper, 2015, 392, 405). Consequently, there is a sizable literature that investigates states versus markets, but astoundingly little scholarly work in IR and IPE that moves beyond the broad concept of markets and investigates its actors. This reflects the rather sticky "tendency to analytically prioritize the actions of policymakers over those of market participants" in explaining politico-economic phenomena (Braun, 2016, 258). The bias stems, as Benjamin Braun puts it, from political economists' limited understanding of the political sphere: 'market participants' such as corporations are not perceived as analytically important (or not 'political' enough) for political economy analysis.

In response, we positioned our approach as a concrete and empirically fruitful advancement of two approaches: the state-centric and the transnational capitalism perspectives. Rather than analytically prioritizing states over corporations and policymakers over market participants, we need to acknowledge that corporations and states are juxtaposed actors in an international environment that exercise power over each other in specific spatiotemporal settings. The example we provided serves to validate this perspective and allows for original empirical strategies that can help to understand how power in the international sphere plays out in concrete terms. This initial exploration is already leading to new questions and puzzling findings. As such, we believe our approach points at a fruitful and urgent field of research.

Finally, the exploration of the power relations in which states and corporations find themselves within global capitalism illustrates the usefulness of the concept of a transnational agency space. The possibility of corporations to be juxtaposed actors vis-à-vis states requires opportunity structures in which both, corporations and states can exercise agency. As we have seen in Chapter 1, states become able to exploit these structures created by neoliberal globalization; and this chapter illustrates this by the means of the internationalization of SOEs. This also means that by taking corporate power seriously in international politics, we can at the same time observe how state power reinvents itself within this setting. Both are key aspects of the following empirical analysis of the rise of transnational state capital.