State transformations in the global political economy:

The rise of transnational state capital in the 21st century

Babic, M.

Publication date
2021

Conclusion

> “*[A competitive strategy is] a set of policies that are explicitly aimed at improving the climate for business (national and/or multinational) and hence at enhancing the ‘competitive’ advantage of such countries in the global economy*”
>
> Palan et al. (1996, 6)

> “*From the perspective of IPE theory, the transformation of these states into this kind of a market actor [i.e. SWFs] is important. While the rise of SWFs clearly represents a new assertion of state authority in global finance, this assertion is taking place in a manner not anticipated by the debates of the 1990s. The state is neither regulating capital mobility nor responding to its externally imposed imperatives. It has, instead, become part of the very structure of capital mobility from which it was analytically distinguished in earlier analyses. This development reminds us that earlier debates held the implicit assumption that global financial markets are comprised of private investors. This assumption –derived from economists’ models – may have been justified by the historical period when it was employed. But it needs to be recognized as historically contingent*”
>
> Helleiner & Lundblad (2008, 68)

The twelve years in between those two quotes saw a gradual change in how some states relate to the adamant forces of neoliberal globalization. In the 1990s, the mechanisms available to help states cope with this type of globalization were at best passive, adaptive strategies. In 2008, an already different tone surrounded some of those state strategies: what if states were to become market actors themselves instead of succumbing to the pressures of these very markets? What was still seen as a “comeback of the state” type of reaction to the GFC, is today, another twelve years later, much more than this. Research on the rise of state capitalism, of state-permeated market economies, and especially on the rise of the most successful “state capitalist” of all - China - opened up new and more profound discussions about the nature of globalization and the role of state authority in it. This dissertation aims at examining a crucial, and so far underappreciated dimension of this global development: the rise of transnational state capital through foreign state-led investment. Different from studies that emphasize either the normality of state-led investors as just another market participant, or the opposing viewpoint, the absolute novelty of state-led capitalism as the nemesis of neoliberal globalization, I sought to locate the rise of foreign state investment as an organic, but momentous development for international politics. This assessment is based on two simple observations: on the one hand, state-led capitalism did not fundamentally change the DNA of global capitalism in the last two decades. Different measures, as employed in Chapter 1, do not corroborate the narrative of a rising state capitalist alternative to neoliberal globalization. On the other hand, the presence of extremely large, successful state-owned players in the global economy, such as many SOEs and SWFs, begs questions about their origins and implications. It is therefore worthwhile interrogating how states themselves are being transformed, through this rise of transnational state capital, and in which ways this might impact international politics.

The concept of the *competing state* aims at capturing this transformation. As described in Chapter 1, the competing state is an ideal-type that describes a shift in the way particular resourceful states deal with neoliberal globalization. Instead of adapting a set of passive policy prescriptions to attract investment (as did the preceding competition state), the competing state employs a different form of cross-border investment to reap the benefits of a globalized world. As we have seen throughout the different chapters of this thesis, there are only a handful of states that are resource-rich and capable of engaging in such forms of cross-border investment. This makes the competing state a less widespread, but therefore empirically clearer to identify state form.

The concept of the *transnational agency space* forms the structural background to the competing state. Neoliberal globalization, which has been described as the driving force behind the rise of the competing state, is only a process, not the enabling structure itself. Global infrastructures created by neoliberal globalization - such as the absence of trade or investment barriers, the professional infrastructure behind global foreign investment, or the legal frameworks securing and enabling transnational corporate activity - constitute different opportunity structures not only for corporations, but also for states as owners and investors to engage with globalization. I conceptualized the sum of these opportunity structures as transnational agency space. As Chapters 2 and 4 demonstrate, states as owners actively use and instrumentalize this space to gain access to the economic opportunities of a globalized economy.

1. Summary

This dissertation can be read as a methodological and empirical exploration and substantiation of these two core ideas, conceptualized in Chapter 1. This process takes place in three steps:

First, Chapter 2 describes the role of state and corporate power and their agency within the transnational agency space. This chapter theorizes and illustrates empirically, how we can think about both types of agents in the international system. Its results are a realistic, juxtaposed, and actor-relations-centered framework for analysis; and the first exploration of cross-border SOE investment in the global economy.

Second, Chapter 3 scrutinizes the idea of the competing state by conceptualizing and empirically analyzing different state strategies employed in foreign state investment. The derivation of these strategies, the methodological efforts to systematically approach the underlying state ownership data, and the empirical analysis constitute the substantiation of the competing state. The findings show the two opposed transnationalization strategies at the top of the ranking as epitomized by China (controlling strategy) and Norway (financial strategy); and furthermore include the strategic profiles for each state in the sample as well as the sender/target distinction information.

Third, Chapter 4 ties both, now empirically substantiated, concepts together in order to assess the consequences of the rise of transnational state capital for international politics. The analysis of what I call geoeconomic competition thereby entails both, the competing state and its strategies as sender, and the transnational agency space that enables states to invest in geo-industrial clusters around the world. In this chapter, I go beyond the state-to-state investment perspective that informed the previous chapters and refine the conceptualization of the state investment targets on the basis of geo-industrial data. The findings demonstrate how Europe became the central hub for geoeconomic competition through controlling strategies; and how Northern America is mainly a target for large, but less competitive portfolio inflows. Eastern and South-Eastern Asia also showed large inflows, but lower degrees of competition than the different European regions.

These results represent a data-driven, theoretically informed, and conceptually significant exploration and analysis of the rise of transnational state capital in the global political economy. This analysis draws on empirical evidence from the novel and largest dataset on cross-border state ownership to date that I created for this thesis. The further results of this study are to be found and discussed in depth in the different empirical chapters of the thesis. Taken together, they provide conceptual and empirical material to address the overall research question of the study: what are the consequences of the rise of transnational state capital for international politics? Judging from the findings of this study, a middle position seems to be closest to the truth. The consequences are neither a full-blown comeback of geopolitical rivalries, nor a simple absorption of state capital into the structures of global capitalism. Rather, the effects of the rise of transnational state capital seem to be more indirect, and dependent on the type of strategy a state as owner employs. Control-strategies can lead to potential or sometimes real geoeconomic competition in geo-industrial clusters, while portfolio investment is less susceptible to this. Hence, concentration of competition takes place in particular geographical areas, whereas it is less pronounced in others. At the same time, the effects on international politics are also transformations of state forms themselves. Here again, the transformations do not affect all states, and also not to the same extent. The rise of some powerful competing states also means that many others do not have the resources or capacities to reap benefits from globalized markets. These variegated effects of the rise of transnational state capital on both the senders and targets of this investment means that the described consequences for international politics are in a dynamic state. Many of these effects will only emerge over time, when geo-industrial clusters become more competitive or politicized through higher global salience of specific industries or geographical areas in the future. The described effects of the rise of transnational state capital are thus groundwork for future analyses that need to take into account the variegated and uneven dynamics of the induced changes for international politics.

2. Blind spots and future research venues

With these results in mind, we are only at the beginning of better understanding the competing state transformation described in this study. The conceptual and empirical results of this thesis, for the first time, contour the rise of transnational state capital, its transformative aspects vis-à-vis the competition state, and its possible effects on international politics. Importantly, this groundwork also includes the methodological and data-preparation efforts that took up a large part of the actual work for the thesis. Those steps and coding scripts are documented in the appendixes of Chapters 3 and 4, as well as in the respective online repositories, and will hopefully serve as a useful toolbox for future research. On the basis of the groundwork achieved here, this future work can broadly cover the three blind spots of the presented analysis and can be envisioned as three future research venues:

First, future work can engage in hypothesis-testing that is based on parts of the findings the thesis generated. Some of the empirical results beg further analytical questions that were not part of this thesis, but can be analyzed in such a setting. As an example, the different types of state strategies could be related to state-level variables that determine those strategic orientations. Strategies could thus be influenced by the regime-type of the owning state and its degree of fragmentation or cohesion; by a state's predominant corporate governance system; or by the power balance between capital and labor that all influence the purposes for which excess resources are used. Other hypotheses can be developed with regard to the effect of foreign state investment on other crucial areas of international politics, such as international security, multilateral cooperation, or core-periphery relations.

Second, future work can conduct more qualitative, context-sensitive studies of specific cases of competing states that have not been covered in this thesis. This study prepared the ground for such analyses, through the provision of a range of methods and firm-level data analyses. Building on these insights, different questions arise. For example, how should we assess the political economy anatomy of sender-targets such as Singapore? How can the low-inflow, but high-outflow model of states like Qatar, Kuwait, or Saudi Arabia be explained? Which geo-industrial clusters are key hotspots of future geoeconomic competition and what are the internal dynamics of these competitions? A qualitative research program could provide substantial evidence to describe, test, and answer these and further important questions.

Third, the thesis itself was exclusively focused on the realm of foreign state investment and its ramifications for international politics. One further blind spot of the presented analysis is the interaction of the described phenomena with the broader realm of the global political economy. While it is clear that state investment is an integral part of this global system, future research needs to explicate these relationships on the basis of empirical evidence. A key question here would be how transnational state capital integrates into, and possibly challenges, the working logics of global financial, monetary, corporate, and equity markets. Another crucial point would be to systematically delineate the effects of foreign state investment on the domestic political economies of state investment targets; and how this "other side" of foreign state investment incentivizes attraction or repulsion of this specific investment type by domestic actors.

3. Reflections on the broader implications of the findings

The overall research question asks about the consequences of this rise for international politics. Besides the immediate empirical results, these consequences concern broader developments in the international system that could be witnessed in the last years. I discuss one implication that I see as key for future discussions in IR and IPE research, as well as for global societies in general: the advent of a more competitive and conflictual international environment.

While this dissertation has been focused solely on the rise of transnational state capital, this phenomenon is part of a broader development in international politics. Not least because, since the two defining moments of 2016 - the Brexit referendum and the election of Donald Trump - the liberal international order has slipped into a deep legitimation and political crisis (Ikenberry, 2018). But even before these symbolic events, tendencies in the global political economy pointed towards problematic developments within neoliberal globalization: inwards FDI levels have been in decline for half a decade (UNCTAD, 2019), rising powers such as the BRICS provide at least ideational alternatives to the current global order (Stuenkel, 2015), and international organizations that were once key to global governance, such as the IMF, are confronted with criticism and rejection on a global scale (Kentikelenis et al., 2016). Today, growing and escalating tensions between the two major economic powers, the US and China, form only the tip of the iceberg of looming global conflict. Transatlantic disputes about key issues such as trade and digital taxation (Rappeport & Tankersley, 2020), the rise of far-right authoritarian nationalism worldwide (Mudde, 2019), or domestic support for anti-globalization politics in the West (Bisbee et al., 2019), indicate that this systemic crisis is deep and far-reaching. This also makes international politics more conflictual and often competitive. Instead of multilateral cooperation on issues such as taxation or global trade, tit-for-tat games and protectionist rhetoric has become routine, also within the transatlantic community.

The rise of transnational state capital is embedded in this broader development of international politics. Whereas the emergence of SWFs a decade earlier was mostly seen as the rise of a new financial actor, state investment plays a very different role in today's world. State-owned vehicles are increasingly seen as a means of protectionism and economic nationalism, but also as important instruments within global competition. Policy-makers are increasingly skeptical of foreign SOEs entering their domestic economies on security and other political grounds (Sultan Balbuena, 2016). In a similar vein, European institutions are not only aiming to curb, and thereby discriminate against, foreign state investment (Espinoza & Fleming, 2019), but also urge member states to actively protect leading industries by expanding domestic state ownership (Espinoza, 2020). At the same time, European politicians are pushing for more "economic sovereignty" (The Economist, 2020), which crucially involves state stakes in key industries and economic development. State ownership and state-led economic policies are back on the table of global politics, both as a foreign threat, as well as a tool to fight out global conflicts. The coming post-Covid-19 world will not fundamentally alter this trend: in a world of sluggish growth and slow economic recovery, it will become even more likely that states will hark back to SOEs and other state-owned means to enforce their interests.

These remarks should not, however, be interpreted in terms of a "comeback" of the state as we knew it. As has been made clear time and again throughout this thesis, the rise of transnational state capital and the competing state are developments within neoliberal globalization. If this phase of a relatively open world economy is now coming to an end, its remaining infrastructures will likely be weaponized. The theoretical notion that summarizes these developments is the concept of "weaponized interdependence" (Farrell & Newman, 2019). Powerful states - preferably those that are able to control global networks of interdependence – will, and are already, weaponizing those global interdependencies forged during globalization. The competing state is in many respects a good example of a soft version of weaponized interdependence: powerful, resource-rich states are able to use the ties created by globalization to reap the benefits of this very globalized economy. What those states will do in a world that is becoming more confrontative and conflictual may already be apparent. The Saudi Arabian SWF (Public Investment Fund - PIF) for example, is already exploiting sinking asset prices and the insecure future of global oil markets to secure strategic ownership stakes in a range of global brands and multinational corporations (England & Massoudi, 2020). This alone does not mean that states will weaponize these ties - but they can and do put themselves in a good position to do so in future scenarios, for example through building up further and stronger cross-border ownership ties. As this thesis also implies, the competing state is quite a rare state form. States need to be resourceful and able to bundle these resources within investment vehicles that then enter the global political economy. Examples like Saudi Arabia or other rather small economies becoming major global economic players in equity markets, illustrates this very point.

The phenomenon of weaponized interdependence, the advent of a more competitive and conflictual environment, and the proliferation of economic nationalism and protectionism, is a much broader development than the rise of state capitalism or transnational state capital would suggest. However, the notion of the competing state can help to make sense of the role of the state within these developments. It can clarify policy preferences and competitive strategies with which states aim to cope in this new global environment. At the same time, the competing state concept will need to be substantially further developed in order to incorporate other crucial dimensions. These are, for example, new forms of industrial policy in a digital era, state-led projects of research and development that aim at creating a national (or European) head-start in new security-related technologies, state development banks, state-coordinated industrial conglomerates, or different types of national financial instruments.

To conclude, most likely the future role and significance of the competing state will also change, if the described developments persist and are exacerbated. While the different competing state types growing out of neoliberal globalization demonstrated a profound ability to integrate into existing global market structures, this role will naturally change in a more protectionist and less open international environment. The rise of nationalist rhetoric and politics could lead states to stronger instrumentalize their investment vehicles and corporate cross-border ties, in order to coerce other states, corporations or other actors according to their interests. One recent example is the case of a Sri Lankan port which was first financed by the Chinese state-owned Exim bank and later, in a situation of financial distress, taken over by another Chinese SOE for 99 years (Parker & Chefitz, 2018). Whether or not this type of behavior is geoeconomic, strategic, and systematic, needs to be determined in the future. What becomes clear is that SOEs and other vehicles can and do already stir up heated debates and geopolitical allegations in an environment that is becoming more conflictual and hostile, as of this moment.

4. Normative note and policy suggestions

A related, and at least equally important question is whether these developments are good news for global politics. They are not. A more confrontational global environment might ignite the hopes of some social groups or individuals that a more assertive and maybe also authoritarian nation state would roll back the worst consequences of neoliberal globalization. While this might be true, it comes at the cost of rising global tensions and increased protectionism that especially hurts middle and lower-income classes, through economic stagnation and hardship. If “trade wars are class wars” (Klein & Pettis, 2020), more global confrontation and conflict that leads to economic protectionism cannot be a desirable future. At the same time, and to paraphrase Marx, it is only under already existing circumstances that people (and societies for that matter) produce history (Marx, 1994). In that sense, I propose two policy suggestions to deal with a more conflictual global environment from the perspective of transnational state capital and the competing state as delineated in this thesis.

The first suggestion concerns the global governance of foreign state investment. While some arrangements exist on an international scale, such as the Santiago Principles for sound SWF governance (IWG, 2008) or indirectly through international investment agreements (Mendenhall, 2016), the global governance of foreign state investment is almost non-existent. Recent initiatives, like the EU commission’s suggestion to curb foreign state investment on the grounds of its competition policy (Espinoza & Fleming, 2019) or new powers granted to the Committee for Foreign Investment in the US (CFIUS) with explicit reference to foreign state ownership (Jackson, 2020; Zimmerman, 2019) are, in fact, the opposite of *global* governance efforts. They represent unilateral, defensive, and partly protectionist measures that seem to be motivated more by a deteriorating international environment than by serious efforts to redesign this aspect of global governance. My first suggestion, on the basis of the results of this thesis, is (obviously) to invest in efforts to build such forms of global governance that can deal with the rise of foreign state investment. Secondly, my suggestion would be to *not* create specific global fora for specific state-owned vehicles - as was the case with SWFs and the Santiago principles - but to take the state, as a global owner, seriously. This requires, above all, a good understanding of the many ways and different channels through which states can enter the global political economy. This thesis suggests looking at the (ownership) ties that states create through this kind of behavior, rather than differentiating between different investment vehicles. Through this lens, we can get a better grasp of how state-owned and state-directed means are being internationalized and which overall position different states take in this respect. Based on such an approach, governing state involvement in the global economy becomes more feasible: governance fora can decide how to treat foreign state investment based on comprehensive criteria, like the size of the ownership stake a foreign state acquires in a company through an investment; or the total investment of a particular state in specific (maybe security-related) industries in other states. Both dimensions - the firm-level as well as the total investment aspect - are key to better governance of foreign state investment, beyond the current protectionist stance of many states. Both dimensions also build on the idea developed in this thesis that the overall strategic orientation of cross-border investing states is an important variable at the macro-level. The patterns created by states as overall owners is useful information that should be taken into account by future global governance efforts.

The second suggestion concerns state-owned vehicles themselves and their societal function. While global governance efforts are desirable, more immediate policy measures can be put in place at the national level. As many scholars and observers have pointed out, state involvement through state-led industrial policy, for example, and state-sponsored R&D efforts, is both already a decade-long reality (Mazzucato, 2014) as well as a toolbox that might be useful in reducing inequalities and other societal distortions that have been induced by decades of neoliberal globalization. From the perspective of this dissertation, one aspect of this toolbox is key: the ability of states to interact with globalization and the existence of global markets in different ways than the competition state has been doing (which embraced internal adapting and austerity to meet the demands of highly mobile global capital). Instead, the competing state opens up the possibility of effectively bundling resources and reaping the benefits of a globalized world, while internally being less forced to comply with the pressures of global markets. This can help some states to regain policy space and development opportunities, of which they might otherwise have been deprived, through competition state policies. From a policy-perspective, this possible regaining of policy-space can on the one hand become a "force for good", as additional opportunities for reducing inequalities, expansion of welfare states, or progressive taxation policies for multinational companies can become a possibility again. On the other hand, the higher degree of autonomy that competing states might enjoy compared to the competition state can also lead to a hardening of political structures and contribute to the consolidation of authoritarian rule, elite capture of state institutions, and higher vulnerability to global market volatilities (if, for example, state investment is based on resource extraction and hence on global commodity prices). In these cases, it is questionable whether the additional policy space through competing state politics actually benefits wider parts of society.

The key suggestion with regard to the competing state is therefore to scrutinize and contest its domestic effects, and especially to take into account whether the income generated by competing states in the global economy is being shared with the population. Progressive political forces could demand higher transparency standards, more influence over investment decisions, and also over revenue distribution. State-owned vehicles could thereby also be subordinated to democratic influence, which would contribute to economic democracy, as has recently been explored for the realm of finance (Block, 2019). In this context, McCarthy (2019) emphasized that such democratization processes need to ensure the direct involvement of workers and citizens in decision-making. In a parallel situation it would make sense if the state-owned means creating the national income to be enjoyed by all citizens were to be democratically controlled.

The rise of transnational state capital in all its aspects is thus far from being a conclusive process. Many of its broader implications, normative and policy-wise, will need to be explored, contested, and democratically resolved in the future. In an age of rising confrontations and new global rivalries, the careful de-weaponization of state-owned means and their prudent, democratically legitimized employment for societal welfare and social progress might be one of the key tools in reducing global inequalities, curb global corporate power, and fight the looming environmental catastrophe with the appropriate means.