Milan Babic February 22nd, 2022

State investment is playing an important role for the future of international politics

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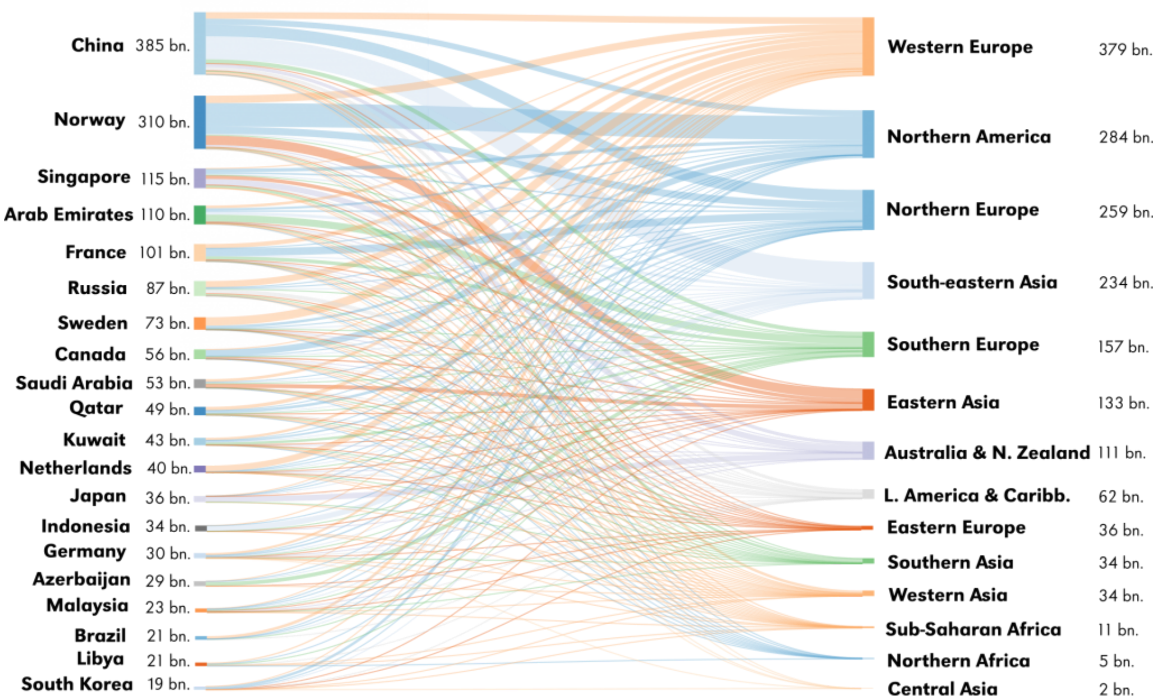
From China to France and Singapore, sovereign wealth funds and state-owned enterprises have helped transform states into major global owners of capital. What are the consequences for the global political economy? The 'new' state capitalism of the 21st century is much more transnational and diffuse than a geopolitical reading suggests. ***Milan Babic*** *proposes to look at the consequences rather than the immediate motivations of foreign state investment, which are hard to decipher and generalise. In his study, he uses fine-grained firm-level data across the globe.*

States play different roles within the economy: they create markets, sustain price stability, regulate competition, or 'represent' the domestic economy abroad, among others. One aspect that gained increasing attention since the 2008 global financial crisis is the role of states as global investors. Sovereign wealth funds (SWFs), such as Saudi Arabia's PIF, Norway's GPF-G, or China's CIC make regular headlines in the financial press. Likewise, state-owned enterprises (SOEs) increasingly engage in large-scale cross-border investment in infrastructure, multinational companies, and other important assets. The 21st century hence saw the transformation of states into major global owners of capital, from China to France and Singapore. SWFs, for example, held in 2018 almost eight times as much in assets under management as in 2000. Today, the more than USD 10 tn. in assets SWFs own by far exceed the USD 4tn. that are owned by hedge funds. For students of international politics, these numbers beg a key question: what are the political consequences when states rise as major global owners and investors in the global political economy?

In a recent publication, I approach this question from a new conceptual and empirical perspective. Typical discussions about the role of 'state capitalism' in the global economy hark back to problematic and outdated conceptualisations of the geopolitics of state-led investment. Put simply, state capital is often understood as a tool in the hands of the owning state to reach geopolitical goals – often from authoritarian regimes. One major critique of such a view is that it often focuses only on the 'usual state capitalist suspects' without acknowledging that many Western states are also engaging in state capitalist practices. The reality of the 'new' state capitalism of the 21st century is much more transnational and diffuse than a geopolitical reading suggests. Different states use a variety of tools and investment vehicles to enter other jurisdictions, and consequently also develop different strategies of doing so. Some, like the Norwegian SWF predominantly aim at spreading their equity investment in smaller stakes of global corporations, while others, like China's SOEs, on average, fully control the firms they invest in across borders. Again, other cases like Singapore show a mixed profile, with its two SWFs embracing different strategies at home and abroad. To reduce this variety of cross-border state-led investment and its effects to geopolitics alone would be inadequate.

Therefore, I propose to look at the consequences of foreign state investment rather than its immediate motivations, which are hard to decipher and generalise. By analysing the patterns states create when they invest abroad, we gain a better understanding of the spatial and sectoral extent of these investments. Such a mapping exercise is only possible on the basis of large-scale, fine-grained firm-level data that covers a large part of the globe. In my study, I compile and draw on such a dataset that entails information on tens of thousands of cross-border state ownership relations. Based on this empirical exercise, I detect where state-led investment is concentrated. As an example, we can see that Europe is the main target of foreign state-led investment, with differences within different European regions:

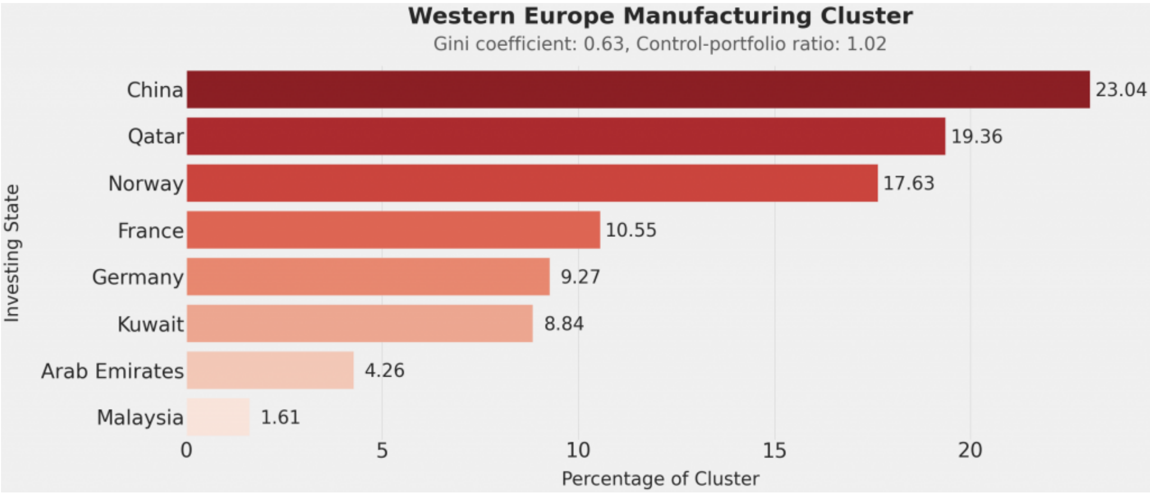
Figure 1. The major states as owners and their investment in different world regions



Note: The left numbers are the total investment by each state, the right the total inflows in each region (in US Dollars).

But even beyond regional concentration, state-led investment can be found in different sectors and industries across the globe. From insights of research into global production networks we know that sectoral dynamics are not confined to domestic economies, but that sectors are often organised across national borders. Complex and multidimensional relations between producers, suppliers, buyers, regulators, and other actors make production in many cases a transnational issue. This is also the case for state-owned investment in various industries. Through combining regional and sectoral data, we can study geo-industrial clusters closer, which display high levels of state-led investment. As an example, the manufacturing cluster in Western Europe is heavily invested by different states such as China, Qatar, Norway, or France:

Figure 2. West European manufacturing cluster



Note: These are the top 8 states as owners invested in the cluster.

Such a perspective allows us to highlight potential international political consequences of the rise of state-led investment. The concentration of (similar amounts of) state investment in particular regions and industries presents the potential of cooperation, competition, or even conflict for the invested states. As an example, the relatively high concentration of state investment in Western European manufacturing firms could lead to competitive dynamics between the invested states and host governments if those feel threatened by the presence of other states in domestic cutting-edge industries. On the other hand, the concentration of state-led investment in particular world regions and industries can also present grounds for cooperation – for instance, when Russian state enterprises and Dubai's state-owned logistics giant DP World work together to create new shipping routes through the melting Arctic.

In which direction the detected concentration of state capital goes depends crucially on local determinants. For instance, it makes a political and economic difference whether European states are invested in each other or whether state-led investment comes from 'outside' and creates political reverberations. An analysis of the patterns such investments create provides a first necessary step into better understanding these specificities of state-led investment. Once we map and 'see' where state-led investment is concentrated, we gain the ability to identify crucial cases and engage in comparative analyses. My study hence demonstrates that a simple 'geopolitical' reading of the variegated nature of state-led investment is not an adequate analytical lens. Rather, we should engage in understanding the manifold and nuanced ways in which states as global owners and investors reshape important aspects of the global political economy and international politics in the medium run.

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Notes:

- *This blog post is based on State capital in a geoeconomic world: mapping state-led foreign investment in the global political economy, Review of International Political Economy.*
- *The post represents the views of the author(s), not the position of LSE Business Review or the London School of Economics.*
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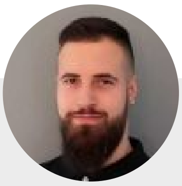

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