International Politics and Society

Why state capitalism isn't primarily geopolitical

States like China rarely use foreign investment for geopolitical goals. They try to reap the benefits of a globalised economy

By Milan Babic | 24.01.2020

Chinese President Xi meets Thai Prime Minister Prayut at the Second Belt and Road Forum in Beijing

At the end of 2019, the Chinese industrial conglomerate Jingye signed a deal to rescue insolvent British Steel and invest over £1bn in the company over the next years. With Jingye having close ties to the Chinese state, many observers understood this as a geopolitical move: the acquisition would establish a 'dangerous foothold' for the Chinese Communist Party (CCP) and see China 'planting its flag' in the UK. Similar investments from state-owned or state-controlled firms into Europe are becoming more politicised with calls for a tougher stance on state-capitalist competition from outside. The export of 'state capitalism' through foreign investment is often accused of being a geopolitical Trojan Horse, quietly moving weapons of foreign state influence into the host country.

While geopolitical considerations do in some cases indeed play a role — the current Nord Stream 2 dispute is a case in point — overemphasising them mischaracterises the vast majority of foreign state-led investment around the world. To understand why, we need to look at the traditional line of thought that underpins these geopolitical arguments: state ownership or state sponsorship of companies implies a direct power relation, whereby companies serve as tools employed to fulfil the objectives of their respective state, including geopolitical ones.

But this take disregards that state ownership has changed fundamentally in the last two decades. State-owned entities underwent major transformations in their corporate governance and ownership structures, which made them more responsive to the imperatives and opportunities of globalisation. Once being inertial, inefficient and often corrupt industrial giants, state-owned enterprises (SOEs) are today some of the world's most valuable multinationals.

Geopolitics' secondary role

Companies like Saudi Aramco, Syngenta or EDF are champions of their respective industries and the Sovereign Wealth Funds (SWFs) of Qatar, Singapore or Norway are established heavyweights moving global financial markets. The 'new' state capitalism is oriented transnationally and lies at the heart of global corporate ownership structures. The size and power of these institutions increased with the rise of globalisation, which presented SOEs and SWFs with global investment and growth opportunities.

These transformations also signify that geopolitics play, if at all, a secondary role when state ownership crosses borders. Unlike the traditional view of total state control asserts, SOEs are often hybrid entities today with more than a single shareholder. Other, private investors are not just involved financially, but sometimes also hold voting rights in those SOEs.

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Moreover, entities like SWFs are exposed to global market pressures and required to play by the rules of global finance if they want to gain returns on their investments. Most relevant SWFs agreed to the 2008 IMF-initiated Santiago Principles that introduced them as trustworthy peers to the world of global finance. So it's rather global markets than global geopolitics that provide the rationale for foreign investment decisions of states as economic owners. All of this does not mean that states are not still in charge of their (majority-)owned companies and their cross-border investment decisions. But what it does imply is that the motives for these decisions aren't necessarily geopolitical ones as the traditional power relations between states and their owned firms have been fundamentally re-modelled over the last years.

States have meanwhile developed different strategies to reap the benefits globalised markets offer to investors. Some, like China or France, buy up whole companies or create wholly owned subsidiaries outside their own borders to retain a larger degree of control over their investment. Others, like Norway or Singapore, created Sovereign Funds that usually buy relatively small shares of listed companies around the world.

Why capital moves across borders

Obviously, the Chinese approach is built on a comprehensive outwards-looking strategy: when the Swiss agrochemical champion Syngenta became effectively a Chinese state-owned enterprise in 2017, it meant an immense boost for the competitiveness of Chinese agriculture. In a similar manner, the British Steel takeover will be used to expand Jingye's portfolio with railway tracks and 'long products' in steelmaking that the firm has been lacking so far. In addition, long-standing overcapacities in the Chinese steel industry are being exported through such arrangements. Those moves might have, in some particular cases, geopolitical repercussions. In most, however, geopolitical explanations for cross-border state investment are easily trumped by considerations of economic strategy.

A better way to think about the international reverberations that moves such as Jingye's are producing is to understand them as part of *geo-economic* competition. China's grand strategy of 'going global' also involves the gradual outsourcing of overcapacities and expiring technologies, such as coal production. Others, like Norway or some of the Middle Eastern states, use SWFs to reinvest the revenues generated by the sale of extractive resources.

Other states-as-owners again like Germany or France are active in the European transportation and energy markets, where they seek to bolster and advance their respective national — and in the future maybe European — champions in pivotal sectors. All of these are economic considerations that have important consequences for how we think about international politics and possibly global rivalries. But this is different from using companies for geopolitical goals, which is rather the exception than the rule.

The EU also recognises this, as it's currentlyplanning to tame foreign state investment on the grounds of 'unfair competition' by state capitalists. This geo-economic competition involving sovereign investment stretches far beyond the 'usual geopolitical suspects' like Russia or China. Understanding what moves state capital across borders is crucial for understanding its role in a changing global order in which the state's grip on economic matters is likely to become more significant again.