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# Overseas state outsiders as new sources of patient capital: Government policies to welcome Sovereign Wealth Fund investment in France and Germany

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## Abstract

Strong debates in the varieties of capitalism literature as to whether financial liberalization and internationalization undermine 'insider' corporate governance systems based on patient capital in coordinated and state-led market economies have focused on 'impatient' overseas private capital. However, cross-border state investment has also grown. We examine government policies towards a prominent type of state investment—equity purchases by sovereign wealth funds (SWFs). We argue that policymakers in 'insider' corporate governance systems can see such investment as an attractive international source of patient capital to offset declines in traditional sources of patient capital. We compare Germany and France and show that policymakers actively welcome SWF investment. Policy is driven by coalitions of 'insiders' of the managements of large industrial firms and governments who seek passive patient capital and beneficial relationships with overseas investors. Thus, financial liberalization and internationalization can allow new sources of patient capital through overseas state investors.

**Key words:** sovereign wealth fund, corporate governance, patient capital, cross-border investments, varieties of capitalism.

**JEL classification:** F59 International Relations and International Political Economy: Other, G18 General Financial Markets: Government Policy and Regulation, P16 Capitalist Systems: Political Economy

## 1. Introduction

Within wide-ranging debates about 'Varieties of Capitalism' (VoC), a key issue has been whether financial internationalization and liberalization undermine the supply of 'patient capital'. In coordinated market economies (CMEs) and mixed market economies (MMEs), patient capital has been a central element of 'insider' systems of corporate governance in which firms enjoy cooperative and close relationships with investors (Culpepper, 2005; Goyer, 2006, 2011; O'Sullivan, 2007; Fioretos, 2010; Gospel *et al.*, 2014; Callaghan, 2015; Fichtner, 2015). The literature has focused on private overseas capital, which is treated as being 'impatient' and often threatening to established 'insiders'.

In contrast, we argue that not all overseas outsiders can be treated as a single category. In particular, much of the literature has neglected foreign state investors, which have become increasingly important in recent years. The most prominent are sovereign wealth funds (SWFs) (Bolton *et al.*, 2012; Clark *et al.*, 2013), but others include public pension funds and state-owned enterprises. We examine how and why different types of 'insiders' in CMEs and MMEs respond to equity investments by SWFs—do they treat such overseas state investment as threatening existing corporate governance systems or accept them as new sources of capital? We study policy responses in France and Germany, as examples of an MME and a CME. Both have had insider systems of corporate governance based on 'patient capital' and both have faced financial liberalization and declines in traditional sources of domestic patient capital.

Contrary to expectations and in sharp contrast to their public hostility towards 'impatient' overseas private investors, an alliance between the political executive and managers in large industrial companies in both countries has not just welcomed but even actively sought to attract equity investments by SWFs. This alliance has overcome opposition or suspicion by other domestic insiders and policymakers. Its members have favoured SWF investments on the grounds of providing patient capital that is also 'passive'—i.e. not demanding 'voice' in company management, as well as offering other advantages such as exports. We find that despite historic differences between the two countries, similar alliances welcomed SWF equity investment, suggesting that findings may apply more widely to different types of coordinated economy. Equally, although the desire for overseas state sources of patient capital was accentuated by the Great Recession, it began earlier and has continued even in a country, Germany, that has large-scale trade surpluses, suggesting that this is not just a temporary response to economic crisis.

Our overall argument is thus that, paradoxically, firms and policymakers in CMEs and MMEs can use internationalization and liberalization to find new sources of patient capital from overseas state investors. Using our cases, we develop hypotheses concerning which actors form part of new coalitions that welcome overseas state investor and the conditions under which they do so. In particular, we expect a coalition of industrial firms and the government to pursue overseas sources of capital when traditional domestic sources of patient capital decline and when overseas investors are both patient and passive. In CMEs and MMEs, the coalition seeks to direct overseas state capital into specific firms, in contrast to LMEs, where policymakers and firms welcome foreign capital regardless of whether it is patient in order to maximize share prices and company valuations.

We thus seek to contribute to wider debates about whether internationalization and liberalization of markets necessarily run counter to the provision of patient capital. We bring in the state both as an investor and a domestic policymaker. We put forward arguments about the conditions and strategies that lead firms and policymakers in CMEs and MMEs to attract overseas state sources of capital which can be tested in other countries.

The rest of this article is structured as follows. The next section discusses previous literature. The third section then explains our choice of case and method. Thereafter, we analyse

German and French policy responses. The last section offers a wider discussion of the findings and hypotheses.

## 2. Previous literature on varieties of corporate governance, financial internationalization and patient capital

Corporate governance systems are often classified into two categories, depending on the 'patience' of capital and the distance in relationships between key actors (see Jackson, 2001; McCahery *et al.*, 2002; Vitols, 2004). Shareholder systems, of which the UK and USA are the best examples, are characterized by 'impatient capital', notably that provided by shareholders. These are often referred to as 'outsider' systems because shareholders exercise control by threatening to exit through withdrawing their capital. In contrast, in stakeholder systems, best exemplified by Germany, capital is more 'patient', being provided over the long term by banks and/or company cross-shareholdings. These are often called 'insider' systems because stakeholders—banks and cross-shareholding companies as well as employees—can exercise 'voice' inside the system, instead of exit. In state-led or 'mixed market' economies, the state provides or coordinates the provision of capital (Schmidt, 1996). In most of the comparative political economy literature, financial markets such as equity markets, are seen as mainly offering impatient capital whereas patient capital is mainly supplied through 'relational banking' (Deeg and Hardie, 2016).

Financial internationalization and liberalization increase the scope for overseas provision of capital. But whereas 'outsider' systems such as those in the UK and USA are seen to be relatively open to foreign investment because this does not undermine 'arms-length' relationships among actors, such investments may upset long-term relationships between key actors that were coordinating their actions in stakeholder or state-led systems in CMEs and MMEs. It runs counter to the provision of the long-term patient capital and conflicts with non-market coordination in other spheres of the economy. Moreover, insider systems have few outsiders, so that any outsiders are more likely to be foreign, raising issues of nationality (cf. Callaghan, 2015).

A major debate has arisen as to the effects of increased international capital mobility and the emergence of new types of investors on 'insider' systems. One view is that they undermine them by moving towards an 'outsider' model of governance characterized by 'impatient capital' and distant relationships between firm managers and suppliers of capital (Gilson, 2001; Rajan and Zingales, 2003). But the contrary view suggests that pre-existing institutions and institutional complementarities either in corporate governance or in other spheres such as industrial relations, block or mediate exogenous pressures for an outsider model (Whitley, 1999; Culpepper, 2011).

In this article, we do not take a position in this general debate about the extent of change in corporate governance. Instead, we question whether financialization and liberalization only lead to the entry of overseas impatient capital or whether they can result in new, overseas sources of patient capital emerging. This responds to one of the central issues of the special issue—can financial markets provide patient capital? At present, studies have focused on private investors such as private equity firms or hedge funds or Anglo-American institutional investors (Culpepper, 2005; Goyer, 2006, 2011; O'Sullivan, 2007; Fioretos, 2010; Goyer and Kwan Jung, 2011; Gospel *et al.*, 2014; Goyer and Valdivielso, 2014; Callaghan, 2015; Fichtner, 2015).

These studies share a number of limitations. First, they usually assume that all outsiders threaten or weaken existing institutional complementarities by being 'impatient' investors. Yet, the possibility that some overseas outsiders may offer patient capital and hence form part of strategies by existing insiders to maintain or adapt institutional complementarities should be considered. Secondly, the specification of the preferences and strategies of actors is rather categorical—corporate governance 'insiders' oppose the entry of outsiders while suppliers of 'patient capital' (banks or the state) supply it in return for 'voice'. Yet, such preferences may differ in an internationalized financial system. Hence, some 'insiders' may seek the entry of outsiders to adapt or support their position. Equally, patient capital suppliers may offer 'loyalty' but not seek to exercise 'voice' (cf. Hirschman, 1970)—for instance, because of lack of knowledge of the firm or confidence in the existing firm management. Thirdly, while previous literature has paid attention to how the state reforms corporate governance regimes (Cioffi and Höpner, 2006 ; Höpner, 2007), less attention has been paid to how the state reacts towards outsiders and especially to the role of the state as an international investor.

In this article, we address these issues by exploring how different insiders and the state in insider systems of corporate governance react to foreign investments by a relatively new type of outsider, namely foreign state investors in the form of SWFs. We focus on policy debates and decisions to ensure sufficient attention is given to the state as well as firms and labour. We examine perceptions of whether capital is patient or not, since our interest is in policies and strategies rather than economic outcomes. We define patient capital as being both long-term and unresponsive to short-term fluctuations in the profitability of the company in which capital is owned (cf. Deeg and Hardie, 2016[1]). It protects managers against hostile takeovers and allows them to pursue long-term strategies. However, we note that such capital can be active (loyal and seeking voice) or passive (remaining loyal but not seeking 'voice' in the company's internal decisions).[2]

## 3. SWFs and the cases of Germany and France

SWFs are state-owned investment entities that buy overseas assets for investment purposes (IWG, 2008).[3] The term was coined in 2005 (Rozanov, 2005). The majority of large SWFs have been created by countries in the Middle East and in Asia (the major exception is the Norwegian SWF). Many have been set up over the past 20 years, especially since 2005 or have grown since then. Although estimates of their size vary, they had around $1.5 trillion of assets under management in 2005 and $6–7 trillion by 2013; expectations were also high in the mid-2000s of rapid expansion, with optimistic views that they would expand to perhaps $13 trillion by 2015.[4] Explanations for their rise can be found in the changing nature of the international economy, the rise of commodity prices, an attempt to tackle the resource

1 Deeg and Hardie suggest that patient capital is 'equity or debt whose providers aim to capture benefits (both financial and otherwise) specific to long-term investments and who do not exit their investment or loan if non-financial corporation managers do not to respond to short-term market pressures'.

2 We thank a reviewer for underlining the distinction between active and passive patient capital.

3 Precise definitions vary, especially concerning the inclusion of central bank reserves.

4 Rozanov, 2005, Curzio and Miceli 2010; SWF Institute: accessed at http://www.swfinstitute.org/sovereign-wealth-fund/ on 17 May 2016.

**Table 1.** Selected SWFs

| Country | SWF name | Assets (billion dollars) | Inception |
|---|---|---|---|
| Norway | Government Pension Fund – Global | 882 | 1990 |
| UAE – Abu Dhabi | Abu Dhabi Investment Authority | 773 | 1976 |
| Saudi Arabia | SAMA Foreign Holdings | 757.2 | n/a |
| China | China Investment Corporation | 746.7 | 2007 |
| Kuwait | Kuwait Investment Authority | 592 | 1953 |
| China | SAFE Investment Company | 547 | 1997 |
| Singapore | Government of Singapore Investment Corporation | 344 | 1981 |
| Qatar | Qatar Investment Authority | 256 | 2005 |
| Singapore | Temasek Holdings | 193.6 | 1974 |
| UAE – Dubai | Investment Corporation of Dubai | 183 | 2006 |
| UAE – Abu Dhabi | Abu Dhabi Investment Council | 110 | 2007 |
| Russia | Reserve Fund | 88.9 | 2008 |

*Source*: SWF Institute: http://www.swfinstitute.org/fund-rankings/

curse, domestic politics and policy emulation (e.g. Drezner, 2008; Cohen, 2009; Langland, 2009; Truman, 2010; Clark *et al.*, 2013; Chwieroth, 2014).

We focus on SWFs for a number of reasons. First, SWFs are significant actors: since the 2000s, they have grown in size and number to reach trillions of dollars today, accounting for significant shares of world equity markets and taking stakes in Western private companies. Considered together, SWFs are larger than hedge funds ($1.4 trillion compared to $3.1 trillion for SWFs) and private equity funds ($0.8 trillion in 2009) (Yi-Chong, 2009, p. 4), both of which have received considerable attention in the literature, although they remain smaller than pension funds ($21 trillion in 2009) and mutual funds ($19.6 trillion). Table 1 sets out asset size and date of creation of some of the largest SWFs in the world.

Secondly, SWFs are state owned and therefore can raise fears that they may use their investments for 'political' aims that are insufficiently transparent, and may take over firms in 'strategic' industries (Cohen, 2009; Slawotsky, 2008/9). Such fears may be exaggerated or misplaced, or indeed SWFs may be welcomed if they increase share prices and company valuations (Bortolotti *et al.*, 2009; Fernandes and Bris, 2009) or can deal with global imbalances or provide funding during economic crisis (Langland, 2009).

In examining policies towards SWFs, we analyse the strategies and the preferences of different actors in Germany and France. The two countries are frequently cited as examples of CMEs and MMEs, respectively that had domestic patient capital and were highly closed to overseas private investors. At the same time, the traditional sources of patient capital have differed somewhat between the two, with strong reliance on bank-based capital and a complex network of cross-shareholding to develop long-term industrial strategies in Germany (Höpner, 2007; Goyer, 2011), and a more direct role for the state in France in steering and financing by controlling significant shareholdings in key industrial conglomerates and providing credit (Zysman, 1983). But from the 1980s onwards, the two countries introduced significant liberalization of their financial markets, stock markets grew and foreign ownership also increased (Goyer, 2006; 2011; van der Zwan, 2014, p. 115, Fichtner, 2015) and the nature of bank lending changed (Hardie *et al.*, 2013). Hence, we can study whether inherited different sources of capital in non-liberal market economies lead to diverse policies towards SWFs.

Our focus is on policy debates and decisions (legislation and strategies) towards SWFs as perceived new sources of patient capital. In addition to legislation, official reports and in-depth analysis of all articles mentioning SWFs in several major French and German newspapers, we collected data on SWF share investments using various established financial databases. We use both structured comparison and process tracing to explore how insiders respond to SWFs. The research design is inductive—generating hypotheses concerning the role of the state and strategies towards SWF investments as sources of capital that can be tested elsewhere.

## 4. German policies towards SWF equity investment

### *4.1 Internationalization and the threat to patient capital and insider corporate governance*

Traditionally, in Germany, domestic banks provided 'patient capital' to industrial firms in a system of 'relational banking', alongside allied firms and families (Höpner and Krempel, 2004; Vitols, 2004). The system was underpinned by a system of cross-shareholding: in 1999, cross-shareholding was around 37% in Germany compared to 1.2% in the UK (Callaghan, 2015, p. 405). Many firms had one major, stable shareholder—in the mid-1990s, the median size of the largest shareholding block was 57% in Germany compared to 9.9% in the UK and 5.4% in the New York Stock Exchange (Barca and Becht, 2001, p. 19, Table 1.1). Hence banks and large firms were key 'insider' actors, together with trade unions, notably through industry associations.

However, the provision of capital altered in Germany, although there is a debate about how far this has gone and implications for corporate governance. From a low base, financialization and internationalization grew from the 1990s onwards. Encouraged by government policies, stock market capitalization as a percentage of GDP rose from less than 20% in the 1980s to more than 60% by 2000 (Goyer, 2003, Figure 1; Thatcher, 2007). In the 1990s, foreign investors started coming into Germany, reliance on bank finance began to decline, especially for large firms, and existing institutional investors declared their intention to invest according to 'shareholder value principles' (Vitols, 2004, p. 362; Deeg, 2009; Goyer, 2011; Fichtner, 2015), a development that was linked directly to internationalization. By the 2000s, change was considerable—Fichtner's (2015, Table 2) analysis of 160 German large corporations in 2011 suggests that more than half of them no longer have a German blockholder while foreign investors' holdings have risen.

### *4.2 Debates about foreign investment and SWFs*

There was much debate in Germany about the maintenance of patient capital and foreign investment in the 2000s. There were worries that the weakening of long-term relationships between German banks and firms and declines in cross-shareholdings, would lead to the entry of short-term 'speculative' investors and German companies being bought and then broken up without consideration for long-term growth or the interests of employees (Höpner and Krempel, 2004, p. 352; Donges *et al.*, 2008). Workers and managers were often allies in expressing concerns about outside investors such as hedge funds and private equity firms (Gourevitch and Shinn, 2005; Engelen, Konings and Fernandez, 2008; cf. Fioretos, 2010).

They were joined by politicians: in a noted and graphic statement in 2005 Franz Müntefering, chairman of the Social Democratic Party, attacked foreign private equity firms as ‘swarms of locusts that fall on companies, stripping them bare before moving on’.

SWFs had made few investments before the 2000s. The main exception—a holding in Daimler by the Kuwait Investment Authority dating back to 1974 when it represented 14% of the company’s equity[5]—had been controversial and several major companies reacted by introducing voting rights restrictions to protect themselves against investors from Gulf oil producing countries (Roth, 1975). In the late 2000s, as SWFs grew and the concept was developed, strong concerns were expressed about their investments by traditional ‘insiders’. Within the financial sector, some actors expressed some support for restricting investment. For instance, Deutsche Bank’s CEO, Josef Ackermann, demanded protection of strategic industries against investments by SWFs from ‘state-permeated market economies’ (Nölke *et al.*, 2015) such as China and Russia.[6] Some parts of the business community representing small firms opposed SWFs.[7] Trade unions criticized financial investors who sought to maximize returns, including SWFs, and called for tighter regulation (Schäfer and Bläschke, 2009).

In 2007, politicians also began to discuss SWF investments. Volker Kauder, chairman of the CDU parliamentary group, called for national restrictions, notably due to SWFs being state owned.[8] In a 2007 position paper, the CDU argued for more caution concerning investment motivated by non-profit aims such as technology transfer or ‘strategic political’ motives. It suggested that the government should be allowed to intervene against an investment within 3 years without notification.[9]

However, debates about SWFs revealed a surprising countervailing coalition composed of traditional ‘insiders’. That coalition was formed in 2007–2008, before the real extent of the Great Recession became clear. Several key business associations spoke against new restrictions. The president of the German Association of Chambers of Commerce and Industry, Ludwig Georg Braun, warned against hastily intervening in the existing liberal economic order and contended there was ‘no need for new laws’.[10] Anton Börner (president of the Association of Wholesale and Foreign Trade) argued that the ‘suggestions are not well thought through and not feasible in Germany’s enterprise landscape’.[11] Equally, both the Federation of German Industries (BDI) and the Working Group of Self-employed Entrepreneurs opposed the planned changes to the foreign trade law.[12]

5 It is now around 7%, see: http://media.daimler.com/dcmedia/0-921-656186-1-1740458-1-0-0-0-0-0-0-0-1-0-0-0-0-0.html
6 *Handelsblatt* (2007, June 26) ‘Chinesen im Busch’.
7 For example, *Handelsblatt* (2007, July 17) ‘The Working Group of Self-employed Entrepreneurs’.
8 *Handelsblatt* (2007, July 8).
9 Beschluss des 21. Parteitages der CDU Deutschlands (2007, December 4) ‘In Chancen denken – Strategische Standortpolitik im 21. Jahrhundert’, p. 8.
10 *Handelsblatt* (2007, July 16) ‘Aussenwirtschaftsgesetz ausdehnen: Exportwirtschaft befürwortet Schutz vor ausländischen Staatsfonds’; *Handelsblatt* (2007, August 9) ‘Anteilsverkäufe von Unternehmen. Wirtschaft hält nichts von Glos’ Meldepflicht-Vorschlag’.
11 *Handelsblatt* (2007, August 9) ‘Anteilsverkäufe von Unternehmen. Wirtschaft hält nichts von Glos’ Meldepflicht-Vorschlag’.
12 *Handelsblatt* (2008, Janauary 14) ‘Neue Hürde für Auslandsinvestoren geplant’.

**Table 2.** Examples of SWF equity investments in Germany

| SWF name | Target | Major sector of target | Size of stake in % | Date | Supervisory board seat |
|---|---|---|---|---|---|
| SAFE (China) | Munich Re Insurance | Finance | Over 3.00 | August 2011 | No |
| ADIA (UAE) with others | E-ON Gas Grid | Energy | n/a as part of consortium (100 in total) | May 2012 | No |
| QIA (Qatar) | Siemens | Telecoms, communications and IT | About 3.00 | May 2012 | No |
| GIC (Sing) | MTU Aero Engines AG | Defence | 3.03 | As of September 2014 | No |
| Temasek (Sing) | Evonik | Manufacturing and chemicals | 4.64 | 10 March 2013 | No |
| GPFG (Norway) | Kabel Deutschland Holding AG | Telecoms, communications and IT | 5.25 | As to 5 July 2011 | No |
| ADIA (via Aabar Investment) | Daimler | Manufacturing and chemicals | Reduction from 9 (reduced to 3) | May 2012 | No |
| KIA (Kuwait) | Daimler | Manufacturing and chemicals | (7.6); 6.8 | (January 2009); 1974, stake as of June 2014 | No |
| KIO (Kuwait) | GEA Group | Manufacturing and chemicals | 7.9 | January 2009 | Yes |
| Qatar Holding (Qatar) | Porsche | Manufacturing and chemicals | 10.00 | September 2009 | No |

*Sources*: Thomson One Banker; *Sovereign Wealth Funds News*; Report Libyan Investment Authority (2010); SDC Platinum; Monitor Group; *Reuters*; *Bloomberg*; *Wall Street Journal*.

Many large companies saw SWFs as long-term patient and loyal investors in a context where their traditional networks and sources of patient capital had been weakened. SWFs were seen as willing to support companies over the long-term without seeking ‘voice’ in terms of seeking board membership or altering the existing management and its strategies. For instance, a representative of Bankhaus Metzler said the ‘investors from the Middle East follow long-term investment strategies’.[13] Similarly, Siemens contended that SWF investments helped protect the interests of long-term investors and strengthened the company’s ability to protect itself against rivals.[14] Talking about an Abu Dhabi SWF, Matthias Mitscherlich, CEO of MAN-Ferrostaal, declared that ‘since our investor is not bound to quarterly reports they can view projects more long-term. This gives us a bit more freedom’.[15]

The combination of long-term investment horizon and loyalty was also put forward by SWF investors. For instance, the head of ADIA emphasized their ‘long-term investments’[16] and the head of the Qatari SWF also argued that they were ‘well-meaning long-term investors’.[17] The two features were also apparent in the most prominent case of SWF investment, KIA’s stake in Daimler. In 2014, the KIA Chairman said: ‘Over the past 40 years, KIA has been a shareholder in Daimler even during its difficult days as we never lost faith in the brilliance of our common company’. The value of supportive long-term SWF investment for managers was underlined by the Chairman of Daimler’s Management Board: ‘In the past 40 years the KIA has backed our decisions, has given us room to manoeuvre and the freedom to move forward’.[18]

### *4.3 2009 Legislation and subsequent policies towards SWFs*

The debate on foreign investment led to new legislation in 2009. The legislative process and subsequent use (or non-use) of legal powers, as well as informal behaviour, illustrates the strategies and advent of the coalition of large firms and their associations with key members of the federal government towards long-term overseas state investors such as SWFs, as distinct from short-term private overseas investors such as hedge funds.

The position of the federal government evolved over time. Initially, in the face of calls for action against foreign investors, the finance minister, Peer Steinbrück, argued for strict new regulations, especially regarding strategic industries.[19] The economics minister, Michael Glos also supported a general registration requirement for large investments to safeguard ‘Germany’s national industrial policy interests’[20], albeit without singling out SWFs. But when German industry began to oppose stricter regulations in mid-2008, the most protectionist elements of the federal political executive, notably in the economics ministry, changed position. Instead, they began to minimize the reach of the law and emphasize that SWFs

13 *Handelsblatt* (2005, February 2) ‘Neuer Investor bringt Leben in den Kurs der Daimler-Aktie’.

14 *Handelsblatt* (2008, August 28) ‘Siemens/Staatsfonds: Staatliche Ankurbelung’.

15 *Handelsblatt* (2008, November 17) ‘Wir bietet [sic!] den Mitarbeitern Schulungen in arabischer Kultur’.

16 *Handelsblatt* (2010, January 11) ‘Deutschland verfügt über Weltklasse-Unternehmen’.

17 Ahmad Mohamed Al-Sayed (2011, September 29) ‘Einen Einstieg bei EADS würden wir prüfen’ *Handelsblatt*.

18 See: http://media.daimler.com/dcmedia/0-921-656186-1-1740458-1-0-0-0-0-0-0-0-1-0-0-0-0-0.html

19 *Handelsblatt* (2007, July 5) ‘Ausländisches Kapital raushalten: Steinbrück plant Schutzwall um Industrie’. Bundestag debate, Stenographic record, November 2007.

20 *Handelsblatt* (2007, August 8).

were 'highly welcome in Germany'.[21] Thus for example, Bernd Pfaffenbach (state secretary in the Economics Ministry) suggested that there was no need for additional state intervention in the market and considered that devising a list of key industries would be problematic.[22] Peer Steinbrück's position towards SWF investment also changed, as from May 2008 he began to argue that Germany welcomed SWF investments and praised KIA's presence in Germany (for instance, in Daimler).[23]

After the public debates, legislation was passed in 2009 as an amendment to the Foreign Investment Act (AWG).[24] The 2009 AWG covered all types of non-EU investment in German-based firms. It allowed the federal government to audit and ban purchases of voting shares in excess of 25% if these investments have the potential to compromise 'public security or public order'. Thus, at first sight, Germany appeared to restrict SWF investments through new legislation. However, a closer examination reveals a rather different picture. The 2009 law was motivated more by fears of private foreign investors than SWFs and its scope for controlling SWFs is in fact rather limited since very few SWFs take 25% stakes of voting shares; moreover, other types of participations that do not grant voting rights, such as 'preferred shares' or 'profit participation rights' are not covered by the law (Theiselmann, 2009, p. 1498). The Economics Ministry is not obliged to undertake an investigation and must complete it within 3 months of the share purchase, after which the investment is deemed accepted by default. The Economics Ministry also needs the consent of other ministries and of the federal government (Schäfer and Bläschke, 2009).

The period after the passing of the new law saw a significant increase in reports about actual SWF investments taking place. Yet, several studies found the law was not used and did not restrict foreign investments (e.g. Jost, 2013). Similarly, the Ministry of Economics, confirmed in an email in April 2013 that despite 140 applications, 'no investment has been prohibited or restricted in any way under article 53' (of the 2009 law).[25]

Moreover, increased SWF investments were met with very few comments by politicians. Insofar as the government made public statements, these welcomed SWFs. Thus, between February and October 2009, the Minister of Economics and Technology, Karl-Theodor zu Guttenberg (CSU), who had written a commentary arguing that Germany was open to investments, rarely mentioned SWFs and always in a positive light, stating that while the law was meant to protect 'core security interests', investment limitations would in practice remain an absolute exception.[26] Then after Angela Merkel's re-election as Chancellor in October 2009, the Economics Ministry was given to Rainer Brüderle (FDP), who defined regulation of SWFs as a purely economic question, opposing further legislative changes against SWFs and instead arguing that economic competition was sufficient.[27]

21 Bundestag debate, Plenary protocol 16/126, 15 November 2007, p. 13128.

22 *Handelsblatt* (2007, July 5) 'Ausländisches Kapital raushalten: Steinbrück plant Schutzwall um Industrie'.

23 *Handelsblatt* (2008, May 20) 'Finanzminister in Kuwait: Steinbrück: Staatsfonds "sehr willkommen"'.

24 The Dreizehntes Gesetz zur Änderung des Außenwirtschaftsgesetzes und der Außenwirtschaftsverordnung.

25 Dr. Johan Bartelt, Referat VB3 – Ausfuhrkontrolle: Rustungsguter; Investitionsprufung; Bundesministerium fur Wirtschaft und Technologie; Scharnhorststr.

26 *Handelsblatt* (2009, April 23) 'Deutschland bleibt offen für Investitionen'.

27 Bundestag debate, *Stenographic record, 16th legislative period, 113th session*, 14 September 2007 *(plenary protocol 16/113).* p. 11704 and Bundestag debate, Plenary protocol 16/126, 15 November 2007, p. 13109.

But the federal government went beyond abstaining from using legal powers. Several senior ministers travelled to SWF host countries to minimize the reach of the law and to convince SWFs to invest in major German companies as well as support exports. For instance, during a visit to Kuwait, Peer Steinbrück stated that Germany was 'highly interested' in SWF investments.[28] Another example is Karl-Theodor zu Guttenberg (CSU) who went to Abu Dhabi as part of the federal government's strategy to aid Opel find a new investor. It is noteworthy that the federal government explicitly preferred to seek a SWF investment rather than a domestic one.[29] Ministers argued that SWFs provided reliable long-term investors, forming part of wider mutual strategies whereby SWF host countries increased imports from Germany.[30]

Indeed, we observe a clear increase in SWF investments in Germany and a number of well-known German companies openly searched for state investors from the Gulf region and from China after 2007. As Table 2 indicates, SWFs, especially from the Gulf, have made significant investments in major German firms across many sectors—from manufacturing and chemicals to finance, energy and real estate. They have taken stakes in prominent national companies such as Siemens, Volkswagen, Porsche, Re Insurance Munich or Springer. On almost all occasions, the investment was welcomed and sometimes actively sought by the firm's management and/or senior policy makers—for example, Daimler endorsed purchases by Dubai Holdings in 2005 (reportedly 2%, sold in 2009), and Porsch and Volkwsagen welcomed QIA. SWFs often bought when managements were facing falling demand and profits, and maintained their holdings despite difficulties thereafter, underlining their role as patient investors, and also sending a public signal of confidence.[31] In many cases, SWFs are among the largest shareholders in these companies due to dispersed share ownership. Thus for instance, KIA is the third largest shareholder in Daimler and the second largest shareholder in GEA group, Qatar is the third largest shareholder in Volkswagen and CIC is the fifth largest shareholder in Eutelstat.[32] At the same time, SWFs did not demand 'voice' in terms of board seats. As Table 2 shows, SWFs had a (supervisory) board seat on only one of the companies in which they invested.

In sum, after the 2009 law, prominent German firms and senior politicians in the executive actively sought SWF investments. The strategy stands in sharp contrast to suspicion towards overseas private investors such as hedge funds, even from 'friendly' countries such as the USA. The surprising active promotion of SWFs investments despite previous opposition by members of parliament and trade unions, and to a lesser extent some banks, is best construed as the product of an alliance between the executive and large companies. This coalition has sought SWF investments because they considered them as loyal patient capital, i.e. stable, long-term investors who did not seek 'voice' in company management nor withdraw in difficult periods. This started before the crisis of 2007/8 but the latter accentuated these trends.

28 *Handelsblatt* (2008, May 20) 'Finanzminister in Kuwait: Steinbrück: Staatsfonds "sehr willkommen"' .

29 *Handelsblatt* (2009, April 6) 'Emirate nähern sich Opel immer mehr an'.

30 *Handelsblatt* (2009, May 8) 'Zu Guttenberg will arabische Investoren gewinnen'.

31 For example, KIA's purchase in EON in 2012 or Qatar's purchase in Porsche in 2009, kept despite low or fluctuating share prices.

32 The data was extracted from the Orbis database.

## 5. Policies towards SWF equity investment in France

### *5.1 Internationalization and the threat to insider corporate governance*

In France, the state traditionally provided 'patient capital' through public ownership of major industries and banks, and by channelling credit to selected large companies and sectors, as part of wider industrial strategies (Zysman, 1983; Hancké, 2001). In addition, family ownership remained strong. Foreign investments required government approval and French companies were largely closed to foreign equity. In addition, companies were often protected by cross-shareholdings, for instance, in 1999 cross-shareholding was around 20% in France compared to 1.2% in the UK (Callaghan, 2015, p. 405). In the mid-1990s, the median size of the largest shareholding block was 20% in France, much higher than in the UK (0.9%) and the New York Stock Exchange (5.4%) (Barca and Becht, 2001, p. 19, Table 1.1).

However, from the mid-1980s onwards, this context began to change as state ownership and state-provided credit fell. With so-called 'national champions' facing increasing domestic and international pressures, privatization became an attractive option to governments of Left and Right (Schmidt, 1996; Deeg and Perez, 2000). As a result, French companies' ownership structure evolved (Morin, 2000). Cross-shareholding fell by one-third (from 30% to 20%) in the 1990s alone (*ibid*., p. 38) and stock market capitalization as a percentage of GDP rose from less than 20% in the 1980s to more than 100% in France by 2000 (Goyer, 2003, Figure 1; Thatcher, 2007). Foreign ownership of the stock exchange increased from 10% to 35% between 1985 and 1997 (Morin, 2000, p. 41) and in the 2000s overseas investors, especially 'impatient' Anglo-American investors such as hedge funds, further invested in large French firms (Deeg, 2009; Goyer, 2011).

### *5.2 Debates about foreign equity investment and legislative reform*

In the late 1990s and 2000s, debates emerged in France concerning additional regulatory restrictions on foreign equity investments.[33] They reached a peak after rumours of a hostile takeover of Danone by American firm PepsiCo in the summer of 2005.[34] Both companies were privately owned but the bid was condemned by unions and political parties of Left and Right, and PepsiCo did not proceed. At that time, little reference had been made to SWFs in the French debate. Explicit mentions in the French media first appeared in *Le Figaro* in June 2007 with an article entitled 'Sovereign Funds, the new "*enfants terribles*" of finance'. Media attention grew, with over 1000 articles mentioning SWFs in *Le Figaro* and the financial newspaper *Les Echos* alone, underlining their expansion and likely importance.

Most of the initial opposition to SWFs came from the French parliament and parts of the financial sector. In October 2007, a Senate report expressed concerns about SWFs' lack of transparency and potential geopolitical aims and denounced the 'seductive discourse' according to which these funds should be welcomed.[35] Some members of parliament declared that 'we need ... to prevent SWFs from Qatar or Asia from buying our companies at demeaning prices'.[36] As in Germany, some parts of the financial sector felt threatened by

33 For instance, a parliamentary report in 2005 discussed the possibility of imposing additional requirements on foreign investments (Carayon, 2003).

34 *Le Figaro* (2005, October 22) 'Deux mesures pour muscler le capital des entreprises'.

35 *Les Echos* (2007, October 26) 'Le Sénat français s'inquiète de l'opacité des fonds souverains'.

36 *Le Figaro* (2008, October 10) 'Villiers pointe « l'échec de la mondialisation'.

SWFs. For instance, Eric Pelletier, a private equity associate director, argued that the firepower of SWFs would allow them to 'take positions in undervalued companies in stock markets' and 'to attack when the time is right' resulting in 'large-scale hostile operations'.[37] Similarly, the chief economist of Crédit Agricole contended that French small- and medium-sized companies could be 'swallowed' by SWFs.[38] The comments suggest that the crisis increased opposition by financial actors concerned about foreign investors buying undervalued companies.

In contrast, large firms and the political executive were favourable to SWF equity investment. This began before the economic crisis of 2007/8 but then grew as traditional state funding was seen as increasingly constrained and firms sought new sources of long-term capital. Indeed, policymakers highlighted the SWFs' capacity to provide patient capital (Banque de France, 2008; Demarolle, 2009, p. 21). Their position formed part of wider arguments that there were insufficient national savings, particularly in stocks and that French companies, therefore, needed foreign investment (Bo, 2011, p. 14). For their part, SWFs underlined that they would be patient, loyal investors. Thus, for example, Dubai International Capital (DIC), which acquired 3.12% of the capital of EADS (European Aeronautic Defence and Space Company), stated that it would 'seek to build a strategic relation with the company's board' but did not intend to take an activist stance.[39]

Major companies openly sought SWF investments as sources of patient and loyal capital, often to shore up the positions of existing managers. Thus, for instance, oil group Total Fina Elf confirmed that Chinese funds held 1.6% of their shares,[40] as well as from four other SWFs including Abu Dhabi and Kuwait. The company and its then head, Christophe de Margerie, argued that the presence of SWFs was a 'financially valuable asset over the long run'.[41] Another example is Arnaud Lagardère, who headed a major media group. He argued that he was 'favourable to SWFs because they are long-term investors' and was 'satisfied with the presence of Qatar in the capital of Lagardère group'. An analyst commenting QIA's investments pointed out that this was good news because they invest over the long-term and could help Lagardère. At the same time the deal was criticized by an American investor, Guy Wyser-Pratte, who had failed to get a seat in Lagardère's supervisory board in 2010, and argued that the Qatari shareholders were 'friends of Jean-Luc Lagardère and are trying to lock the capital in favour of the son'.[42] The investment illustrates how SWFs can provide helpful protection for existing management, both through holdings and as part of wider supportive coalitions.

The case of the nuclear power firm Areva illustrates the importance of both patient and loyal SWF investments. Areva's management brought in KIA as an investor in 2010 and then started discussions with additional funds, including from China,[43] as profit margins eroded due to problems in its next generation of nuclear power stations and also when its then head, Anne Lauvergeon, was engaged in a fierce battle to keep the company's

37 *Les Echos* (2007, October 10) 'LBO : une simple pause pour reprendre son souffle'.

38 *Les Echos* (2007, October 22) 'Nous n'engraissons pas nos gazelles !'

39 *Le Nouvel Obs* (2007, July 5) 'Un fonds public de Dubail prend 3,12% d'EADS'.

40 China's SAFE (State Administration of Foreign Exchange- Le Figaro (5 April 2008) Sain et sauf.

41 *Les Echos* (2008, April 4) 'Un fonds public chinois parmi les premiers actionnaires de Total and Les Echos' (10 April 2008) Le patron de Total prêt à accueillir d'autres fonds publics à son capital.

42 *Le Figaro* (2012, January 4) 'Le Qatar demande un siège au conseil de Lagardère'.

43 See http://www.lemonde.fr/economie/article/2015/06/11/les-japonais-et-les-chinois-s-interessent-a-areva_4652334_3234.html.

independence from the majority state-owned Électricité de France (EDF). The company welcomed KIA and declared that its stake would 'enable the group to strengthen its equity and pursue its development plan with a reinforced capital structure'.[44] The deal was particularly attractive to the board because 'KIA will not have a seat on the Areva supervisory board'.[45] In contrast, Areva and Anne Lauvergeon strongly and successfully resisted a possible investment by the QIA, which was linked to her political enemies, notably President Sarkozy and the then head of EDF Henri Proglio.[46]

The political executive was also very favourable to SWF investments and made an explicit distinction between different types of outsiders. For instance, French president Nicolas Sarkozy distinguished between those who invest 'long-term 'for a 'financial return 'and those who attempt to 'destabilise companies and … steal their technologies'.[47] In March 2008, French economics and finance minister Christine Lagarde commissioned a report 'to analyse the new role of SWFs but also to propose guidelines to define France's strategy towards SWFs'.[48] The report called on France to develop investment projects that were likely to attract SWFs.[49] Crucially, it argued that no special rules for SWF investments were required and that the main question was how to attract SWF investments to France.[50]

### 5.3 Legislation and policies towards SWFs

Opposition to foreign investments in general led to several revisions to maintain national regulatory restrictions within the constraints of EU law. In the initial formulation of the *Code Financier and monétaire*, foreign investments could be blocked by the economics ministry where they might threaten public order, public authority and security or national defence or involved the weapons industry.[51] However, the European Court of Justice ruled that this was too broad,[52] and in March 2003[53] the domains in which foreign investments require prior authorization by the economics ministry were delimited. Following the PepsiCo-Danone controversy, a decree in 2005[54] extended the authorization remit to cover 'strategic' sectors (e.g. defence, technology, security) if the investment represented a threat (e.g. to preserving R&D activities and security of supply chains or if the recipient company is involved in weapons, security, defence).[55] Several rounds of amendments followed, again as a result of criticisms by the European Commission.[56]

44 See http://www.world-nuclear-news.org/C_Kuwait_takes_Areva_stake_1312101.html
45 See http://www.world-nuclear-news.org/C_Kuwait_takes_Areva_stake_1312101.html
46 *Reuters* (2010, October 18) 'Areva/Capital- Le comité européen rejette les exigences du Qatar'; Le Slate.fr, Malbrunot and Chesnot (2013).
47 *Les Echos* (2008, January 14) 'Sarkozy réservé sur l'investissement des fonds souverains en 'rance'.
48 *Les Echos* (2008, March 5) 'Fonds souverains : Bercy confie une mission à Alain Demarolle'.
49 *Les Echos* (2008, March 23) 'Bercy séduit par l'idée de convier les fonds souverains au dialogue'.
50 *Financial Times* (2008, March 22) 'France warms to sovereign wealth'.
51 See: http://www.legifrance.gouv.fr/affichCodeArticle.do?cidTexte=LEGITEXT000006072026&idArticle=LEGIARTI000006645715&dateTexte=20120526.
52 See: http://curia.europa.eu/fr/actu/communiques/cp00/aff/cp0014fr.htm.
53 Decree 2003-196.
54 Decree number 2005-1739.
55 Articles 153–6 to 153–12.
56 For example, decrees in 2012 and 2014 which removed gambling but added energy and water, transport and communication services, defence related installations, health.

Although the legislation contained considerable powers to restrict foreign equity investment, the extensions were driven by private foreign investment, not SWFs. In practice, the government has not blocked any investments by SWFs, including those from the Middle East and China which have bought stakes in important companies in major sectors such as communications, energy and even defence/aerospace. Table 3 sets out some prominent examples of SWF investments.

Several SWF investments have been in major economically and politically sensitive French firms and sectors. The DIC acquired 3.12% of the capital of EADS (European Aeronautic Defence and Space Company)—a large defence and aerospace company, with a major role in Airbus—in July 2007.[57] The Qatar Investment Authority has bought stakes in utilities (Veolia), chipmakers (Altis), construction (Vinci), entertainment (La Fermière de Cannes) but also in strategic sectors such as shipping (CMA CGM), technology (Lagardere) and Aeronautics (EADS). China's SAFE investment company bought up to 1.6% of France's major oil group, Total, in 2008. In 2011, China's other SWF, CIC, invested in GDF Suez and in Dexia Asset Management. In many cases, SWFs were among the largest shareholders in these companies. Thus, for instance, KIA is the third largest shareholder in Areva, Qatar is the second largest shareholder in Lagardère group, the third largest shareholder in Vinci and the seventh largest shareholder in Veolia, and CIC is the 13th largest shareholder in Total. Yet SWFs have rarely sought 'voice' through a seat on the management board—in only two of the examples of investments set out in Table 3.

The political executive has not just allowed SWF share purchases but gone much further by actively seeking them. Senior politicians such as Presidents Nicolas Sarkozy and François Hollande, and economics minister Christine Lagarde or external trade minister Nicole Bricq, pursued investments from Qatar, Saudi Arabia and China.[58] In their visits, they also promoted trade deals with major French companies.[59] The QIA became an increasingly privileged partner, representing as much as a third of the aggregate valuations of all SWF shareholdings in French companies (Po, 2011, p. 21) and building close personal links with politicians such as Nicolas Sarkozy. To attract and direct investments, the executive decided that the *Caisse des Dépôts et Consignations* (CDC), a public financial body and traditional provider of state 'patient capital' to major French firms, should become the 'entry gate' for SWFs into France.[60] The CDC created a long-term investor club to which SWFs were invited to participate in a forum in 2009.[61] It also started undertaking joint investments with SWFs—for instance, with the QIA to invest in French SMEs.[62] By 2014, the CDC had created a more formal structure, CDC International Capital, which was jointly funded by the CDC and various SWFs[63], and later signed agreements with Emirati, Russian, and Qatari SWFs.[64] Finally, France created its own SWF, the *Fonds Stratégique d'Investissements* (FSI)

57 *Le Monde* (2007, July 6) 'Un fonds public de Dubai prend 3,12% d'EADS'.
58 *Les Echos* (2007, December 14) 'La France veut attirer le fonds souverain chinois'.
60 *Le Figaro* (2014, February 13) 'La France signe un accord stratégique avec le fonds souverain du Qatar'.
61 *Le Figaro* (2008, February 5) 'Le grand projet de la Caisse des dépôts'.
62 *Les Echos* (2012, November 30) 'Un fonds franco-qatari de 300 millions d'euros pour les PME françaises'.
63 *Les Echos* (2014, July 1) 'CDC International Capital finalise son équipe'.
64 *Les Echos* (2014, June 13) 'La CDC s'allie avec le prince Al Walid'.

**Table 3**. Examples of SWF investments in France

| SWF name | Target | Major sector of target | Size of stake in % | Date | SWF representative on management board |
|---|---|---|---|---|---|
| CIC (China) | Eutelsat Communications | Telecoms, communications and IT | 7.06 | As of September 2014 | No |
| SAFE (China) | Total | Energy | 1.60 | As of 2012 | No |
| QIA(Qatar) | Veolia | Others or diversified | 5.00 | n/a | Yes |
| QIA (Qatar) | LVMH | Retail, hospitality, services and tourism | 1.00 | As of 2 July 2012 | No |
| Qatar Holding (Qatar) | Vivendi | Telecoms, communications and IT | 1.56 | As of September 2014 | No |
| QIA (Qatar) | Vinci | Real estate | 5.8 | n/a | Yes |
| QIA (Qatar) | Total | Energy | 3.00 | 2012 | No |
| KIA (Kuwait) | Areva | Energy | 4.8 | 2010 | No |
| CIC (China) | GDF Suez | Energy | 10.00 | Unveiled on 10 August 2011 | No |
| QIA (Qatar) | Lagardère | Telecoms, communications and IT | 12.83 | As of September 2014 | No |

*Sources*: Thomson One Banker; *Sovereign Wealth Funds News*; Report Libyan Investment Authority (2010); SDC Platinum; Monitor Group; *Reuters*; *Bloomberg*; *Wall Street Journal*.

in October 2008,[65] which then developed partnerships with foreign SWFs to attract their investments, for instance, Gulf SWFs in energy projects.[66]

In sum, large companies and the political executive have increasingly used SWF investments to attract patient, loyal capital for major French firms, as well as accessing foreign markets and developing joint investment ventures. The pro-SWF stance contrasts markedly with these insiders' concerns about foreign private investors.

## 6. Conclusions and discussion

In both Germany and France, traditional forms of patient capital, notably block holdings and domestic state ownership, have declined from the 1990s onwards. Concomitantly, financial markets, including stock markets, have grown, internationalized and been liberalized. The traditional corporate governance model of long-term relationships between insiders based on patient capital would seem to be threatened.

Yet, policymakers and the managers of prominent firms in both countries have welcomed non-Western SWF purchases of equity in major national companies. Indeed, they have gone further on many occasions by actively seeking such investment. Such policies are surprising, given that many SWFs are not just 'outsiders' but foreign outsiders from non-democratic countries. SWFs can raise issues of security and political uses of investments, yet have taken stakes in major national companies, including in very sensitive sectors.

Our analysis shows that the welcome for SWF investments came from a new coalition of 'insiders' that involved key parts of the political executive and the senior managers of large, established firms from the non-financial sector. This coalition overcame opposition by other traditional insiders, notably parts of the financial sector, parliamentary representatives and trade unions, thanks to its combined strength and ability to define the issue of SWFs in economic terms and use SWF patient capital to buttress existing forms of coordination. Its members saw advantages from SWF equity investments. The most important was that SWFs offered passive patient capital—offering loyalty but not demanding 'voice', together with the possibility of increased orders from their home countries, thereby bolstering the position of existing managements. SWF investments also formed part of overseas trade and political strategies by the political executive.

SWF patient capital allows certain insiders in each country to bolster their pre-existing positions. Although governments in both Germany and France pursued active policies to welcome SWFs, their role and the relationships they have built with SWF differed, reflecting the nature of coordination in each country. In Germany, large private companies led debates. After an initial period of wavering, the Federal government followed their preferences and has sought to aid them in attracting SWF investment. In France, the political executive has played more of a leadership role. It has sought direct partnerships using state funding bodies as well as supporting SWF investment in large French firms. Hence, policies towards SWF investment have been more state-led in France than in Germany.

The welcome extended to SWFs was due to a combination of factors. Policymakers and large firms were concerned about declining domestic sources of patient capital, especially as financial liberalization and internationalization seemed to open the door to unwelcome

65 *Financial Times* (2008, October 24) 'Sarkozy plans fund to fend off "predators"'.

66 *Le Figaro* (2008, July 12) 'Des grands projets à la recherche d'investisseurs'.

foreign investment. They were particularly hostile to impatient capital, notably from the USA. The expansion of SWFs, notably after 2005, offered a means of responding to these concerns that actually used internationalization and liberalization. It offered a means of adapting and indeed sometimes reconstituting insider models of corporate governance with overseas state capital that was seen as both patient and not demanding voice, an ideal combination.

Seeking SWF equity investment in France and Germany was not just part of a general move towards economic openness nor simply a response to the economic crisis after 2008, although the crisis accentuated the demand for new sources of patient capital. For a start, it stands in sharp contrast to the hostility expressed towards private overseas investors on the grounds that they represented 'impatient' capital. Then, it also involved directing SWF investment to specific firms, especially large industrial firms in prominent sectors in the two countries (e.g. cars in Germany and nuclear power in France). Moreover, it was an active policy of attracting SWF equity investment pursued by both members of the political executive and firm managers, often acting in direct cooperation. Policies of welcoming SWFs began before 2008 and included Germany, a country with a massive trade surplus and hence no financial need for foreign capital.

These findings have implications for wider debates about patient capital and 'insider' corporate governance systems. Studies in the varieties of capitalism literature have focused on the extent to which financial internationalization and liberalization have undermined the supply of patient capital. Thus far, both policy debates and academic studies of overseas capital have focused on private investors, notably hedge funds and private equity firms. They have often underlined the hostility towards foreign 'outsiders' who are seen as disrupting long-term relations among 'insiders'.

Our argument is that financial internationalization and liberalization can not only coexist with patient capital but indeed result in new foreign sources of such capital. We underline the growing role of overseas states as international investors and providers of patient capital. SWFs themselves have expanded, now being larger than the hedge funds and private equity firms that have attracted so much academic and public attention, but other forms of international state investors also exist.

We argue that some existing insiders can adopt active strategies to adapt to financial changes and the decline of traditional sources of patient capital by actively seeking out overseas state patient capital. We posit the creation of new coalitions, notably between the managers of large strategic firms and the political executives which welcome and direct overseas state investors into specific sectors and firms. Far from being hostile to all overseas investors, certain traditional insiders find foreign investors to reconstitute their protective networks. The patience and loyalty of capital seem more important than its nationality.

Whereas the state has often been underplayed in studies of varieties of capitalism, we underline its roles. One is paradoxical- overseas states help to offset reduced domestic supplies of patient capital. But another involves the state within CMEs and MMEs. It sets regulatory frameworks and decides how to use available instruments for approving overseas investment. In addition, it also plays important informal roles in encouraging or discouraging overseas investment through means such as public debate and supporting or directing investments—in our cases, attacking investments by US hedge funds or private companies while defending and encouraging SWF equity purchases.

Thus our central finding is that faced with declining sources of traditional patient capital and financial internationalization and liberalization, new coalitions of managers of large industrial firms and the political executive in CMEs and LMEs actively seek passive patient overseas state investors to support and adapt traditional insider models of corporate governance based on long-term relationships. How can this claim be tested more widely? One test would be to examine examples of responses to SWFs who sought 'voice' or were perceived as 'impatient' investors. The difficulty is that we have found almost no evidence of such SWF behaviour in Germany or France, so the examples would need to be taken from elsewhere.[67] But our analysis reveals that impatient private foreign investors were indeed much less welcomed. Another test would be to study strategies and policies towards SWFs or other state investors in other CMEs and MMEs, either in Europe or elsewhere—for instance, in Japan. These could vary in some of the key explanatory factors for the welcome to SWFs identified in the two cases. Thus for instance, if a CME or MME had no decline in levels of domestically-provided patient capital, then much lower levels of welcome or indeed outright hostility to SWFs might be expected.

A third form of testing would be to distinguish CMEs and MMEs from LMEs. We would expect companies and policymakers to differ in terms of strategies and coalitions. In LMEs, they may well either view state investors with suspicion or else accept them as part of opening financial markets to all regardless of nationality rather than because of their ability to offer patient capital. Relationships with firm managers would also differ, with managers in LMEs seeking SWFs as part of shareholder value strategies of pushing up share prices and indeed SWFs being sought even if they were 'impatient' investors. Equally, government-firm coalitions to direct overseas investments into particular firms, especially from the industrial sector, would not be expected in LMEs, but instead a general openness and attraction into all sectors, including the financial sector. Hence the specificities of CME and MME policies arising from the search for patient capital can be tested by looking at other types of market economy.

Policies towards SWF equity investments in Germany and France thus offer wider implications and hypotheses for broader debates about how internationalized and liberalized financial markets can provide patient capital. More generally, they point to the continuing role of the state—both as a supplier and as a policymaker—in ensuring the continued provision of patient capital.

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67 The main exception was QIA's possible investment in Areva which was successfully resisted by the firm.

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