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Internationalized Statism

The liberalization and internationalization of financial and capital markets provoked vigorous renewed debates in political economy about the role of the state from the 1980s onwards. A major literature on 'economic globalization' has focused on whether these market changes have weakened the capacities of national policy makers to govern their domestic economies and protect their firms through market closure. In response, a recent 'new statist' literature has criticized the neglect of the state in analyses of the effects of economic globalization. It argues that states can find new instruments and opportunities from the internationalization and liberalization of markets, and indeed, they may lead and shape such changes. They do so in order to promote domestic firms as well as protect them, notably through strategically opening certain markets. Their choices are not just between accepting 'free trade' and financial integration versus closing markets; they are also about how to mould markets through regulatory and financial instruments to aid domestic firms.

The 'new statist' literature is valuable in 'bringing the state back in' once more. Yet it ignores a new form of state action- cross-border economic activities. These range from international expansion by state-owned enterprises to overseas investments by state financial organizations. Thanks to the liberalization of markets, states can cross borders to buy and sell goods, services, or overseas assets. Conversely, recipient states find that overseas states are participants in their domestic markets and can build relations with them to govern their economies.

The concept of internationalized statism builds on statist literature and seeks to remedy this neglect of the state as an international market actor and investor. It refers to public policies in recipient countries to seek and use foreign states as part of strategies to govern their domestic markets. These policies to seek overseas purchasers of domestic assets can vary in extent and form, notably whether policy makers attract overseas state actors generally or discriminate among them and/or seek to channel their activities and investments into particular markets, sectors, and firms. The concept of internationalized statism recognizes that domestic policy makers can decide whether and how to use foreign state investors as part of their strategies within their domestic economies.

To identify the need for the concept of 'internationalized statism', the chapter begins with an overview of international political economy and comparative political economy literatures that have theorized the relationship between economic internationalization and national economic policy making. Next, it discusses 'new

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statist' analyses and argue that they overlook the state as a cross-border economic participant and need to offer more defined claims about how and why policy makers decide to use overseas states within their domestic economies. We then present our analysis of 'internationalized statism', including the concept and its extent and form. We set out its application to the case of Western policies towards cross-border investment in company equities by overseas Sovereign Wealth Funds (SWFs) to analyse the patterns of internationalized statism found. The chapter ends with our research design and methodology.

1.1 Economic Internationalization and the State

As cross-border financial flows grew from the 1980s onwards, so too did interest in their implications for nation states. Susan Strange offered sharp, classic claims that vast cross-border capital flows following financial liberalization had reduced the autonomy of nation states in favour of large multinational corporations in the 1980s and 1990s.[1] Her studies provoked a myriad of works.[2] One set looked at the ability of policy makers to govern the new international system.[3] This international political economy debate about international governance offers a backdrop for our study of internationalized statism as we analyse the case of SWF investments, but it is not our main focus.

Instead, we examine the other central debate arising from 'strong globalization' studies: whether market internationalization of goods, services, and capital has limited the ability of national policy makers to maintain closed domestic markets to protect national firms. Here, the claims of 'strong globalizationists' challenged much existing work that had looked at domestic politics to explain economic closure and openness. Their arguments ran counter to a comparative political economy literature developed from the 1960s onwards that analysed the varying ability of nation states to pursue 'industrial policies' to develop certain firms and sectors.[4] Such policies were argued to go hand in hand with limiting the degree of economic openness, notably international capital flows and takeovers as well as product competition. They also included the ability of states to direct capital to selected national firms and sectors, either directly through public ownership or indirectly through state investment bodies, planning, and influence over bank lending.[5]

[1] Strange 1986, 1996.

[2] Strange's 1996 book on the retreat of the state was cited more than 6,800 times and her book on states and markets more than 3,500 times (Google Scholar accessed October 2019). For reviews of her work, see, for instance, Tooze 2000; Brown 1999; Palan 1999; Lawton, Rosenau, and Verdun 2000. See Drezner 2001 for a review of race-to-the-bottom arguments in the literature.

[3] Frieden 1991; Mitchell 1991; Mosley 2003, 2005; Weiss 2003; Sattler, Freeman, and Brandt 2008; Cohen 2017; Ferrara and Sattler 2018.

[4] E.g. Evans 1979; Shonfield 1969; Johnson 1982; Zysman 1983.

[5] E.g. Zysman 1977.

The 'old statist' comparative literature argued that national strategies depended crucially on state strength, itself linked to other factors such as the structure of state institutions and their degree of separation and capacity vis-à-vis societal interests. In countries with 'strong' states characterized by very high public ownership and traditions of overt state economic intervention, governments tended to plan and direct economic activity, shield certain industries from foreign ownership and competition, and create 'national champions', capable of competing with large multinational American companies.[6] In contrast, economically 'liberal' nations such as the UK were claimed to have 'weak states' that lacked effective industrial policies, being unable to direct capital to selected targets or shape ownership of private firms; hence they were more economically open, particularly to international capital.[7]

Studies of the international liberalization of capital markets and financial flows challenged 'old statist' analyses by suggesting that domestic policy makers had limited scope to control the allocation of capital or close capital markets and so would converge on 'liberal' policies to meet international competition and attract mobile international capital.[8] Moreover, their analyses posed problems for the cross-national classification of states as strong versus weak, interventionist versus 'spectator', and open versus closed. 'Liberal' countries such as the UK and US engaged in many forms of state shaping of liberalized markets, particularly through regulation, while, conversely, 'strong states' such as France and Japan seemed to become less capable of promoting their national champions through 'dirigisme', and turned to new policies and instruments such as privatization, liberalization, and regulation.[9] Indeed, 'strong' states sometimes actively promoted economic openness, especially if their domestic producers enjoyed international competitive advantages. More generally, multiple state activities to allow, promote, and enforce competition went hand in hand with market liberalization—as Stephen Vogel summarized, 'freer markets, more rules'.[10]

Strong globalizationists also challenged explanations of openness based on the balance of societal interests within nations such as a literature on Open Economy Politics (OEP) which examines how the economic interests, alliances, and power of factors of production, such as labour and capital, determine the degree of trade openness.[11] OEP expects these differences in domestic private interests who win

6 E.g. in the case of France: see Zysman 1977; Servan-Schreiber 1967; Evans 1997.

7 Shonfield 1969; Hayward 1986; Hall 1986; Dyson and Wilks 1983; Schmidt 1996; Zysman 1983.

8 Strange 1988; Cerny 1997; Baccaro and Howell 2017; Baccaro 2003; Drezner 2001; Underhill 2000.

9 Cf. Gamble 1988; Cohen 1995; Thatcher 2007; Wright 1997; Schmidt 1996; Moran 2003; Levy 2006.

10 Vogel 1996.

11 E.g. Milner 1988; Frieden 1991; Grossman and Helpman 1994. For recent reviews of this literature, see Lake 2009 and Milner 2013. For a more extensive discussion of the globalization/mobile capital thesis versus the statism literature, see Ferrara and Sattler 2018; Delwaide 2011.

or lose to lead to systematic variation in the trade policies that governments adopt. Yet much larger internationalized and mobile capital suggested that one factor of production would be dominant and choose openness. Equally, the strong globalizationists suggested that the scope for national variation would be greatly reduced, as choices would be driven by international capital.

In response to the strong globalizationist claims of cross-national convergence on 'liberal' economic policies and problems with existing classifications of states, new approaches developed. One was a vast literature on 'varieties of capitalism' which argued that national adaptation varied because of differing comparative advantages of private firms arising from coordination and inherited institutions.[12] These studies offer a highly sophisticated set of analyses that share a common feature of national diversity in adaptation to global and international developments. They offer expectations about certain economies being more open than others, in particular that 'liberal market economies' such as the UK and US are more likely to welcome foreign investment and takeovers than 'coordinated' or 'mixed market' economies such as Germany and France because of patterns of coordination and networks.[13]

Much work on varieties of capitalism started with firms and labour, sometimes as part of wider networks. It led to accusations that it left out or at least downgraded the state.[14] Indeed, the other political economy literature that arose in response to both the 'globalizationist' and varieties of capitalism literatures is a 'new statist' one. It sought to integrate the effects of internationalized and liberalized markets with the changing but core role of the state. It is our central focus here, as our point of departure is that analysing the relationship between the state and economic internationalization requires paying close attention to the state itself.

1.2 New Statism and Economic Internationalization

Although there are many 'statist' approaches to political economy,[15] they share a focus on the state as a central participant in shaping, limiting, and guiding economic markets and enjoying at least some autonomy from other actors. Studies seeking to 'bring the state back in' are often a reaction against other explanations that downplay its role in favour of societal interests or economic forces.[16]

A recent 'new statist' literature has sought to counter claims that economic globalization, and especially internationalized and liberalized financial markets, have reduced the scope for national policy making. Instead, as Levy argues, the

[12] E.g. Hall and Soskice 2001; Hancke, Rhodes, and Thatcher 2007; Hollingsworth, Schmitter, and Streeck 1994; Soskice 1999; Amable 2003.

[13] Callaghan 2018. [14] Cf. Howell 2003; Schmidt 2002, 2007.

[15] Cf. Schwartz and Tranøy 2019.

[16] E.g. Evans, Rueschmeyer, and Skocpol 1985; Schmidt 2009.

state does not just disappear as markets are liberalized, but also rises, often finding new forms of action.[17] Indeed, Stephen Vogel (2018) notes that the central activity of states has become shaping competition or 'marketcraft', while studies of the 'competition state' suggest that there are strong pressures on the state to take an active lead to respond to 'globalization' by ensuring that national firms can compete internationally.[18] State policies to aid domestic firms may involve liberalization of markets, new instruments (especially regulation), and altered relationships with private actors. Thus, for example, Vivien Schmidt (2009) has argued that there has been a move from *faire*—the most directed form of action which was the focus of old statism—to *faire faire*, where the states incentivizes other actors to pursue certain actions, and *faire avec*, where the state coordinates with private actors. More generally, there is also a growing literature on 'state capitalism' which underlines the role of publicly owned firms[19] and on the 'entrepreneurial state'[20] which documents its crucial role for innovation in technology and economic development.

At the heart of 'statist' studies are claims about the ability of public policy makers to discriminate—i.e. to promote selected domestic market actors through state action. But while 'old statist' studies argued that this involved closure of markets to overseas firms and focused on direct instruments such as public ownership, tariffs and barriers to entry, 'new statist' analyses suggest aiding national firms can occur through allowing overseas firms into domestic markets and shaping their role through regulation. 'New statist' approaches are well illustrated by recent literatures on 'economic patriotism', 'economic nationalism', and new forms of 'industrial policy'.[21] 'Economic patriotism' is defined as 'economic choices which seek to discriminate in favour of particular social groups, firms or sectors understood by the decision makers as insiders because of their territorial status'.[22] To counterbalance assumptions or claims that in a 'neoliberal' age the state can no longer discriminate to aid domestic firms and sectors, Clift and Woll (2012) separate 'conservative economic patriotism' (aiding insider economic actors by closing markets) from 'liberal economic patriotism' (doing so through opening markets). Policy makers can pursue 'liberal economic patriotism' by opening selectively and/or re-regulating with rules that are unfavourable to overseas firms

[17] Levy 2006; Weiss 2003; Wood and Wright 2015; Schmidt 2009; Wood and Wright 2015; Le Galès and King 2017.

[18] Cerny 1997; Weiss 2003.

[19] E.g. Musacchio and Lazzarini 2014; Bremmer 2010; Dolfsma and Grosman 2019; Nazcyk 2016; Kurlantzick 2016; Alami and Dixon 2020.

[20] Mazzucato 2013.

[21] 'Industrial policy' is a term that has returned to favour both in academic work and for policy makers, especially after the financial crisis of 2008. See, for instance, Callaghan and Lagneau-Ymonet 2012; Clift and Woll 2012; Grant 2012; Hoeffler 2012; Morgan 2012; Nourry and Jung 2012; Block 2008; Bulfone 2019; Clifton et al. 2006; Thatcher 2012; Gerőcs et al. 2019.

[22] Clift and Woll 2012: 308.

and aid domestic ones.[23] In a similar vein, studies on 'economic nationalism' point out that countries can pursue nationalist objectives but through means other than mercantilism, including different forms of liberalization.[24] In addition, economic patriotism allows for the possibility that policy makers have aims other than short-term economic growth maximization,[25] such as limiting free trade to allow industries to develop sufficient comparative advantage (i.e. an 'infant industry' strategy), or 'Schmittian patriotism', which involves limiting the market to protect certain security interests.[26]

State strength is analytically distinct from whether policies promote economic openness.[27] 'Strong' states may therefore choose to increase economic openness to promote their national interests. Conversely, even in 'liberal' economies with markets that are highly exposed to cross-border trade and capital flows, the state engages in 'economic patriotism'.[28] Similarly, a literature on 'economic nationalism' warns against conflating the content of the economic nationalist ideology with the protectionist tools that it employed in the past such as trade tariffs and quotas.[29] Instead, economic nationalism is best 'defined by its nationalist content' (i.e. promoting 'national interests') and can therefore be pursued through a diverse set of policies, including liberal ones. The implication is that economic patriotism and nationalism are consistent with a much wider set of policies than protectionism and indeed can be pursued through forms of economic openness.

States can promote or hinder economic openness through a variety of instruments.[30] Studies of 'economic patriotism' suggest that because of factors such as international trade treaties and competition law, there has been a shift from classic trade barriers to regulatory and liberalization instruments such as a choice of standards or selective opening of markets.[31] Work on industrial policy also underlines the importance of regulatory instruments as well as state assistance to internationalize domestic firms through means such as influencing alliances with overseas firms, regulated tariffs, or rules about ownership.[32] Finally, economic patriotism or industrial policy can also be pursued at different levels—not just national but also supra-national and regional.

'New statist' literatures offer a sophisticated set of questions and tools for analysing countries' policy strategies towards the internationalization and liberalization of markets. Here, we use the literature on 'economic patriotism' to illustrate these features since it offers a particularly strong example of 'new statist'

[23] Clift and Woll 2012: 316–17. [24] Helleiner 2002; Shulman 2000.
[25] Rosamond 2012. [26] Schmitt 1985. [27] Clift and Woll 2012.
[28] Clift and Woll 2012; cf. Rosamond 2012; Levy 2006.
[29] Mayall 1990; Levi-Faur 1997; Crane 1998; Helleiner 2002; Pickel 2003; Helleiner and Pickel 2005; D'Costa 2009; Fetzer 2019.
[30] Cf. Levy 2006; Garrett 1995; Mosley 2000, 2003, 2005. [31] Clift and Woll 2012.
[32] E.g. Thatcher 2013; Bufone 2019, 2020.

analyses of economic policy and liberalized and internationalized markets. First, compared with older 'statist' approaches, it allows a better conceptualization of state policies to promote 'the national interest' in shaping markets in many advanced economies, including supposedly 'liberal' economies. Thus, although the term 'economic patriotism' was popularized in France, such policies have been promoted in countries classified as 'liberal market economies' such as the US and UK. To give just two examples, President Trump claimed to be pursuing an 'America first' strategy and the concept of 'industrial policy' has returned to favour, being cited by the UK Conservative government and by the European Commission.[33]

Second, economic patriotism represents a valuable counterbalance to literature that downplays the state or treats it as largely a reflection of the interests of societal actors (even if institutionally embedded). It allows for the possibility that the state—autonomously—promotes the interests of certain domestic interests through a range of instruments. It responds to literatures in fields from comparative and international political economy which show that public policies have permitted, aided, and shaped cross-border economic flows, including financial ones.[34] Equally, the continuing central role of the state has been highly visible after the international financial crisis of 2008 and the Covid-19 crisis, from setting new rules to providing massive public funds for firms.

Third, economic patriotism moves the locus of analysis beyond the 'more or less' state and 'state versus market' debates.[35] Instead, it stresses that states can use both policies that close markets or those that open markets to advance the interests of selected firms,[36] depending on which benefit the selected insiders and/or are detrimental to outsiders. It allows for state choices about its choice of aims (e.g. economic versus security), strategies, and instruments.

At the same time, new statist works suffer from important limitations. Again, the economic patriotism approach offers good illustrations. One is that it provides too few claims about how and when the state chooses to open markets and allow competition and foreign entry and when it does not. Equally, while setting out a palette of options, it says too little about which forms and instruments of openness and closure and market shaping the state chooses. Since it shows that 'liberal market economies' can pursue closure, and the 'statist economies' can pursue liberalization, the response to such questions is not determined by the type of polity (although it may be influenced by this). This then begs the question of what other factors matter.

A second, related limitation is that, surprisingly, economic patriotism studies too often treat the state as a black box and underplay the internal politics of the policy process, including the private interests of state actors. Yet comparative

[33] UK Government 2017; European Commission 2019.

[34] To offer just a few major references, see Garrett 1995; Swank 2015. For reviews, see Clift 2014; Crouch and Streeck 1997; Crouch 2011.

[35] See also Wood and Wright 2015.

[36] See Helleiner 2002 on this point.

institutionalist literatures, including in statism, offer a host of studies that show that domestic politics matters, both in terms of what is the most 'efficient' policy and also what policy is actually chosen.[37] Equally, they show that the state is not a unified actor but contains many units, which often compete and have their own rationales and norms. In addition, policy aims are open to debate and contestation, being an inherently political matter.

Third, new statism's treatment of economic internationalization remains lopsided: it accepts that firms and private investors can internationalize, but not the state. In this it follows a powerful tradition, well exemplified by Susan Strange,[38] which envisages internationalized markets, especially capital ones, but nationally constrained states. Yet with liberalization, states too can cross borders. They may do so through governance via international or supra-national organizations—for example, in the EU, as part of two- or three-level games (Putnam 1988; Schelkle 2016).[39] They may form relationships with foreign private firms to influence their home markets.

However, an emerging literature underlines the growth of transnational state-owned enterprises (e.g. Büge, Egeland, Kowalski, and Sztajerowska 2013; Babic et al. 2017, 2020; Singh and Chen 2017; Mariotti and Marzano 2019). Internationalization of SOEs and investment bodies affects not only their owners but also policy makers in recipient states as overseas states become participants in their domestic economies. Indeed, this form of internationalization new opportunities for domestic policy makers to create relations with foreign state investors. Thus, new statism is correct to emphasize that states can be empowered through internationalization but underestimates the extent to which this is the case. State policies to use overseas state investments within their home economy are the focus of the present study.

1.3 Internationalized Statism: Concept and Key Arguments

1.3.1 The Concept of Internationalized Statism

When states cross borders by carrying out economic activities in other countries' domestic markets, two linked phenomena arise. One is state economic internationalization—states internationalize their economic activities, for instance by state-owned enterprises setting up overseas subsidiaries or obtaining ownership of assets located abroad. The number and relevance

[37] Hall 1986; Steinmo 1993; Garrett 1995, 1998; Hall and Taylor 1996; Boix 1998; Thelen 1999; Swank and Steinmo 2002; Thelen and Streeck 2005; Rueda 2007; Jackson and Deeg 2008; Mahoney and Thelen 2010.

[38] E.g. 1988; also Underhill 2000.

[39] Economic patriotism recognizes that policies to promote domestic firms can be undertaken at subnational and supra-national levels (Clift and Woll 2012).

of state-owned enterprises and SWFs have been growing and attracting greater attention (see Chapter 2). The other is that foreign states become participants in the domestic markets of the recipient state. This phenomenon has received less attention in political economy.

As states internationalize, policy makers in the recipient state must then decide between competing strategies. They can choose to close their domestic markets to foreign state investors[40] or they can accept and welcome them as part of strategies to shape their domestic economy. We call public policies in recipient countries to use foreign states as part of their strategies to govern their domestic markets 'internationalized statism'. Such policies are both statist, since they involve the state steering or influencing markets, and internationalized, since they do so through relations with a foreign state. We analyse whether policy makers in different polities in the West pursue internationalized statism, and if so, how and why they do so.

In common with other forms of statism, our concept of internationalized statism treats the state as enjoying a partially autonomous role in shaping domestic markets. But it differs from current analyses in taking into account the fact that thanks to liberalized markets, overseas states can operate economically across borders, resulting in relationships between states within the recipient country's economy. Such relationships have always existed—for example, states may negotiate on export orders or tariffs, and state-owned enterprises have exported and sometimes even established foreign subsidiaries. However, the liberalization and internationalization of financial markets have transformed the scope for internationalized statism, as they have made it much easier for states to enter overseas markets through investment, offering altered exchange relationships and a new source of capital for policy makers in the recipient country.

There are both theoretical and empirical reasons to be interested in internationalized statism. In terms of theoretical debates in political economy, a key part of statist views is the ability of policy makers to influence economic activities within domestic markets, for instance by regulating certain key sectors or directing the supply of capital to selected firms. 'Old statism' focused on a form of 'conservative economic patriotism' involving closure to foreign investment and direct instruments for state influence within markets such as public ownership and control over credit allocation. 'New statism' allows for the possibility of 'liberal economic patriotism'—in which states pursue policies of openness to aid domestic economic actors and can act through regulatory instruments. If governments can use overseas states to aid selected domestic firms and sectors, it provides a powerful example of new statist claims that the state also rises with economic liberalization and internationalization and a response to those who argue that these changes have ended or reduced state capacities to govern their economies. The concept of 'internationalized statism' extends 'new statist' analyses from opening

[40] We refer to states in keeping with the statist literature, but the concept of internationalized statism can be applied to the EU or the subnational level.

and structuring domestic markets to overseas private firms in order to aid national firms to doing so by opening to overseas state investors.

Empirically, the number and size of overseas state actors crossing borders have been increasing. Thus, for instance, investment by overseas states through SWFs and public pension funds has been growing significantly in the last two decades, as new funds are established and existing ones expand (as Chapter 2 will set out). Equally, there are new and expanding state development banks as well as state-owned pension funds which have internationalized their portfolios, for instance in Europe.[41] State-owned enterprises[42] have also become increasingly internationalized—examples range from energy to railways and even to banking. Major state-owned enterprises expanding their operations in Europe include not just Western examples such as the Deutsche Bahn, French EDF, or the Italian ENEL, but also increasingly non-Western suppliers such as Sinopec, the Chinese oil and gas firm, or the CRRC (China Railway Construction Corporation), the state-owned Chinese railway locomotives group.[43] Their economic activities concern core and strategically important sectors of the economy, as the debates about whether to allow the China General Nuclear Group to be part of the Hinkley nuclear plant illustrate.[44] In addition, there are legally private firms that are indirectly owned or controlled by states, for instance through debt, state guarantees, or political ties. States are also buying assets such as land and raw materials abroad; prominent recent examples concern purchases by China and Saudi Arabia in Africa. Far from fading away, the state as an (international) investor is 'rising', especially after the crises of 2008 and 2020.

These overseas states create challenges and offer new opportunities for policy makers in recipient countries. State economic actors may have different incentives than private firms in terms of performance and non-commercial objectives such as geopolitical, foreign policy, and security aims. At same time policy makers in the overseas states may form commercial and non-commercial exchange relationships with public and/or private actors in the recipient state. Therefore, relations between a domestic state and an overseas state actor may differ from those with private actors.

[41] Babic et al. 2020; Park 2017; Naqvi, Henow and Chang 2018.

[42] State-owned investors and enterprises are sometimes labelled 'government controlled' (e.g. OECD 2020), but we use the phrase state- or publicly owned because control and ownership may differ in practice. We also separate investors through shares and SOEs which produce goods or services since overseas ownership of the latter may also raise competition issues.

[43] China Railway Construction Corporation Limited provides transportation infrastructure construction services such as railway, highway, urban track, and other infrastructure.

[44] *Guardian*, 7 July 2020.

1.3.2 Applying Internationalized Statism to Sovereign Wealth Fund Equity Investments

Policy responses to overseas state investment offer a particularly interesting case to analyse internationalized statism. These investments represent a new source of capital that is an alternative to the private capital which is usually studied. The supply of such capital may differ from that of private capital, since it may not be focused on short-term maximization of stock performance. The capital invested may be more 'patient' and have longer time horizons than private investors such as hedge funds or private equity firms. Foreign state investors may also be influenced by motivations such as wider geopolitical alliances (as is the case between France and Qatar). Security considerations between foreign competitors may conversely lead recipient countries to block certain investments by overseas states. As a result, foreign state investments are more politically visible and attract greater debate than private investment, becoming more politicized. Relations between a domestic state and an overseas state actor may follow different logics from those with private actors, since overseas state investments are part of wider exchanges of economic benefits for security, military, diplomatic, or personal gains.

Moreover, overseas state purchases of domestic assets are particularly politically and economically significant because they provide rights for their owners. These include participating in decisions, such as using shares to vote in company decisions, enjoying legal protection in debt restructuring, and influence over how the asset is used. Equally, assets often give rise to long-term income. Finally, many assets can be resold. Hence, asset ownership gives rise to long-term relationships and scope for the overseas state to influence the decisions of organizations in the recipient country. Overseas states thus enter the domestic markets as purchasers and then remain as asset owners. This applies even if the assets have been bought on overseas exchanges (for instance, company shares can be traded on overseas exchanges if companies are listed on them).

Studying policies towards foreign state investment also allows the development of new statist work such as that on economic patriotism.[45] As noted, the literature suffers from limitations in terms of specifying the conditions under which a polity adopts openness or closure and for different policy instruments. It also confines policy makers to economic policy aims. Western policies towards company equity purchases by non-Western SWFs offer a politically unlikely or difficult case for openness as such investments can be highly contested and meet political objections in the recipient country on grounds of national security—from fears of

[45] We leave to one side work on developing countries that are in a very different position; equally, there is an extensive literature on the economic and financial behaviour and performance of different kinds of state-owned actors, which we examine for SWFs in Chapter 2, but here our concern is with governance of domestic economies.

the overseas state using SWFs for political purposes to loss of technological leads, intellectual property, and control of strategic industries. Equally, there may be arguments about lack of reciprocity in market and investment access. Human rights may also be invoked as well as nationalist resistance to 'foreigners' buying assets that have symbolic value. Regardless of whether SWF or other state investments are an economic or security threat in practice, they can be presented as such in the policy process. Indeed, all of these considerations are not just theoretical but can be regularly observed—from arguments about Chinese investors today to claims about French state companies in the last century.[46] Hence, the case study of policies towards SWFs can be used to form wider arguments about such conditions. In addition, we examine the US, UK, France and Germany as comparing across different types of polity allows discussions about the effects of national-level factors on openness, which comparative political economy literatures, including 'old statism' and varieties of capitalism, all suggest matter. Thus we seek to develop claims about internationalized statism to contribute to debates about whether states find new means of governing their domestic economies thanks to capital market liberalization, and indeed whether they may contribute to it.

A first step in applying internationalized statism is to examine its presence by looking at policy responses to SWF equity investments. We follow new statist literatures in understanding statism as public actors seeking to govern or steer their domestic economies through different forms of state action, whether through ownership and spending or regulatory measures. The 'internationalized' part of statism captures the use by policy makers of *overseas states* to steer their domestic economy. It differs from policies of general openness which seek to attract overseas investors of all kinds without policies specifically for state investors. We examine the extent of internationalized statism—whether it is absent (no policies to attract SWF investments), low (few efforts to attract SWF investments), or high (policy makers actively seeking to attract SWF investments into their domestic markets). We focus on policies—statements, rules, and the use of formal and informal instruments to attract SWFs by public officials rather than financial and economic outcomes (although these may offer evidence about the operation of policy), as internationalized statism concerns public policies rather than economic or financial results.

We find that in all four countries, the state has played some direct role in dealing with SWFs and has discriminated (whether favourably or not) between SWFs and other types of investors and/or recipient firms and sectors, for instance in public rhetoric, legislation, and informal relations. Such statism has been seen not only in countries categorized as 'statist' or 'mixed' market economies (France and Germany) but also supposedly 'liberal market economies' such as the UK and

[46] Political factors influencing investment decisions and responses in the recipient country of course can apply to private investors, but they are much clearer for state ones; equally, we recognize that the distinction between a state and private investor is sometimes difficult to draw—for instance, seen in the controversy over links between Huawei and the Chinese state; cf. Mcnally 2012; however legal ownership is a prominent and easily understood feature of an investor.

US. Thus, the question becomes not whether the state seeks to influence overseas state investment but rather to what extent it does and which strategies it adopts. The extent of internationalized statism seems highest in the UK, followed by France and Germany, while it is lowest in the US. To give some examples, in the UK, France, and Germany, policy makers have sought SWF investments as part of domestic economic strategies through several means—from public statements, a regulatory structure that did not discriminate against SWFs and may have helped them, formalized and informal relationships, and encouragement to invest. The US is an exception as policies of economic openness, especially towards overseas state investors, have been highly contested. The outcome has been lower internationalized statism than in the other three countries, with a legal framework that discriminates against overseas state investment and limited direct encouragement to invest. Thus, while France and Germany are often presented as closed, in terms of internationalized statism they have welcomed SWF investments. Conversely, the US has been categorized as a 'liberal market economy', yet it has been much more closed.

In a second step, we analyse differences in the form of internationalized statism and find that there are important cross-national contrasts. We distinguish between directed and undirected forms, drawing inspiration from previous research on types of state action, such as Vivien Schmidt's distinctions between *faire*, *faire faire*, and *faire avec*.[47] In what we call 'directed internationalized statism', policy makers exercise a high degree of selection over the choice of overseas state investors and their purchases in particular firms or sectors for specific political or economic purposes. By contrast, 'undirected' internationalized statism is characterized by a more generic approach to overseas state investors, with less selection of individual state investors and target firms.

In sum, we document the existence of two dimensions of internationalized statism: (1) *degree*—the extent to which domestic policy makers seek overseas state investment to govern their domestic economies; and (2) *form*—the extent to which internationalized statism is directed, through selection of certain state investors and the assets in which they invest or undirected, seeking to attract state investors but not seeking to discriminate among them or their acquisitions. Bringing the two dimensions together, internationalized statism is more or less directed or undirected and it is higher or lower (see Figure 1.1). Thus, these two policy aspects of internationalized statism map the extent and type of whether and how policy makers in the recipient state seek investment from foreign states. We apply this framework to assess country and temporal variations in terms of policies towards SWF investments.

We place our country case studies in the two-dimensional space of Figure 1.1. Initially, all Western countries started with a fairly low degree of state

[47] Schmidt 2009

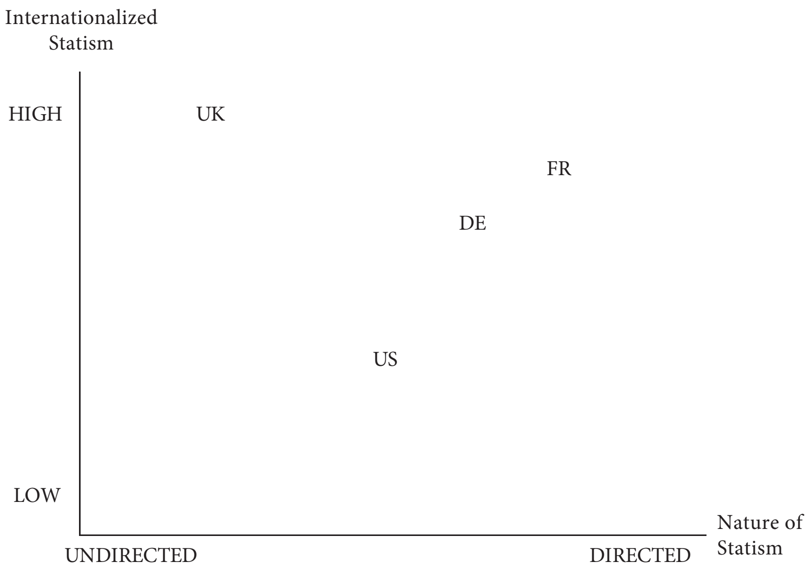

Figure 1.1 Two dimensions of internationalized statism.

internationalization for the simple reason that market internationalization and especially state internationalization was low. But from the 2000s until 2019, states have moved towards higher degrees of internationalized statism, although thereafter there have been moves towards slightly lower and more directed internationalized statism, as concerns about China and activities by its SWFs and state-owned enterprises have led Western policy makers to adapt their strategies. As can be seen in Figure 1.1, internationalized statism is highest—but most undirected—in the UK, followed by France and Germany, which have more directed forms, while the US exhibits a low and directed internationalized statism.

The UK has moved from the bottom-left quadrant to the upper-left quadrant. Its policies became very favourable to openness to SWF investments. But it has not sought to discriminate among SWFs or influence their choice of target firm and sectors in which to invest. Hence the UK is characterized by 'undirected internationalized statism'. Despite recent concerns about China, it has retained this high undirected level of statism with few changes in policy. France has moved from the bottom-right to the top-right quadrant and can be classified as directed internationalized statism. The political executive has sought SWF investments, but it has developed privileged relations with certain SWFs, and its domestic economic aims have been highly targeted and concerned particular 'national champion' firms (public and private). Indeed, state partnerships with SWFs, in particular those based in the Middle East, are highly institutionalized and have deepened even as concerns about China have led to some legislative changes. In Germany, the executive has allied itself with particular economic interests, especially in the manufacturing and banking sectors, to welcome most SWFs as sources of patient capital. Despite recent legislative changes, Germany continues to exhibit a relatively high level of internationalized statism, but it has been more limited than in France and the UK. Finally, and by contrast, the US has low and directed internationalized statism. Although some policy makers have welcomed SWF investments, such policies have been limited and faced growing general restrictions and suspicion of overseas state investment. Concerns about certain foreign countries, notably from the Middle East and then more recently China, have been rising, indicating a high degree of selectivity about overseas state investors. SWF investments have been concentrated in certain firms and sectors, notably failing firms in the financial sector and in real estate.

There are many explanatory factors for the patterns of internationalized statism found. We adopt a public policy analysis which focuses on state actors and decision-making processes. This choice allows us to investigate the motivations and logics of recipient state strategies towards SWF investments. Our analysis shows that the possible benefits and threats from SWF equity investments are politically constructed.[48] We trace the evolution of the extent and directedness of internationalized statism by following the policy-making process. Using comparison and process tracing, we highlight the interests, strategies, and distribution of power within the state, in line with our statist approach which sees the state as a partially autonomous actor from societal interests. We find that the position of the political executive is crucial to the degree of internationalized statism that emerges. Within it, certain elements, notably economic departments dealing with economic policies, tend to favour SWF investments. Equally, other bodies responsible for macro-economic and financial policies such as central banks, development banks, and financial regulators often hold similar views. When these actors hold sway, policies are more favourable to openness. Then executive–legislative relations also matter, as typically the legislatures have shown scepticism about SWF investments. Thus in countries where the executive is powerful and seeks out SWF investments for economic and/or security benefits, the maximum degree of internationalized statism is found. In countries where the executive is weaker and internally divided, then we observe a lower degree of internationalized statism. Finally, we see the form of statism as influenced by policy legacies, both in the historical institutionalist sense that pre-existing institutions shape preferences and capacities, and in the sociological institutionalist sense that norms and processes shape what actors do.

[48] As Chapter 2 sets out, there are different views about the behaviour, benefits, and risk for the West of SWFs.

Thus, for instance, the UK executive has faced little contestation to its policies of welcoming SWFs, which it sees as bringing many economic benefits and very limited security dangers. To the extent that concerns have been raised, they have been mostly about economic risks associated with state interventions, and come from parts of a comparatively weak legislature. These factors have aided the UK to pursue a high level of internationalized statism. In France, the political executive has sought SWF investment. There has been more opposition from parts of the legislature than in the UK, but strong alliances between the executive, parts of the media, and powerful economic actors have overcome these legislative concerns. At the same time, French policy makers have also selected SWFs and engaged in close relationships with them to shape their investments in pursuit of both foreign policy and domestic political goals, giving rise to more directed internationalized statism than in the UK. In Germany, there was initially scepticism about SWFs, especially from political parties and in the legislature. Business interests were important in overcoming resistance and in encouraging SWF investment. Finally, overseas state investment in the US has been strongly contested. Partly this has to do with a strong Congress seeking to assert its power over trade policy, and partly it is due to a more lukewarm executive that became concerned about the security and geopolitical risks of having investment from China in sensitive sectors. These findings are further discussed in Chapter 7, comparing our findings for the different country case studies.

The internationalized statism framework allows us to compare how national policy makers use foreign states to govern their domestic economies thanks to the liberalization of capital and financial markets. It contributes to the wider literature on how the state adapts and benefits from internationalized markets. It differs from the literature on economic globalization that sees the state as being overwhelmed by the rise in capital movements. It also departs from an older statist literature, where stronger states were assumed to be in favour of more closure, and vice versa for weaker states. By contrast, we follow new statism in arguing for a central role of national states in dealing with internationalized capital. Whereas new statist literatures such as work on economic patriotism have focused on selectively opening up domestic markets to private foreign suppliers, internationalized statism is about attracting overseas states into domestic capital markets, sectors, and firms. We seek to contribute to new statist analyses by looking at how certain parts of the state use economic internationalization by foreign states to govern their domestic economies.

Our framework of internationalized statism is not meant to capture all policies, so it is helpful to delineate what falls outside its scope. It does not include policies that do not seek to use overseas states as part of strategies to govern the domestic economy. We therefore exclude policies which make no distinction between domestic versus foreign and state versus private capital. Equally, our interest is in the economic internationalization of states and their entry into other countries' domestic markets, so we do not seek to analyse political internationalization such as trade deals or international governance.

1.4 Research Design

We seek to develop hypotheses about the occurrence of internationalized statism. Our case study focuses on Western policies towards equity purchases by SWFs. Using the case of SWF investments, we focus on policies of economic openness towards foreign state investors that are adopted for domestic economic reasons. Thus our specific research question is: what policies do Western states pursue towards equity investments by non-Western SWFs and why? We trace and compare policies over time and across four countries, and then identify the key actors that are involved as well as the mechanisms through which they influence policies. The research design is inductive because the literature on new statism and economic patriotism does not offer many clear testable hypotheses other than a general argument of a movement towards 'liberal economic patriotism' that uses regulatory instruments.

The choice of policies towards SWF equity investments as a case study of cross-border state investments arises because of both their importance and their value in developing statist theories of economics of openness. SWF investments are large and growing, as will be shown in Chapter 2. The largest SWFs tend to be in resource-rich countries where their performance is often crucial for economic wellbeing, but SWFs are also being set up in other countries, including Western ones such as France and Italy, with discussions even occurring in the UK and EU. We accept that 'Western' and 'non-Western' are political constructs, but argue that these do apply in the period examined. Indeed, we use membership of the OECD as our dividing line.[49] Most of the largest SWFs are in non-OECD countries that are non-democratic and/or in troubled areas of the world, features that could make political opposition in Western countries more likely. Equity purchases are linked to direct control of companies, as they usually carry voting rights, and often offer greater opportunities for participation in decision making than, for instance, financial debts. These features make SWF equity investments a likely case for political opposition to attracting their purchases and so a politically

[49] Cf. Clifton and Fuentes 2011. OECD countries include the following: Australia, Austria, Belgium, Canada, Chile, Colombia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States (accessed 20 December 2020 at www.oecd.org/about/members-and-partners).

prominent case for policies of high levels of internationalized statism.[50] More generally, SWFs illustrate extremely well the importance of a nuanced view of state–market relationships,[51] as their ability to invest abroad goes hand in hand with liberalized, internationalized financial markets.

Equally, we treat firms in which SWFs purchase shares as having a national affiliation.[52] Although many have operations abroad and their shares can be traded on different stock exchanges, they retain strong national bases—for instance, in terms of where senior staff are located, links to national governments, and, most important of all for our political analysis, an identification with a country. Few of the firms examined are in the internet sector, but even here, companies such as Google and Amazon have a recognizable national base.

The book collects data on three aspects of public policies. First, it examines the overall strategies of policy makers towards SWF investments, notably whether they are welcomed or resisted. Second, it then looks at the legal framework governing SWF investments, scrutinizing in particular whether there are provisions that discriminate against SWFs (by intention or not). Finally, the country chapters examine the use of policies towards individual SWF investments. This is especially important as legal powers have often not been used against SWFs, and enables us to look at policy in practice.

To the extent that countries can be constrained by international regulations (see Chapter 2), the book examines the policy strategy of several international organizations towards SWFs: the International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), EU, and World Trade Organization (WTO). However, the key finding from such an analysis is that national policy makers have considerable legal scope for choices within the international regulatory framework. Hence the focus is on the national level.

The four countries studied[53]—the UK, France, Germany, and the US—were chosen because they are usually contrasted in comparative political economy. Most relevant for our purpose, the nature of the state varies, as identified in many

[50] Whether or not SWF purchases of company equities are threatening to Western interests is another matter—our argument is that they offer fertile ground for being presented as such, given the countries in which they are based and also that equities can provide influence over companies.

[51] Dixon and Monk 2012: 105.

[52] This assumption has been at the core of debates between liberal, Marxist, and mercantilist/nationalist international political economy (e.g. for two contrasting positions in the 1970s and 1980s, see Gilpin 1976: 189 and Strange 1988; or more recently see Pauly and Reich 1997; Babic, Fichtner, and Heemskerk 2017). However, most recent contributions in comparative political economy implicitly assume that national institutions matter to firms' performance because they are nationally rooted (see, for instance, the varieties of capitalism literature such as Hall and Soskice 2001 and Hall and Gingerich 2009; but also more recent contributions to the literature on the relationship between democracy and capitalism—Iversen and Soskice 2019).

[53] Other countries such as Italy, Switzerland, Canada, and Australia were initially examined but have not been included here because of issues of data availability and space.

old and new statist studies as well as work on varieties of capitalism. Much of the statist literature would expect 'liberal' economies to be more open to foreign equity investments, such as those from SWFs, than statist countries or coordinated market economies. The expectation is that the UK and the US should be more open than Germany or France. A similar expectation emerges from the old statist literature: France has a strong and interventionist state that should be more averse to SWF investments than the weaker states of the UK and US. Of course, there are many other possible explanatory factors.[54] We supplement our comparative analysis of the effects of state differences with temporal comparisons and process tracing to suggest certain explanatory factors and how they operate.[55]

We have created an original and extensive database that covers publicly known SWF investments in publicly quoted firms in the four countries. For each investment where the information is available, it records the size of the investment, the origin of the SWF, the sector and company in which it invests, the public attention it attracts, and how it was defined. The data allow aggregate investments to be examined and also individual ones—to see whether policy makers adopt different positions depending on the size, origin, and target of SWFs. The Appendix explains the approach taken and the difficulties and limitations in compiling the database.

The time period covered starts in the early 2000s and ends in 2020. In 2019–20, just as the book was completed, new legislation was proposed or introduced in some countries which we cover briefly. In addition to the financial data, we draw on newspapers, official and non-official reports, semi-structured interviews with senior policy makers (see Appendix for the list of interviewees), and secondary literature. In terms of SWFs, we focus on thirteen of the largest and politically most prominent SWFs from non-Western countries:[56]

- Abu Dhabi: Abu Dhabi Investment Authority (ADIA)
- China: China Investment Corporation (CIC)
- China: SAFE Investment Company (SAFE)
- Dubai: Investment Corporation of Dubai (ICD)

[54] It is beyond the scope of this chapter to review all possible factors. Indeed, the range of explanatory factors is vast: from the structure of political institutions, the degree of separation, and capacity vis-a-vis societal interests, to whether the polity is compound or simple, to the nature of coordination between key actors in the economy, and to work on corporate governance systems (Katzenstein 1977; Krasner 1978; Hall 1986; Schmidt 2009; Hall and Soskice 2001; Callaghan 2018).

[55] On process tracing, see Bennett and Checkel 2015; Leimgruber 2012; Hall 2008, 2013; Mahoney 2012.

[56] Ranked in terms of size by total assets. It should be noted that definitions of SWFs vary (notably whether central banks are included), as discussed in Chapter 2, and sizes vary over time. The research examined purchases by the large Norwegian SWF, the Government Pension Fund Global, but given the focus on non-Western SWFs and also numbers, the figures for this fund are mentioned in terms of understanding the size of SWFs, but they were excluded from the tables and analysis which focus on non-Western SWFs.

- Hong Kong: Hong Kong Monetary Authority Investment Portfolio (HKMAIP)
- Kuwait: Kuwait Investment Authority (KIA), including the Kuwait Investment Office (KIO)
- Libya: Libyan Investment Authority (LIA)
- Qatar: Qatar Holdings (QH)
- Qatar: Qatar Investment Authority (QIA)
- Saudi Arabia: Public Investment Fund (PIF)
- Saudi Arabia: Saudi Arabia Monetary Authority (SAMA) Foreign Holdings
- Singapore: Government of Singapore Investment Corporation (GIC)
- Singapore: Temasek Holdings (Temasek).

1.5 Concluding Comments

A core issue in political economy concerns the capacities and instruments of nation states to pursue economic policies to favour selected firms in the face of liberalized and internationalized capital markets. The book advances a new concept of internationalized statism, which allows us to analyse a growing and important phenomenon—the rise and surprising acceptance of SWF investments in the West—and to contribute to understanding how national policy makers use state economic internationalization to govern their domestic economies.