Investing for the state

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A finance-sensitive reading of the transnationalisation of Chinese state capital in Europe

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To Li Ming

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List of acronyms

BICs	Brazil India China
BRI	Belt and Road Initiative
CCCC	China Communications Construction Company
CECIF	China-EU Co-investment Fund
CIC	China Investment Corporation
BOT	Build Operate Transfer
Exim	China Export Import Bank
EPC	Engineering Procurement Construction
EPC+F	Engineering Procurement Construction + Finance
EU	European Union
FDI	Foreign Direct Investment
FIRE	Finance, insurance, real estate
GDP	Gross domestic product
IMF	International Monetary Fund
ISIF	Irish Strategic Investment Fund
IPO	Initial public offering
MOFCOM	Ministry of Commerce of the People's Republic of China
MOU	Memorandum of understanding
NYLON	New York, London
OECD	Organisation for Economic Cooperation and Development
PE	Private equity
PPPs	Private public partnerships
ROI	Return on investment
SFPI/FPIM	Société Fédérale de Participations et d'Investissement/Federale Participatie en Investeringsmaatschappij
SOE	State-owned enterprise
SWF	Sovereign wealth fund
UK	United Kingdom
US	United States of America
WTO	World Trade Organisation

Chapter 1

Introduction

1.1 The rise of China

Familiar expressions like 'global China', 'Beijing consensus' and 'China model' have been bandied about in scholarly and popular discourse to characterise China's integration into the global economy (L. Chen & Naughton, 2017; Lee, 2018; Ramo, 2004). If the proliferation of terms is anything to go by, it would by all accounts mark an era-defining event in global capitalism.

Of all these expressions, the 'rise of China' would seem to be most accurate in capturing the more remarkable features of China's global integration. For one, it identifies the strong role of the state in the governance of the Chinese economy. Since formal Opening Up and Reform in 1978, the state has initiated a series of transformations that have precipitated the abandonment of the former socialist planning system under Mao and the liberalisation of the economy, including the introduction of market pricing, a reorganisation of the tax and administrative system that has devolved power to lower levels of government, the establishment of financial markets and an independent central bank, the corporatisation of state-owned enterprises (SOEs), and China's joining of the World Trade Organisation (WTO) (Bell & Feng, 2014; Tsui et al., 2017; Weber, 2021; K. Yang, 2007). For another, it conveys the speed and scale with which these transformations of the state have catapulted the country into the ranks of the world's largest economies. Market liberalising reforms have precipitated the rejuvenation of the country's industrial base and set it on a path of export-led development. Since 1978, gross domestic product (GDP) per capita growth has not dipped below 2%, contra the United States (US) where six inflection points marked by negative digit growth numbers have punctuated the US economy in the same period (World Bank, 2022a).

However, the 'rise of China' is also misleading insofar as the onus of agency is placed on China as opposed to the wider global system that it is part and parcel of. Imaginaries of an authoritarian one-party state orchestrating the externalisation of Chinese economic activity have prevailed. Far more attention has been given to the geopolitical implications of China's rise, materialised in news stories on debt trap diplomacy and the national security implications of state control over critical infrastructure, outcomes of state efforts to gain greater influence in the global political economy (Brautigam, 2020; L. Summers, 2007).

The rise of China has come to represent an antithetical paradigm in binary conceptions of economic life, where state power usurps market power in the development of capitalism, autocracies are outpacing democracies in economic welfare, and peripheral economies of the world market are clawing their way toward the industrial core. China is juxtaposed with a handful of advanced capitalist economies concentrated in Europe and North America that have become synonymous with market-based modes of capital accumulation upheld in extant rules of market discipline and multilateralism at the world level by the liberal international order (J. C. Weiss & Wallace, 2021). In the European Union (EU), China is perceived as a threat that has revived 'level playing field' rhetoric in proposals for new forms of defensive trade policy to counteract the state-supported advantage given to Chinese firms in the European single market (Babić & Dixon, 2022; Chimits, 2021; Weinhardt et al., 2022). Likewise Chinese engagement in the Global South has come to represent a new form of imperialism threatening liberal democratic reform and the unfettered integration of peripheral economies into the world market. China's model of state-coordinated development, wherein no strings attached tied financing to infrastructure projects in commodity-rich economies like Zambia and Venezuela through the Belt and Road Initiative (BRI) is contrasted with the Washington Consensus development financing paradigm of growth via market liberalisation (M. Chen, 2021).

Predicated on conceptions of a binary world economic system defined by the separation between states and markets, liberal democratic and state authoritarian systems, state versus liberal capitalism, the rise of China has been elevated to the status of a paradigm shift because it is inseparable from the ideological significance projected on state-led forms of capital accumulation and the aberrant implications therein for market-based modes of economic governance that prevail in the global political economy.

This is a book that challenges this market-aberrant worldview, that privileges combination, hybridity and continuity, and that observes the world historical context in which variegated paths of capitalist development have unfolded. It takes seriously the co-constitution of China's integration into the world economy and the significance therein for the next phase of global capitalism.

As these pages will show, both state and market-based modes of capital accumulation have underpinned the rise of China where the lines of division between state and market actors, China and the advanced capitalist core are less clear-cut than meets the eye. For one, the ideological basis of China's state-led reform trajectory is global in source material. Economists from the World Bank, the US, Central and Eastern Europe, and Brazil, reflecting the diversity of developmental experiences they embody, have had their hand in China's state-led reform playbook (Meulbroek, 2022; Weber, 2021). These ideological engagements are mirrored in the material interactions between China and the rest of the world. China's export-led industrialisation has to a large extent been predicated on the inflow of foreign investment in the early 1990s where, in the decade following Reform and Opening Up, the net inflow of foreign direct investment (FDI) as a percentage of GDP rose from 0% in 1979 to 6.2% in 1993. And we need only look to the numbers following China's entry to the WTO to understand how fundamental trade with the rest of the world has been a core driver of Chinese growth where, between 2000 and 2007, the volume of trade as a percentage of GDP rose from 1.7% to 9.9% (World Bank, 2022b). Far from an aberrant form of economic governance that promises the usurpation of a liberal core, the rise of China reflects the hybridity of global capitalist development.

However, more than simply a book about China, this is a book about the current conjuncture in capitalist development in which the rise of China signals a historic shift in the material and ideological basis of how economic systems are governed. The rise of China has come to symbolise the growing role of the state in the economy, reflected in the prevalence of hybrid organisational forms like sovereign wealth funds (SWFs) that straddle the state-market divide. More importantly, after the neoliberal hegemony of the 1980s and 1990s, the increasing visibility of the state in economic governance has penetrated deep into the advanced capitalist core. The appearance of increasingly state interventionist instruments like industrial policy, investment screening mechanisms and defensive trade policy in heartland economies of the liberal core has taken place in a world historical context in which the Chinese economy has integrated with the world market at a rapid pace. It has facilitated the expansion of state-led logics of capital accumulation designed to promote the unrestrained movement of capital and labour. Such developments do not mark a decisive rupture between state and market-based modes of capital accumulation. Rather, they challenge long-held assumptions about the geography of capitalism.

1.2 Scope of the book

Like all era-defining events, the rise of China is historically and geographically situated. We can acknowledge earlier waves of regional integration such as the silk roads between Han China and Europe more than 1500 years ago when connectivity helped to cultivate economic, political and cultural renaissance across Eurasia (Frankopan, 2016), but the rise of China refers to a distinctly post-war, post-socialist transition, neoliberal era when world market-making efforts emanating from the advanced capitalist core in the wake of the oil crises of the 1970s promoted the accelerated and unhindered circulation of capital at the transnational scale.

Domestically, China's post-socialist transition in the late 1970s is backdropped by a recognition by the political leadership of the need to reform the socialist planning system under Mao toward market-based alternatives (Weber, 2021). However, it was not until the 1990s when aggressive market reforms coalesced around China's accession to the WTO in 2001, marking China's official integration into the world economy.

The broader context of these milestones is the rise of neoliberalism and world market-making in the late 1970s. Within the advanced capitalist core, declining rates of profitability exacerbated by the oil crises of the 1970s brought into question the legitimacy of Keynesian demand-side economics as the dominant form of economic governance to prevail in the post-war era (Peck & Tickell, 1994). The Volcker Shock, in which then chairman of the US Federal Reserve Paul Volcker, raised the Fed funds rate to 20%, brought inflation under control, but that resulted in soaring debt in peripheral economies and a turn toward financial channels as a means to sustain corporate profitability (Becker et al., 2010; Karwowski, 2019). Reflecting the neoliberal turn at the global level, bail out funds from the International Monetary Fund (IMF), World Bank and other Washington Consensus institutions were conditional on structural adjustment policies designed to bring about an integrated world market underpinned by private, market-based capital that was seen as the antidote to stagnant growth. Fiscal austerity and state rollback curbed the role of the state in the economy while market liberalisation and monetary discipline brought about the accelerated circulation of trade and investment flows and the increasing relevance of the transnational as a scale at which capitalist social relations are reproduced (Kentikelenis et al., 2016). China entered a world economy in which market-discipline had been institutionalised at the global level and where the globalisation of production and finance, materialised in the emergence of global supply chains and international financial centres, had enabled the global circulation of capital and labour.

It is within this context that the transnational scale takes on particular significance and which marks the 2008 financial crisis as a critical inflection point when the rise of China took on an accelerated trajectory. As I expand on in chapter 3, the transnational scale presumes a shift of power in the global political economy wherein state power is increasingly mediated by the power of non-state actors, notably firms, over capital flows and economic decision-making (Robinson, 2004; Sklair, 2002). Throughout the 1990s and 2000s, financial channels took on increasing prominence as a source of profitability, spilling over into the rest of the world via the effects of expanding liquidity from central bank intervention in the advanced capitalist core (Dunford, 2021; Tsui et al., 2017). Emerging markets became increasingly exposed to financial speculation as a result of the massive concentrations of capital in the core, and which subsequently became the basis for transnational alliances that have sustained capital accumulation through financial channels.

The financial crisis is significant for it sparked the accelerated transnationalisation of Chinese state capital, that is, capital owned by the state, marked by the exponential increase in outward foreign investment. Figure 1.1 shows how the outflow of foreign direct and portfolio investment accelerated in the post 2008.

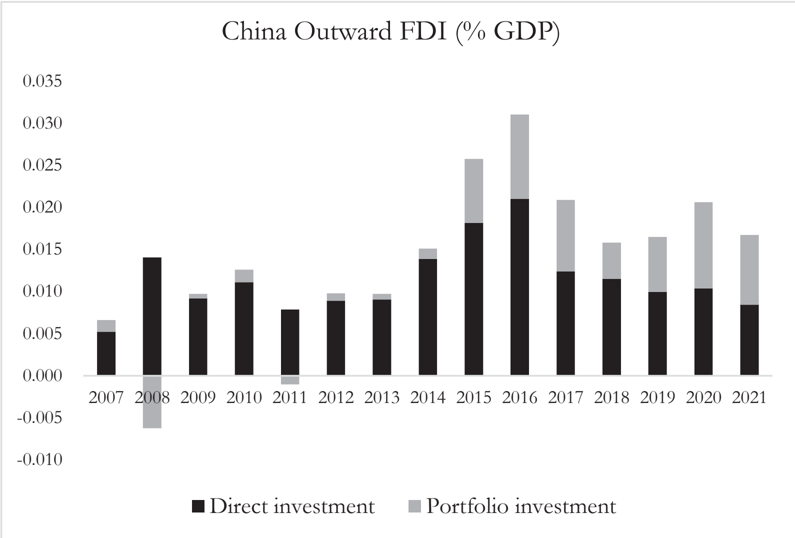

Figure 1.1 China outward foreign direct and portfolio investment as a percentage of GDP, 2007-2021. Source: OECD (2022).

Liquidity crises in the rest of the world saw Chinese state capital become a source of patient capital in cash-strapped economies from Greece to Canada where national champions like the Port of Piraeus and oil conglomerate Nexen were purchased by Chinese SOEs (Lim, 2018; Meunier, 2015). China's own declining rates of domestic growth, build-up of surplus savings from export earnings and overinvestment from stimulus measures introduced in the wake of the crisis prompted the state to look to new markets beyond the borders of the state that could sustain the country's growth trajectory, precipitating the transnationalisation of Chinese state capital through both production and financial channels (X. Zhang, 2017).

This series of events forms the backdrop to the book: how the transnationalisation of Chinese state capital in the post-financial crisis era has been co-constituted between state and market actors, institutions, logics and practices, and how it exemplifies the rise of China as part and parcel of global capitalist development.

1.3 Research themes

The book is ground in interdisciplinary research that straddles three disciplines: comparative political economy, international political economy (IPE) and economic geography. Based on a reading of these literatures, I identify three themes that inform the theoretical enquiry: the need for historical and geographical specificity in conceptualising capitalist development, the role of financialisation in mediating production-based growth, and the value of micro-level analysis in complementing grand theoretical narratives.

1.3.1 Context matters

This book offers a historically and geographically attuned reading of the transnationalisation of Chinese state capital. The Chinese economy tends to be either held against ideal-types of liberal versus market-based economic organisation in methodologically nationalist, comparative political economy scholarship, or assumed to be a unitary state wholly driven by geopolitical calculus in mainstream IPE.

Situated in the post-global financial crisis moment, the conceptual approach adopted in this book is scale sensitive, assuming that economic organisation at varying levels of administration to have mediated distinct trajectories of Chinese state capital transnationalisation. I ground along the China-Europe axis the role of the state, global finance, and within-Europe regional political-institutional variation in mediating the circulation of Chinese state capital. Doing so demonstrates how the rise of China, and the significance therein for the growing visibility of the state in economic activity across the globe, has taken on distinct pathways that deny static, ideal-type conceptions of economic organisation.

1.3.2 Financialisation

I argue that a historically and geographically sensitive reading of the transnationalisation of Chinese state capital requires an explicit engagement with theories of financialisation. Financialisation has unfolded apace with the rise of neoliberalism in the preceding three decades. Overlooked in prevailing accounts, the growing centrality of financial institutions, actors, logics and practices in economic and social life has had a profound effect on the transnationalisation of Chinese state capital. Existing accounts in critical IPE and economic geography tend to theorise the externalisation of the Chinese economy in terms of industrial expansion where transnational state projects like the BRI are a means to further embed Chinese trade and production into global supply chains.

While acknowledging the fundamentally productivist nature of capitalism, the attention to trade and production has come at the expense of theorising the role of financialisation as it has unfolded unevenly at the global, the state and the regional level in tempering China's industrial development. Historically and geographically informed trajectories of financialisation have backdropped divergent, yet recombinant intersections of Chinese and European state and private capitals. In developing a finance-sensitive reading of the transnationalisation of Chinese state capital, this book shows how the rise of China has brought about hybrid configurations of state and market power across diverse geographies that has bolstered the capacity of the state to deliver industrial development.

1.3.3 The micro-level

Critical perspectives in IPE have attempted to situate the rise of China vis a vis global capitalist development, however analysis often stops short at the level of grand theory, giving short shrift to the micro-level of agency and practice in constituting structural change. This book adopts an analytical lens that privileges micro-processes in constituting the transnationalisation of Chinese state capital.

Such a view resonates with respect to the finance-sensitive sympathies of the research in this book since so much of financial activity is ground in routinised practices of everyday deal-making and capital allocation. This book extrapolates through micro-level analysis processes of Chinese state capital investment, grounding in concrete empirical phenomena the paradigmatic shift in global capitalism that is the rise of China and the changing role of the state in economic life.

I develop these themes in more detail in chapters 2 and 3.

1.3.4 Research questions

The three key themes discussed above inform the core theoretical enquiry of this book:

- How does Chinese state capital transnationalise?

I address the overarching research question in three sub-questions that reflects a particular dimension by which financialisation has shaped the transnationalisation of Chinese state capital. These sub-questions align with the four empirical chapters of the book. Collectively they show how historically and geographically divergent processes of financialisation have mediated the integration of Chinese state capital into the world economy to bring about the more visible role of the state in economic life. First, as a core driver of economic activity, the state is central to dynamics of capital accumulation in the context of China's externalisation. In chapter 4, I answer the question:

- What is the role of the state in the transnationalisation of Chinese state capital?

Second, neoliberal globalisation has serviced the accelerated circulation of capital across the globe, giving way to the accumulation of capital through financial channels less beholden to the particularities of national economic systems and increasingly defined by the imperatives of global finance. In chapter 5, I ask the question,

- What is the role of global finance in the transnationalisation of Chinese state capital?

Third, the pursuit of new markets has resulted in processes of state rescaling, giving rise to new regional formations of political economic organisation. In chapters 6 and 7, I explore the role of capitalist diversity at the regional level in co-constituting dynamics of state capital accumulation. I ask the question:

- What is the role of regional capitalist diversity in the transnationalisation of Chinese state capital?

1.4 Methodology

The methodology employed to answer these questions reflects the aforementioned three themes: the value of historical and geographical specificity, financialisation, and micro-level analysis. They inform the China-Europe case-based geographical focus of the book, an attention to interview and participant observation in the choice of data sources and an analytical approach ground in a practice-based methodology.

1.4.1 Case selection

The choice of cases is first and foremost informed by the theory-centred exploratory goals of the research. It is ‘y-centered’, ‘causes of effects’ research that seeks to explain a phenomenon, the transnationalisation of Chinese state capital, for which ‘sufficiently well-performing propositions are lacking’ (Rohlfing, 2012, p. 42). While there is a strong comparative element in many of the empirical chapters, there is greater emphasis throughout the book on drawing out causal inferences from within-case causal process observations that typifies single case studies. The biggest single criticism levelled at single case studies is their lack of cross-case generalisability, but the value of generating within-case causal inferences is not to generalise to a broader population of cases, but to uncover the myriad causal factors that can lead to the outcome of interest.

The choice to focus on a single case is well warranted given the desire to develop an understanding of the rise of China that is more historically and geographically attuned. The value of doing so is rendered more starkly if we compare the approach taken here with approaches in comparative political economy that have sought to transplant pre-existing political economic models derived from European and North American cases to the China context (see chapter 2). Such approaches seek to generalise ideal-typical models at the cross-case level, however these approaches omit much of the within-case contextual variability that contributes to a particular outcome, leading to overgeneralisations about the rise of China as a wholly top-down party-state driven phenomenon.

The choice of case also takes into account the positionality of the researcher as both an 'insider' and an 'outsider', as both Chinese with Chinese language skills and a New Zealander with native English language skills educated in orthodox economic theory that underpins the governance of markets in much of the world economy.[1] Epistemic privilege derives from the particular intersectional position of the researcher (Harding, 1992; Moore & Nagel, 1987). The researcher therefore derives privileged knowledge from the selection of a case that draws on their intersectionality: I am enculturated to the knowledge-producing group that is the subject of the project but also the dominant knowledge-producing group of the scientific community.

The geography of the book pivots on the China-Europe axis. As theory-driven exploratory research, the concept of a crucial case becomes particularly helpful to think through the inferential logic behind the Eurasian focus of the research. The crucial case, first developed by Levy (2008), rests on the assumption that some cases are more useful than others in generating empirical support for a particular theory. Inferential leverage is maximised when there is support for a least likely case or lack of support for a most likely case. Levy has coined this the 'Sinatra inference' where, in the case of the former, 'if I can make it there, I can make it anywhere', and in the case of the latter, 'if I cannot make it there, I cannot make it anywhere' (2008, p. 12).

The choice to focus on Chinese state capital flows into Europe conforms to the least likely inferential logic. Europe, together with North America, has become synonymous with the advanced capitalist core and the generation of theories and expectations concerning the dominance of market-based modes of capital accumulation, the liberal international order, arms-length economic governance, financialisation and neoliberalism (see for example Hall & Soskice, 2001). Even in the European periphery, political economic scholarship has tended to focus on processes of market liberalisation, neoliberal structural adjustment and Europeanisation-linked

[1] I was born in Beijing, China, and raised in Auckland, New Zealand, in a bilingual household. I made regular visits to Beijing throughout my childhood and throughout my university education. For a detailed curriculum vitae, please refer to the section 'About the author'.

financialisation (Becker et al., 2010; Bohle, 2006; D. V. Gabor, 2012). While the US-China rivalry has tended to draw more attention to the implications of China's rise for the status quo in the world economy, Europe is the missing third pole in debates on the reproduction of the liberal international order and extant rules of global market-making (Babić et al., 2022). Europe conforms to a least likely inferential logic for the integration of Chinese state capital, entailing seemingly antithetical state-led, state-coordinated forms of economic organisation, with those of the market.

Moreover, Europe is empirically more generative than North America because it promises a greater diversity of causal pathways or 'causes of effects' (Rohlfing, 2012, p. 12). Europe is both variegated in political economy yet geographically contiguous on the Eurasian landmass. There are highly developed capital markets in the west that attract global capital flows while the east is infrastructurally underdeveloped. Western Europe promises to be a major new market for Chinese goods and services and therefore constitutes a key destination for the externalisation of Chinese state accumulation strategies like the BRI, posited as a connectivity initiative to build out logistical corridors from China via sea and land through Central Asia and into Europe. I develop in greater detail the significance of Europe as a region in chapter 3. Table 1.1 outlines the cases in each chapter.

Chapters 5 and 7 demonstrate the value of within-case analysis in single case studies favouring thick description. In chapter 5 the object of observation is the practice of finance by global financial professionals underpinning the transnationalisation of Chinese state capital. The case of interest is the China Investment Corporation (CIC), the world's second largest SWF, that has become a central player in global capital markets since its establishment in 2007. Through an in-depth analysis of CIC investment practices, chapter 5 shows how the proliferation of global norms of best practice in the financial professions, namely investment banking, accountancy, law and management consulting, have facilitated the integration of Chinese state capital into global circuits of capital. An organisational history of the CIC may be found in Appendix B.

Table 1.1 Overview of case selection logics for each empirical chapter. Source: author's own.

Chapter	**RQ**	**Cases**	**Case selection**
4	What is the role of the state in the transnationalisation of Chinese state capital?	Chinese state-owned investment in Western Europe and the Western Balkans	Comparative-relational
5	What is the role of global finance in the transnationalisation of Chinese state capital?	CIC global financial practice	Single case study
6	What is the role of regional capitalist diversity in the transnationalisation of Chinese state capital?	Chinese state-to-state co-investments in Ireland and Belgium	Comparative-relational; most different systems
7	What is the role of regional capitalist diversity in the transnationalisation of Chinese state capital?	State transformations in Serbia	Single case study

In chapter 7, thick description of BRI projects in Serbia demonstrates how historically and geographically informed processes of financialisation have mediated the transnationalisation of Chinese state capital in peripheral economies. Grounding analysis in Serbia shows how EU, IMF and US-backed market liberalisation in the context of post-socialist transition has brought about peripheral financialisation, precipitating a series of state transformations that have strengthened the capacity of the state to mobilise Chinese state capital for industrial development. It is through a detailed within-case analysis of the political-institutional drivers of BRI projects in Serbia that core insights concerning the conjuncture between transnational Chinese state capital and financialisation in peripheral economies are generated.

At the same time, there is a strong comparative element in many of the empirical chapters where the research design is intended to yield generalisable observations about the causal factors driving the transnationalisation of Chinese state capital. However, the approach taken in this book differs somewhat from the adherence to conventional comparative case selection logics that tend to be more strictly observed in the comparative political economy literature. Developing historically and geographically nuanced comparisons requires an appreciation of the relational nature of social phenomena (Alami, Babić, et al., 2022). Global capitalist development is an uneven, self-referential and recombinant process. The transnationalisation of Chinese state capital has been mediated across time and space, giving rise to uneven conjunctures between its global circulation and the political economies through which it flows.

In chapter 4, I analyse China's state-led infrastructure financialisation through a relational comparison of two ideal-type modalities of state-owned investment: a 'financialised' modality of CIC investment in Western European capital markets, and a 'state-coordinated' modality of China's bank-based debt-financed public infrastructure projects in the Western Balkans. Through a comparative-relational frame, the chapter shows how these two modalities in reality demonstrate convergence on state efforts to leverage financialisation for industrial development and expansion beyond the borders of the territorial state.

In chapter 6, I employ a comparative methodology that compares to a most different systems design where the cases differ but for the primary factor of interest, the ability of SWFs to leverage the infrastructural power of private equity (PE) firms for industrial policy. This chapter demonstrates how the transnationalisation of Chinese state capital into Western Europe characterised by arms-length, market-based forms of economic governance has resulted in the extension of state capacity to enact industrial policy in new markets. Through a comparison of state-to-state co-investment between the CIC and Irish and Belgian SWFs, chapter 6 shows how the ability of SWFs to achieve the industrial policy goals of the state rests on their ability to leverage the infrastructural power of PE firms that have taken on an integral role in the investment chain between SWFs and invested firms.

1.4.2 Data collection and analysis

The choice of data reflects an intention to strengthen the validity and reliability of within-case causal process observations required for thick description. The bulk of primary data derives from semi-structured interviews, participant observation, official documents and media articles. Secondary sources include previously published academic literature and policy papers.

Interviews are particularly valued in causes-of-effects research because they provide insights into the motivations driving micro-processes of transnationalisation that cannot be directly gleaned from other sources (Martin, 2013). Interview-based research reflects the attention to the micro-level in this project. I conducted five months of fieldwork in total. First in Beijing and Hong Kong between November 2019 to January 2020, followed by six weeks in Serbia from October to November 2020, and finally in Belgium and Ireland in November 2021. I conducted in total 108 interviews with investment managers (22), operational managers (15), government officials (8), diplomats (5) financial analysts (4), translators (4), policy analysts (4), corporate lawyers (4), management consultants (2), engineers and construction workers (3), journalists (10), academics (24), other (2). Of the investment and operational managers, 21 were incumbent or former employees of state-owned institutions and enterprises. The full list by employment position, place and date are provided in Appendix A.

Many of the interviews, especially those conducted in Beijing and Hong Kong, were based on relationships cultivated through close dialogue, interviews based on repeated interaction (G. L. Clark, 1998). I had preexisting relationships in the media industry in Beijing and Hong Kong that facilitated snowball sampling in the field. The most valuable interviews were those introduced through trusted relationships, and on which I could depend on for repeated interviews and access to key organisations like the CIC. Relationships, or *guanxi*, are key to the conduct of business in China. Who the introduction originates from can have vastly different effects on the information disclosed in interview, as I observed in one memorable case with different professionals from the same state-owned financial institution. Triangulation not only applies to different sources of data, but different interviewees. [2]

[2] My five-year stint at Penguin Random House in Beijing embedded me in the international media, diplomatic and academic community (see 'About the Author').

Interviews were conducted in Mandarin and English lasting between 30 to 90 minutes, the former being the primary mode of communication with interviewees from Chinese SOEs. They were personally transcribed from a combination of recordings and field notes, as in many cases recording was not permitted. The analysis of transcripts was informed by a grounded theory approach in an iterative process of coding and clustering that collapsed the raw transcripts into categories of concepts to generate theory (Glaser & Strauss, 1967; Lai, 2012).

The diversity of sources included in this study addresses issues of reliability as they allow the triangulation of observations over observations derived from a single source. Interviewees are liable to provide subjective accounts of past events. As such, I made six visits to construction sites in Serbia that constituted an important source of data in chapters 4 and 7. For a full list, see Appendix A. They provided a rare opportunity to observe the doing of infrastructure investment and speak to project managers and construction workers in their professional setting. These visits were particularly useful in gaining access to Chinese workers and corroborating observations gleaned from previous interviews about the division of labour and sub-contracting relations between the SOE as lead contractor and Chinese and local Serbian sub-contractors. I was then able to

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Given Beijing's status as the political centre of the country, my previous work experience saw me well placed to gain access to both Chinese and foreign professional elites through snowball sampling techniques. For the most part, my positionality was an asset in the field, especially with Chinese interviewees. In a few cases, the strength of my relationships was tested when it came to the issue of my nationality, as non-Chinese when dealing with interviewees from Chinese state-affiliated institutions, and as Chinese in Europe, especially Western Europe, where my initial point of contact would feel compelled to qualify my identity as a New Zealander. Curiously, I did not observe a gender effect in my ability to gain interviews as a female researcher, however it must be said that both finance and infrastructure are male-dominated industries and I had little opportunity to observe the effects of my positionality vis a vis male and female interviewees. With the few female interviewees I had, I could not discern any visible differences, though this in all likelihood also speaks to my identity as Chinese and an insider irrespective of gender.

triangulate with archival and secondary sources the observations generated from interviews and on-site participant observation.

A major factor in facilitating access to these sites was researcher mobility, chiefly my ability to be proximate to construction managers and workers at the key sites of construction and accommodation. For highway and railway projects for which the construction works are spread over a large area, interviewees were easily approached once I identified one or several construction barracks housing the project management office and worker accommodations dotted within close distance to the works themselves. Approaching interviewees either at the site of construction or within their barracks during lunch hour, typically between 12-1pm, or at the end of their workday, at 5pm, yielded more responsive interviewees. My positionality as an insider also played a role. The fact that I am Chinese and spoke Mandarin had a visible impact on my ability to interview both managers and workers, though for different reasons. With managers, it was assumed that I was Chinese by nationality and therefore unlikely to contribute to the negative press surrounding some construction projects that had been generated in the wake of visits from local journalists. With construction workers, being able to communicate clearly in Mandarin was more important than political considerations around my identity since they were more comfortable conversing in their native dialect.

I achieved limited success in gaining access to Serbian ministerial personnel, which one may assume to be partly attributable to the spread of Covid-19 and a cabinet reshuffle after the parliamentary election in June 2020. The other major challenge with respect to conducting fieldwork in times of Covid-19 are the restrictions on inter-regional travel which limited my ability to visit sites in the other countries in the Western Balkans. That being said, Covid-19 restrictions did not limit my ability to visit sites in-country, nor approach interviewees in such situations, despite the strict rules governing entry and exit from construction sites put in place by the SOEs.

Field notes were the main source of data collected from participant observation. They are both data and analysis as they provide a description of what is observed and are the product of the observation process (Kawulich, 2005). As such, practices such as separating the researcher's own thoughts and assumptions from what is actually observed are adhered to (Schensul et al., 1999). The data, once collected, was coded to filter out relevant information. I then formulated an outline of the information which was subsequently narrativised based on theoretical supposition (Kutsche, 1998).

Further to participant observation, media and official sources offer a means of triangulating observations derived from interviews to enhance reliability (Beach & Pedersen, 2013). These sources included both Chinese and English-language financial press, chiefly *Caixin* and the *Financial Times*, and official sources published by the state, including the Ministry of Commerce of the People's Republic of China (MOFCOM) and the Serbian Ministry of Construction, Transportation and Infrastructure. During my fieldwork in Serbia, I also compiled an original database of ongoing Chinese infrastructure projects in the Western Balkans, updated as of December 2021, that was key in triangulating observations concerning BRI projects in chapter 7. The China Global Investment Tracker, which published an updated version in 2020, was a useful starting point for collation (*China Global Investment Tracker*, 2020). I then cross-checked against policy reports such as those published by the China-Central Eastern European Institute, and media articles in English, Mandarin, Serbian and Hungarian, as well as secondary academic sources. Serbian and Hungarian sources proved more up to date and detailed in providing key information about the ongoing progress of projects, though a recurrent phenomenon in the project cycle is the regularity of delays. Expected dates of completion are therefore prone to revision. See Appendix C for the full database, methodology, and documentary references.

Further to the treatment of interview and participant observation data, I took inspiration from the relational turn in economic geography. Jones and Murphy's (2011) practice-oriented framework is a methodological theory particularly attuned to the relational nature of micro-processes in constituting macro capitalist change. In this framework, data analysis is essentially a process of identifying theoretically relevant observations from the infinite choice set of potential observations. Observations relevant for analysis are (a) identifiable as discreet practices/observations that (b) have a discernible impact on the investment outcome and (c) can be generalised, that is, function as instances of best practice in the transnational investment of Chinese state capital. The choice set is refined through a dialectical process of comparison between the cases and the data (A. Jones & Murphy, 2011, p. 381). This approach was particularly useful in chapters 4 and 5 where the objects of observation are the investment practices of the CIC and SOEs. I expand further on the value of a practice-based approach in chapter 3.

1.5 Overview of the book

Having laid out the ambition of the book in the introduction, chapter 2 proceeds with a critical review of the literature on the externalisation of Chinese economic activity. Reflecting the interdisciplinary ontology of the research, I cluster the literature into three disciplines, comparative political economy, IPE, and economic geography, that have sought to theorise the implications of the rise of China in a broader context of political and economic change. I identify three main blind spots across these literatures: the lack of historical and geographical sensitivity, overemphasising trade and production at the expense of acknowledging the analytical purchase of finance-driven change, and the lack of attention to micro-processes in constituting the transnationalisation of state capital as a macro-structural change in the global political economy.

The theoretical approach developed in this book addresses these academic blinds spots in the literature. In chapter 3 I define the key concepts state capital, transnationalism and financialisation before laying out the theoretical framework in descending order of analytical abstraction. At the highest level of abstraction, I develop a finance sensitive reading of the transnationalisation of Chinese state capital along three dimensions: the state, the global, and the region. At the second level of abstraction, I ground these three dimensions along the China-Europe axis where financialisation in the context of the Chinese state, global finance, and capitalist diversity within Europe between the west and the post-socialist eastern periphery have taken on distinct trajectories of their own. At the lowest level of abstraction, I advance a methodological theoretical approach inspired by practice theory to study the concrete processes of the transnationalisation of Chinese state capital that corresponds to the four empirical chapters of the book, chapters 4 through 7.

In chapter 4, I articulate the 'state' dimension by conceptualising the role of the state in China's state-led infrastructure financialisation. Chapter 4 questions the juxtaposition of production and finance in financialisation studies, arguing instead that financialisation can be contiguous to infrastructure development and productive expansion by extension. The chapter shows how the transnationalisation of Chinese state capital through financial channels has been a means to amplify state power and deliver industrial development.

In chapter 5, global finance takes centre stage in shining a light on how global financial professionals have facilitated the transnationalisation of Chinese state capital. The chapter conceptualises three logics of practice by which global financial professionals have legitimated, depoliticised and accelerated the circulation of Chinese state capital into global markets. Chapter 5 shows how global finance is increasingly co-constituted by state and private capital accumulation logics that challenge long-held assumptions about the separation of states and markets in economic life.

Chapters 6 and 7 pivot on the nature of capitalist diversity across Western Europe and the post-socialist European periphery where financialisation has intersected with Chinese state capital in differentiated ways. Chapter 6 provides an insight into how arms-length state-market interactions in Western Europe have mediated the transnationalisation of Chinese state capital. Drawing on two cases of Chinese state-to-state co-investment with Irish and Belgian SWFs, this chapter shows how an institutional context conducive to market-based private-led industrial development has empowered SWFs to leverage the power of PE firms to deliver on industrial policy, challenging assumptions about the passivity of SWFs and of European state capital in general.

Chapter 7 explores in the case of Serbia how the spread of financialisation into the post-socialist European periphery has been of consequence for the transnationalisation of Chinese state capital into the region. The findings show how financialisation has 1) precipitated state transformations that empower the Serbian state to mobilise Chinese state capital for industrial development and 2) hybridised the investment logics underpinning BRI projects such that they are informed by a combination of both financialised and productive investment. Chapters 6 and 7 demonstrate how distinctly different amalgamations of Sino-European capital and state-market power have played out across the East-West divide.

Finally in chapter 8, I end with concluding remarks on the academic contribution and core findings of the book, limitations and avenues for future research. The 'Impact paragraph' addresses the societal implications of the research.

Chapter 2

Three disciplinary approaches: main findings, assumptions and blind spots

Introduction

The analysis of the Chinese economy and the global expansion of Chinese state capital has been an interdisciplinary endeavour. Given that the overarching aim of this dissertation is to theorise the transnationalisation of Chinese state capital vis a vis global capitalist development, I defer to core literatures from three key disciplinary approaches: comparative political economy, IPE and economic geography. While I make reference to valuable contributions such as from the rich China studies literature, political science, management studies and anthropology, I focus on these three core disciplines because they have attempted to theorise the externalisation of Chinese economic institutions, actors, practices and logics as embedded in broader structures of political economic organisation. These literatures have explicitly acknowledged the significance of the rise of China for political, economic and social organisation and the role of the state therein, offering an excellent starting point to review how the state of the art has sought to theorise Chinese state capital transnationalisation as part and parcel of a world in flux.

While significant overlaps exist, such as between critical IPE and economic geography, it is nevertheless fruitful to cluster according to these three disciplines based on their main attributes: China's domestic economy, the global political economy, and the multi-scalar nature of its geographic expansion respectively because I find within these literatures three key blind spots: There is need for greater historical and geographical specificity that eschews methodological nationalism and top-down conceptions of state power; there is insufficient attention to the role of finance as a mode of capital accumulation over trade and production; and that existing accounts would benefit from relational analysis of how concrete processes at the micro-level inform structural dynamics of state capital accumulation, especially as they relate to the study of finance. This chapter thus lays the groundwork to develop an analytical framework (chapter 3) that privileges the specific historical and geographical context of Chinese state capital transnationalisation vis a vis financialisation as a multi-scalar phenomenon where a micro-level sensitive methodological approach can add value. Table 2.1 summarises the key theories and criticisms.

Table 2.1 Summary of key literature on the externalisation of Chinese economic activity. Source: author's own.

Discipline	Theoretical approach	Key features/assumptions	Critique
Comparative political economy	Varieties of capitalism	National systems of economic organisation; rational-choice agency of firms; national economies are at institutional equilibria; diversity between countries; convergence toward single model of economic organisation	Absence of transnational scale; absence of state and state capital; overly (private) firm-centric; fails to reflect historical and geographical specificity of reform and opening up in China; insensitive to intra-state-initiated endogenous change; theory derives largely from US and European cases
	State permeated capitalism/ Chinese state capitalism	National systems of economic organisation sensitive to temporal dimensions of national developmental trajectories; acknowledges role of the state in national development; situates national economies within world economy; Chinese exceptionalism	Holds the Chinese economy against ideal-type template of late developing BICs or liberal economies; fails to account for transnational scale in externalisation of Chinese economic activity
IPE	Economic statecraft	States instrumentalise economic power to gain influence in the international system; Westphalian unitary state system; separation between states and markets	Lack of attention to intra-state dynamics of competition and cooperation; ignores hybridity of state and private capital in global economy and China's integration into world economy

	Principal-agent and firm-centric perspectives	SOE behaviour is defined by the principal-agent relationship between the state and SOEs; takes seriously intra-state dynamics in driving China's economic externalisation; the state is political and firms are commercial; state-ownership is inefficient	Misses the bigger picture of capitalist development in driving central state and SOE decision-making; fails to acknowledge historical context of Chinese transnational state projects
	Marxist approaches	Contradictions of capitalism informs state accumulation strategies; sensitive to historical and material conditions shaping transnational state projects; sensitive to role of the state in mediating capitalist development; eschews unitary state and firm-centric analysis	Generally less attention to relation between micro-level processes and grand theory of capitalism; lack of nuance in analysis of transnational circulation of finance in China's externalisation
	Neo-Gramscian approaches	state-society complex; historic bloc of US-led liberal inter-state class alliance; takes seriously the transnational scale; hybridity of state and private capital in global order	
Economic geography	Variegated capitalism	Multi-scalar conceptualisation of capitalist diversity; interrelation between 'capitalisms'; privileges local and transnational economic organisation; no expectation of convergence on ideal type economic systems	Obscures role of financialisation as intersecting driver of China's state capital accumulation

	Uneven and combined development	Capitalist development is both uneven and combined; takes seriously role of the state in capitalist development; global scale; dynamic (as opposed to static) understanding of capitalist change e.g. combined and co-constitutive development with receiving states and local economies; central role of transnational actors	
	Infrastructure-led development	Infrastructure as development; spatial fix; global scale; attention to co-constitutive role of receiving states; productivist state accumulation strategy	

2.1 Comparative political economy

What distinguishes comparative political economy from IPE and economic geography is its fundamentally comparativist perspective. A subset of comparative political economy, comparative capitalism seeks to understand economic organisation through the comparison of national economies and as such the development of the Chinese economy has by and large been theorised in relation to a set of pre-existing ideal-type economies that stops short at the national level.

2.1.1 Varieties of capitalism: convergence on a single model

The comparative capitalism literature is most strongly associated with the varieties of capitalism tradition, which turns on the idea of different national economic systems centred on equilibria-optimising institutional configurations constructed by the behaviour of rational market actors i.e. firms (Baccaro & Pontusson, 2016; P. A. Hall & Soskice, 2001). However, the assumption is that firms are privately held. State capital and SOEs do not figure in this literature, despite being a firm-centred theory of economic organisation.

The varieties of capitalism literature has tended to conceptualise ideal-type economic systems that derive from cases in the advanced capitalist economies (Witt et al., 2018), namely the US and Europe where the two main types, the liberal market economy and the coordinated market economy, are arrayed along what has become the core spectrum of firm behaviour: market versus non-market economic organisation. That being said, there have been attempts to expand the universe of cases to which the concept applies beyond the advanced capitalist core (Nölke & Vliegenthart, 2009). A number of scholars have also sought to fit the Chinese case within the varieties of capitalism framework, and in doing so, have attempted to bring into the debate the unique role of the state as owner of capital (via SOEs) and coordinator of economic activity in the domestic economy (Fligstein & Zhang, 2011; Witt, 2010). However, these works have also tended to gravitate toward the market, non-market spectrum, leading to problematic assumptions about real world economies where market and non-market, state and private firm agency of economic organisation are highly entangled. As such, there has been a mixed record of categorising the Chinese economy within this framework. While Witt (2010) has located China closed to the liberal market economies, Fligstein and Zhang (2011) see it as diverging toward coordinated market economies.

Moreover, varieties of capitalism performs poorly in theorising endogenous change that is sensitive to scale. The unit of analysis is the national economy that seems only to change in response to external shocks (Boyer, 2005). Institutions remain static since they are at equilibria, giving short shrift to how transnational and sub-national dynamics might redefine formal institutions over time (Naughton & Tsai, 2015). This obscures the potential for both state-initiated change and the role of transnational actors in facilitating said change. For example, the doubling down on financialised forms of governance in China, namely the growing prevalence of state-owned institutional investors and asset managers who have fostered the international mobility of Chinese capital, has been a response to the state's own debt-fuelled growth strategies post-financial crisis (Wu, 2021). In a firm-centric framework where rational market actors drive equilibria, what explanation there is for the transnationalisation of capital is assumed to lie in the strategies of private firms that respond to the particular institutional configurations of their national systems. There is short shrift to consider how the state, aided by transnational actors, may be initiating systemic change, such as the externalisation of development policy.

2.1.2 State-permeated capitalism and Chinese state capitalism: catch-up development and Chinese exceptionalism

Within the comparative capitalism tradition, a body of work that stands out for its explicit treatment of the state as a source of endogenous change is the literature on state permeated capitalism, which theorises the role of the Chinese state in processes of catch-up development and world integration (Nölke et al., 2015; Ten Brink et al., 2019). Here, industry and finance are defined by state ownership and state control with little influence and dependence, unlike other catch-up economies, from global capital markets and international capital. The implicit implication drawn out vis a vis the transnationalisation of Chinese state capital is that it is considered a challenge to the extant liberal international order where market-based private capital is legitimated as the engine of global growth. State permeated capitalism speaks to how Chinese state capital has facilitated the rise of China in the world economy and the implications therein. The argument rests on the fact that what is emphasised is the *difference* between state-permeated economies and their more liberal counterparts, as opposed to similarities that speak to the hybridity of transnational integration wherein Chinese state capital has become part and parcel of global markets (Nölke et al., 2015).

We might question the validity of such an ideal-type conceptualisation in mapping onto real world cases. State-permeated capitalism corresponds to the economies of China, Brazil and India i.e. BICs, a grouping that is principally grounded in their shared legacy as emerging economies more so than the particular state-society relations that characterise these economies. Problematic, for instance, is how the unique role of the party-state in China compares to the role of the state in other BICs economies. The mere timing of their integration as late developing economies in a globalised world economy is not sufficient to generalise across such diverse cases, leading to a lack of specificity in characterising the Chinese case.

A tangential body of comparative literature that has been a boon to understandings of the Chinese economy is the literature on Chinese state capitalism. Inspired by the work of Friedrich List, and later comparative studies that observed diverging patterns in later developing economies that has informed the American, German and Japanese developmental experiences (Breslin, 2013), this literature emphasises the role of the state and state-society relations in trajectories of catch-up development, and has influenced much of the scholarship on Chinese state capitalism and its variants, including Sino-capitalism and party-state capitalism (Carney, 2015, 2018; Lin, 2011; Naughton & Tsai, 2015; Pearson et al., 2021; A. Walter & Zhang, 2012). In contrast to varieties of capitalism, this literature privileges Chinese exceptionalism with particular attention to the role of the state in driving China's international expansion, a sui generis approach that assumes the Chinese economy cannot be meaningfully compared to other (liberal) economies. Chinese state capitalism also tends toward methodological nationalism, defining the Chinese economy as a divergent form of capitalist organisation from the liberal ideal-type with relatively less attention to the interrelation and world historical context of China's integration (McNally, 2012). As such, it diverges from the ontological origins of the concept state capitalism, which has a long historical lineage ground in Marxist literature (Sperber, 2019), and to which an emerging body of contemporary scholarship has drawn on in theorising the increasing visibility of the state in global capitalism (Alami, Babić, et al., 2022). I elaborate on state capitalism in the next chapter.

A more general critique can be levelled at the comparative capitalism literature. The role of transnational agency in driving economic processes is given relatively less attention. This has consequence for how we theorise the externalisation of Chinese economic activity where the state has an active hand. As the main industrial agents of the state, SOEs are beholden to state mandates, but they are also globally integrated, making some of the largest overseas acquisitions in global markets (Babić et al., 2019). To take the global energy order as an example, there is a high degree of interdependence between national oil companies and transnational petroleum companies that has hybridised the national interests and governance of the sector (de Graaff, 2012). Comparative capitalism performs poorly when it comes to accounting for the growing transnationalisation of economic organisation and how such processes influence the expansion of state capital in world markets.

2.2 International political economy

While comparative capitalism has largely looked to the particularities of national economic systems, there has been far more attention to the externalisation of Chinese economic activity and state capital in the field of IPE. This literature can be grouped into three broad perspectives, the literature on economic statecraft, principal-agent perspectives, and critical Marxist and neo-Gramscian approaches. I tackle these individually below.

2.2.1 Economic statecraft: unitary states in the liberal international order

Economic statecraft, defined as the use of economic power for strategic objectives (Norris, 2016), is theorised to be a core driver of Chinese foreign investment, firm activity and international lending. I place under this category a diverse body of scholarship that shares a common baseline in the assumption that the state is a unitary actor that uses state capital instrumentally to gain influence over other states in the global political economy (R. D. Kaplan, 2014). To be sure, statecraft, and the entwining of geopolitical motives, is a fundamental feature of economic activity in which the state has a guiding hand. However, this literature typically identifies SOEs as the principal agents of economic statecraft, the key assumption being that they act primarily in the strategic interests of the state against the commercial interests of the firm, in essence a unitary state (Bremmer, 2010; Kurlantzick, 2016). For example, national oil companies are seen as the key actors involved in securing resources, making acquisitions in the energy sector and forging partnerships with international petroleum companies in search of China's national energy security (Norris, 2016).

The unitary state assumption is problematic because it obscures the conflict and competition within the state and between SOEs that often leads to non-optimal geopolitical outcomes. State-business relations also demonstrate diversity across geographical regions and between administrative levels of the state. The territorial conflict in the South China Sea has been shaped by quasi-independent national oil companies that have asserted Chinese sovereignty over an expanding territorial claim in the region, while the Ministry of Foreign Affairs has been left to resolve the diplomatic tensions that result from their firm-centred strategies (Hameiri & Jones, 2016).

The unitary state assumption ignores the autonomy that SOEs have in shaping economic development. They pursue commercial mandates. For example, provincial-level Chinese firms in Africa often have little understanding of the central state's 'Go Global' strategy with substantial autonomy in their operations abroad (Gu et al., 2016). Jones and Zou (2017) moreover argue that the 'Go Global' strategy is a post hoc rationalisation of what many SOEs were already lobbying for, suggestive of that the fact that the central state may be reactive to the bottom-up demands of SOEs than the other way around.

What is so problematic about the unitary state assumption is the implications that are drawn out concerning the liberal international order. The crisis of the liberal international order pivots on the threat presented by economies like China in the literature. The lack of separation of powers between SOEs and political decision-making risks undermining the rules, institutions and legitimacy of a global economic order where the role of the state as a regulator is independent from the role of market participants (Bremmer, 2010; L. Summers, 2007). The unitary state assumption bolsters these arguments and claims of a China as a rising geopolitical threat.

The global order in reality demonstrates hybridity, where the lines between state and private capital, political and commercial motives is far more porous, not just in China, but economies taken for granted as neoliberal (Block, 2008; L. Weiss & Thurbon, 2018). In this respect, the growing body of literature on geoeconomics and geopolitical economy, whilst sharing an affinity with the literature on economic statecraft in its concern for the projection of state power in the world economy, demonstrates greater nuance (Anguelov, 2020; Babić et al., 2022; Glassman, 2011; Meulbroek, 2022). These literatures have sought to move beyond state-centric analysis and take seriously the transnational dimensions of state power in global markets, supply chains and economic governance fora, highlighting not only the potential for geoeconomic conflict and competition, but also interdependence and cooperation.

2.2.2 Unpacking the state: principal-agent perspectives

One cluster within IPE that has sought to shed light on the intra-state dynamics of China's externalisation have been those concerned with the principal-agent problems that have arisen from China's developmental trajectory. As a result of processes of uneven governance reform, the dynamic between the central state and intra-state entities tends to be characterised by a classical principal-agent problem centred around the lack of enforcement on the part of the agent i.e. SOEs from effectively carrying out the mandated wishes of the principal, the central state. Shahar Hameiri and Lee Jones' work is emblematic of the principal-agent perspective. For rising powers like China, they theorise state transformation to be the cause of processes of intra-state fragmentation, decentralisation and externalisation (Hameiri et al., 2019; Hameiri & Jones, 2016, 2021). As the crucial case, China's reform process has produced the uneven externalisation of SOEs. They have exploited jurisdictional gaps and overlaps that have resulted from the dismantling of centralised planning bureaus, the corporatisation of SOEs and the devolution of power to provincial governments (Chiu & Lewis, 2006). Principal-agent perspectives move beyond the unitary state assumption, placing conflict and competition within the state central to analysis of the externalisation of Chinese SOEs, and as such, veers closer to a transnational understanding of the circulation of Chinese state capital.

However, this can lead to problematic assumptions about the behaviour of SOEs. While Hameiri and Jones (2021) demonstrate how SOEs often exploit the uneven political authority of the state in geopolitical affairs to further their own firm-centric interests, and in this sense are as political as they are commercial, many principal-agent perspectives tend to be firm-centred, where SOE are held against an ideal of privately-owned firm efficiency. These accounts have the potential to reproduce problematic characterisations of the exclusively profit-seeking behaviour of SOEs and the intrinsic political motivations of the central state (Carney, 2018). SOEs are assumed to act in self-interest, exploit policy gaps such as preferential FDI policies to extract rents, and undertake high-risk investments with high reward, yet the state will bear the risk when investments fail (Shi, 2015). Other firm-centred accounts, such as the strategic management literature, attributes the behaviour of SOEs to the 'liabilities of state ownership' where the state mediates the agency of SOEs as an allocator and disposer of state capital, often to the detriment of firm performance (Lazzarini & Musacchio, 2018; Musacchio et al., 2015; Wright et al., 2021). The proper functioning of SOEs is assumed to turn on the separation of powers from the state governance apparatus and thus distanced from political decision-making.

Such firm-level analysis misses the bigger picture, the broader dynamics of capital accumulation that conditions both the decision-making of the central state and of SOEs. Firm-centric analysis fails to contextualise the externalisation of Chinese economic activity within the concrete, historically-informed and globally-situated development of capitalism, notably the opening up and reform of the Chinese economy, the accumulation of surplus national savings in lieu of the liberalisation of Chinese trade and investment, and the post-financial crisis stimulus strategies of the state. I turn to critical Marxist approaches in the next section to elaborate.

2.2.3 Marxist and Neo-Gramscian approaches: China in global capitalism

Centre stage in Marxist approaches are the historical and material conditions shaping the capital accumulation strategies of the state in order to manage the contradictions of capitalism. In this literature, the hallmark externalisation policies of the Chinese state, namely Going Global and the BRI, and the concomitant overseas activities of SOEs and SWFs is framed in terms of a prolonged global overaccumulation crisis that has lead to massive imbalances in the world economy. Inter-capitalist competition in the second half of the twentieth century has contributed to falling rates of profit in the advanced capitalist countries, which has led to the integration of new geographies like China into the world market in an attempt to stave off domestic financial crises (Arrighi, 2010; Brenner, 2004; Harvey, 1982).

In the Marxist literature, the transnationalisation of Chinese state capital is informed by the externalisation of China's state accumulation strategy that is a product of both the world historical context of global overaccumulation and the historical specificity of China's economic transition from a planned socialist economy under Mao (Arrighi, 2007; Harvey, 2005). For example, one major component of China's recent market transition has been the devolution of power to local government and SOEs which has transformed them into profit-oriented units, but that has also resulted in fragmented accumulation strategies and uneven rates of development (Hung, 2008). Such a devolution of power is reflective of the specific mediation strategies adopted by the Chinese state to concentrate profits and productivity and where state capital has played a significant role, yet it also finds resonance with post-war patterns of marketisation in the advanced capitalist economies a la state rescaling in Europe (Brenner, 2004), and thus reflects capitalism's global structuring impulse.

The 'grand view' offered by Marxist approaches goes beyond ideal-type assumptions about national economies by marking the transnationalisation of Chinese state capital as a specific state accumulation strategy to mediate a crisis of overaccumulation. Transnational state projects such as state-backed global infrastructure projects, policies supporting the outflow of Chinese FDI and the externalisation of Chinese SOEs are contextualised within the country's integration into world markets and post-Mao economic transition that has spurred development but also a massive concentration of surplus capital and a growing gap between domestic overinvestment and under-consumption in the wake of the global financial crisis (Hung, 2008; Rolf, 2019). In the wake of the crisis, the state provided a major stimulus package that became the main engine of global growth but that has led to excess capacity from debt-fuelled overinvestment, especially at the sub-national level in infrastructure and housing (Dunford et al., 2021; Wu, 2021). The growing structural imbalance in the

Chinese economy is the backdrop to the transnationalisation of state capital needed to address issues of domestic overcapacity by securing new markets for the absorption of surplus capital.

Marxist approaches eschew unitary state and firm-centric assumptions concerning the role of the state and SOEs in the economy. Unlike the economic statecraft literature which assumes Westphalian realpolitik or the inherent market-rationality of SOEs, the transnationalisation of state capital is neither a wholly politically nor commercially motivated impulse of the state, but a result of the historical trajectory of prolonged global overaccumulation and China-specific state accumulation strategies to mitigate its contradictions. The multiple logics of the transnationalisation of state capital are the result of both capitalism's tendency to expansion (capital concentration) and overaccumulation (devalued capital and labour materialised as declining rates of profit), and the political mediation of states to manage its contradictions and crises (Chacko & Jayasuriya, 2018; Rolf, 2021; Teschke & Lacher, 2007).

A subset of the Marxist literature that has been particularly fine-tuned to the transnational scale has been neo-Gramscian approaches in the vein of Cox (1987). In this literature, the global political economy is dominated by a US-led liberal hegemonic project that is underscored by a historic bloc of transnational inter-state class forces that support it a.k.a. the liberal 'heartland' (van der Pijl, 2012, p. 512). The externalisation of Chinese state accumulation strategy, and state capital by extension, has been viewed in relation to this US-led hegemonic bloc, whether it is a challenger to the US-led liberal order, a rising power within the bloc, or the pioneer of a counter-hegemonic movement (Arrighi, 2007; Callinicos, 2009).

The transnational takes on greater significance as a scale in which intra-state actors may traverse traditional Westphalian boundaries and thus eschews assumptions of a unitary state. States are structurally informed by society because they act through people who are embedded in the wider social and economic structures of (global) society (Cox, 1981). This state-society complex then has implications for the role of the state in processes of capital accumulation whereby state power and the private power of capital cannot be abstracted from one another. There is greater appreciation of the hybridity of China's integration into the global order where empirical studies have shown how Chinese state capital, corporate elites and SOEs are increasingly entangled within global circuits of capital and transnational corporate networks (Babić et al., 2017; de Graaff, 2012, 2020). As such, Neo-Gramscian approaches have produced more nuanced conclusions concerning the transnational circulation of state capital and China's integration with the US-led liberal order that is neither wholly conflictual nor assimilatory.

While Marxist and neo-Gramscian approaches within IPE provide a better foundation to consider how the dynamics of global capitalism have shaped the specific drivers of Chinese state capital transnationalisation, there is a general critique that can be levelled. Marxist approaches have been pitched as grand theory that tends to obscure micro-level processes, the actions of individuals and how they feed into dynamics of capital accumulation at the world level. Admittedly it is an empirical challenge to extrapolate from the micro-level to theory that operates at such a high level of abstraction, yet an essential one. We can even draw from within the Marxist cannon to argue the importance of a micro analytical lens. In Marxist terminology, the transnationalisation of capital presupposes the need for capital mobility which has favoured liquid financial capital i.e. the money form of value, over commodity value (goods) and other forms, as the medium for enhanced global circulation. And as anthropological and social studies of finance have documented, accumulation and circulation of financial capital is highly dependent on the discretionary agency of bankers, bureaucrats and other service professionals that are central to the networks, practices and institutions of global finance (Chong, 2018; S. Hall, 2009; K. Z. Ho, 2009; Ortiz, 2012). The micro-level is essential in understanding the building blocks of capital accumulation in a global context, and how it has facilitated and informed the transnationalisation of Chinese state capital.

2.3 Economic geography

One discipline that has been particularly attuned to scale, from local to global dimensions of capitalist development, is economic geography. Diverse literatures from global financial networks to international financial centres draw out implications for the study of Chinese state capital transnationalisation (Lai, 2012; Pan, Bi, et al., 2020; Töpfer, 2018). While these accounts have done much to unpack the transnational and regional dynamics of the circulation of Chinese capital, I focus in the bulk of this section on three related bodies of economic geography scholarship that have theorised Chinese state capital in relation to broader processes of global capitalist development: variegated capitalism, combined and uneven development, and infrastructure-led development, first summarising their respective contributions before offering a general critique of the literature.

2.3.1 Variegated capitalism: multi-scalar capitalist diversity

Juxtaposed to the literature on comparative capitalism is variegated capitalism, posited as an alternative paradigm that challenges the notion of 1) presupposed ideal-type national economic systems founded on 2) rational choice assumptions of firm behaviour and institutional design. As a result of globalisation and attendant processes of neoliberalisation and state rescaling, variegated capitalists seek a grounded multi-scalar account of capitalist development that is more fine-tuned to local and transnational forms of economic organisation and their interrelation e.g. in a particular industry, network or institution (Dixon, 2011; Peck & Theodore, 2007).

Variegated capitalism's sensitivity to scale has eschewed methodologically nationalist accounts of Chinese capitalism. It has given greater attention to the dynamics of local capitalism in China at the provincial, municipal and town levels, showing how competition and diversity of economic organisation extant at the local level has been shaped by the relationship with the central government and party state (McNally, 2020; Peck & Zhang, 2013). There is attention to the transnational scale, wherein *guanxi* and diaspora relations with Hong Kong and Taiwan have been acknowledged as major conduits for the initial inflow of FDI into China's coastal regions that has fuelled the country's export-led growth boom. Hong Kong in particular has become a major gateway for the flow of capital between the mainland and global financial markets (Lai, 2012). As such, variegated capitalism opens up room to consider the transnationalisation of Chinese state capital as an accumulation strategy driven not only by a top-down party state, but one shaped by local and transnational networks, institutions and practices beyond China's borders.

In the varieties of capitalism tradition, the Chinese economy is expected to converge on an equilibrium configuration of more or less market coordinated economic organisation in line with the US and German economies. Variegated capitalists have attempted to show how capitalism in China has defied existing models of economic organisation where a combination of party-state-led economic reform and bottom-up entrepreneurialism prevail. This matters for theorising the transnationalisation of state capital. Significant market reform has taken place in China, but the state-led nature of the economy has ensured that the provision of preferential policies, *guanxi* and capital e.g. banking credit has enhanced the competitiveness of SOEs such that they have grown into national champions that dominate critical sectors and direct economic growth both within and beyond China.

2.3.2 Uneven and combined development

A related body of literature has been inspired by Leon Trotsky's framework of uneven and combined development. Scholars have engaged uneven and combined development to explain China's integration into the world economy. Sharing a strong affinity with Marxist approaches in IPE, this literature is global in ambition, emphasising the role of the state as a mediator of the contradictions that arise from the spread of capitalism. For example, transnationalisation strategies like the BRI, China's geopolitical assertiveness in the South China Sea and the intensifying US-China rivalry are seen as state-mediated attempts to mitigate the contradictory tendencies of capitalism toward both capital concentration (and uneven spatial development) and overaccumulation (Dunford et al., 2021; Rolf, 2021).

Uneven and combined development emphasises the interrelationship between diverse forms of state accumulation strategy. For instance, recent work on uneven and combined state capitalist development emphasises the potential for multiplier effects, where the more visible role of the state as promoter, director and regulator of capital has the potential to inspire competitive, mimetic and escalatory forms of state intervention across the globe (Alami & Dixon, 2021). The concept of combination opens up room to consider how the transnationalisation of state capital, as a state project, has the potential to reshape accumulation strategies in recipient regions.

Importantly, uneven and combined development has theorised the explicit role of agents in transnationalising Chinese state capital who are both embedded in national economic systems as well as transnational circuits of capital. This 'interior' bourgeoisie, of 'bankers, boosters and bureaucrats' has played a critical role in transnational state projects like the BRI, China's territorial claims in the South China Sea and the intensifying US-China rivalry (Chacko & Jayasuriya, 2018; Oliveira, 2019). An uneven and combined approach presupposes how Chinese state capital may be both part and parcel of state-led developmental efforts, but also extant structures of power at the local and transnational level in the global political economy.

2.3.3 Infrastructure-led development and the rise of China

The uneven and combined development framework might be best demonstrated in the literature on the return of infrastructure-led development. Drawing on the growth in global state-funded infrastructure projects across the developing world, this literature argues that they constitute an emergent state accumulation strategy predicated on the creation of transnational territories that enable the coupling of national industrial regimes to global supply chains. In addition to states like China and the US, international financing institutions and private corporations have spearheaded efforts to use the construction of railway, road, port and energy infrastructure in developing countries as a means to facilitate resource extraction, production and transport of goods and labour (Schindler et al., 2021; Schindler & Kanai, 2021).

China's infrastructure-led development in the form of transnational state projects like the BRI has been theorised as a form of spatial fix, a state-mediated strategy to mitigate China's domestic overaccumulation through spatial means (Apostolopoulou, 2020; Blanchard & Flint, 2017; Gonzalez-Vicente, 2019; Mayer & Zhang, 2021; T. Summers, 2016; X. Zhang, 2017). The BRI is predicated on spatial restructuring entailing the transnationalisation of capital, labour, and materials necessary for infrastructure construction which constitute a means to absorb surplus capital. Moreover, the state plays a guiding role, guaranteeing the provision of financing and construction to BRI signatory states. Often entailing resource-backed credit, and conditions on the use of Chinese construction contractors, labour and materials, the BRI secures new markets for Chinese SOEs and the further coupling of Chinese trade and production to global supply chains (M. Chen, 2020).

The literature on infrastructure-led development also emphasises the impact of such projects on local economies. Drawing on cases from Nepal and Laos, Schindler et al. (2021) demonstrate how the US-China competition for supply chain dominance through infrastructure-led development engenders state transformation in local economies. Such restructuring is necessary to enhance their ability to attract and deliver development through such infrastructure projects, including the centralisation of power through institutional reform, regulatory overhaul to streamline project planning and enhancement of public capacity in relevant institutions. In the context of China's infrastructure-led development wherein the state takes a leading role, the consolidation of public capacities reflects the co-constitutive and combined nature of infrastructure-led development wherein the transnationalisation of Chinese state capital required for infrastructure development has necessitated a stronger role for the state in receiving states.

The economic geography literature has done much to remediate the deficiencies of comparative political economy and mainstream IPE approaches with their attention to scale and the interrelation between China's state-led economy, transnational agency, and the imperatives of global capitalism. Yet if there is one argument against these literatures that can be made, it is that there has been significant attention to transnational state projects underpinned by dynamics of production-based accumulation at the cost of marginalising analysis of how the global circulation of financial capital has shaped both the externalisation of Chinese state capital and China's production-based accumulation strategies.

The transnationalisation of Chinese state capital has largely been framed in terms of a state-led spatial fix to China's domestic overaccumulation crisis that has arisen from the state's export-led production regime. The BRI and Go Global policies promoting the externalisation of SOEs, and China's semi-commercial development regime characterised by resource and commodity-backed export credits, are seen as a means to bolster the dominance of Chinese SOEs as lead firms in global supply chains and the country's export-led growth model. Indeed, even in receiving states, the basis of state transformation is the need to attract Chinese lead firms in order to plug local economies into global production chains (Schindler et al., 2021).

Less attention has been given to how financial reforms intended to enhance capital mobility and capitalist development through financial channels have combined and intersected with state projects underpinned by production-based accumulation. The state in China has used financial reform to bring about state-led financialisation to spur domestic growth and development. The state has established state-owned institutional investors such as SWFs and investment divisions of state-owned commercial banks to facilitate the circulation of Chinese state capital into global markets where higher returns can be earned (C. Walter & Howie, 2012). Asset managers have been created to bail out the state banking sector and stock exchanges in times of financial crisis (H. Chen & Rithmire, 2020; S. Ho & Marois, 2019). Moreover, the state-established stock exchanges function as mechanisms for the state to mediate the development of capital markets in China (Petry, 2020). Such reforms constitute active attempts by the state to foster transnational capital mobility and develop the infrastructures necessary to support the integration of state capital into global capital markets. As such, there needs to be greater attention to how production-based dynamics of China's state accumulation strategy have intersected with attempts to cultivate transnational finance-led growth.

2.4 Summary: blind spots

Having conducted a review of the relevant literature I conclude with three key blind spots in the existing literature on the drivers and processes shaping Chinese state capital transnationalisation: 1) the need for greater historical and geographical specificity; 2) accounting for the role of finance as a mode of capitalist development; and 3) the need for relational analysis of how concrete processes at the micro-level inform structural dynamics of state capital accumulation (Figure 2.1).

A major critique of the comparative political economy and mainstream IPE literature is its methodological nationalism and failure to account for the specificity of economic organisation in the context of China's state-led economic transition and the multi-scalar geography of its global integration. The comparative capitalism literature places comparison of ideal-type national economic systems at the heart of analysis, and as such does not place analytical weight on the historical relation between real world economies in driving patterns of transnational expansion. The characterisation of the Chinese economy as state-owned and state-controlled is made alongside other catch-up economies where the state has taken a leading role i.e. Brazil and India. This risks reifying the agency of the state at the risk of obscuring how China's unique trajectory of catch-up development has shaped the transnationalisation of Chinese state capital, and how it has been informed by the existing institutions, actors, practices and rules underpinning the global but uneven circulation of capital.

Economic statecraft and principal-agent perspectives, although explicit in theorising the drivers of China's economic expansion, tend to reify the interests of the central state as geopolitical and SOEs as profit-driven. Their simultaneous embedding in both China's domestic economy and transnational networks of financial institutions and intermediaries needs to be taken seriously in the externalisation of SOEs, the investment strategy of SWFs and the execution of transnational state projects like the BRI.

The Marxist, neo-Gramscian and economic geography literatures are far more attuned to issues of scale and historical trajectories of capitalist development, and thus provide a rich source of scholarship to consider how the transnationalisation of state capital is informed by structural dynamics of capitalism. Yet, even in the geography literature, studies on the externalisation of the Chinese economy tend to focus on single country cases and the flow of capital from either China to countries in the Global South or Global North. Less explored is how significant within-region economic diversity has engendered particular state accumulation strategies that have exploited the particular institutional and spatial characteristics of uneven development.

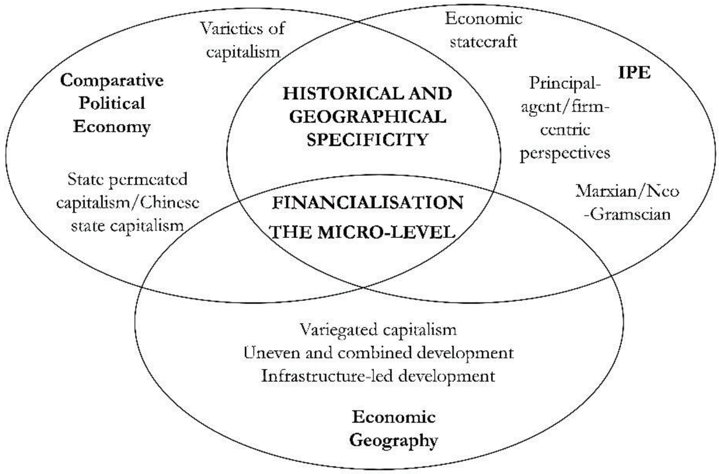

Figure 2.1 Three key blind spots in the literature on the transnationalisation of Chinese state capital. Source: author's own.

The answer lies, in part, in the fact that there has been insufficient attention to how financialisation has informed China's economic externalisation, which has largely been theorised as a productivist accumulation strategy. The development of Chinese financial institutions (H. Chen & Rithmire, 2020; Wang, 2015) and the embedding of Chinese capital in global financial networks (Töpfer, 2018) have been treated as disconnected phenomena from studies of China's trade-based export-led catch-up development (Naughton & Tsai, 2015), coupling to global production networks

(Lim, 2018) and infrastructure-led development regime (Schindler & Kanai, 2021). With few exceptions (Alami & Dixon, 2021a; S. Hall, 2021; Meulbroek, 2022), less analysis still has there been of how the transnational circulation of Chinese state capital has been informed by extant structures of global finance at the world level and local financial systems. For instance, how the political economy of capital markets in the advanced capitalist economies has shaped the allocation of (Chinese) state capital in these markets (Haberly, 2014). More relational analysis of how state-led financialisation has intersected with the existing structures of global finance and China's export-led accumulation regime is needed to develop a more nuanced understanding of the drivers and processes of state capital transnationalisation.

This leads to the third blind spot. Marxist and economic geography approaches ground in the Marxist tradition have done much to theorise Chinese state capital vis a vis global capitalist development, but that has often remained at the level of grand theory. This risks reify Marxist approaches as overly deterministic (Mayer & Zhang, 2021), obscuring the micro-level of process, practice and agency so critical to the study of finance and its relation to social change that has been so essential to the expansion of capitalism under conditions of neoliberal globalisation.

This blind spot has been reflected in the implicit research question in much of the literature, which has invariably been a question of 'why' the Chinese economy has externalised, as opposed to 'how'. Granted firm-level analysis has privileged the role of SOEs as central actors 'going global', yet the analysis lacks a detailed account of the myriad actors and processes involved in their transnational market activities. A major implication is then a failure to account for the potential bottom-up agency of combined development, that is, recombinant forms of hybrid capital expansion, whether state-state, state-private or financial and non-financial capital in shaping the trajectory of China's state-led development and world integration.

The theoretical framework that follows addresses these blind spots by delineating the specific historical and geographical context of Chinese state capital transnational vis a vis financialisation in China, Europe, globally, and in adopting a micro-level sensitive methodological approach.

Chapter 3

Theoretical framework: Toward a finance-sensitive reading of the transnationalisation of Chinese state capital

Introduction

As I have established in the preceding chapter, there are three blind spots in the literature on Chinese state capital transnationalisation: insufficient attention to historical and geographical specificity, the role of financialisation, and micro-level processes that speak to larger structuring forces driving trajectories of transnationalisation. The theoretical approach proposed here strives to account for these gaps. I lay the groundwork to do so by first addressing definitional issues surrounding the use of the concepts state capital and transnationalism in IPE, and relate them to the three blind spots. I then develop the conceptual apparatus for a finance-sensitive reading of the transnationalisation of Chinese state capital that speaks to how historically and geographically informed processes of financialisation have had a profound effect on the institutions, actors, practices, logics and geographies that have shaped the transnational circulation and accumulation of Chinese state capital. In doing so, this chapter proposes an analytical framework to study state transformation in an increasingly globalised world economy that reflects something more nuanced than that presented in accounts that assume methodological nationalism, top-down unitary states, exclusively productivist state accumulation strategies and structural accounts of capitalist change.

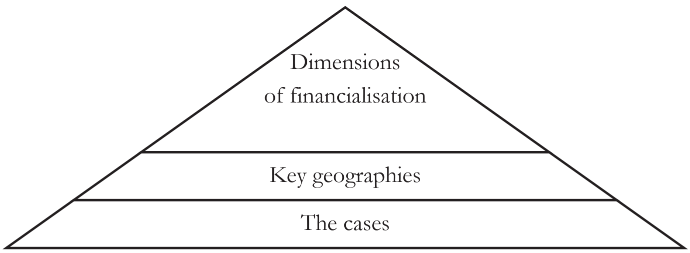

Figure 3.1 The conceptual framework in descending order of analytical abstraction. Source: author's own.

The analysis proceeds in descending order of analytical abstraction (Figure 3.1). Starting from the premise that financialisation is variegated across time and space, I identify three conceptual dimensions in consideration of the historically and geographically mediated nature of financialisation: the role of the state, the global scale, and the region. These conceptual dimensions are best demonstrated through four key geographies that correspond to the main empirical cases in the book: China, global finance, Western Europe and the European periphery, periodised in the post-2008, post-financial crisis decade where the increased outflow of Chinese state capital has taken place. I then discuss the value of micro-level analysis in the study of financialisation, before summarising the main cases across these geographies: China's state-led infrastructure financialisation, the global financial professions, market-based industrial policy in Ireland and Belgium, and the BRI in Serbia. Table 3.1 summarises the analytical framework.

Table 3.1 The conceptual framework. Source: author's own.

Level of analysis		
Dimensions of financialisation, variegated	**Key geographies**	**The cases**
The state	China	China's state-led infrastructure financialisation
The global	Global finance	The CIC and global financial professionals
The region	Western Europe	Market-based industrial policy in Ireland and Belgium
	European periphery	The BRI in Serbia

3.1 State capital(s)

In essence, state capital is capital owned by the state. Chinese state capital thus entails a legal claim of ownership by the People's Republic of China. However, a discussion of the concept cannot proceed without acknowledging the constellation of concepts that have inspired related research agendas. State capital is related to a family of concepts, such as *state capitalist* which has been defined as governments that have a controlling stake or significant influence in the world's largest firms (Kurlantzick, 2016); *state capitalism*, a concept with a long epistemic lineage (Sperber, 2019), but that in its contemporary formulation coalesces around an emerging body of literature that emphasises the growing visibility of the state as promoter, supervisor and owner of capital (Alami, Babić, et al., 2022); or the *capitalist state*, the 'political form of capitalist social relations' wherein the imperative of the state is to secure the conditions of capital accumulation (Alami, Babić, et al., 2022, p. 13; Clarke, 1991).

These formulations each highlight a particular aspect of how the Chinese state is integrated in the global political economy, whether it is state control over firms, how it is part and parcel of an accumulation regime in capitalist development that is gaining increasing momentum, or the fundamental role of the state in capitalism. The concept state capital however draws particular attention to the relational nature of capital accumulation. Capital is value in motion (Lee, 2018), a 'unit in real time', that appears as either money (money value) or commodities (commodity value) (Castells, 2010, p. 502). Grounded in the Marxist literature, capital is a relational concept whereby value is created in the process of circulation through social interaction. In the process of circulation, value increases, or rather surplus value is created, which converts to capital, giving rise to capital accumulation.

State capital highlights the fluidity of accumulation. It is the relations between actors, as opposed to actors or systems, that are the unit of analysis, thereby eschewing assumptions about the unitary state, firm-centricity and the reification of systemic change in driving patterns of capital accumulation, as has been levelled at certain Marxist accounts (Mayer & Zhang, 2021). As I discuss in the next sub-section, it is the fluidity of state capital in the context of a globalised, interdependent world economy that has elevated the transnational as a crucial scale at which capital accumulation is taking place.

First, the question is why the modifier 'state' is required when capital accumulation is an inherent tendency of all capitalists, whether the legal claim ascribes to the state or non-state actors since the general imperative of capital is endless accumulation. Profit-making can be realised by turning money into commodities which become the means of production. Combined with labour, the capitalist can transform the value of commodities and labour into capital that in turn can generate profit in an endless circle of surplus value extraction and reinvestment in expanded production.

The differences lie in the 'utilities' of capital generated from surplus value (Lee, 2018, p. 12). Drawing on the distinction between two kinds of capital accumulation endemic to global capitalism, namely Chinese state capital and global private capital, Lee (2018) argues that while profit maximisation is inherent to both, the imperative of state capital accumulation, in addition to profit making, also entails additional utilities or 'profit plus' interests (p. 23), which is where state capital accumulation diverges from private capital accumulation. I would argue that it is these 'profit plus' interests that distinguish not only state capital from private capital, but the qualitative differences between state accumulation strategies i.e. what distinguishes one state capital from another in the global competition for surplus value.

What distinguishes the extra profit interests of Chinese state capital is the historical context of catch-up development in which China has entered the world market as a late developing economy transitioning from a planned socialist economy. Unlike other post-socialist transition economies, the state has and continues to play a leading role in economic transition and industrial upgrading (Weber, 2021). Recall, capital is relational, requiring circulation among social actors to generate value. Chinese state capital has entailed a pivotal role for the institutions of the state from ministries to SOEs in the accumulation of state capital. As Weber (2021) has documented, post-socialist transition has required a fundamental restructuring of the institutional foundations of the Chinese economy. SOE reform has been fundamental to the process of 'growing into the market' (Weber, 2021, p. 184). Moreover, relative to the other BICs, the strong hand of the state in economic governance is strengthened by the stability of the political apparatus. The party state, led by the Communist Party of China, has used nationalism as a mechanism to legitimate state ownership, control and guidance over economic affairs (Starrs, 2017), and vice versa the legitimacy of the regime has depended on its capacity to deliver catch-up development ('performance legitimacy') that has materialised as discourse around the role of the state in bringing about *xiaokang*, or common prosperity (Breslin, 2009; Gilley, 2011; Nordtveit, 2009; H. Yang & Zhao, 2015; D. Zhao, 2009).

Implicit to Chinese state capital, beyond simply an ownership claim, is the extra profit imperative to support catch-up development through industrial expansion that is a cornerstone of regime legitimacy. The accumulation of state capital is therefore not only driven by the imperative to maximise profits, but also to maximise reinvestment in the trade and production of Chinese goods and services essential to national prosperity.

3.2 Transnationalism

In a globalised, interdependent world market, the transnational has become an increasingly important scale at which the social relations of production are reproduced. With the liberalisation of trade and investment in the post-war era, manufacturing production has become fragmented via global supply chains as multinational firms exploit low-cost labour and higher rates of productivity in the search for profits on a global scale (Coe & Yeung, 2015; Gereffi, 2014). Capital has become increasingly mobile, concentrating in international financial centres and offshore tax havens to take advantage of agglomeration economies and the comparative regulatory advantages of different jurisdictions (Coe et al., 2014).

Theorising the transnational coincided with first wave debates on globalisation where scholars like Robert Cox and Susan Strange predicted the disappearance of national economies where capital mobility, multi-national firms, and economic interdependence would give way to a borderless world that would bring about the erosion of national sovereignty and state power (Cox, 1987; Crouch, 2005; Strange, 2004). Although the first wave globalisation theorists were superseded by more critical and nuanced second and third wave debates (Hirst & Thompson, 2002; Scholte, 2005), they did much to dispel the state-centrism in IPE and elevate the power of other societal actors, namely firms, in global capitalism. The transnational became a counterpoint to the concept of the international in political economy where social relations have traditionally been defined vis a vis the interaction between states in the inter-state system a la the realist school of international relations (Mearsheimer, 2003; Waltz, 2010).

Paralleling the early globalisation debates on the role of the state in the economy, the work of William Robinson (2012) and Leslie Sklair (2000) stand out with respect to their writings on the emergence of a transnational capital class. As Sklair (2000, 2002) defines it, power in the global political economy is held by a transnational capital class comprised of multinational firms, globally-minded politicians, professionals and media. This emerging transnational capital class in the globalised world economy is pitted against domestic capitalists and politicians who rely on national systems of labour and production for capital accumulation. Robinson (2004, 2012) saw this emerging transnational capital class as bypassing the dependency of domestic elites on nationally embedded accumulation and the potential for them to supersede the power of domestic elites and bring about the declining power of sovereign states.

However, Robinson has been critiqued for overstating the agency of the transnational capital class. The power of the transnational capital class rests on the assumption that the state is a container that capitalists may instrumentalise, yet in the Marxist literature, capitalists are dependent on the state to discipline and mobilise capitalist social relations such as ownership rights and class structure, especially between labour and capitalists. Empirically, the power of a transnational capital class is contradicted by the existence of developmental states where the state and SOEs have dominated regional developmental trajectories (Starrs, 2017). The Marxist interpretation of the capitalist state is furthermore supported by global evidence of the persistence of nationally concentrated ownership patterns (Babić et al., 2017).

The reality is something more nuanced where states have undergone transformation in an increasingly globalised world economy. They face reduced policy space for state intervention as a result of processes like state rescaling where sovereignty has both been evolved to supranational bodies like the EU in the process of market consolidation (Brenner, 2004) and devolved to lower levels of government in efforts to modernise and facilitate market transition (Lim, 2017). At the same time, these processes have been used by states to extend their economic reach beyond their sovereign territories, such as in the case of the US where global dollar dependency has been institutionalised by multilateral organisations such as the

IMF (Agnew, 2005). Similarly, devolution has fostered economic autonomy and the proliferation of state-owned multinationals and SWFs that are both coupled to national and transnational systems of production and finance (Lim, 2018; Yeung, 2014). SOEs are increasingly integrated through hybrid forms of cooperation, coalition formation and interlinked corporate networks with private multinationals (de Graaff, 2012, 2020), yet they remain national champions. SWFs are engaging in alliance formation with global institutional investors, yet far from decoupling from state prerogatives, they are using these networks to make strategic foreign investments in key industries (Haberly, 2011).

The transnational does not signal the subsumption of the state, but adaptive strategies of the state to remake itself within a world market context. The transnational is not merely a scale at which increasingly fragmented economic processes and actors are embedded in states as though they were passive conduits, but through the active implementation of state accumulation strategies, including political violence, to secure the conditions for its reproduction via the same processes that produce markets. For example, national champions, state-owned lead firms that have taken a prominent role in national industrial growth, in Korea's developmental state did not expand geographically simply by embedding in existing production networks. Korean participation in the Vietnam War was the quid pro quo for priority in filling US offshore procurement orders, which subsequently benefited Korean corporations like Hyundai, which became a key US contractor during the war (Glassman, 2011). In fact, Glassman (2011) critiques the literature on global value chains (Gereffi, 2014) and global production networks (Coe & Yeung, 2015) for their neo-Weberian conception of states as national territories, pacifying the role of the state in transnational market making, though subsequent work has given greater due to the geopolitics of production networks (Yeung, 2017).

Building on the definition of state capital outlined in the previous section, the transnationalisation of state capital is a process by which the state is securing the reproduction of economic processes at the transnational scale through the instrumental circulation of state capital. In the context of Chinese state capital, such economic processes are intended to facilitate regime legitimacy by way of industrial expansion, and, drawing on the Marxist literature, a means to delay crises (Hung, 2008; Rolf, 2019). In this vein, the establishment of transnational state projects like the BRI and other diplomatic initiatives like the 17+1 mechanism for dialogue between China and 17 Central and East European states constitute political mechanisms for the creation of new markets for China's industrial expansion. The first official document on the BRI, the *Visions and Actions* released in 2015, encompasses six major land transport corridors comprising physical and virtual communications infrastructures, ports, industrial zones and clusters across Eurasia, Southeast Asia and Africa that have enabled the extension of Chinese manufacturing supply chains into BRI countries (Chacko & Jayasuriya, 2018; Dunford & Liu, 2019). The state has invested in industrial zones, such as the China-Belarus Great Stone Industrial Park whose location constitutes a key node along the Eurasian Land Bridge linking China to the EU. The 17+1 mechanism has similarly functioned as a political forum for the establishment of bilateral and multilateral investment projects in infrastructure. In 2020, South-East Europe was the fastest growing region for the announcement of Chinese construction projects (MOFCOM, 2020a). The BRI and 17+1 constitute spatial strategies to mitigate the contradictory imperatives of capitalism through the creation of new markets for the production and consumption of Chinese goods and services beyond the territory of the sovereign state (Schindler & Kanai, 2021).

3.3 Financialisation

Up to this point, the discussion has largely centred on the fundamentally productivist nature of Chinese state capital where the imperative behind its circulation is to extract surplus value that can facilitate reinvestment in production and embed Chinese trade and production in global supply chains to further national prosperity and regime legitimacy. However, the principal aim of this book is to build a finance-sensitive reading of the transnationalisation of Chinese state capital that takes account of the profound effect financialisation has had on the institutions, actors, practices, logics and geographies that have shaped the transnational circulation and accumulation of Chinese state capital.

There are a plethora of definitions for financialisation, one of the most common being Epstein's (2005) where financialisation represents 'the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies' (p. 3). However, this definition obscures long-standing debates within financialisation studies. My intention here is not to engage in definitional debates but amend Epstein's (2005) definition to highlight a common thread among all debates: an implicit juxtaposition of finance with production. I briefly elaborate on three approaches that have gained traction in the social sciences to demonstrate: the accumulation approach, Marxist approaches and the shareholder value approach.

The accumulation approach regards financialisation as a systemic shift in capitalist development where 'a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production' (Krippner, 2005, p. 174). The Marxist approach developed by Lapavitsas but also Fine (2013; Lapavitsas & Mendieta-Muñoz, 2018) home in on the nature of surplus value. Where traditionally, surplus value is indirectly extracted in production to generate profits, financialisation signals the direct appropriation of profit from financial markets. The capital that derives from financial channels i.e. interest-bearing or rent-seeking capital, is fictitious as it does not derive from circuits of commodity production or 'the real economy' (Fine, 2013; Maher & Aquanno, 2021). Lastly, proponents of shareholder value demonstrate through the evolution of corporate governance that financialisation has proliferated a widespread belief in the value of maximising shareholder value such that firm profits are increasingly channelled into financial markets over reinvestment in corporate expansion through production (Aglietta & Rebérioux, 2005; Lazonick & O'Sullivan, 2000). These definitions, despite their differing epistemic foci, highlight a shared assumption that financialisation represents a shift in capitalist development, whether at the systemic or corporate level, where financial markets, institutions, actors, practices and logics have taken on greater significance in trade and production.

The core argument advanced in this chapter is that *the transnationalisation of Chinese state capital as part and parcel of global capitalist development,* *cannot but be shaped by processes of financialisation*, despite being fundamentally driven by an underlying productivist rationale.

I draw on the definitions above while acknowledging the limits of the concept of financialisation, or rather that a reflexive use of the concept is required, especially in considering the historical and geographical scope conditions of its analytic application (Christophers, 2015a). Some accounts have gone so far as to claim a wholesale usurpation of production by finance, depicting a 'hollowing out' process where unproductive financial institutions redirect earnings away from productive reinvestment (Maher & Aquanno, 2021, p. 2; Pike & Pollard, 2009). It thus becomes worthwhile to raise the objection that 1) drawing on the shareholder value conception of financialisation, that it was a process that evolved from within the industrial firm, beginning in the managerial era of the post-war 60s when US firms sought to internationalise and diversify in the face of declining rates of profitability, precipitating the transformation of the managerial firm as a system of production controlled by insiders (corporate managers) to a system of investment subject to the power of outside investors (Dunford, 2021; Knafo & Dutta, 2020; Maher & Aquanno, 2021) and 2) drawing on the Marxist definition of financialisation, that we are yet to observe in the real world capital accumulation whereby profits accrue only through financial channels, circumventing the generation of surplus value from commodity production.

What we can observe is that financialisation has had global repercussions for the way in which circuits of trade and production have been reproduced, however this has been a process that has unfolded unevenly across time and space. Financialisation is variegated, where highly heterogenous yet interdependent politico-economic institutional landscapes have engendered distinct trajectories in the development of capital markets, the proliferation of financial institutions, and the manner in which finance is practiced in everyday dealmaking (Bonizzi et al., 2021; Dixon, 2011; Lapavitsas & Powell, 2013; Peck & Theodore, 2007). This has direct implications for the who, the how and the why of Chinese state capital transnationalisation. A finance-sensitive reading looks beyond a top-down party state and SOEs driven to instrumentalise state capital for geopolitical influence exclusively through circuits of trade and production. It acknowledges the hybridity and real-world messiness of capitalist change.

In the following I identify three key conceptual dimensions in consideration of historical and geographical variegation in processes of financialisation: the state, the global, and the role of the region.

3.3.1 The state

The conceptual emphasis in financialisation studies has tended to be on private market actors due to the strong associations with neoliberalism. Yet the spread of neoliberalism itself has required political intervention and ideological consensus that the state should give way to the market in directing economic development. Financialisation, too, has required political intervention, where the state has catalysed, regulated, exploited and adapted to the growing role of finance in the economy. The state has become financialised, most visibly in the growing levels of public debt that have gone hand in hand with state rollback, precipitating a reliance on secondary markets for public debt, turning the state into a market participant hoping to see returns on these investments (Fastenrath et al., 2017). The state has also facilitated the financialisation of economic and social life. The provision of social and physical infrastructure by the state has been transformed into actively traded financial assets, exemplified by the rise of private, funded pension schemes which become a vehicle for large pools of retirement capital in search of yield (G. L. Clark, 2000; Dixon, 2008). Macroeconomic management has also seen a shift from fiscal to monetary policy instruments. Central banks have grown in stature as inflation targeting has become a standard response to economic slowdown, but that fails to take into account asset price inflation, largely to the benefit of investors (Karwowski, 2019).

However, like neoliberalism, the role of the state in processes of financialisation is variegated. Education provision in the US has become financialised to a far greater extent than other countries largely due to universities' turn to financial markets to generate revenue and state promotion of debt-financed education over subsidised public education (Karwowski, 2019). In contrast, although asset securitisation has been promoted by the Federal Reserve as financial innovation since 2005, the market for securitised banking has mushroomed in the Eurozone where, as of year-end 2021, the European repo market is more than double the size of the US market (*European Repo Market Survey*, 2022; SIFMA, 2022; D. Gabor & Ban, 2016; Hübner, 2016).[3] Financial innovation itself has varied across regions, such as in the proliferation of SWFs, which have differed with respect to function. Where emerging economies like Singapore have established SWFs to foster strategic development, SWFs have in Kuwait, Norway and China been a means to generate higher yield from portfolio diversification from oil revenues and export revenues respectively (G. L. Clark et al., 2013).

Within the state itself, there have been divergent responses, reflecting the multi-levelled nature of state intervention in economic life, whether in Europe or China. Local governments demonstrate discretion and capacity in using state policies, regulation and capital to financialise public land and urban development (Aalbers, 2020). In the United Kingdom (UK), state efforts and local council discretion over the privatisation of council housing is part and parcel of the financialisation of public land and infrastructure in the UK (Christophers, 2017; Langley, 2018). Similarly, in China local government has leveraged state-initiated banking deregulation in the post-crisis era to generate local growth through debt-based housing development that has given rise to real estate speculation (Feng et al., 2021; Theurillat, 2021). In short, the state in its multi-levelled forms has and continues to enact political interventions vis a vis processes of financialisation that go beyond unitary state conceptions of economic governance.

3.3.2 The global

Building on the earlier discussion in section 3.2 about the emergence of the transnational as an important scale of economic activity, this section discusses the concrete financialisation processes that have been shaped at

[3] A repo agreement or repurchase agreement is a short-term secured loan where securities are sold and repurchased on the market for a higher price at a later date. They are regularly used to resolve short-term liquidity issues between financial institutions, and a means for central banks to conduct monetary policy.

the global scale, where economic processes are both embedded within and traverse national economic systems.

The geographical expansion of financialisation, through international financial centres, financial institutions and financial practice has had a strong global dimension. Global, multilateral institutions like the IMF, World Bank, and the G7/G20 are supranational authorities where transnational epistemic networks of economic experts have consolidated the legitimacy of the Washington Consensus approach to economic development, promoting the creation of an integrated world market underpinned by policies promoting macroeconomic stability, the liberalisation of trade, banking deregulation, and the transnational circulation of capital (Bonizzi, 2013).

The mobility of capital has accelerated the concentration of capital in international financial centres embedded in both national and transnational financial networks. They have become a nexus for the doing of finance and the reproduction of universal norms of financial best practice (Green & Gruin, 2020; S. Hall, 2021). Like neoliberalism, the proliferation and legitimation of finance as a professional practice began in the 1980s with the institutionalisation of rational-choice economics as the basis to 'do' finance where positivist methodologies ground in universally applicable econometrics and economic modelling became the basis of professional expertise (Fourcade, 2006; W. R. Scott, 2008).

Take the realm of investment management for example. Financial intermediation has become widely accepted industry practice, where asset owners like SWFs farm out the actual management of their investments to asset managers. Such a practice is predicated on rational choice economic theories like the efficient markets hypothesis and modern portfolio theory where intermediation, assuming market prices reflect all information available, can minimise transaction costs and maximise economies of scale for investors (G. L. Clark & Monk, 2017). Investment contracts governing the relationship between asset owners and managers have become standardised, often to the detriment of asset owners who lack the expertise to revise contracts in their favour. This is supported by the limited liability partnership in PE and venture capital (VC), which institutionalises the autonomy of asset managers from their investor clients. Other benchmark practices like the fee-based model of value generation for asset management firms ensures them a risk-free commission on top of any carry, meaning interest, they might earn on profitable investments for their clients (Christophers, 2015b). These practices have been institutionalised by political and industry authorities like the Bank for International Settlements and the Chartered Financial Analyst Institute that have consolidated the doing of finance predicated on the reproduction of seemingly universal risk and return metrics detached from cultural and historical context.

A major consequence of world market making has been the institutionalisation of a worldwide set of best practices, ground in rational choice economics. This globalisation of financial best practice has facilitated the accelerated circulation of capital across national borders increasingly detached from national circuits of trade and production and effectively legitimated surplus value extraction through 'indirect' financial channels. Such has been the basis for the globalisation of financial capital.

3.3.3 The region

Regionalism as a concept gained traction in the 1990s with the establishment of regional economic institutions, notably the Maastricht Treaty that established the EU, the North American Free Trade Agreement, and the Asia-Pacific Economic Cooperation. A growing body of scholarship began to theorise about the growing relevance of the region as a form of economic organisation in the context of a globalising world (Hettne, 2005; Mansfield & Milner, 1999). The preceding examples would seem to imply that the region is a self-contained formal territorial entity, whose jurisdiction is proscribed by governance arrangements initiated by participating states. However the region is also a relational concept, a 'contingent coming togetherness or assemblage of proximate and distant social, economic and political relationships, the scale and scope of which do not necessarily converge neatly around territories and jurisdictions formally administered or governed by the nation state' (Jonas, 2012, p. 263). Without losing sight of the state, and of the territorial politics upon which many regional formations are based, the region is one scale among others at which economic transformation takes place (Cammack, 2012).

Through processes of state rescaling and intra-regional capital mobility, the region has been a scale at which financialisation has taken on significance. The financialisation of the region has been preceded by political interventions designed to create a regional market. In Asia, regional authorities such as the Asian Development Bank have through the promotion of an ideological consensus around regional competitiveness strategies and regional infrastructure building, sought to evolve national accumulation strategies into regional ones designed to integrate Asia into the world market in what has been characterised as world market regionalism (Cammack, 2012). The BRI aims to promote regional connectivity through the building of logistics and economic corridors (Dunford & Liu, 2019; Mayer & Zhang, 2021). Financial infrastructures have been a part of this vision, where Chinese financial institutions have supported the deepening integration of financial markets in key BRI countries such as Pakistan, Kazakhstan and Bangladesh through the acquisition of national stock exchanges (Petry, 2021). The composition of such projects involve a constellation of stakeholders including central and municipal state agencies and state-owned financial institutions.

Arguably the most successful instance of the regionalisation of financialisation has been the creation of the EU and the Eurozone where variegated financialisation and neoliberalism have unfolded apace (Fine, 2012; Peck, 2010; Ward et al., 2019). Underpinned by the spread of neoliberal ideology in the preceding four decades characterised by policies including banking deregulation, rollback of fiscal budgets on welfare spending, privatisation and lowered barriers to the free movement of capital, neoliberalism has paved the way for the development of large capital markets where private investors have been the primary engines of growth.

The EU from the outset was designed to promote an internal free market through the creation of a supranational regulatory authority (French et al., 2011; Sawyer, 2013). Highly developed financial markets characterise the economic composition of the EU where the contribution of the financial services industry to GDP has held almost constant at 1% growth in the period between 2015 to 2019 (Figure 3.1). In contrast, China's capital markets have only been established since the late 1990s with the advent of domestic stock exchanges (Walter and Howie, 2012).

And after China's entry to the WTO in 2000 that signalled the rapid liberalisation of trade and capital flows between China and the rest of the world, the size of the financial sector underwent rapid growth. In the period between 2015 and 2019, the financial services industry grew by 37% (Figure 3.1).

However, due to its historically variegated trajectory of development, neoliberalism as a co-constituting driver of financialisation has engendered differential patterns in the growth of financial markets, institutions, actors, and practices within Europe. Lowered barriers to the free flow of capital have facilitated highly uneven concentrations of capital such that Western Europe has reaped the lion's share, where Europe's largest financial centres, London, Frankfurt, Luxembourg, Paris, Amsterdam, are located (S. Hall, 2021).

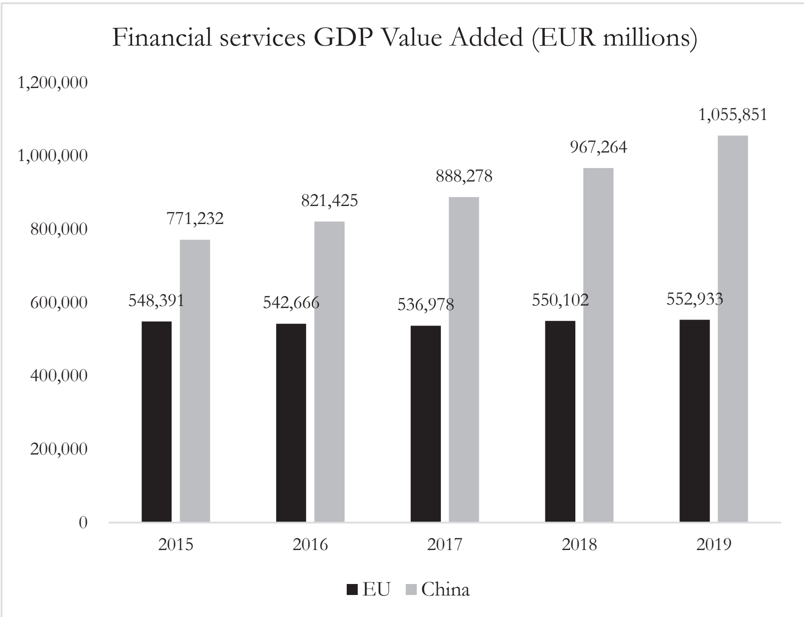

Figure 3.2 Financial services contribution to GDP in the EU and China, 2015-2019. Source: OECD (2022).

Regional expansion of the EU eastward through the process of EU accession has engendered the accelerated financialisation of the post-socialist periphery where EU-linked banking deregulation and liberalisation of capital flows, and the thickening alliances between political and economic elites across EU borders has accelerated symptoms of financialisation that have come to characterise peripheral, emerging and subordinate economies such as low productive investment, high levels of foreign ownership in the banking sector, asset price volatility, and increases in household debt (Becker et al., 2010; Bonizzi, 2013; Karwowski & Stockhammer, 2017). Underpinned by EU laws on state aid, competition and merger regulation, member and candidate states are limited in their ability to take direct interventions to circumvent these processes.

In short, the region has been an important scale at which processes of financialisation have unfolded where regional political interventions have shaped the dynamics of national and transnational financial expansion.

3.4 Four geographies of variegated financialisation

In the following, I identify four corresponding geographies where the role of the state, the global, and the region have had a critical impact on how the transnationalisation of Chinese state capital has been shaped by processes of financialisation. These geographies are China, global finance, Western Europe, and the post-socialist European periphery (Table 3.2).

3.4.1 State-led financialisation in China

The state in China has and continues to play a visible role in financialising the economy, exemplifying how states have played a fundamental role in financialising economic and social life. China's official Reform and Opening Up from a planned socialist economy to gradual market liberalisation formally began in 1978, however it was not until the 1990s that a number of fundamental reforms were introduced that laid the foundations for financialisation, including the corporatisation and privatisation of SOEs that had been the primary engine of industrial growth in the planned socialist economy, the advent of the first (state-owned) domestic stock exchanges, the corporatisation and privatisation of SOEs, and China's entry to the WTO in 2000 (Chiu & Lewis, 2006; C. Walter & Howie, 2012; Wang, 2015; K. Yang, 2007).

Table 3.2 How financialisation informs the transnationalisation of Chinese state capital. Source: author's own.

Dimensions of variegated financialisation	**Key geographies**	**Transnationalisation of Chinese state capital**
The state	China	State leverages financialisation for industrial development and expansion, embedding of Chinese production and consumption into global supply chains through the creation of new markets
The global	Global finance	Financial professions enculturate, legitimate and facilitate integration of Chinese financial institutions into global finance
The region	Western Europe	The EU has promoted the development of highly liberalised well-developed capital markets concentrated in Western Europe with intense linkages within and without the region. State intervention for industrial development is legitimated through arms-length, market-based industrial policy.
	Western Balkans	Peripheral financialisation by virtue of regional proximity to the EU facilitates state capital mobility in and out of the region. It has also created the conditions for more muscular state intervention conducive to alliance building with the Chinese state to achieve mutually desirable industrial policy goals.

Since then, the state has introduced successive reforms that signal the financialisation *of* the state as a means of governance reform, and financialisation *by* the state of economic and social life as a means of both control and development. It is worthwhile to distinguish between these two phenomena for in the literature on financialisation and the state, which has by and large drawn from cases in the advanced capitalist economies, the distinction is conceptually and empirically relevant (Fastenrath et al., 2017; Karwowski, 2019). By contrast in China, they often depict one in the same process since the state sector accounts for so much of core economic activity. In 2010, ten years after WTO entry, SOE assets amounted to close to 550% of GDP, with the state share accounting for 130% after the rules governing private shareholding of SOE assets were relaxed (Wang, 2015).

The state has financialised economic governance to develop but also maintain control over the financial sector. It has done so through:

- internalisation of shareholder value logics in the management of state assets under conditions in which the state maintained a controlling share in key industries and firms;
- introduction of state-owned asset management companies such as the State-owned Asset Supervision and Administration Commission and the CIC to be the organisational manifestation of state shareholding;
- deregulation of credit creation such that the banking sector and other state-owned financial institutions can generate credit through bond issuances, subsidiary holding companies like Central Huijin, and the use of state asset management firms as special purpose vehicles to isolate financial risk (Wang, 2015);
- and preservation of state ownership in domestic stock exchanges as a means of maintaining financial market stability (Petry, 2020).

Arguably, these reforms echo earlier phases of financial liberalisation in the advanced capitalist core. After all, the development of dynamic financial markets is conducive to economic growth, up to a point (Sawyer, 2013). However, what distinguishes the role of the Chinese state in processes of financialisation are the developmental imperatives that inform the introduction of financial institutions, actors, logics and markets that extend beyond questions of financial market stability, development and control. The state has strategically leveraged processes of financialisation to bolster industrial development, not as a regulator giving free reign to the competitive dynamics of private market actors but as an active participant in the market itself. The establishment of state-guided funds, essentially PE and

VC funds with local or central state capital, have been directed to invest in innovation, small and medium-sized enterprises, industrial upgrading, infrastructure and public services (Pan, Zhang, et al., 2020). Paralleling the ownership dynamic in China's industrial core, SOEs have been the principal investors behind these funds, with limited participation from the private sector. This dynamic of state-led financialisation has elsewhere been characterised as the investor state, where state-owned holding companies like Central Huijin have been used to stabilise domestic stock markets in times of crisis, and where asset management firms like China Minsheng Investment Group have been used for strategic industrial upgrading, such as in photovoltaic cell technology (H. Chen & Rithmire, 2020).

The underlying developmental aims behind state-led financialisation reach beyond the territorial borders of the state. The state has done more than regulate cross-border capital flows. It has sought to direct the creation of entirely new financial networks in overseas jurisdictions through the establishment of stock connects between onshore and offshore stock exchanges and offshore renminbi centres in the world's largest foreign exchange trading centres, London and Hong Kong (S. Hall, 2021; Peck, 2021; Töpfer & Hall, 2018). These efforts have dovetailed with efforts to support China's industrial expansion globally that has been informed by the exigencies of overaccumulation and overcapacity, declining rates of growth, wage pressure and depressed global demand on the heels of the global financial crisis (Blanchard & Flint, 2017; X. Zhang, 2017). The CIC as it is shown in chapters 4, 5 and Appendix B, has supported national industrial policy via acquisition of firms in key sectors such as energy, mining, infrastructure and technology (Babić et al., 2019; Haberly, 2011).

The transnationalisation of Chinese state capital thus reflects how the state has sought to leverage financialisation for state-led industrial development beyond its borders. The institutions of the state that manage, allocate and invest cross-border state capital have done so with a view to servicing domestic industrial upgrade and laying the infrastructural foundations for economic connectivity between China and new markets for the continued trade and production of Chinese goods and services.

3.4.2 Global financial professionals and Chinese state capital

Financial professionals have been a medium of transnational capital circulation as norms of financial best practice have spread from international financial centres to frontier cities of finance like Beijing, Abu Dhabi and Auckland (Dixon & Monk, 2014; Sassen, 2005). Global financial professionals in banking and investment, law, accountancy, management consulting and related financial services initially followed their multinational industrial clients into emerging markets, bringing with them financialised norms of corporate governance, investment management and risk diversification (Boussebaa & Faulconbridge, 2019). In the process of spatial expansion, emerging markets became the basis for a new corporate clientele, precipitating the adoption of global financial practice in these frontier geographies.

In China, financial professionals have played a key role in China's state-led financialisation. Financial services like the Big Four accountancy firms (Price Waterhouse Coopers, KPMG, Deloitte and Ernst and Young), European and North American investment banks, and British law firms have serviced a growing SOE customer base. Under policy guidance from the central state to transform them into national champions, SOEs have engaged the services of such firms to facilitate transnational expansion through initial public offering (IPO) listings on the world's biggest stock exchanges in international financial centres like London, New York and Hong Kong. The initial generation of China's national champions, lead firms in core industries like China Mobile, China Petrochemical Corporation, and State Grid Corporation of China, were created from the consolidation and corporatisation of former state planning bureaus in the 1990s. Investment firms like Goldman Sachs, Merrill Lynch, Morgan Stanley, UBS and Credit Suisse, law firms like UK-headquartered Sullivan & Cromwell, and all of the Big Four auditors helped modernise the first generation in the listing process, bringing their expertise and international networks to Chinese industry that up to that point was primarily embedded in domestic circuits of trade and production (Wójcik & Camilleri, 2015).

The IPO listing process cultivated the dissemination of financial best practice through institutionalised cooperation. Western investment banks are always co-lead manager with domestic state-owned service providers, like China International Capital Corporation (which is part-owned by Morgan Stanley), CITIC Securities, and Huaxia Securities. The state has moreover forced institutional knowledge transfer through restrictions on foreign ownership in certain industries, such as financial services. Where financial services firms have sought to expand into China, they have needed to do so through joint venture or registration as a wholly foreign-owned entity, which is necessary if they wish to operate as a consulting business with approved licenses (Liaw, 2010).

This has enabled state-owned financial institutions and SOEs to not only access the international networks of their foreign partners, but become enculturated to norms of financial best practice that have helped to legitimate them as financialised corporate entities within global financial networks. Financial professionals have acted as carriers of state capital facilitating its circulation increasingly through financial channels. Chinese capital has come to concentrate in international financial centres, which tend to be located in institutional jurisdictions with reputations for strict market discipline. In 2020, over 90% of total IPO funds raised in Hong Kong were for mainland companies. Hong Kong is the world's top performing stock exchange in terms of IPO, which has become the biggest source of revenue for investment banks (I. T. Liu, 2020a). Outside Hong Kong, London has become the largest offshore renminbi centre in the world, a process brought about by industry practitioners and monetary authorities in mainland China, Hong Kong and the City of London that has serviced the proliferation of Chinese state capital beyond its borders.

3.4.3 Chinese state capital in Western Europe

Neoliberalism has co-constituted variegated forms of financialisation within Western European member states. Throughout the 1980s and 1990s, political elites[4] within the core member states that comprised the

[4] For example Francois Mitterand who tacked 'hard right' in 1983, and Jacques Delors, who later became President of the Commission; Ruud Lubbers who pursued supply-side policies that would allow the Netherlands to mirror Germany's export-led growth; Silvio Berlusconi after the breakdown of the Italian political

European Economic Community (Belgium, France, Italy, Luxembourg, the Netherlands and West Germany) pushed hard within their national domains for privatisation and deregulation, capital liberalisation, wage suppression, debt-fuelled growth and tax cuts. In short, neoliberal policy solutions were framed as the panacea for creating competitive states that could survive in an increasingly globalised world economy (Apeldoorn, 2002; Cafruny & Ryner, 2003; Dumenil et al., 2004; Hay, 2004; Schmidt, 2002).

The Treaty of Maastricht signalled the beginning of a decade-long trajectory of neoliberal consolidation that lead to the institutionalisation of the strictly regulatory role of member states in the Lisbon Treaty of 2007 (Hermann, 2007; Mulder, 2019). The Stability and Growth Pact and the creation of the European Central Bank in 1993 signalled Western European states' commitment to the creation of nationally resilient competitive market economies underpinned by monetary and market discipline, a political platform that was later used to cajole new member states into accepting the strict limits on state spending and industrial protectionism that accession entailed (Bohle, 2006). Thereafter the clarification of EU competition law governing state aid and mergers and acquisitions by SOEs in 2004 and 2007 further bound member states to a neoliberal governance agenda.

Financialisation has gone hand in hand with neoliberalisation (Fine, 2012; Peck, 2010; Ward et al., 2019). For one, the Europeanisation of banking and investment has bolstered the role of Western European capital markets in global capitalism. Luxembourg, in its consistently neoliberal, pro-Europeanist politics, has become an epicentre of international banking and a conduit for foreign capital flows into the Eurozone (Dörry, 2015). Western Europe has also become the largest PE and VC market outside North America where, in Germany, international capital accounts for the highest proportion of VC funding (Fritsch & Schilder, 2008). At the same time, this has come at the cost of declining rates of domestic investment where the EU response has been to revive industrial policy, but through financialised market-based solutions where private capital is

system in 1992, and Wilfried Martens in Belgium and Luxembourg's consistent advocacy of a low tax regime (Mulder, 2019).

leveraged in arms-length relationships with EU financial institutions to catalyse investment in key industries (Cooiman, 2021; Mertens & Thiemann, 2018; Wigger, 2019).

However, neoliberalism in Western Europe has not been a one size fits all phenomenon (Hay, 2004; Peck & Theodore, 2007; Schmidt, 2002). For small open economies like Belgium and Ireland, the successive global crises of the 1970s had already precipitated the need for structural transformation, echoing the shift in industrial policy from protectionism to market-based structural adjustment (Bulfone, 2022; Katzenstein, 1985). Ireland, whose politically broad-based commitment to FDI-led industrialisation supported by low-tax policies, state subsidies for foreign multi-national firms and a highly liberalised capital and banking system, has been underpinned by the establishment of financial institutions to support Ireland's supply chain integration with the EU, US and, as chapter 6 will demonstrate, Chinese markets. For Belgium, maintaining a liberal market orientation with strong social adjustment policies has characterised federal and regional industrial policy. Historically a member state that has evidenced some of the highest levels of state aid to protect declining industries (Reid & Musyck, 2000), the Belgian state has also sought to boost domestic competitiveness through the creation of regional and federal investment funds (de Grauwe & van de Velde, 1980).

Chinese state capital thus flows into a political economic terrain in Western Europe characterised by highly liberalised, well-developed capital markets with intense linkages both internally and within global finance that opens up the possibility for Chinese state capital to flow into EU markets through individual member states. This has been supported by the neoliberal market orientation of the EU where the ability of member states to enact market interventionism is proscribed by treaty. What industrial solutions there are, are market-based, where the state has sought to leverage private capital and existing norms in financial practice to mitigate issues of industrial underinvestment.

3.4.4 Financialisation of the periphery

The political economic footprint of the EU extends beyond its territorial borders. The effects of Europeanisation and EU enlargement have brought about distinct trajectories of financialisation in the post-socialist periphery characterised by overexposure and dependency on foreign capital inflows, underinvestment in productive capacity and high levels of foreign ownership in the financial sector (Becker et al., 2010). In short, policies that have reduced their policy space to enact autonomous economic interventions. We might conceptualise this as the regionalisation of financialisation, a consequence of EU accession countries being strapped into the EU's neoliberal commitment to cultivating competitive states in a world market context.

The Western Balkans comprising the six states of Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia have tight political and economic linkages with the EU, so much so that the EU possesses structural power in the region (Pavlićević, 2019). Spatial proximity, civil war and post-socialist transition have instigated EU, but also IMF and US interventions and initiated a path dependent trajectory of financialisation. The accession process, dependency on the EU Single Market, EU financial aid, and regional alliances between capitalists in the EU and the periphery have accelerated processes of privatisation, trade and investment liberalisation, and banking deregulation. In Serbia, such policies followed regional political stabilisation in the 2000s, ushering in path dependent dynamics of import-led development, underinvestment in production and dependency on foreign capital inflows (Ban & Bohle, 2021; Becker et al., 2010; Bonizzi, 2013; Nelson, 2020). FDI has become a key means of capital provision, however because privatisation largely took place in the financial sector, foreign capital flowed into former state-owned financial institutions, concentrating foreign capital in non-productive sectors (Radonjić, 2018). Productive investment in domestic industrial capacity has been comparatively meagre (Radenković, 2017).

Peripheral financialisation has preconditioned local receptivity to Chinese state capital, yet in contrast to Western European member states where Chinese state capital flows into a political economic terrain where strict market discipline is enshrined in EU law, and has circumscribed the ways in which member states may practice industrial policy, peripheral states have room to manoeuvre, enacting political interventions to attract Chinese state capital into productive channels that has in the process begun to reconfigure the institutional foundations of neoliberal economic governance promoted in the EU accession process.

Serbia exemplifies this dynamic where Chinese state capital has flowed into an institutional terrain favourable to foreign capital mobility and non-productive financial investment, but also where the Serbian state has sought to support the reproduction of state capitalist accumulation logics and enact political interventions to direct foreign state capital toward productive ends, such as in infrastructure-led development (I. T. Liu, 2020b). For Chinese SOEs bringing state capital into the country, they stand to benefit as autonomous commercial firms from the institutional terrain of generous FDI policies, including tax advantages, state subsidies and debt cancellation that supported the earlier waves of financial sector privatisations in the country (Radenković, 2017), as well as the introduction of private public partnerships (PPPs) in Serbia (*Public Procurement Portal*, n.d.) that constitute a form of infrastructure financialisation. As it will be shown in chapter 7, investors on BRI projects have been able to leverage the policy thrust behind PPPs in Serbia for industrial expansion. At the same time, peripheral financialisation has catalysed a more muscular form of state intervention in Serbia to mediate the effects of underinvestment where Chinese state capital, via state-to-state negotiated debt-financed infrastructure projects, require a reconfiguration of domestic institutions to support state-led industrial development, such as laws that allow Chinese SOEs to bypass competitive tender on public infrastructure projects. The transnationalisation of Chinese state capital in Serbia is thus shaped by a unique institutional terrain mediated by both processes of peripheral financialisation emanating from the west, and Sino-Serbian state-led industrial development.

3.5 Studying financialisation at the micro-level

To study the transnationalisation of Chinese state capital requires an analytical lens that privileges how broader macro-structuring phenomena such as the dynamics of state-led industrial development and financialisation are reflected in everyday practice. The analytical approach advanced here privileges the micro-level of process, practice and everyday routinised socio-technical interactions constituting the transnationalisation of

Chinese state capital that might otherwise be overlooked in macro-structural state- and firm-centred theory.

The micro-level is particularly important in developing a finance-sensitive reading of capitalist development because finance is ground in everyday practice. Giddens' approach to practice theory highlights the value of the micro-level for understanding capitalism as an organising principle because practices are highly ramified in time and space (1979, pp. 201–206; Nicolini, 2017). They must be performed to reveal the repeated nature of action within social order (Adler & Pouliot, 2011, p. 5, 2011). The transnationalisation of Chinese state capital, as is the expansionary tendency of all capital, is relational. It is through events, spatial and temporal occurrences, that the abstract tendencies of capitalism are revealed (Sewell, 2008, p. 524).

We can extend this argument to the accumulation of financial capital where the generation of surplus value is based in routinised socio-technical processes predicated on the rise of rational-choice economics in the 1980s, and legitimated and institutionalised as a set of global norms of financial best practice. It is not enough for financial market actors to simply possess financial knowledge to realise value, they must demonstrate this knowledge through interaction in the varied networks of market actors, computers, stock exchanges and other forms of financial infrastructure in order to appropriate surplus value (Bernards & Campbell-Verduyn, 2019; Castells, 2010; S. Hall, 2009). The 'doing' of finance is a collective enterprise. In Jarzabkowski et al.'s (2015) study of the global reinsurance market, what brings diverse practices together as a market is the relationality of a particular practice, like quoting. Multiple underwriters may evaluate different risk types, yet they engage in the collective market-making practice of quoting through which defining features like deal making and consensus pricing emerge. Each individual practice is nested within multiple other practices of risk evaluation such that it is not quoting alone that is determinative of the market.

The transnationalisation of Chinese state capital thus becomes a series of routinised but incremental actions to allocate or dispose of cross-border capital owned by the state entailing 'profit plus' interests. For example, via the day-to-day allocative tasks performed by the investment manager or loan officer. Attention to the micro-level decentres the role of states and firms by giving attention to the often-informal allocative decisions that amount to the incremental transnationalisation of state capital. Where state-centred accounts attribute China's global infrastructure development agenda to the top-down directed BRI, a micro-level approach values the locally-embedded operational decisions that shape the distributional outcomes of the BRI in investor states (Oliveira et al., 2020). It is through such actions that the accumulation of ever-more capital owned by the state can be realised.

Inspired by the practice turn in economic geography (A. Jones & Murphy, 2011), I privilege the micro-level of process, practice and everyday routinised interaction in my analysis of four cases to draw out how the transnationalisation of Chinese state capital has been shaped by the 'large phenomena' of financialisation that correspond with the four geographies elaborated above (2011, p. 381). These cases constitute the next four chapters of the book.

3.5.1 China's state-led infrastructure financialisation

In chapter 4, I examine through the lens of infrastructure development how the Chinese state has leveraged financialisation to embed Chinese production and consumption in European supply chains. Public infrastructure in the form of roads, rail and energy utilities are essential to support the transport of commodities and labour required for production (O'Neill, 2013, p. 443). Infrastructure thus functions as something of a crucial case of financialisation wherein structures fundamental to production are being transformed. However, such a dynamic largely characterises developments in the advanced capitalist economies where neoliberal policies have put pressure on governments to reduce spending and financialise public governance, see earlier discussion on neoliberalism in Western Europe, section 3.4.3. In recent years, states have increasingly turned to infrastructure as a form of spatial development strategy and a means to embed national lead firms into new markets (Schindler & Kanai, 2021).

In chapter 4, I conceptualise China's state-led financialisation of infrastructure as a two-pronged state accumulation strategy to bring financialisation into the service of infrastructure development and the embedding of Chinese production into new markets. Drawing on the investment activities of the CIC in Western European capital markets and SOE-led BRI infrastructure projects in the Western Balkans, I show how the state has sought to leverage financialisation in two ways. First, the CIC is coordinating industrial development, leveraging its network power to matchmake Chinese lead firms to Western European markets. The conventional return-seeking investments of the CIC have placed it central to global financial networks, giving it a platform to leverage its centrality in Western Europe to service the real economy. Second, the state has encouraged SOEs to pursue PPPs in BRI countries as a means to offset some of the risks of sovereign lending and secure additional capital for local infrastructure projects, in contrast to PPPs in European and North American states where they have signalled the further commoditisation of public infrastructure (L. Jones & Bloomfield, 2020). These twin processes constitute a form of state-led spatial accumulation strategy wherein infrastructure in the European periphery is being built to service the integration of Chinese production into Western European supply chains.

3.5.2 The global financial professions and the transnationalisation of Chinese state capital

Chapter 5 shows how the global financial professions, comprising investment banking, law, accountancy, and management consulting have acted as transnational carriers of Chinese state capital, facilitating its integration into global markets where processes of neoliberalisation and financialisation have coalesced around a set of best practice norms (see section 3.3.2). Chapter 5 shows how China's integration into global capital markets is simultaneously convergent and antithetical to the ideological norms of free market competition and the strictly safe-keeper role of the state in economic life that underpins global financial practice, signalling how the transnationalisation of Chinese state capital is a process deeply embedded in the neoliberal order and the transformation of global capitalism in palimpsest-like ways.

Through the empirical lens of CIC investments into Western European capital markets, I show how the practice of global finance has legitimated Chinese state capital in European financial networks by normalising its political origins through technocratic, expert-driven practice to the effect that it is treated as no different from private capital. I conceptualise three logics of practice by which global financial professionals have legitimated Chinese state capital. First, the CIC has adopted extant practices of finance, such as outsourcing specialist functions to financial professionals and insourcing via the hiring of returnees and secondments of external professionals to the CIC. Second, alliance formation with already legitimate financial professionals through professional networks facilitates legitimation by virtue of their centrality within these networks. Third, the CIC is recreating financial practice, reinventing them such that they serve both the profit and 'profit plus' interests of the state.

3.5.3 Sino-Irish and Sino-Belgian market-based industrial policy

In chapter 6, I analyse how market-based industrial policy in the context of a neoliberal and financialised EU market landscape has shaped the transnationalisation of Chinese state capital. For small open economies like Ireland and Belgium, they have pursued divergent approaches to achieve domestic industrial policy objectives, but face similar external constraints in the restructuring of global manufacturing characterised by supply chain fragmentation and enhanced capital mobility that has been shaped by the promotion of neoliberal governance ideology at the global and EU level (Bulfone, 2022; Carroll & Jarvis, 2014; Clift & Woll, 2012; Stiglitz et al., 2013; Volberding, 2021). New industrial policy has become increasingly aligned with competition policy to promote the competitiveness of lead firms, coalescing around a set of arms-length open market industrial policy instruments where private capital is looked to as the primary engine of industrial growth (Devlin & Moguillansky, 2013; Schrank & Kurtz, 2005). What state capital flows into Europe is only rendered credible when its 'profit plus' nature is depoliticised through arms-length market operations.

However, giving greater steering capacity to market forces has also endowed financial intermediaries like PE firms with infrastructural power in Western European capital markets such that they have taken on an essential role in the investment chain between SWFs and invested firms. The same conditions that have enabled the asset management industry to flourish have also set in a dynamic where the political character of SWFs, materialised in their embedding in domestic financial and production networks, has been leveraged by asset managers to achieve industrial policy goals on behalf of their SWF clients. These findings sit in contrast to the prevailing literature on SWFs that views them largely as a source of arms-length patient capital within the context of market-based industrial policy (Haberly, 2014; Thatcher & Vlandas, 2021).

In chapter six I show using two cases of state-to-state co-investment between the CIC and an Irish and a Belgian SWFs how PE firms have been a means of transnational market-creation for SWFs. PE firms have facilitated access for domestic firms into China, Ireland and Belgium respectively on behalf of their SWF clients.

3.5.4 Financialisation and the BRI in Serbia

Chapter 7 examines through the lens of the BRI how historically and geographically mediated processes of peripheral financialisation in the Western Balkans have shaped the nature of BRI expansion in the region. The BRI has, arguably, been the most illustrative instance of the externalisation of China's productivist state accumulation strategy, yet the legacy of post-socialist transition in the post-war 2000s, EU and IMF mediated market liberalisation and trajectories of peripheral financialisation have created a political-economic institutional terrain that has hugely influenced regional receptivity toward Chinese state capital.

I illustrate using the case of Serbia how processes of financialisation in the country have led to chronic underinvestment and high dependence on capital inflows, and that has provided the political impetus for the incumbent regime to look to Chinese state capital, embodied in the transnational state project that is the BRI, as a source of investment. The institutional, legal and policy apparatuses that have facilitated this process coalesce around efforts that bolster state capacity to streamline the approval and delivery of Chinese state-backed infrastructure projects. Path dependent trajectories of financialisation have also played a role in attracting investment on BRI projects, namely the existence of a highly favourable FDI regime that had previously attracted private sources of foreign capital into non-productive sectors, and the promotion of PPPs that had led to a greater diversity of BRI projects. These two factors demonstrate the hybridity of the transnationalisation of Chinese state capital as a productivist state accumulation strategy that has been profoundly shaped by processes of financialisation.

This chapter has outlined the key analytical approach taken in this book where I have sought to develop a historically and geographically nuanced, finance-sensitive reading of the transnationalisation of Chinese state capital that privileges the micro-level in analysis of capitalist change. In the following chapters I present the principal empirical contributions of the thesis.

Chapter 4

What does the state do in China's state-led infrastructure financialisation?

Abstract

China's state-led financialisation of infrastructure is an alternative narrative to prevailing accounts of neoliberal financialisation in the advanced capitalist core, where the expansion of private market-based finance-led growth is theorised to transform traditional forms of public infrastructure development and production-based growth. Drawing on the case of Chinese state capital investment in Europe, we demonstrate empirically how the imperative to financialise infrastructure development is emergent from and contingent upon a productivist mode of capitalist development. We articulate two key transformations in which Chinese state capital is being used to leverage financial best practice and its network properties in service of the real economy.

This chapter is adapted from Liu, I. T., & Dixon, A. D. (2022). What does the state do in China's state-led infrastructure financialisation? *Journal of Economic Geography*, 22(5), 963–988.

4.1 Introduction

Financialisation is heralded as an independent phenomenon transforming traditional forms of infrastructure development and production-driven growth. This article develops a more circumspect view. We conceptualise China's state-led financialisation of infrastructure as a multi-layered phenomenon that originates outside the advanced capitalist core. State-led or state capitalist forms of financial market development are unfolding in China, where financial institutions, networks and markets are being used as instruments of public design and purpose (Chen, 2020; Feng et al, 2021; Petry, 2020; Töpfer, 2018). Along the BRI, the state has begun to encourage private, market-based infrastructure financing through the introduction of PPPs and government-guided investment funds that signals a growing role of the state in financialising China's global infrastructure development (L. Jones & Bloomfield, 2020; Pan, Zhang, et al., 2020).

Starting from the analytical premise of two ideal-type modalities of Chinese transnational state-owned investment that, for heuristic ease, might be characterised as 1) the 'neoliberal financialised' modality of institutional investment by financial intermediaries in global capital markets, and 2) the 'state-coordinated' modality of bank-based debt-financed infrastructure projects along the BRI, we articulate two key transformations in the state-led financialisation of infrastructure. First, Chinese state-owned financial intermediaries are coordinating development in a way that signals a departure from neoliberal characterisations of their purely transaction-cost minimising role as profit-seeking brokers in global capital markets. Second, bank-based debt-financing as it has predominated in China's global infrastructure development where the state-coordinated complex of ministries, policy banks and SOEs are collectively coordinating infrastructure projects in BRI countries, is being financialised through the introduction of PPPs to recalibrate the risk-return profile on overseas infrastructure projects.

Based on 98 semi-structured interviews and observational fieldwork conducted between October 2019 and November 2020, in Beijing, Hong Kong and Serbia, we demonstrate through Chinese state capital flows into the variegated geographies of Europe, these two transformations that signal China's state-led financialisation of infrastructure.

Europe has gained greater economic and geopolitical significance for the transnational expansion of Chinese state capital in recent years. Western European markets have been an attractive destination for equity investment considering the intensifying US-China rivalry, while the Western Balkans is seen as a strategic thoroughfare for the delivery of Chinese goods and services to the west and thus a geographical hotspot along the BRI (Pavlićević, 2019; Rogelja, 2020). More importantly, Europe is a landmass contiguous from the east to the west, and therefore highlights the spatial complementarity of bringing capital markets in Western Europe in alignment with infrastructure development in the eastern states.

Methodologically, we adopt a practice-based approach inspired by the relational turn in economic geography (Coe & Yeung, 2019; A. Jones & Murphy, 2011). Investment takes place through micro-level relational processes that are context specific and contingent in nature that higher-level institutional approaches fail to capture. Such fine-grained analysis offers a view from the ground from which we can extend extant macro-level understandings of China's state-led development. We analyse two empirical cases: 1) the investment activities of the CIC, the world's second largest SWFs in Western Europe, and 2) debt-financed EPC+F[5] projects in the Western Balkans backed by China Export-Import Bank (Exim) and China Communications Construction Company (CCCC). We find, in the case of the CIC, that it is responsive to the BRI and leveraging its centrality in global financial networks to facilitate the entry of Chinese companies into Western Europe. In the case of Exim-financed, CCCC implemented EPC+F projects, we find state-led promotion and proliferation of blended financing arrangements between Chinese SOEs and private partners in the Western Balkans.

The article is as follows. In the next section, we embed the concept of China's state-led infrastructure financialisation in the existing literature on financialisation and outline our analytical approach in which we juxtapose the ideal-type modalities of a 'neoliberal financialised' institutional

5 Engineering, Procurement, Construction + Finance (EPC+F) are turnkey construction contracts where the investor state (host country) entity need only 'turn the key' to operate the facility once the contractor has completed construction on the infrastructure project.

investment and 'state-coordinated' infrastructure development. After a methodological overview, we present and analyse changes in the investment and project cycles of the CIC's global investments in Western Europe and Exim-CCCC EPC+F projects in the Western Balkans respectively. We conclude with implications and ruminations on future research.

4.2 Beyond the advanced capitalist core: Financialisation and the real economy

Late-developing economies beyond the advanced capitalist core, like China, present an opportunity to interrogate the premises of our understanding of contemporary financialisation as a form of capitalist development that is 1) neoliberal and predominately led and directed by private investors, and 2) divorced from the real economy of industrial production.

First, prevailing accounts of financialisation largely characterise neoliberal financialisation wherein the spread of neoliberalism in the 1980s represented a shift in the role of the state in the economy from leading development to regulating competition, coinciding with a recalibration of the distribution of systemic risk from the state to the market after the collapse of Bretton Woods (French et al., 2011; Sawyer, 2013). As such, existing work has tended to locate financialisation in geographies where successive waves of neoliberal reform – banking deregulation, welfare state restructuring, privatisation, and lowered barriers to free movement of capital – have rolled back the state and paved the way for the development of large capital markets in which finance, as an engine of growth, is led by private investors. These 'neoliberal space economies' (S. Hall, 2012, p. 408) of the advanced capitalist core, notably the US, UK, Western Europe, the settler colonies of Canada, Australia and New Zealand, have serviced the proliferation of financial intermediaries – investment banks, fund partnerships, SWFs and their ilk – in global circuits of capital, and who have created ever-more complex financial products (e.g. securitisation practices) that de-politicise and legitimate the growing centrality of intermediaries at the nexus of economic and social life (S. Hall, 2009; Pike & Pollard, 2009).

Public infrastructure such as road, rail, and energy utilities, presents something of a crucial case of financialisation, as it is so fundamental to a productivist-mode of capitalist development. Since the advent of the concept in 18th century Britain, infrastructure or 'public works' have been regarded as the responsibility of the state which must provide the structures necessary to support supply chains and worker mobility, essential to production-based growth and development (O'Neill, 2013, p. 443). The financialisation of infrastructure has entailed the privatisation and assetisation of public works, wherein, with the spread of neoliberal ideology, infrastructure as a public good provided by the state has been abstracted into infrastructure as an asset class designed to maximise profits beholden to short-termist shareholder-value logics in global capital markets (O'Neill, 2010). In the context of neoliberal globalisation, the global (read advanced capitalist) savings glut and declining yields, the role of financial intermediaries has been instrumental in designing, collecting, managing and investing financial assets on a global scale (Sheppard, 2017). For private investors, infrastructure has become an attractive source of returns (G. L. Clark, 2017; Halbert & Attuyer, 2016).

However, this depiction of the dynamics of infrastructure financialisation largely draws from experiences in the advanced capitalist economies where the neoliberal mode of capitalist development is arguably entrenched (Anguelov, 2020; O'Neill, 2019). Here, the active intervention of the state is well documented (Langley, 2018), but where the relationship between the state and private investors has been characterised as one of dependency wherein states have facilitated the transformation of infrastructure into an asset class in order to attract private investors. A case in point is the proliferation of PPPs, in which the state has sought to secure off-balance sheet funding and outsource service provision for public infrastructure development (O'Brien & Pike, 2017). These blended financing arrangements are intended to shift risk from the state to the private sector, but where such a characterisation largely originates from neoliberal state transformations in the advanced capitalist economies in which private capital is given greater steering capacity in the economy (L. Jones & Bloomfield, 2020). As it is detailed in the case of Indonesia, only in recent years have emerging economies been coaxed into adopting the regulatory structures to support engagement of financial intermediaries in assetising local infrastructure for global investors (Anguelov, 2020).

Financialisation has been sustained by neoliberal globalisation beyond the core, leading to geographically uneven conjunctures between the global circulation of capital and territorially bounded state authority. The internationalisation of financial intermediaries in search of returns (Boussebaa & Faulconbridge, 2019) and the proliferation of financial technologies circulated as worldwide best practice through the international financial system (Faulconbridge and Muzio, 2012) have given way to new centres of finance, such as in Asia, endowed with their own particularities of practice (Lai et al., 2020; Petry, 2020). The integration of Chinese political economy into global circuits of capital in recent decades has produced distinctly state-led global financial networks emanating from the mainland (Töpfer, 2018). The Greater Bay Area is one such illustrative instance. A political project in origination, it represents a state-led financialisation of the major cities of Guangdong province via economic integration with the former British and Portuguese colonies of Hong Kong and Macau, which developed as 'free market' economies embedded in imperialist circuits of finance and trade more than a century ago (Peck, 2021). These 'missing geographies' (French et al., 2011, 809) have the potential to reinvigorate the conceptual underpinnings of the cannon.

Second, neoliberal financialisation is often, implicitly, theorised as a force external to and superimposed on the real economy. Unproductive, extractive financial logics, institutions, actors, and practices are characterised as redirecting earnings away from reinvesting in the productive capacity of the industrial corporation toward capital markets, 'hollowing out' production, presenting finance and production as mutually exclusive modes of capitalist development (Maher & Aquanno, 2021, p. 2; Pike & Pollard, 2009). The financialisation of public infrastructure is often depicted as a process of usurpation in which traditional bank-based debt-financing of public infrastructure works is being replaced by market-based financing wherein networks of financial intermediaries like Macquarie Group package, trade, and administer the infrastructure asset via global capital markets (Furlong, 2020; O'Neill, 2010). The going concern vis-à-vis the state has been how a process initiated by states ('financialisation by the state') is leading to the co-optation and usurpation of the state by global private investors that reduces the remit of local public authority and democratic accountability ('financialisation of the state') (Aalbers, 2020; Alami, 2020; August et al., 2021; Dixon, 2020; Karwowski, 2019; Peck & Whiteside, 2016; Schwan et al., 2020, p. 2).

However, production has historically been and remains integral to the reproduction of the financial system. Financialisation has been a process inherent to the evolution of the industrial corporation. As Mayer and Aquanno (2021) detail, financialisation was an adaptive response reflected in the diversification and internationalisation strategies adopted by US corporations in the post-war era, which then paved the way for tighter linkages between industry and finance. The evidence to date has been exaggerated against theoretical prognosis of a wholesale financialisation of the economy where finance as a mode of capitalist development has shed its productivist underpinnings (Pike & Pollard, 2009). In infrastructure development, Furlong (2020) questions the discontinuity with which recent accounts have depicted financialisation, which mischaracterises how traditional forms of financing have evolved in relation to processes of financialisation in the broader context of global capitalist development where both debt-based and financialised infrastructure development have done little for marginalised communities while strengthening the links between local stakeholders and transnational bankers and investors.

This article goes a step further in conceptualising financialisation in which the state in its multi-layered multi-faceted forms is leading the process of capital market expansion, applying financial logics and broadening the remit of financial institutions, actors and practices in a way that emphasises the inherent compatibility and complementariness of market-based finance-led growth to the productivist mode of capitalist development.

4.3 China's state-led infrastructure financialisation

China's state-led financialisation of infrastructure represents a purposeful and multi-layered attempt by the state to bring market-based finance, state-owned financial intermediaries and and private capital into the service of the real economy. In the following, we identify two key transformations in which the state is attempting to use financialisation to service long-term production-based growth and development. This speaks to the need to understand infrastructure financialisation as a process embedded and contingent on existing forms of infrastructure development. First, is the role of state-owned financial intermediaries in coordinating development, whereby operational investment decision-making and the state's global infrastructure development are increasingly aligned, and the centrality of state-owned financial intermediaries in global capital networks is being leveraged to open new markets for Chinese firms that complement national developmental prerogatives. Second, we articulate attempts by the state to financialise China's traditional bank-based debt-financing of overseas infrastructure projects by enlisting private capital in an effort to rejig the risk-return dynamics of China's global infrastructure development.

A common feature of China's state-led financialisation is the role of state-owned financial intermediaries in coordinating development. Intermediation, in its functional essence, brings together savers and assets in financial markets. In mainstream financial theory, intermediation is assumed to minimise the transaction costs for savers to self-select assets. Intermediaries pool resources, coordinate saver interests and manage asset portfolios to maximise return on investment (ROI) (G. L. Clark & Monk, 2017, pp. 147–148). Profitability derives from the centrality of the intermediary at the nexus of global circuits of capital where the process of bundling myriad asset streams into structured financial products places them between banks, clients, markets and regulators (S. Hall, 2009). This consolidates the relationship between intermediaries and their clients as one characterised by independence of decision-making. Separation between ownership (the ultimate sponsor of the capital, whether state or private) and possession (executive managers who oversee the allocation) is institutionalised, lest the capital be at risk of non-commercial investment motives and moral hazard. Chinese state-owned financial intermediaries conform in large part to these conventions of best practice because their primary mandate is to yield returns from the market. A major impetus for Chinese state capital to 'go global' in the first place was back dropped by the accumulation of surplus national savings generated from export revenues in the past three decades. The financialised response has been to facilitate the circulation of state capital into global markets where higher returns can be earned (G. L. Clark, 2005; Hung, 2008). The state has established new state-owned financial intermediaries including SWFs, government-guided funds, portfolio investment departments within production-intensive SOEs, and investment management divisions of state-owned banks, whose practices are geared to service the accelerated and transnational circulation of state capital (Alami & Dixon, 2022).

At the same time, this is a largely neoliberal conception that assumes the interest for savers and intermediaries is the minimisation of transaction costs while achieving target rates of return (Sheppard, 2017). When the financial asset in question is also a public good, intermediation is not just about financial return but returns to societal stakeholders. Lee (2018) articulates this combination of financial and social return as 'profit plus' interests in her account of China's state-owned mining operations in Zambia where in comparison to private firms, Chinese SOEs have had to make more compromises to accommodate Zambian state and labour interests.

Chinese state-owned financial intermediaries are increasingly deployed in the development of public infrastructure. Their role in bringing together sources of national savings with viable assets abroad is not solely a matter of financial return but also implies delivering on the developmental prerogatives of the state. Domestically, they have played a role as a means to mitigate the impact of financial crises and catalyse urban development (Feng et al. 2021; Wu, 2021). Existing literature has also documented how state-owned financial intermediaries have guided the selection of assets desirable for long-term growth and prosperity. Haberly (2011) has shown how the CIC, through its direct stakes (between 15-20%) in oil, gas and mining companies in resource-rich advanced capitalist economies, is not simply investing for profit, but also as a strategic investor responding to China's demand for energy security. In recent years, however, it has become increasingly apparent that the CIC services national development in a way that extends beyond those benefits derived from direct ownership of strategic assets, a practice that has in the last decade been precluded by the geopoliticisation of Chinese investment in critical infrastructure like energy. The CIC is one such organisation within the multi-layered complex of the state that, in addition to seeking commercial returns in global capital markets, is also coordinating development.

The state is actively coordinating the investment of state capital to open new markets pertinent to China's long-term growth and prosperity. Recall, the state has traditionally provided infrastructure to support the creation of new markets for production and consumption (O'Neill, 2013). In addition to steady returns, China's global infrastructure development is an adaptive response to develop the structures necessary to further couple Chinese industrial production to global supply chains, enhance Chinese labour mobility, and open new markets for production and consumption of Chinese goods and services (Coe & Yeung, 2019; Lim, 2018; Schindler & Kanai, 2021). In Europe, Chinese infrastructure projects concentrate in the Western Balkans where road, rail and energy infrastructure opens up new nodes in the supply chain for the delivery of Chinese goods and services to the larger markets of Western Europe. In contrast, state-owned financial intermediaries like the CIC possess a European portfolio of passive stake infrastructure assets concentrated in Western European mature and brownfield projects (CIC, 2019).

What renders state coordination distinct in the case of China is the state-coordinated complex, that is, the concerted, collective, and competitive intervention of state institutions to deliver development. For example, bank-based debt-financing is the preferred modality of China's global infrastructure development, where policy banks evaluate the risk and return profile of infrastructure projects not on the merits of an individual project but a cluster of projects to service a particular sector, region or both with different streams of associated benefits and grant loans at semi-commercial interest rates. Chin and Gallagher (2019) theorise the role of the main policy banks, Exim and China Development Bank, in financing SOE implemented infrastructure projects as coordinators of entire credit spaces. Similarly, the identification of infrastructure projects and the choice of SOEs that are contracted to the project are jointly coordinated by state institutions who ensure the project lines up with broader developmental objectives (e.g. National Development and Reform Commission) and the most appropriate SOEs (e.g. MOFCOM) based on industrial compatibility and capacity. For example, Chinese infrastructural projects in Serbia are majority road, rail and coal-fired power plants. All of the major projects are being carried out by China's largest SOE contractors that specialise in these sub-sectors, such as China Railway International and China Machinery Engineering Company.

Tellingly, in recent years the state has demonstrated increasing coherence in coordinating development, disciplining SOEs in line with strategic policy. With Xi Jinping incumbent, leading small groups or *xiaozu* have been revived. *Xiaozu* are coordinative bodies headed by either Xi Jinping or senior politburo members over key policy areas and tranches of the state to build consensus and translate an overarching governance strategy into concrete policy (Leutert, 2018). Notably, the BRI is afforded its own *xiaozu*. In China, the introduction of market mechanisms and financial logics in the past few decades to the economic governance repertoire of the state has naturally devolved power within the state, which when left unchecked has resulted in firm-maximising but state-minimising benefits (Hameiri & Jones, 2021). As such, greater coherence of coordination has been deemed necessary because SOEs, while state-owned, are also autonomous economic agents that vie for capital, state or private. In the process of transnationalisation, SOEs may decouple from state prerogatives (Shi, 2015).

Considering the consolidation of state coordinative capacities, there are two processes that locate the role of state-owned financial intermediaries vis-à-vis state-led infrastructure financialisation. First, state-owned financial intermediaries are orienting toward delivering development. In contrast to the neoliberal prescription that financial intermediaries, whether state-owned or private, are to demonstrate independence of decision-making, Chinese SWFs like the CIC are increasingly responsive to state developmental imperatives in the firm's own strategic decision-making that reflect 'profit plus' interests. This aligns with the establishment (by the state) of a plethora of state-owned funds in recent years that respond to China's global infrastructure development like the Silk Road Fund and the China Africa Development Fund, both of which are intended as complementary market-based funding mechanisms that redistribute some of the risk burden away from China's policy banks (W. Liu et al., 2020a; Pan, Zhang, et al., 2020).

Second, state-owned financial intermediaries are coordinators of development. They leverage their network power in a way that feeds into

China's global infrastructure development. While state-owned financial intermediaries are heavily invested in capital markets for profit, matching national savings to profitable assets, they are also acting like brokers of development in which the overriding logic is to support Chinese production and consumption. As such, the brokerage function of the intermediary is also about matching Chinese firms to relevant markets, and vice versa, foreign firms to Chinese markets, in a way that complements global infrastructure development. Curiously, it is this very set-up, in which its conventional return-seeking investment has placed state-owned intermediaries central to global financial networks, that can allow SWFs like the CIC to leverage their centrality and attendant technical knowledge, access, and legitimacy to service the real economy.

The second transformation revealing of the state-led financialisation of infrastructure is more reflective of financialisation dynamics within the advanced capitalist core. Financialisation up to a point is beneficial to long-term growth and development where vibrant capital markets provide improved access to financing (Sawyer, 2013). In the last few years, there is increasing awareness among policymakers of the financial risks of China's traditional bank-based debt-financing of overseas infrastructure projects (MOFCOM, 2020a). Rumours of sovereign default have followed several BRI projects, such as the now infamous Sri Lankan port of Hambanthota, and the Bar-Boljare highway in Montenegro (Brautigam, 2020). Though estimates of Montenegro's debt to China have been overstated, only one of three sections of the highway has thus far been completed due to lack of Montenegrin fiscal capacity to pay down the loan (Grgić, 2019). In response, the Chinese state has attempted to shift some of this risk to the market through the promotion of PPPs.

Although PPPs in the context of China's global infrastructure development are relatively nascent, PPPs in the domestic economy have received significant policy backing where the dynamic between state- and private domestic capital is one where private partners are largely seen as a source of additional revenue and a means to enhance state power. This is reflected in the absence of value-for-money metrics, which in the advanced capitalist core have been used in the assessment of PPPs to ensure shared benefits and equal exchange between the state and private investors.

No such metrics have been issued in China, which has kept fluid the definition and provision of benefits to private partners (L. Jones & Bloomfield, 2020). If they are any indication, the efforts of the state to promote PPPs abroad is likely to follow the same logic: private partners are largely seen as a means to diversify the risk of debt-financed development and secure additional capital from private partners. However, the state will curb the extent to which private partners may divert earnings away from their intended and eventual productive function. The introduction of PPPs in China is nothing new. But taken together with the role of state-owned financial intermediaries in coordinating development, they demonstrate how state-led infrastructure financialisation does not boil down to a single process of more market-based privately-driven financial growth at the expense of production-based growth, and rather how it is complementary and contingent on existing forms of infrastructure development.

4.4 A conceptual framework: Ideal-types and transformations of state-led infrastructure financialisation

Just what China's state-led financialisation qualitatively entails, requires that we examine the micro-processes and actors involved in the actual investment of infrastructure. As the relational turn in economic geography was intended to introduce dynamism to the depiction of network phenomena by focusing on the actors within them (Coe & Yeung, 2019; A. Jones & Murphy, 2011), zooming in on the micro-processes of state capital investment are revealing of the complex dynamics at play. Any large phenomenon is by necessity reproduced and reinterpreted through a series of routinised, everyday actions, performed by individuals (Reckwitz, 2002). Neoliberal logics of financial best practice have served a pivotal role in facilitating the expansion and embedding of Chinese state capital into global markets where non-state actors, often of the private variant, have been acknowledged as important practitioners servicing its circulation(H. Chen & Rithmire, 2020; I. T. Liu & Dixon, 2021a). Similarly, where state-centred accounts attribute China's global infrastructure development to the top-down directed BRI, how BRI projects actually materialise requires that we disaggregate pronouncements of grand strategy into its constituent parts where locally embedded operational decisions can shape the behaviour of SOEs in investor states (Oliveira et al, 2020). Such fine-grained analysis offers a view from the ground from which we can extend extant macro-level understandings of Chinese state-led development and their financialisation therein.

We construct two ideal-type modalities of infrastructure investment: 1) 'neoliberal financialised' institutional investment by state-owned intermediaries in global financial markets and, 2) 'state-coordinated' bank-based debt-financing of public infrastructure investment within the state-coordinated complex. These two modalities of investment are intended to illustrate, for analytical purposes, the juxtaposing investment logics that underpin them and therefore present a baseline from where we might begin to map out the aforementioned transformations of state-led infrastructure financialisation. Where institutional investment is primarily geared toward servicing the integration of Chinese capital into global financial markets and yielding healthy ROIs, bank-based debt-financed public infrastructure development is principally concerned with delivering on state developmental prerogatives (see table 4.1).

Chinese state capital as it is invested in global financial markets conforms in large part to global financial best practice and serving the 'profit' in 'profit plus'. State-owned financial intermediaries and associated financial professionals have practiced finance in a way that mediates the flow of state capital and its associated political baggage into global markets such that it becomes indistinguishable from private capital (I. T. Liu & Dixon, 2021a). This requires independence of operational decision-making and enhancing the centrality and legitimacy of state-owned financial intermediaries in global financial networks. In contrast, Chinese state capital as it is used for bank-based debt-financing of public infrastructure projects is highly state coordinated. The practices associated with this modality are performed by the state-coordinated complex in both home and investment-receiving country where the key organisations involved in infrastructure development – MOFCOM, the National Development and Reform Commission, the Ministry of Finance, Ministry of Foreign Affairs, the policy banks, and SOEs – work together to identify markets, create projects (assets), coordinate funds and contractors, and implement projects in line with the BRI. In this modality, EPC+F is the preferred contracting model for debt-financed public infrastructure projects, which differ from standard EPC contracts in that they entail credit provision from China's state-owned banks to the investment-receiving country.

Table 4.1 Two modalities of Chinese transnational state-owned investment. Source: author's own formulation.

	Primary rationale for transnational expansion	**Best practice**	**State organisational form**	**Geographies**
Institutional investment in global financial markets	Surplus national savings; ROI in global capital markets	Financial intermediary identifies assets based on ROI metrics and via their centrality in global capital networks; independence of operational decision-making	State-owned financial intermediaries (SWFs, government-guided funds, SOE portfolio investment departments, state-owned investment banks)	Developed capital markets
Bank-based debt-financed public infrastructure projects	Strategic coupling to global supply chains, enhanced Chinese labour mobility; new market creation for production and consumption of Chinese goods and services	Dispersed yet collective intervention by relevant state institutions in China and investor states; ministries, agencies and SOEs play a coordinative function, identifying markets, creating projects (assets), securing funds and contractors, and implement projects in line with the BRI; EPC+F contracting model	The state-coordinated complex ((National Development and Reform Commission, MOFCOM, Ministry of Finance, Ministry of Foreign Affairs, policy banks, construction SOEs (CCCC, China Railway International, China Machinery Engineering Company) in China and investor states)	Emerging economies, BRI countries e.g. the Western Balkans

Table 4.2 maps out the two key transformations indicative of state-led financialisation. In attempts to bring financialisation in service of infrastructure and ultimately the real economy, the function of institutional investment extends beyond financial intermediation pure and simple. We would expect state-owned financial intermediaries to be further responsive to state developmental policy and take on a coordinative role, matchmaking SOEs to global markets that they have become central to. This is likely to materialise in the adoption of brokerage practices that resemble the coordinative dynamic of bank-based debt-financed infrastructure projects in a way that will facilitate Chinese firms access to markets in sectors and geographies that complement the BRI.

In the context of the broader state-led financialisation of infrastructure, we furthermore expect the adoption of PPPs in the governance of bank-based debt-financed infrastructure development that represent moderated attempts by the state to shift some of the risk of sovereign lending from the state to the market and tap into an additional source of fiscal revenue. Combined, these two transformations demonstrate the multi-faceted nature of state-led infrastructure financialisation in leveraging financial intermediaries and (private) financial markets to service the real economy.

4.5 Methodology

We situate the investment of Chinese state capital within the context of flows into Europe where 1) the US-China rivalry has reoriented equity flows toward the capital markets of Western Europe, and 2) the Western Balkans, comprising Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia. The Western Balkans is the fastest growing regional market for Chinese construction projects, seeing a 125.5% year on year growth in newly contracted projects in the period 2019-2020 (MOFCOM, 2020a). Importantly, the variegated geographies of Europe highlight the multi-faceted and contingent transformations that constitute China's state-led infrastructure financialisation. Infrastructure development in the Western Balkans is of direct geo-strategic consequence for the embedding of Chinese production and consumption into regional supply chains leading into Western European markets along the proposed China-Europe Land-Sea Express Route that runs from the Port

Table 4.2 Two transformations in China's state-led infrastructure financialisation. Source: author's own formulation.

	Rationale for state-led financialisation	**Best practice**	**State organisational form**	**Geographies**
Institutional investment in global financial markets	'Profit plus': brokering to service China's production-based growth and development	Responding to strategic policy i.e. the BRI at the operational level; matchmaking Chinese firms to global markets and vice versa that complements infrastructure development in BRI countries	State-owned financial intermediaries, Chinese firms and banks in the state-coordinated complex	Developed capital markets that complement BRI infrastructure development e.g. Western Europe
Bank-based debt-financed public infrastructure projects	Recalibrating the risk-return profile of debt-financed infrastructure development; fiscal enhancement	Introduction of PPPs and other blended financing arrangements involving private funding	The state-coordinated complex and private partners	Emerging economies, BRI countries e.g. the Western Balkans

of Pireaus through the Western Balkans and Central Eastern Europe into the EU (Pavlićević, 2019; Rogelja, 2020). This infrastructural corridor is complementary to the activities of state-owned intermediaries that, through their centrality in the capital markets of Western Europe, can facilitate the market entry of Chinese firms whose goods can eventually be transported along the Express Route from the east.

We ground the two investment modalities in the activities of specific organisations within these European geographies. The modality of institutional investment in global financial markets is exemplified by the global portfolio management of the CIC. The CIC has the capacity to move markets and ranks second in the world of SWFs with USD 1.2 trillion under management. Of the total assets under management, 37% is in non-US developed markets, a proxy for the CIC's Western European portfolio (Capapé, 2021; CIC, 2021). Relative to other Chinese SWFs like the National Social Security Fund, the CIC manages a larger global portfolio and is thus a more typical case of transnational state capital investment. We identify the set of practices associated with bank-based debt-financed public infrastructure in the form of the popular EPC+F contract model. We situate these EPC+F projects in the Western Balkans as conducted by the SOE CCCC, China's number one, and the world's fourth largest international contractor (ENR, 2020), and financed by Exim, which together with China Development Bank accounts for 70% of BRI lending (W. Liu et al., 2020a).

We then draw on Jones and Murphy's (2011, 385) three criteria of a practice-oriented methodology to isolate the 'wheat from the chaff' within the infinite choice set of empirical phenomena. Those steps in the investment or project cycle relevant for analysis are a) identifiable as discreet practices that b) have a discernible impact on the investment outcome and c) can be generalised, that is, function as instances of best practice in the transnational investment of Chinese state capital. The choice set is refined through a dialectical process of comparison between the cases and the data, 'quasi-closing' the phenomenon of interest (A. Jones & Murphy, 2011, p. 381).

The data collected originates from extensive fieldwork completed in Beijing, Hong Kong and Serbia between November 2019 and January 2020, and October and November 2020, where 98 semi-structured interviews were conducted in Mandarin and English in Beijing (32), Hong Kong (19), Serbia (28), and elsewhere (7), and via (video) call (16) with investment managers (19), operational managers (16), government officials (7), diplomats (5), financial analysts (4), translators (4), policy analysts (4), corporate lawyers (2), management consultants (2), engineers and construction workers (3), journalists (10) and academics (22) who had contact with or knowledge of the relevant organisations. Of the investment and operational managers, 19 were incumbent or former employees of state-owned institutions and enterprises.

Many of these interviews were based on relationships cultivated through close dialogue with financial professionals (G. L. Clark, 1998). Complementary to interviews with financial professionals were six site visits to infrastructure projects under construction in Serbia, providing a rare opportunity to observe the doing of infrastructure and speak to project managers and construction workers in their professional setting. Observations drawn from field data were corroborated with official documents from sources including the CIC, MOFCOM, and the Serbian Ministry of Construction, Transportation and Infrastructure, as well as media articles and secondary academic sources.

4.6 Two modalities of Chinese transnational state-owned infrastructure investment

The following sections present the two ideal-type modalities of Chinese state-owned infrastructure investment through the empirical lens of the CIC's global portfolio and Exim-financed, CCCC-implemented EPC+F projects in the Western Balkans (4.6.1 and 4.6.2), followed by an analysis of how emergent practices within each modality are indicative of China's state-led infrastructure financialisation (4.6.3 and 4.6.4).

4.6.1 Institutional investment in global financial markets with the CIC

Established in 2007 by a handful of reformist policy makers and Wall Street returnees, the CIC's financialised beginnings set the tone for its subsequent operation as a state-owned financial intermediary of global stature. The impetus to set up a SWF arose from the question of what to do with the concentration of surplus national savings that was China's growing foreign exchange reserves. At the time, this pool of idle capital that was majority held as low yield US treasury bonds was administered by the State Administration of Foreign Exchange under the central bank. The Ministry of Finance sought to arrest control and institute more aggressive reserve management, and which eventually won the political-administrative tussle for allocative control and the CIC was established with an initial capital injection of USD 200 million. CIC would also absorb Central Huijin, a major shareholder of the state's banking assets which in itself symbolised an encroaching financialisation of the banking sector (Liu and Dixon, 2021a; Walter and Howie, 2012, 148–53). Tellingly, CIC has made a number of placements in Western European infrastructure including Thames Water, Eutelsat Communications, Heathrow Airport and Logicor (I. T. Liu & Dixon, 2021b). However, the majority of these holdings are passive stakes with less than 10% shareholding where the stated objective is to 'gear investments toward lower risk assets, such as steady return assets and resource-related assets' (CIC, 2018a). CIC holds no direct stakes in the emerging markets of the Western Balkans.[6]

Across the various asset classes under management today, which include portfolio and direct investments, the investment cycle of the CIC's global portfolio can be grouped into five stages: project sourcing, appraisal and selection, project approval, investment and exit (Figure 4.1). In contrast to bank-based debt-financing where the locus of decision-making regarding the allocation of state capital is far more dispersed across the state-coordinated complex, the CIC is endowed with its own source of dollars and is afforded relative autonomy over fund allocation, figuring central in the execution of portfolios and within global capital networks.

First, the sourcing of viable projects is the most determinative step in the investment cycle because they limit the choice set of potential investments upon which the other stages are contingent. Here, the relationship between CIC investment managers and other financial intermediaries is key for effective deal sourcing. They reproduce financialised logics of accumulation through the provision of knowledge and access to the global capital network. Importantly, deal-sourcing practices are highly situated to foster knowledge transfer (Faulconbridge, 2006). The CIC maintains relationships with a gamut of name-brand firms, including Goldman Sachs,

[6] Investment manager, state-owned financial institution, 28 September 2020. For an in-depth history of the CIC, see Appendix B.

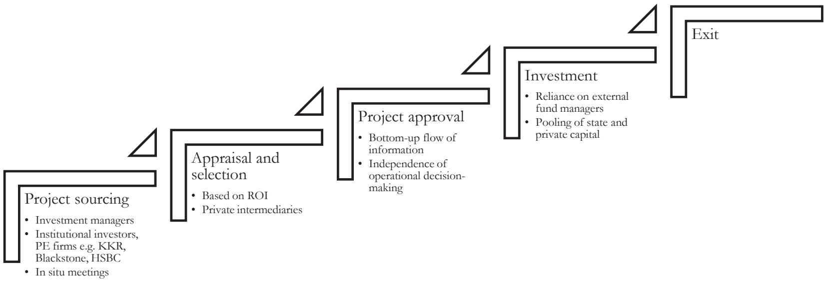

Figure 4.1 The investment cycle of the CIC. Source: author's own.

HSBC, Blackstone, Carlyle Group and PE firms like KKR and TPG, all of whom are highly connected to one another (Wei, 2017; Yue & Lu, 2018).[7] Some firms may be placed under retainer, wherein a certain number of capital commitments are guaranteed by the investor. In such cases, knowledge transfer can take place via digital means, but the most impactful relationships require in situ exchange. Senior executives of name-brand firms often go out of their way to arrange face-to-face meetings.[8] When CIC was outbid by Mitsubishi UFJ for a 21% stake in Morgan Stanley at the height of the financial crisis (Morgan Stanley, 2008), Morgan Stanley

[7] Operational manager, state-owned financial institution, 6 November 2019.

[8] Investment manager, state-owned financial institution, 31 December 2019.

chief executive officer John Mack personally travelled to Beijing to patch things over with CIC who was still a major client and shareholder, having acquired 9.9% of the bank the previous year.[9] Subsequent to this, CIC then upped their stake with a USD 1.2 billion purchase of Morgan Stanley common stock in 2009 (I. T. Liu & Dixon, 2021b).

Second, the appraisal and selection of projects is a feature of allocation that often occurs in tandem with project sourcing, but where sourcing is in large part determined by the inter-subjective performance of CIC managers and other institutional investors, appraisal and selection is predicated on the execution of technical expertise required to command the ever-growing complexity of financial instruments. The application of seemingly universal and reproducible risk and return metrics and sophisticated portfolio allocation models are decisive. Where infrastructure is ultimately intended to sustain the production of goods and services, the 'product' in financial capital is the risk-adjusted rate of return on the assets under management (G. L. Clark & Monk, 2017). Here, private intermediaries matter because when their services are engaged to conduct due diligence or provide advice on specific investments, they become agents of appraisal and selection.[10]

Third, the approval of projects is an iterative process that can take upward of two months (figure 4.2). We identify approval to be a series of meetings that amount to situated inter-subjective encounters where key allocative decisions are made (CIC, 2019). The flow of information is bottom-up and the allocation of individual investments lies in the realm of day-to-day operations (G. L. Clark & Monk, 2017). The separation of powers between operational decision-making and corporate strategy where senior political leaders contribute reflects the independence of decision-making that is corporate best practice under neoliberal financialisation, and is a means to disembed state capital from its political-institutional moorings. The onus of project approval is on the investment committees where managers table viable investments at the relevant committee meetings once sufficient due diligence has been conducted. Beyond these operational fora, summary reports are circulated from the respective

9 Operational manager, investment bank, 6 December 2019.

10 Financial analyst, institutional investor, 11 December 2019.

investment departments to the Board of Directors. Similarly, while the CIC is answerable to the State Council (eq. the Cabinet), the latter does not figure in individual investments. Weekly reports travel upwards to the State Council, supplemented by quarterly meetings with CIC's Board of Directors. Only in exceptional circumstances or deals of significant size does the State Council and relevant ministries weigh in, such as would have been the case for the USD 13.83 billion acquisition of European logistics firm, Logicor (CIC, 2018a, p. 43).[11]

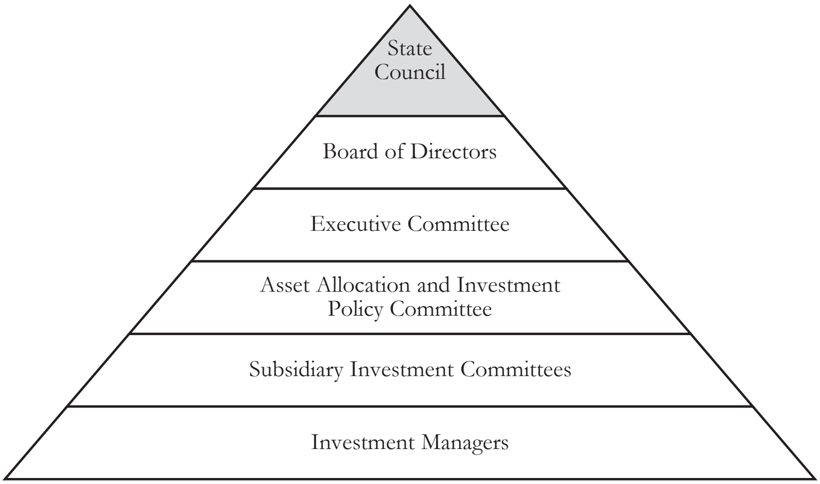

Figure 4.2 Independence of decision-making in CIC's corporate governance structure. Source: author's own.

Fourth and fifth, the management of the investment and exit are the two final stages that round out the investment cycle. In both cases, the key agents are the partner institutions and managers. In the case of PE, CIC typically commits six to ten years over which time CIC capital is parked with the fund. Traditionally run as blind funds, state capital is pooled with other commitments, private or otherwise, such that the PE firm is managing state capital in the same way as private capital. Where investments

[11] Operational manager, state-owned financial institution, 6 November 2019.

are managed in-house as is the case with direct or minority investments, CIC managers may attend Board of Director meetings where directors may entertain some limited operational influence over the investment, but it is not in the interests of scaling the managerial expertise of its staff to exercise such operational interventions in individual investments.[12] Lastly, unlike infrastructure governance, the ease of exit reaffirms the mobility of money in institutional investment.

4.6.2 The state-coordinated complex and infrastructure development in the Western Balkans

The other, arguably more politicised, form of investment has been the export of Chinese infrastructure development via EPC+F projects. Supported by the BRI and 17+1 connectivity platform between China and 17 Central and Eastern European Countries, the Western Balkans is a strategic thoroughfare and thus a geographical hotspot for infrastructure development (Pavlićević, 2019; Rogelja, 2020). A steady risk-adjusted infrastructure portfolio may favour mature and brownfield acquisitions in the developed markets of Western Europe, but the fastest growing region for large-scale Chinese infrastructure projects, especially transport, is the Western Balkans (MOFCOM, 2020a).

The project cycle is dispersed across a wide range of actors and institutions from the initial policy frameworks that are determined at senior government level down to the selection of local sub-contractors in investor states. The state demonstrates coherence in coordinating EPC+F projects where both investor state (Western Balkan state) and investee states (China) are heavily involved in the project cycle. We group the Exim-financed CCCC-implemented EPC+F infrastructure project cycle into five stages: Government to government policy fora and agreements, intra-ministerial interactions, feasibility assessment and technical negotiations, signing of the commercial agreement and determination of financing, and construction and delivery (figure 4.3). Collectively these stages create the market, identify viable projects and coordinate industrially appropriate SOEs to implement these projects.

[12] Investment manager, state-owned financial institution, 31 December 2019.

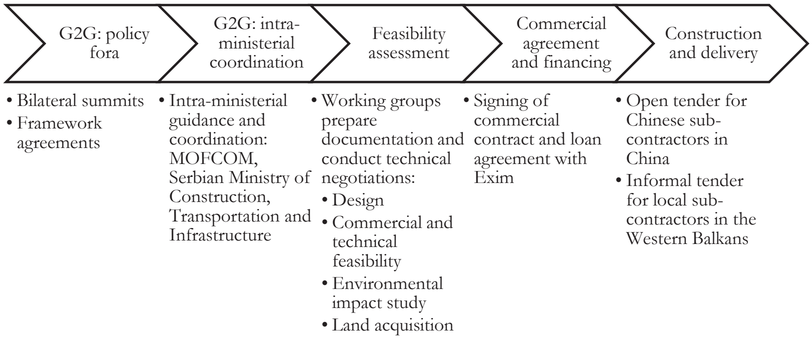

Figure 4.3 The project cycle of Exim-financed CCCC-implemented EPC+F projects in the Western Balkans. Source: author's own.

First, infrastructure governance is strongly shaped by the industrial and geographical priorities of the BRI, and begins before the identification of specific projects in the framework agreements that arise out of various national and bilateral policy fora. The BRI identifies Central and Eastern Europe as an important market for EPC+F projects and the 17+1 is a platform to host high-level bilateral and trilateral meetings between leaders where framework agreements are signed. The Belgrade-Budapest high-speed railway began with talks in late 2013 at the Bucharest Summit of the 16+1 initiative, a month after the announcement of the BRI. A year later the memorandum of understanding (MOU) was signed in 2014 at the 16+1 Belgrade summit, and the general contract in 2015 between the national rail operator Serbia Railways Infrastructure (the investor), and the consortium of CCCC-China Railways International (the main contractor) (*Investment Plan Serbia*, 2018).

Bilateral encounters have also produced agreements that shape the nature of accumulation on infrastructure projects. The 2009 Agreement on Economic and Technical Cooperation in the Area of Infrastructure between China and Serbia ties financing to construction, clearing the need for pre-selection and open tender of the main contractors, allowing Chinese firms to bypass the hurdle of competitive pre-selection against other firms (Rogelja, 2020). The *Law on Confirmation of Agreement on Social Security* was adopted in 2018, which allows the application of Chinese labour law to Chinese workers in Serbia for the first five years of stay. On top of already favourable tax terms, these agreements facilitate the reallocation of Chinese productive capacity and wage labour to Serbia without burdening CCCC with the transaction costs.

Second, the BRI, like most of these framework agreements, are vague in formulation and broad in scope (Manuel, 2019). The ministries provide clarity and interpret strategy, and more generally mediate the investment process. MOFCOM lies at the centre of an intra-state network governing China's global infrastructure projects. In addition to providing concrete guidance to CCCC for the identification and implementation of projects, MOFCOM arranges match-making meetings between firms, projects and investors based on the fit between the industrial capacity of the SOE, the project in question and geography of the investor (MOFCOM, 2020a; MOFCOM, 2020b).[13]

Third, whether MOUs and general contracts materialise into deliverable projects is dependent on the commercial and technical feasibility of the project. Inter-ministerial working groups involving key ministries, the investor and main contractor coordinate the preparation of a host of related documents required before construction can proceed (*Investment Plan Serbia*, 2019). Largely intended to clarify the technical parameters of the build, these documents also determine the commercial feasibility of the project upon which the signing of the commercial contract and financing are contingent. The Bar-Boljare highway in Montenegro encountered major delays due to the outcome of two earlier, unfavourable feasibility assessments, which precluded the possibility of alternative forms of financing such as private concession contracts (Grgić, 2019, pp. 6–7). Exim commissioned a third, favourable feasibility study that has justified its role as 'lender of last resort' and the ability to stipulate financing provision on the condition that China Road and Bridge Corporation, a subsidiary of CCCC, be selected as the main contractor. Feasibility assessment is therefore a crucial practice that legitimates the entry of Chinese firms into the Western Balkans market.

[13] Operational manager, state-owned enterprise, 7 December 2019.

Fourth, the signing of the commercial and loan agreements are important steps because they proxy the certainty of project implementation. Financing in almost all cases is the most difficult aspect of project realisation. The naming of CCCC as the main contractor may procedurally precede the determination of financing, such as for the Belgrade-Budapest railway, but the loan agreement is a key stage because the commercial contract is conditional on the loan agreement coming into force. It is therefore an indication of how important the securing of loan financing is for the selection of a Chinese contractor. CCCC projects in the Western Balkans are almost always conditional on 85% Exim financing (*Investment Plan Serbia*, 2018; *Investment Plan Serbia*, 2019). The policy bank selectively opens up credit space in the interests of opening up new markets for Chinese SOEs (Chen, 2020).

Fifth, sub-contractor selection, which is ongoing throughout construction, has distributional consequences for the allocation of surplus labour (figure 4.4). Central-level SOEs predominate as the main contractor because they have the *zizhi*, connoting calibre, legitimacy or qualification, to take final responsibility on the delivery of the overall project, but they rarely employ workers directly.[14] A EPC+F project mobilises a cluster of associated Chinese construction firms and surplus labour to whom sections of construction are delegated (Gonzalez-Vicente, 2019).[15] The building construction works are typically carried out by Chinese workers who are sub-contracted in China through open tender[16], but if there is a condition on local labour participation, it is to be realised in the proportion of the total value of the project awarded to local sub-contractors in the investor state (Grgić, 2019). The relevant investor ministries may weigh in on the selection of local sub-contractors, such as in the case of Pupin bridge in Serbia.[17] In other accounts, local sub-contractors approached the main contractor through existing contacts in an informal tender process,

[14] Operational manager, state-owned enterprise, 7 December 2019.

[15] Sub-contracting is specified in the *Regulations on the Administration of Foreign Contracted Projects* 2017 (order no. 527 of the State Council of the People's Republic of China) (in Chinese).

[16] Workers, state-owned enterprise, October 2020.

[17] Translator, freelance, November 2020.

suggestive of local market agency.[18] Local state and market dynamics thus impact the allocation of both Chinese and local state capital.

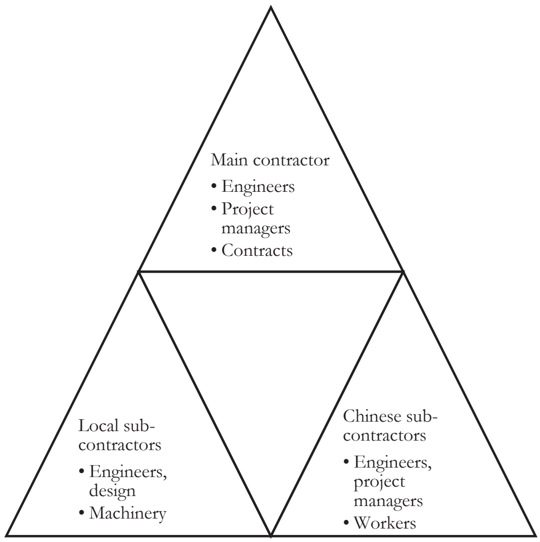

Figure 4.4 Social relations of sub-contracting on CCCC projects. Source: author's own.

4.6.3 The CIC as a coordinator of development

In a CIC party committee meeting held in November 2017, Chairman Tu Guangshao identified three strategy themes for the CIC in the wake of the 19th National Congress and Fifth National Financial Work Conference: BRI, the 'China perspective' and the Central Huijin 'model', suggesting a greater level of policy coherence between the party and government to discipline the CIC in line with state policy (CIC, 2017). At the same time that the CIC institutes an investment cycle that resembles 'neoliberal financialised' institutional investment in global markets, it is also embracing of a logic of state-coordination, orienting day-to-day financial practice to China's global infrastructure development and introducing practices that

[18] Operational manager, state-owned enterprise, 21 October 2020.

enable the SWF to leverage its centrality in global financial networks to service the entry of Chinese firms into European markets.

First, the CIC has established bilateral and multilateral partnerships with other SWFs like the Russia Direct Investment Fund that prioritise infrastructure (CIC, 2013). These foreign bilateral partnerships allow the CIC to leverage the 'China perspective' and Central Huijin 'model', a strategy where CIC provides invested foreign firms with access to Chinese markets and credit through the networks of the SWF, including its shareholdings in the domestic banking sector. In exchange, foreign partners provide state-supported access to and knowhow of priority sectors abroad, like infrastructure in the case of the Russian Direct Investment Fund, which requires in-depth local knowledge and governmental support to clear the complex property rights involved (O'Neill, 2013; Torrance, 2009).

Second, in Western Europe CIC has established partnerships with SWFs like the Ireland Strategic Investment Fund (ISIF) and the Belgian Société Fédérale de Participations et d'Investissement/Federale Participatie en Investeringsmaatschappij (SFPI/FPIM), or Federal Holding and Investment Company, with a focus on innovation and technology firms. Both cases highlight the centrality of the CIC within global capital networks and how the SWF has attempted through its positionality and these bilateral partnerships to facilitate entry for Chinese firms into the competitive EU marketplace. Negotiations for the China-Ireland Technology Innovation Fund began in 2012 when, tellingly, the initial connection between ISIF and the CIC had been bridged by AMP Capital, a financial intermediary specialising in infrastructure and real estate *prior* to high-level meetings between Irish and Chinese dignitaries took place to formalise the partnership (ISIF, 2018).[19] Similarly, CIC's relationship with BNP Paribas has played a significant role in a number of Sino-Belgian funds, such as the Mirror Fund established in 2012, and the recent France-China Cooperation Fund with Eurazeo announced in 2020 (FPIM, 2020).[20] While international partnerships are de rigueur in institutional investment, these funds have been set up with mandates to invest in both Chinese and European growth stage innovation and technology firms which coheres with

[19] Investment manager, state-owned financial institution, 8 November 2021.

[20] Investment manager, state-owned financial institution, 18 October 2021.

Beijing's strategy shift toward indigenous innovation and the digital silk road (Hillman, 2021). Access to the China market for European firms is the quid pro quo for fund-facilitated access for Chinese firms to Western European markets.

Third, these bilateral partnerships are embedded in the promotion of a 'CIC ecosystem' of 1+3+N comprised of CIC and its three organisational divisions (1+3), and its partners and the holding companies of Central Huijin (N), which deliberately positions CIC as a gateway between international and domestic markets (CIC, 2018a, p. 4). Like MOFCOM, the CIC is positioning itself as a selective matchmaker, connecting industrially relevant foreign firms to Chinese markets and credit and, reciprocally, Chinese firms to international markets. The SWF is committed to the Silk Road Fund, launched in 2014 together with the State Administration of Foreign Exchange, Exim and CDB. It has exclusively invested in BRI projects, bringing CIC capital into developing markets and further into the state-coordinated complex that services bank-based debt-financed infrastructure projects. Alibaba has also been a beneficiary, with CIC facilitating the use of Alipay in offshore markets through its holdings in Western Europe (Steger, 2012).[21] CIC's networks have accelerated the proliferation of Alipay and of renminbi internationalisation through the digital infrastructures it provides. The CIC has become a strategic fund of funds, opening up new markets for Chinese goods in Western Europe that can be ultimately supplied via the China-Europe Express Route.

In sum, the practice of finance within the CIC reflects both global financial best practice indicative of the search for higher returns under neoliberal financialisation and practices that serve the 'profit plus' interests of national development. This is made apparent in CIC's investment strategy. The CIC operates three portfolios in ascending order of risk-return profile: the reference portfolio, essentially public market equity and fixed income assets; and the policy and actual portfolios, alternative assets and more active investments (CIC, 2021). The more market-driven public equities and government to government bilateral partnerships sit comfortably within the same framework, yet the latter is clearly more evocative of the type of state coordination in bank-based debt-financed infrastructure

[21] Investment manager, state-owned financial institution, 31 December 2019.

projects where policy and operational decision-making are highly integrated. The CIC reveals the role of state-owned financial intermediaries in state-led infrastructure financialisation. By leveraging its positionality between global markets and the state coordinated complex, the CIC is coupling global financial markets to China's real economy.

4.6.4 Financialising China's global infrastructure development with PPPs

The willingness of the state to embrace the financialisation of infrastructure has not only materialised as an increasing state coordination of institutional investment. At the same time that the CIC has come to mimic match-making practices that resemble China's infrastructure development, the EPC+F model is losing ground to more financialised forms of infrastructure development where both China and investor states have tried to crowd in private capital (MOFCOM, 2020a, p. 17). This has culminated in authoritative guidance from 28 state departments on overseas construction projects citing financial service capability as a key area of development, where financial institutions are encouraged to 'innovate and enrich financial products, investment and financing models to serve the development of overseas construction projects' (MOFCOM, 2018). Although implementation by firms is still nascent, a proliferation of blended financing forms has arisen. Build Operate Transfer (BOT) and concessionaire contracts, both of which entail equity ownership by the contractor on Chinese construction projects, have become more prevalent in the Western Balkans. In Bosnia, the Banja Luka-Prijedor-Novi Grad highway was contracted in 2018 to a subsidiary of Shandong Hi-Speed Group with a 33-year concession to operate, while the Ulog hydropower plant, contracted to Sinohydro, is operated by the private Serbian firm EFT Group, who holds a 30-year concession to operate and sell on the private energy market (EFTa, n.d.; Ralev, 2018). Still more stillborn PPPs have previously been in development, such as the Kovin Energy Complex, a proposed underwater coalmine and thermal power plant in Serbia, the Western Balkan state that has been most receptive to bilaterally negotiated EPC+F projects with China. China Huadian Corporation would have been the majority shareholder and operator of Kovin in which the electrical energy produced would ultimately be sold on the private market through the multinational oil and gas trader, Aupec, and not to Electroprivreda Srbije, the public provider in Serbia. Although the deal fell apart, it is illustrative of the financialisation of infrastructure in one of the Balkan states in which bank-based debt-financed infrastructure projects have been most favoured by the investor state.

The role of Aupec also illustrates how the networks of professionals who package infrastructure projects into tradeable assets and broker between investors are just as central to PPP-based infrastructure development as they are in institutional investment. The value of such professional networks has been recognised by the Chinese state. The 28-department guidance release on overseas construction also emphasised the delivery of professional financial and engineering services by Chinese firms in line with international standards such as the International Federation of Consulting Engineers. Project managers that were interviewed had experience managing construction projects in other regions such as North Africa, prior to the Western Balkans.[22] Accelerating Chinese professionals' adoption of international standards is a means to enhance the global mobility of their expertise and standardise project implementation in a manner that has the potential to erode local particularities of public infrastructure governance and that is already taking place in the advanced capitalist core. They resemble the financial intermediaries capable of packaging infrastructure facilities and their associated revenue streams into tradable assets, catering to a global clientele of emerging economies.

4.7 Conclusions

China's state-led financialisation of infrastructure is an alternative narrative to dominant characterisations of neoliberal financialisation unfolding in the advanced capitalist economies. Unlike prevailing accounts which tend to place emphasis on the role of private capital and market-based finance in driving growth, we have shown how a financialisation of infrastructure beyond these geographies can be contiguous and complementary to bank-based debt-financed infrastructure development. More broadly, the significance of this article for financialisation studies has been to

[22] Project manager, state-owned enterprise, 20 October 2020.

articulate a specific set of practices, institutional configurations and network properties, and to demonstrate empirically, how the imperative to financialise infrastructure development is emergent from and contingent upon the productivist mode of capitalist development. In doing so, we build upon the work of economic geographers who have expressed reticence in embracing the conceptual and geographical expansiveness of financialisation in transforming wholesale economic and social life (Christophers, 2015a; Furlong, 2020; Maher & Aquanno, 2021; Pike & Pollard, 2009).

China's state-led financialisation of infrastructure is a multi-layered phenomenon. First, state-owned financial intermediaries are coordinating development. Departing from its 'neoliberal financialised' beginnings, the CIC has come to embrace its role within the state-coordinated complex. In addition to performing the role of a commercial broker, identifying profitable assets based on ROI metrics in the capital markets of Western Europe, the CIC is increasingly responsive to the BRI in its operational strategy. Through bilateral fund-of-fund partnerships with European SWFs, and the newly created CIC ecosystem, the SWF is leveraging its centrality in the capital markets of Western Europe to facilitate the entry of Chinese firms whose goods and services can ultimately be transported along the China-Europe Express Route that is of geo-strategic concern of Chinese infrastructure development in the Western Balkans. The CIC is attempting to bring about the strategic coupling of global financial markets to infrastructure development through institutional investment.

Second to the role of state-owned financial intermediaries, we further find bank-based debt-financing to be making room for alternative, financialised forms of infrastructure development. However, this does not harken a wholesale abandonment of EPC+F, or what O'Neill (2010) has characterised as a changing role of the state in infrastructure from provision to procurement. Chinese SOEs have experimented with varying PPPs from BOT to concessionaire contracts in the Western Balkans, which have been encouraged by the state as a means to offset some of the risks of sovereign default that have been plaguing Chinese EPC+F projects in recent years. While PPPs in the context of state attempts to financialise the domestic economy have been around for some time (L. Jones &

Bloomfield, 2020), PPPs in the context of China's global infrastructure development have not been explored in detail. More to the point, the introduction of PPPs should be contextualised within China's multi-faceted, multi-layered state-led financialisation of infrastructure. Collectively the twin transformations documented here identify financialisation as a political construction whereby the state is purposefully leveraging the access of state-owned financial intermediaries to capital markets and recalibrating the risk-return dynamics of infrastructure development by enlisting the private market, which work in tandem to facilitate the continued production and consumption of Chinese goods and services.

The case of China, which is so often dismissed for its exceptionalism, is a test of scope conditions. Financialisation is transforming the provision of public infrastructure, but the findings generated here prompt us to revisit our understanding of how financialisation is reconfiguring power relations between the state, society and the market, a question that goes to the heart of financialisation studies. The verdict on neoliberal financialisation is that the growing power of private, market-based capital has slowly eroded public authority and democratic accountability (Aalbers, 2020; Alami, 2020; Karwowski, 2019; Peck and Whiteside, 2016; Schwan et al., 2020). In contrast, China's state-led financialisation of infrastructure seems to indicate an amplification of state power not only in China but investor states like Serbia. However, this has gone hand in hand with democratic backsliding because the flow of Chinese state capital has not only bolstered the capacity of the Serbian state to deliver development through infrastructure, it has also bolstered the power of the incumbent regime against governance reform (I. T. Liu, 2020b). Deserving of further exploration is how state-led forms of financialisation are reconfiguring state-society relations.

Outside the advanced capitalist economies, varying forms of state coordination can be found in other emerging economies like Indonesia where the state is still very much leading infrastructure provision (Anguelov, 2020). The spread of infrastructure financialisation across these geographies may add to the findings generated here. Further research might also be undertaken to explore the role of the state across different modalities of investment. While this article has considered the changing dynamics between two variants, the growing prevalence of PPPs and commercial banks in financing infrastructure may draw out additional insights concerning the role of the state in infrastructure financialisation. What is becoming increasingly apparent, however, is that such configurations represent ever-intensive interactions between the state and the market.

Chapter 5

Legitimating state capital: the global financial professions and the transnationalisation of Chinese sovereign wealth

Abstract

Increasing Chinese investment has raised the spectre of strategic state influence in Europe, yet the transformative potential of state capital as a global phenomenon remains under-explored. This article sheds light on the dual imperatives of transnationalising state capital wherein the movement of capital entails both profit maximisation and the extra-profit interests of the state. State-capitalist entities such as SWFs are both market-facing and politically driven, disrupting ideological norms surrounding the strictly safe-keeper role of the state in private capital accumulation. The authors draw on the case of the CIC, China's premier SWF, to argue that the transnationalisation of state capital is a process deeply embedded in the liberal international order, and that it signals the metamorphosis of global capitalism in palimpsest-like ways. The global financial professions, namely investment banking, corporate law and management consulting along with other advisory services, have legitimated state capital by normalising its political origins through technocratic, expert-driven practice to the effect that it is treated as no different from private capital in global capital networks. The article identifies three logics of practice by which professionals legitimate state capital: adoption, alliance and recreation of financial practices that have facilitated the embeddedness of state capital in global markets.

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5.1 Introduction

The stock of Chinese FDI into the EU has grown exponentially in the past decade. Between 2012 and 2016, for example, EU assets ultimately owned by the Chinese state increased 10-fold, from EUR 16 billion to EUR 160 billion (European Commission, 2019). The acquisition of German robotics manufacturer KUKA, the possible roll-out of telecommunications provider Huawei's 5G network, and steady SOE investment in infrastructural assets like the Port of Piraeus manifest the potential for strategic state influence in European markets. These cases highlight much of the concern surrounding both the European and global implications of state capital (Alami & Dixon, 2020a; van Apeldoorn et al., 2012). Despite these flagship deals, the transformative potential of state capital for global capitalist development remains under-explored. With this article, we aim to contribute to a growing body of literature that emphasises the hybridity of state capital's transnational expansion as simultaneously state-led and convergent with the liberal international order and global capitalism (Alami & Dixon, 2020b; Babić et al., 2019; Belesky & Lawrence, 2019; de Graaff, 2020; Haberly & Wójcik, 2017; McNally, 2020; Narins & Agnew, 2019). We do so by examining the practices and practitioners of global finance that are essential to the reproduction of capitalism.

In advanced capitalist societies, private capital accumulation ruled by profit maximisation has been the guiding spirit of capitalism (Boltanski & Chiapello, 2005; Gay & Morgan, 2013). Yet, the global financial crisis in the last decade opened up a larger space for state capital to enter. State capitalist entities such as SWFs and SOEs are discrete corporate actors mandated to maximize risk-adjusted profits, but at the same time they are state-sponsored and therefore also serve the political interests of the state, or what Lee (Lee, 2018, p. 23) refers to as 'profit plus' interests. State capital disrupts ideological norms surrounding the non-interventionist, safekeeper role of the state vis-à-vis the invisible hand of the market, threatening the legitimacy of the practices and institutions underpinning the liberal international order.[23]

[23] Certainly, post-World War II liberal multilateralism advocated an active role for the state in designing, developing and regulating the global monetary and financial system. This has been eroded since the 1980s through neoliberalism (Helleiner,

Drawing on literature from the geography and sociology of professions, we show how global finance as practised by the professions of investment banking, corporate law and management consulting, among other advanced business services, has been an important but overlooked means of embedding and reproducing state capital at the global level (Boussebaa & Faulconbridge, 2019; Faulconbridge & Muzio, 2012; Fourcade, 2006; S. Hall, 2009; W. R. Scott, 2008; Wójcik & Camilleri, 2015). The professions are an expert-driven social order pivotal to the maintenance of capitalism (Fourcade, 2006). As professional services have followed the financialisation of capital into emerging markets (Boussebaa & Faulconbridge, 2019), the practice of the professions has become a means to legitimate state capital within the liberal international order. Professionals depoliticise investment from state-owned entities by obscuring the state in market transactions. In short, we argue that global financial professionals have facilitated the legitimation of state capital in global markets by normalising its political origins through technocratic, expert-driven practice, with the effect that it is treated no differently from private capital. Rather than signal the demise of the liberal international order, transnational state capital is maintaining the spirit of global capitalism by utilising its existing foundations.

We illustrate our argument using the case of the CIC, China's premier SWF. The CIC is mandated to diversify the country's foreign exchange reserves, with USD 1,047 billion under management at the end of 2019 (CIC, 2020). It has been a politicised entity at home and abroad, and has been connected to state-owned investments in strategic industries such as energy, infrastructure and agriculture (Haberly, 2011). Global financial professionals have, however, enabled the CIC to speak the language of global finance (G. L. Clark, 2005), facilitating the transnationalisation of Chinese state capital. To clarify this process, we identify three logics of practice by which professionals legitimate state capital: *adoption*, *alliance* and *recreation* of liberal financial practice. First, state capitalist entities may adopt existing practices that constitute a means of internalising

2019). Advanced capitalist states likewise violate such norms in various ways (e.g. military spending as an industrial policy; see Panitch and Gindin (2003) — but that does not necessarily alter the normative context.

private capital accumulation logics, that is, practices intended to achieve profit maximisation. Second, state capital can gain legitimacy by association. Alliance formation with institutions such as Anglo-American investment banks and the Big Four accounting firms entails reputational and network benefits. Third, state capitalist entities may create new practices that honour the rules of private capital accumulation. Here legitimation services 'new wine in old bottles' by affecting the appearance of the autonomous reproduction of profit-maximising accumulation imperatives, while in fact old practices are reinvented such that they address both the need to maximize profit, as well as the political-strategic interests of the state. In the past decade, we find the CIC to be increasingly self-assured in recreating financial practice, reflecting its centrality in global financial markets.

The article is structured as follows. In the next section, we argue that capitalism requires legitimation and outline the pivotal role of the global financial professions in this process. From this theoretical foundation we then derive the three logics of practice by which the professions legitimate the transnationalisation of state capital: adoption, alliance and recreation. Following a discussion of methodology, the penultimate section illustrates our theoretical discussion using the case of the CIC.

5.2 Legitimating the transnationalisation of state capital

5.2.1 The spirit of capitalism

The spirit of capitalism is always a work in progress: a construction site that is subject to perpetual contestation, requiring it to justify itself and modify itself. Capitalism must 'stay aligned with the self-professed norms infusing its "spirit"' in order to mobilize the social groups necessary to reproduce capitalist social relations (Gay & Morgan, 2013, p. 20). The maintenance of capitalism thus requires constant legitimation. What is often meant by the concept 'legitimation' is really 'self-legitimation' — an active and strategic process of making institutions appear other than they are, conducted to further the material interests of existing or ascendant authorities (Barker, 2001; Bexell, 2014; Brassett & Tsingou, 2011; Suchman, 1995). In the context of state capital, it is a common mistake to draw a distinction between state capitalists in the sense of statist countries selflegitimating their interests, and the entirety of the US-led liberal international order. The legitimacy of the liberal international order — most acutely promulgated by the G7 and a collective of international financial institutions such as the IMF and its offspring the International Forum of Sovereign Wealth Funds[24] — is taken for granted in the advanced capitalist states. This entrenches an illusion of state and private capital as mutually exclusive phenomena.

Instead, we define legitimation as a social-relational process co-constituted between actors in the interests of attaining legitimacy. Arbitrary power cannot exist without justification and any 'legitimate' organisation must offer an acceptable theory of itself (Bourdieu, 1996; Meyer & Scott, 1983). Legitimacy is a product of conflict and compromise that gives normative dignity to the practical imperatives of the institutional order, and legitimation is the process of seeking it (I. Clark, 2003). As such, a spirit of capitalism is not derived from a totalising societal consensus, but is justified within and between social groups or 'legitimate orders' that imply a certain rationality of their own (Gay & Morgan, 2013). Legitimation does not exist 'out there' as external to actors, but is constituted through interaction (Bexell, 2014, p. 297). For instance, legitimating Chinese state capital involves interaction within and between the social groups required to reproduce state capitalist social relations, such as between the CIC, as an allocator of state capital, and the various global financial professions or the bureaucratic factions within the Chinese state — factions that demonstrate variability in the rationality of how best to allocate state capital (see Shih, 2012). Each social group is a nexus of power that, by virtue of its integration with other social groups and its location within the global political economy, shapes the global distribution of resources in varying ways.

The rationality of a particular order materialises into appropriate practices and institutions that become a means of legitimation. Financial professionals reproduce capitalist social relations in keeping with the practices and institutions of the professional order. For instance, a chartered financial analyst may advise on the allocation of client capital as per

[24] The International Forum of Sovereign Wealth Funds is a peer-administered institution to monitor SWF best practice as laid out in the Santiago Principles.

professionally accepted models of risk-adjusted portfolio allocation. The application of these models, which conform to the practices promulgated by a global association of investment professionals underpinned by the rules of the liberal international order, legitimates the client capital they manage. This gives way to the possibility of hybrid configurations of state and private capital. The CFA practises portfolio management that conforms to legitimate practice, leading to global funds, firms and portfolios of mixed origin.

5.2.2 Global financial professions as an expert-legitimated order

What bestows global financial professions with legitimacy in the first place is the supposed expertise of the professionals. They 'seek to carve out and protect an area of exclusive competence' whereby the outputs are 'intangible and encoded with complex knowledge' (Faulconbridge & Muzio, 2012, p. 139; Groysberg & Lee, 2009). Moreover, professionals gain legitimacy through practice that necessarily involves social interaction (S. Hall, 2009; Ortiz, 2012). Expertise is not simply held or possessed; it must be exercised in practice to demonstrate value within the global capital network (Castells, 2010). For example, securitisation practices that bundle together diverse assets into complex, structured financial products place investment bankers at the centre of networks linking banks to clients to markets to regulators (S. Hall, 2009).

The global financial professions follow the arc of neoliberal ascendancy beginning in the 1980s (W. R. Scott, 2008). The imperative of private accumulation was matched by the emergence of professions legitimated by technical expertise as valued by the market (ibid.). This worldview generates highly rationalised myths that benefit from the use of abstract knowledge or 'positive formalism', which has the appeal of universality and reproducibility detached from cultural and historical context. As with the rise of mainstream economics, the currency of professional legitimacy came to rest on the use of positivist methodologies, reified in the prevalence of econometrics and economic models (Fourcade, 2006, p. 159). In financial policy reform, expert identities are fluid, seemingly universal in the positions they take up across different policy fora; what matters is the commissioning authority and the intended audience (Seabrooke & Tsingou, 2014).

The financial professions are carriers of the spirit of capitalism, endorsing a worldview that preserves the illusion of accumulation as a private, for-profit endeavour in the context of increasingly elaborate administrative apparatuses required to regulate the ever-growing complexity of financial architecture that is needed to sustain capital accumulation. The financial professions define, interpret and apply the growing technological complexity of capitalism. The end result is the deepening abstraction of the formal state wherein the depoliticisation of the role of the state in capital accumulation is normalised.

Abstraction from the formal territorial state is evident in the spatial fix of the financial professions whereby 'modern capitalism is constantly in the process of enacting territorial fixes: constituting, segmenting, differentiating and extracting value from actively territorialised markets at a range of geographical scales' (Christophers, 2014, p. 755). The transnationalisation of the professions has been aided by the rescaling of professional regulation from the national to the supranational level and the rise of the global service firm (Faulconbridge & Muzio, 2012). Supported by the development of supranational regulators like the EU, professional services such as the Big Four accountancy firms have followed their increasingly global-minded client base into emerging markets, developing business models tethered less to national particularities than to a worldwide going practice (ibid.). Professionals are an expert-legitimated order pivotal to this expansion, helping to spread the practices and institutions aligned with the spirit of capitalism.

5.2.3 Global financial professions as carriers of state capital

Just as the global financial professions have essentialised their role in legitimating global capitalism, they have also, in the pursuit of their spatial fix, become carriers of state capital. The expansion of professional services into emerging markets like China was initially a response to the multinational expansion of their Western clientele, but the spatial fix has naturally resulted in a new client base originating in these regions (Boussebaa &

Faulconbridge, 2019). State capital has been no stranger to the services of these market makers. Professionals have played a pivotal role in China's modernisation story; their services have been employed to transform inefficient bureaucracies of the state into national champions (Li, 2018; C. Walter & Howie, 2012). The same practices that have fostered modernisation have also enculturated state capitalist entities to the spirit of capitalism that has ossified into established financial practice. IPO listings, multi-layered ownership structures in offshore jurisdictions and the adoption of International Accounting Standards requiring the services of corporate lawyers, accountants and investment bankers are cases in point.

Professional practice aligns state capital and the global financial professions in their interests, a process that, followed through to its natural conclusion, necessarily results in transnationalisation. Hall (2009) conceives of the role of investment bankers in terms of market choreography in which achieving the status of 'elite' derives from their ability to reproduce markets. The maintenance of the professional project, and capitalism by extension, is not dependent simply on the practice of professional expertise, but also on the reproduction of the networks in which the professional belongs. The global financial professions service a global clientele, which requires a global network of partners (Sassen, 2005). State capital — a new client base with global ambitions — is a form of network reproduction that preserves their status at the centre of global finance. Servicing the transnationalisation of state capital is therefore a form of self-preservation.

The practice of the professions has the effect of abstracting the state from state capital in transnational transactions so that the role of the state in transnational accumulation is depoliticised. SOEs are treated as discrete corporate entities when they list on the Hong Kong Stock Exchange; the formal state is distanced. Similarly, the creation of complex ownership structures flowing through offshore domiciles cordons the state from its corporate constituents engaging in transnational market activity. In China, such practices have even facilitated SOE round-tripping that affords them tax benefits as foreign investors (Wójcik & Camilleri, 2015). At the international level, investment arbitration, at first intended to empower private investors against sovereign states, has begun to absorb claims brought by SOEs based on recognition of their activities as commercial and not governmental — an outcome that could not have been achieved without the aid of arbitration lawyers (Chaisse & Sejko, 2016).

We identify three logics of practice by which the financial professions may legitimate state capital: *adoption*, *alliance* and *recreation*. State capital may be legitimated through the adoption of existing practices that constitute a means of internalising the rationalised myths of private capital accumulation. Here, legitimation is dependent on the wholesale adoption of established practice. The professional provides an expert service encoded by privileged, technical knowledge that is a means of distancing the state from otherwise politically sensitive investments. The expertise of the external professional legitimates state capital in a manner that preserves the illusion of private accumulation. PE funds, for instance, leverage capital and debt from financial markets to acquire and sell companies at a profit and are traditionally set up as blind funds. They are not obligated to disclose the identity of investors.

The outsourcing of specialist functions can be a means to adopt established practice by buying into the expertise of already legitimate professionals who possess knowledge that is embedded in collectively legitimated social practices (A. Jones & Murphy, 2011). Insourcing professional talent is also a means to adopt existing practice. Professionals act as knowledge-transfer agents who facilitate legitimation through learning. This can take the form of returnee hires, professionals who receive their training and experience outside their home country. These returnees are already legitimate professionals by virtue either of their training at an M7 (top seven) business school or working in NYLON (New York, London) for a leading institutional investor. One can draw a parallel between Master of Business Administration programmes, associate experience in NYLON, and economics departments in that they all function to a certain extent as global gatekeepers to professional entry (Fourcade, 2006). Returnees act as knowledge-transfer agents who are enculturated to both state capital and the professions as shaped by the liberal international order (Robertson, 2015; Saxenian, 2007; Wang, 2015).

State capital can also gain legitimacy by association with financial professionals. Alliance formation with professional networks entails reputational and network benefits. Here, legitimation derives from association with institutions that govern over legitimate practice, analogous to their role as gatekeepers to professional entry. It is not so much the performance of technical expertise as the centrality and command of the professional over the networks they reproduce that legitimates state capital. For instance, association can take place through professional socialisation. Corporate networks can act as pipelines for learning, but the degree of trust between partners impacts the quality of interaction (Bathelt et al., 2004). In the context of knowledge management for service firms, the success of social interaction as a means to foster learning is dependent on the firm's network management strategies in creating spaces for exchange (Faulconbridge, 2006). Creating opportunities for socialisation is therefore a means to generate legitimacy. Such spaces can take the form of co-hosted events, industry and associational conferences, and regular board of directors' meetings.

State capital may recreate new practices that honour the spirit of private capital accumulation. Here legitimation services new wine in old bottles. There is the appearance of the autonomous reproduction of private capital accumulation imperatives, but in fact old practices are reinvented such that they address both the need to maximize profit, as well as the political-strategic interests of the state. Faulconbridge (2006) draws a distinction between transfers of knowledge and globally stretched social learning whereby the latter is not about adapting existing practice but about using interaction to inform understanding and, in the process, develop new practices. This process is materialised in the development of investment banking, which is no longer exclusive to European or US firms. Post-global financial crisis, Asia-Pacific is home to the fastest growing investment banks (Wójcik et al., 2018). Recreation may also be the natural consequence of localisation. To take PE as an example, what distinguishes Chinese PE from its Western counterparts is the role of 'princelings', the offspring of political elites who, by virtue of their partnership with returnee professionals, are embedded in both the networks of the state and global finance (Robertson, 2015, p. 6; Töpfer, 2018). The success of rainmakers like Levin Zhu, the US-educated son of former Premier Zhu Rongji, who became chief executive officer of China International Capital

Corporation, has led to the emergence of princeling hires as a controversial new practice for institutional investors. Deutsche Bank made headlines in 2019 when it reached a USD 16 million settlement with the US Securities and Exchange Commission over allegations of corrupt princeling hires (Forsythe et al., 2019).[25]

Practices like princeling hires are indicative of the spatial particularities inherent to the networks of practice servicing Chinese state capital. Hong Kong, as a gateway to and from the mainland, is a nexus of mandarin-speaking, politically connected professionals who have become specialists in SOE IPO launches. Hong Kong has been the key site, over the other international financial centres of New York and London, for transforming obsolete state behemoths into internationally competitive corporations (Wójcik & Camilleri, 2015). Likewise, the networks that grow out of prestigious US business schools and Wall Street institutional investors in the world's largest capital market have extended into CIC corporate headquarters and its asset allocation strategy. For its part, London, the world's largest centre for foreign exchange trading, clusters foreign exchange traders and registers as a key site for the development of an offshore renminbi market (Töpfer & Hall, 2018).

5.3 Methodology

The CIC is an illustrative case that demonstrates the role of the global financial professions in legitimating the transnationalisation of state capital. Hence, case selection here follows a typical case selection logic whereby the theorised cross-case outcome, transnational state capital, is present (Rohlfing, 2012). Our case selection is informed by the theory-centred exploratory research goals of this text. It is a y-centred, causes-of-effects study that seeks to explain the transnationalisation of state capital for which 'sufficiently well-performing propositions are lacking' (ibid., 42). As a single case, causal inference derives from within-case observations. The biggest single criticism levelled at single case studies is their lack of cross-case generalisability, but the value of generating within-case causal

[25] Lee Zhang, who was at the centre of the investigation and was known for establishing the practice of princeling hires at the bank, had been the former head of Goldman Sachs' Beijing office, a close partner of the CIC (Forsythe et al., 2019).

inferences is not to generalise to a broader population of cases, but to uncover the myriad pathways leading to the outcome of interest.

Established in 2007, the CIC is one of the world's largest transnational state investors with over USD 1,047 billion in gross assets under management by year-end 2019 (CIC, 2020). The CIC is one of the most prominent state-owned corporations directly answerable to the State Council, the highest administrative authority of the People's Republic of China, and is more politicised than any other SWF in the world (see next section for further elaboration). If the financial professions can legitimate the CIC's investments, they can legitimate less politicised state-owned institutional investors. Moreover, compared to other sources of Chinese state capital whose core allocations are tied up in domestic assets, such as those originating from SOEs, the CIC is granted autonomy to maintain a sizeable foreign-currency denominated global portfolio.

We are especially interested in the transnationalisation of direct investments as opposed to public market equities because they entail greater managerial control and strategic influence, and because the legitimacy of the transaction derives from the embodied knowledge and network-making expertise of the investment manager rather than technical wizardry. The CIC established CIC Capital in 2015 with an official mandate to manage direct investments and bilateral and multilateral fund investments, formerly overseen under one organisational umbrella with public market and fixed income assets (CIC, 2016).

Compared to many of the advanced capitalist states that have in recent years specified enhanced regulatory barriers to state capital, Europe remains relatively unencumbered. Several interviewees working in financial services perceived Europe as a more welcoming investment destination than the US, and a recurrent theme in interviews was CIC direct investments in Europe. The choice of data reflects an intention to strengthen the validity and reliability of observations in the context of a single case study favouring thick description. In total, 66 semi-structured interviews were conducted from November 2019 to January 2020 in Beijing (32), Hong Kong (19) and elsewhere (4), and via (video) call (11) with current or former professionals including investment managers (16), financial analysts (4), corporate lawyers (2), management consultants (2), operational managers (5), government officials (5), diplomats (4), policy analysts (3), financial journalists (9) and academics (16) who had contact with or knowledge of the CIC. Of the investment managers, nine were incumbent or former employees of state-owned financial institutions.

Interviews were conducted in Mandarin and English and lasted between 30 and 90 minutes. They were personally transcribed from recordings or from field notes when recording was not permitted. The analysis of transcripts was informed by a grounded theory approach in an iterative process of coding and clustering that collapsed the raw transcripts into categories of concepts to generate theory (Glaser & Strauss, 1967; Lai, 2012). We include several quotes in the following sections to highlight specific points. Interviews were triangulated with data from the CIC's official website, annual reports, press releases and WeChat account; reports from financial institutions and think tanks; media articles from outlets including the *Financial Times*, *Bloomberg*, *Caixin* and the *New York Times*, as well as secondary academic sources.

5.4 Legitimating the transnationalisation of the CIC

A handful of reformist policy makers and Wall Street returnees were the architects behind the CIC (See Appendix B for more background on the CIC). Over the years, the organisation has evolved from a fledging SWF highly reliant on external expertise to a global SWF with the capacity to move markets. More importantly, the organisation is transnationalising Chinese state capital in a manner revealing of its centrality in global capital markets. The CIC has been politicised from the beginning. When it was first established, there was concern in academic and policy circles within the liberal international order that SWFs were making strategically informed, non-commercial investments guided by the political mandates of the state (G. L. Clark et al., 2013). Hence, the Santiago Principles were born initially out of multilateral efforts to formulate a set of best practice principles for SWFs (Norton, 2010). In IMF working group deliberations, a forum wherein representatives from the major SWFs including the CIC were present, the real concern from receiving states was China, the elephant in the room.[26]

[26] Interview, senior official, international financial institution, 24 January 2020.

Within China itself, the CIC was the product of an inter-ministerial turf war between the People's Bank of China, the central bank, and the Ministry of Finance over the country's foreign reserve holdings. At the time, the State Administration of Foreign Exchange, which regulates access to the state's foreign exchange holdings, was administered by the central bank, and was charged with managing the country's growing pot of US dollars. Proponents from the Ministry of Finance wanted more aggressive reserve management and ultimately won out in this bureaucratic tussle. The CIC was to manage a hefty portion of China's foreign reserve holdings, and with the absorption of Central Huijin, a major shareholder of the state's banking sector then owned by the central bank, restructure the financial system. The CIC was fully incorporated in 2007 and capitalised via a Ministry of Finance special treasury bond issue of USD 200 billion to the central bank. The interest on the bond issue was expected to be paid out of CIC's own coffers. Domestically, there was considerable pressure on the CIC to outperform its central bank counterpart, the State Administration of Foreign Exchange, and to meet its credit obligations to the Ministry of Finance (Dixon, 2019; Eaton & Zhang, 2010; V. Shih, 2009; C. Walter & Howie, 2012; M. Zhang & He, 2009).

At complete odds were the global financial professionals who, in the wake of the global financial crisis, welcomed the CIC as a highly credible pool of capital:

> Every western financial institution wanted to make friends with every CIC employee — I saw that. When you go to their offices with your PR meeting, there were lines around the block all trying to get a piece … if you left as [a] Lehman Brothers banker for the CIC and then left [the CIC], your life is made … CIC was going to save everyone.[27]

The CIC and the financial professionals it engaged were goal-aligned in the pursuit of higher returns. The SWF is beholden to the political-strategic interests of its ultimate sponsor, collectively known as the Chinese

[27] Interview, journalist, financial press, 5 December 2019.

state, interests that were to manifest in more explicit ways as the organisation matured. At the same time, the CIC cannot escape the commercial backdrop of its genesis, that is, how the country was to profitably manage its vast foreign exchange reserves. The CIC was a new SWF intent on proving its ability to profitably manage the nation's wealth while the survival of the financial professionals it engaged was tethered to the imperative to maximize profits. The question is how the latter proceeded to legitimate the global investment ambitions of the CIC, a fledgling organisation with no market or political cachet, in a system underpinned by private market rules in the face of heightened international scrutiny. In the following sections we demonstrate how the CIC and the global financial professions have used adoption, alliance and recreation to legitimate Chinese state capital in global markets.

5.4.1 Adoption

We can discern two avenues by which the CIC has adopted legitimate practice: outsourcing practice to global financial professionals, and insourcing professionals educated and practised in the market rules of the existing monetary and financial architecture. Both approaches were adopted by the CIC in the years immediately following its establishment. Recall that this newly created SWF had a peripheral status within the global capital network, yet it was under pressure to prove itself a more capable manager of the nation's foreign exchange reserves than the State Administration of Foreign Exchange, not to mention the heavy interest obligation on its books. The CIC both lacked and urgently needed financial expertise.

First, the most visible form of outsourcing practised by the CIC has been the engagement of external investment managers. The CIC has, since its infancy, used external investment managers to oversee its investment portfolio. In 2009, 59% of CIC's global portfolio was externally managed, a proportion that has essentially stayed the same in the decade since, yielding modest returns for the SWF (CIC, 2010; CIC, 2020). Less visible is the use of non-core investment professionals, notably public relations experts and lawyers, to mitigate the political sensitivities around the CIC's investment activities. First, CIC was cognisant of the international scrutiny surrounding their establishment in the early years, so much so that they hired Brunswick Group, a London-based crisis management firm, to handle their public relations.[28] Second, together with investment bankers, lawyers play an active role in deal negotiation such that investment managers viewed their role to be secondary: 'At most we attend the management presentation', remarked a CIC interviewee.[29] Lawyers also act as intermediaries between home- and host-state clients. Through their office networks, they reproduce rules and norms across different legal jurisdictions (Faulconbridge, 2019). International law firms manage the process of foreign investment screening approval, a process that can take several months of negotiation. With offices in multiple countries, they are familiar with the legal frameworks of both host and home countries. Lawyers were the primary actors liaising between the CIC and the UK Department for Business, Energy and Industrial Strategy in major UK deals.[30]

Second, the practice of insourcing professionals has enabled the CIC to achieve greater cultural and organisational embeddedness. The CIC has always maintained an active policy of hiring and recruiting returnees from abroad. In the 10 years since incorporation, the proportion of global investment staff with overseas education or work experience has grown from just over 50% to 82% (CIC, 2010; 2018a). However, the age of global investment staff averages just 38 (CIC, 2019), reflecting a shortage of experienced senior and mid-level management.

One solution has been the secondment of professionals from service firms to the CIC. Pro bono secondments were especially common in the early years when CIC was heavily reliant on external expertise. Secondments reflected the alignment of interests between the CIC and the professionals it engaged. The former recognised the need for outside expertise. One former employee noted that investment managers from Central Huijin seemed to lack even a basic understanding of corporate governance structure, and the company had invited outside firms to provide this training shortly before its absorption into CIC in 2007. Prior to his appointment as chief investment officer, Li Keping, who was then the Vice-

[28] Interview, journalist, financial press, 5 December 2019.

[29] Interview, investment manager, state-owned financial institution, 31 December 2019.

[30] Ibid.

Chairman of the National Council for Social Security Fund, was purportedly invited to give an investment workshop at CIC (Chun, 2017). The CIC, on the heels of the global financial crisis, was struggling to survive and in dire need of capital injection. Blackstone, Goldman Sachs, UBS, Morgan Stanley, Merrill Lynch and Deutsche Bank have all been named for, at one time or another, seconding employees to the CIC to provide technical assistance and training (ibid.). Importantly, these are all established firms that demonstrated an awareness of the need to practice in a way that would distance the firm from the political implications of doing business with the CIC in order to maintain the legitimacy of their own professional project.

> Back then there was less of a focus and sensitivity on conflict of interest. Through the crisis there was growing awareness [that] we need[ed] to make sure that as we provide this pro bono advice to CIC that we were not materially impacting us getting an advantage in terms of CIC investing in our businesses or in our investment products that we're trying to pitch. … [I]nitially a lot of the banks were quite keen to do that. They were getting in there, building a relationship with the client and hopefully helping to longer term grow business for [the] firm. That was the so-called quid pro quo.[31]

5.4.2 Alliance

For the CIC, alliance has taken several forms that reflect a growing sophistication and diversification in approach. First, the CIC has sought network benefits by engaging external managers. The CIC engages name brand PE firms such as KKR and TPG that are highly connected to other institutional investors.[32] Vice President and Chairman Tu Guangshao has publicly acknowledged CIC's reliance on external managers from, for example, Blackstone and the Carlyle Group (Wei, 2017). These relationships

[31] Interview, operational manager, investment bank, 6 December 2019.

[32] Interview, operational manager, state-owned financial institution, 6 November 2019.

have coalesced into several key acquisitions in the financial sector. Acquisition is a means to reap the associational benefits through purchase. In 2007, the CIC acquired minority stakes in Blackstone and Morgan Stanley, both of which became long-standing providers of financial advice. Anthony Leung, former Financial Secretary of Hong Kong, had been the key broker in the CIC–Blackstone deal as Chairman of Blackstone's Asia office (Overbeek, 2012). The association with Blackstone led to one of CIC's largest transactions to date: in December 2017, it acquired Logicor, Blackstone's European logistics portfolio, in a EUR 12.25 billion transaction (CIC, 2019).

Second, the opening of subsidiary offices has been a means to access key networks in line with the CIC's investment strategy, starting with the opening of the Hong Kong subsidiary office, then Toronto and finally New York. As the international financial centre with the strongest ties to the mainland, Hong Kong is the offshore office with the most autonomy, specialising in offshore dollar bond investments issued by Chinese companies. London has been left off the CIC map, despite several direct investments in UK infrastructure, which may reflect the fact that non-US foreign exchange and renminbi-denominated trades are not core to CIC's investment strategy. Most revealing has been the opening and closing of the Toronto office. The office was established in 2011, around the same time that CIC began to target resource-related assets in line with the government's energy security priorities. Toronto would therefore have been a strategic choice to bring the CIC closer to the networks serving Canada's natural resource companies. In 2012, the CIC acquired a minority stake in Sunshine Oilsands. It has also been at the centre of a number of Canadian natural resource acquisitions by other Chinese SOEs (Haberly, 2011; Lim, 2018).[33]

Third, in recent years, the CIC has diversified the nature of its associational approach, undertaking a variety of consortium deals and new forms of co-investment. CIC Capital has made several infrastructure acquisitions in consortium deals with European private asset managers because 'local partners provide critical local expertise. We try to leverage

[33] We might furthermore conjecture that the closing of the Toronto office was a result of the tapering off of the CIC's energy investments in subsequent years.

that'.[34] The purchase of shares in the UK National Grid and German motorway service provider Tank and Rast were made in partnership with European firms including Allianz Capital and Munich RE (CIC, 2016; 2018a). In the same vein, the CIC and Goldman Sachs launched the China–US Industrial Cooperation Partnership in 2017 to invest in US companies with a business connection to China (CIC, 2019). The fund takes a co-general partnership structure, giving equal decision-making power to the CIC and Goldman that is a departure from the traditional limited partnership structure typical of PE funds. Sealed during President Trump's visit to China in 2017, the fund is reported to have completed three rounds of fundraising totalling USD 3 billion and made a first investment in the US manufacturing sector in 2019 (Jiang, 2019; Wei, 2019). From the CIC's perspective, the partnership is seen as having more demonstrative value than capacity to realise actual returns.[35]

Fourth, the CIC has created opportunities for socialisation to generate legitimacy. It has ramped up its public relations campaign in the wake of growing trade tensions with the US. CIC executives have spoken at European industry fora such as the Paris Europlace International Financial Forum to raise the profile of the CIC and promote foreign investment in Europe (CIC, 2018b). Industry-specific conferences such as the Infrastructure Investor Global Summit in Berlin have remained important for deal sourcing. The Institutional Investor Roundtable, a selective platform for long-term institutional investors such as SWFs, pension funds and endowment funds, and board of directors' meetings provide opportunities to create new associations and exchange information. As one interviewee remarked, 'you know what everyone is doing'.[36] The SWF professionals that were interviewed drew a distinction between socialisation that is practice driven and socialisation that is politically driven. While the Institutional Investor Roundtable is valued by investment managers, fora such as the International Forum of Sovereign Wealth Funds, which is more oriented toward soft law, are not valued for their network-making capabilities. They do not build legitimacy among practitioners.

[34] Interview, operational manager, state-owned financial institution, 6 November 2019.
[35] Ibid.
[36] Interview, investment manager, state-owned financial institution, 31 December 2019.

Association with global financial professionals plays an important role in providing legitimate access to the network. As the CIC has grown in stature and connectedness to the global capital network, it has matured in the kinds of alliance-making it undertakes. Association allows the SWF to self-embed within networks beyond those of the partnering firm. In this sense, a major consequence of association is to equip state capital with the capacity to reproduce its own transnational networks.

5.4.3 Recreation

The CIC has created new practice that conforms to the worldview of both the financial professions and the state. These practices build on expertise gained from interactions with professionals generated in the process of adoption or alliance. As the state has sought to forge its own developmental path through industrial policy initiatives like Made in China 2025, the CIC has followed suit with investment practices that capitalise on the 'China perspective' with the aim of developing domestic enterprise (CIC, 2019). We highlight three practices through which the CIC has recreated legitimate practice in line with the political-strategic goals of the state.

First, the CIC has established bilateral and multilateral partnerships with other SWFs such as the Russian Direct Investment Fund (RDIF) and the Ireland Strategic Investment Fund, as well as investments in Chinese state-owned funds including the Silk Road Fund (CIC, 2016; 2019). These ventures sit alongside private partnerships like those announced with HSBC and Nomura Securities (Yue & Lu, 2018). While these bilateral agreements adhered to commercial principles, the CIC is also an active participant of the BRI (CIC, 2019). Infrastructure is a priority sector of the Russia–China Investment Fund which has signed, together with RDIF and Vnescheconombank, an MOU with the CIC to promote infrastructural projects in Russia's Far East (CIC, 2013). Similarly, the Silk Road Fund provides direct funding to Belt and Road projects and has jointly funded, with the European Investment Fund, a subsidiary of the European Investment Bank, the China–EU Co-investment Fund (CECIF) under the Juncker Plan. With a first-round commitment of EUR 500 million, the CECIF targets European small- to medium-sise enterprises with an interest in the China market (European Investment Fund, 2018). These funds recreate established joint-funding structures prevalent in institutional investing, but are also instances in which capital is directed toward strategic industry areas.

Second, although the CIC was already making direct deals, the establishment of CIC Capital in 2015 signified the organisation's official departure from an exclusive focus on portfolio investment and the spirit of the Santiago Principles and into the realm of strategic control, but without compromising on the core rationale and metrics of established practice. In the aftermath of the global financial crisis and a string of losses in the financial sector, notably by Blackstone and Morgan Stanley, the CIC began to diversify its universe of investible asset classes into PE and direct investments, culminating in the establishment of CIC Capital. An important rationale was to give managers more flexibility and decision-making capacity in PE deals where previously they would be held to the same benchmarks as the CIC's public equity portfolios.[37] This aligns with established practice in PE where autonomy is naturally important for management teams (Robertson, 2015). At the same time, autonomy has allowed the CIC to distance its equity and fixed income investments — which tend to be driven more by externally managed market dynamics — from those investments that serve the 'profit plus' interests of state capital. As one interviewee, who was part of a team focused on Go Global co-investment with SOEs, remarked: 'Mine was probably the most political department … it is obvious but still there is a lot of autonomy to find projects'.[38]

Third, the CIC has sought to create a 'multi-dimensional cross-border investment ecosystem' (CIC, 2019). In SOE co-investments, the CIC has mostly taken up passive stakes, especially on projects in which it lacks industry expertise. Managers see their role not simply as capital providers in these kinds of projects, however, but to operate as checks and balances.[39] The organisation is not merely adopting practices that allow it to reproduce the global capital network as directed by private profit maximisation; rather, it is recreating practice that allows it to reproduce networks with the 'private plus' interests of state capital. As state capital

[37] Interview, operational manager, state-owned financial institution, 6 November 2019.
[38] Interview, investment manager, PE firm, 14 November 2019.
[39] Ibid.

becomes increasingly embedded in global capital markets, it becomes a part of the social collective that legitimates global finance. As a consequence, the legitimation of state capital is no longer exclusively dependent on the replication of existing practice, but also on creation of the new.

5.5 Conclusion

The global financial professions are handmaidens to the transnationalisation of state capital. Their transformative power lies in the rationalisation and subsequent depoliticisation of state capital as a techno-substantiated and exclusively profit-maximising realisation of value. The material interests of the state are normalised through global circuits of capital underpinned by private accumulation imperatives. In this article, we identified three logics of practice by which the financial professions are legitimating state capital: adoption, alliance and recreation. Adoption entails the outsourcing of specialist functions to financial professionals and the insourcing of already legitimate professionals via the hiring of returnees and secondment of external professionals. Alliances with financial professionals through professional networks facilitate legitimation; institutions that are already central to the global capital network govern over legitimate practice and legitimate state capital by virtue of their centrality. Recreation takes place when old practices are reinvented such that they address the profit-maximising imperatives of capitalism as well as the political-strategic interests of the state.

Like recent studies (Alami & Dixon, 2020b; Babić et al., 2019; de Graaff, 2020; Narins & Agnew, 2019), these findings demonstrate the hybridity of state capital transnationalisation. Financial professionals have legitimated state capital in global capital markets underpinned by the liberal international order in a manner which both maintains the spirit of capitalism and reflects the centrality of state capital in global capitalism. As the case of the CIC has shown, professionals have equipped state capitalist entities with the ability to legitimate and recreate established financial practice and networks in the extra-profit interests of the state. The CIC is reproducing and reconstructing the global capital network in an evolutionary manner increasingly reflective of the developmental interests of the Chinese state.

We stress here that the legitimating authority of financial professionals is not exclusive to institutional investing or Chinese state capital. In the case of the former, financial advisors and underwriters are pivotal to the international IPO listing process, where they have been enlisted to corporatise and professionalise Chinese SOEs into internationally competitive companies (Wójcik & Camilleri, 2015). Since the Go Global initiative launched in 1999, professional consultants have been involved in SOE acquisitions and expansions abroad. The same goes for state capital more broadly, whether from the United Arab Emirates, Russia or Turkey — sources of state capital that the financial professions have not shied away from (Bogdanich & Forsythe, 2018). The legitimacy of state capital poses less of an issue from these sources than China, arguably the most politicised source of state capital flowing into the advanced capitalist states. The legitimation of state capital by the financial professions is therefore a pathway to transnationalisation that is worth testing in this universe of cases.

Future research could benefit from exploring the geographical implications of our article. The professions have developed in uneven and combined ways, resulting in hierarchical geographies that privilege European and US authority structures. How does this inform the variegated practices of state capital and the particular developmental geographies it engenders? Chinese state capital has not upended the dominance of European and US centres of finance and expertise. However, by utilising the existing foundations of the liberal international order to serve its own purposes, the CIC and the professionals it engages are legitimating new networks and practices that give rise to geographies of authority centred around state capital. The importance of Hong Kong as a gateway to the mainland, the growing stature of Asian investment banks, and the role of London as an offshore renminbi hub, all speak to this development.

We have also left unexplored the question of how the professions are impacting the geopolitics of transnationalising state capital. The professions play an influential role in the supranational governance of trade and investment (Dezalay & Garth, 2010). The nature of their intervention has the potential to profoundly affect the politics and regulation of state capital, such as in the realm of investment arbitration where SOEs are validated as conducting commercial and not governmental activities

(Chaisse & Sejko, 2016). Similarly, the International Forum of Sovereign Wealth Funds is a peer-run organisation requiring only voluntary disclosure from SWFs, yet it is meant to uphold the Santiago Principles, which are derived from professional best practice formulated within the heartland of the liberal international order.

The role of practitioners needs to be taken seriously in contemporary trajectories of capitalism. State capital scholarship driven in particular by politically minded ontologies needs to account for the policy–practice divide. The interests that inform the professional networks legitimating the practice of state capital are seemingly disconnected from those of the epistemic communities that generate soft law initiatives like the Santiago Principles. The financial professionals and investment banks that were securing deals for the CIC did not perceive political fora like the International Forum of Sovereign Wealth Funds to be salient. This is particularly relevant in the context of the EU, where the EU foreign investment screening framework has recently come into force. Intended to provide a framework to screen for foreign investment that threatens security or public order, it does not contravene the spirit of the free movement of capital enshrined in EU law and the EU's international commitments, including that which governs best practice for financial professionals (EU, 2019). Such regulation works at cross-purposes to itself: it follows the liberal international order legitimating capitalism, and by extension the inflow of state capital, at the same time that it seeks to delegitimate state capital through regulatory protectionism. At the macro level, these forms of protectionism enlisted in the EU regulatory complex sit somewhat at odds with the plethora of administrative agencies, regulations and expert consultations intended to manage the exigencies of capitalism in advanced capitalist societies. To tease out the developmental implications of state capital in Europe requires a confrontation with the juxtaposing accumulation imperatives which are inherent to advanced capitalism.

Chapter 6

More than pools of capital: How sovereign wealth funds leverage the infrastructural power of private equity firms for industrial policy

Abstract

States have over the past few decades turned to more transnational, market-based forms of state-supported industrial development such that asset managers like PE firms have taken on an essential role in the investment chain between SWFs and invested firms. In this policy landscape, SWFs have grown in number and volume, but have largely been relegated to the role of a passive investor where the legitimacy of the SWF is due to its commercial credibility as a provider of patient capital over its ability to act proactively to achieve industrial policy goals. This article draws on the concept of infrastructural power to argue that SWFs have in fact been able to leverage the centrality of PE firms in global financial networks to achieve cross-border industrial policy goals. Through the cases of Sino-Irish and Sino-Belgian state-to-state co-investment, this article shows how SWFs have been a means of transnational market-creation for domestic industrial firms by virtue of PE firms' embedding in Sino-European financial networks. PE firms have been able to exercise structural power across these networks on behalf of their SWF clients to facilitate access for domestic firms into new markets.

Adapted from Liu, I.T. and Dixon, A.D. (Under review). More than pools of capital: How sovereign wealth funds leverage the infrastructural power of PE firms for industrial policy.

6.1 Introduction

Over the past few decades, traditional forms of direct, sector-specific state intervention have given way to more transnational, market-based forms of state-supported industrial development (Cammack, 2012; O'Sullivan et al., 2013; Schrank & Kurtz, 2005; Wren, 2001). States have pursued divergent approaches to achieve industrial policy objectives, but face similar external constraints in the restructuring of global manufacturing characterised by supply chain fragmentation and enhanced capital mobility (Carroll & Jarvis, 2014; Stiglitz et al., 2013). In OECD countries, industrial policy has become framed, legitimated and designed to be market-based and increasingly aligned with competition policy to promote the competitiveness of domestic industrial firms, coalescing around a set of arms-length open-market policy instruments where private capital is looked to as the primary engine of industrial growth (Braun et al., 2018; Bulfone, 2022; Mertens & Thiemann, 2018; Wigger, 2019).

The governance of these deepening public-private linkages has bled into the governance of public-public forms of industrial policy cooperation. The activities of state-owned institutional investors, such as SWFs, form part of this turn toward private-led market development where between 1990 and 2020, SWF assets under management grew from 270 billion to almost 9 trillion US dollars (Sovereign Wealth Fund Institute, 2022). In this economic governance landscape, the role of the SWF is framed primarily as that of a passive investor where the SWF's legitimacy is underpinned by its commercial credibility as a vehicle for long-term liquidity, safeguarding national savings for future social welfare needs, or to generate higher returns on surplus oil and export revenues based on risk-adjusted portfolio diversification metrics (Clark et al., 2013). In other words, the SWF is legitimated as a provider of capital rather than its 'statist' character, through reference to its market performance and conformity to market norms more than through its ability to act proactively in the public interest, secure public goods, and achieve strategic political goals for the state (Haberly, 2014; Thatcher & Vlandas, 2016).

At the same time, giving greater steering capacity to private market actors has given asset managers infrastructural power in capital markets through their intermediary role in the investment chain between SWFs and invested firms (Braun, 2020b; Cooiman, 2021). This article contributes to political economy debates on industrial policy, public investment and the role of the state as a patient capitalist (Braun et al., 2018; Haberly, 2014; Mertens & Thiemann, 2018; Thatcher & Vlandas, 2016, 2021; Wigger, 2019), by articulating an overlooked aspect of the relationship between the state and financial markets. Simultaneously, while the state has sought to promote arms-length and de-politicised private market operations in industrial policy, asset managers in PE, VC and similar asset classes have been a conduit through which the state may exert structural power in financial markets and a means of achieving industrial policy goals.

As SWFs have mushroomed in volume and number, so too have their dealings with PE firms. PE firms have become attractive partners for SWFs for the best part of the past decade which has seen an industry shift that follows their private counterparts toward unlisted assets, as opposed to listed assets in public markets, in the post-crisis low-yield era. In 2021, 70.4% of SWF assets under management were in unlisted assets (IFSWF, 2021a). Of note is state-to-state co-investment where a SWF takes up a minority investment managed by a PE firm alongside other peer investors such as other SWFs. Not only has co-investment become one of the most common forms of investment into PE, co-investment with peers specifically has become the second most preferred mode of co-investment into the private market (IFSWF, 2021b).

Drawing on the concept of infrastructural power in IPE in the tradition of Michael Mann (Braun, 2020a; Green & Gruin, 2020; Weiss & Thurbon, 2018), this article examines how state-to-state co-investment between SWFs that is intermediated by PE firms have been a means of transnational market-creation for domestic industrial firms. PE firms constitute a source of infrastructural power in global finance and have become increasingly central mediators for SWFs in search of yield. PE firms possess the ability to operate within and traverse the boundaries between multiple governance jurisdictions, exercising structural power in global financial markets on behalf of their SWF clients in the pursuit of the state's industrial policy goals. The rationale behind such strategic alliances does not simply derive from the pools of capital that the respective SWFs may bring to a given co-investment, but the centrality of PE firms in financial and production networks that are deemed significant for industrial development.

We draw on two cases of Sino-European state-to-state co-investment to demonstrate our argument: 1) the CIC and the Irish Strategic Investment Fund (ISIF) and 2) the CIC and Belgium's Société Fédérale de Participations et d'Investissement/Federale Participatie en Investeringsmaatschappij (SFPI/FPIM), or Federal Holding and Investment Company. We illustrate with two cases how PE firms have used their infrastructural power in intermediating state-to-state co-investment, enabling them to make investments in line with the industrial policy prerogatives of their SWF clients. For instance, ISIF has tapped into the infrastructural power of PE firms to access new markets for Irish firms in China by virtue of these PE firms' embedding in Ireland, China and Silicon Valley, which helps ISIF fulfil its industrial development mandate to help scale indigenous Irish technology firms. Similarly, for the CIC, PE firms have facilitated the creation of co-investments with ISIF, creating gateways for Chinese firms to enter the EU market. In the case of SFPI/FPIM, a financially successful and a financially unsuccessful co-investment demonstrate how PE firms have played a pivotal role in delivering on industrial policy. In the successful case, the PE firms were highly embedded in Chinese and European financial networks and identified profitable investments to develop Belgian industrial interests. In the unsuccessful case, the PE firm went against the wishes of the SWFs, demonstrating infrastructural power, but at the expense of industrial policy.

In the following we discuss the state of the art before outlining our conceptual approach vis-à-vis the infrastructural power of PE firms in global finance with particular reference to the case of China. We then contextualise the industrial policy prerogatives of the Chinese, Irish and Belgian SWFs before presenting an analysis of the cases and concluding with implications for future research. These findings are based on 13 interviews conducted between November 2021 and January 2022 in Ireland and Belgium. The interviews in Ireland (5), Belgium (3) and over the phone (5), were conducted with former or incumbent investment managers of ISIF and FPIM at executive level (4) and below (2), managers of contracted PE firms (1), corporate lawyers (2), government officials (2) and academics (2) through snowball sampling. Supplementary background interviews were conducted in Beijing between November 2019 and January 2020 with former and incumbent managers of the CIC and employees of other institutional investors with which the CIC had contractual relationships. Interviewees were contacted through snowball sampling, many of which were based on pre-existing relationships of the researcher that became the basis of a close dialogue (Clark, 1998). Interviews with incumbent and former investment managers was particularly useful for corroborating the details on specific deals, in addition to official documents such as annual reports, legislation and secondary academic sources, which were used to triangulate the observations gleaned from interview.

6.2 Industrial policy and the depoliticisation of state capital

Around the 1980s, explicit forms of industrial policy, such as direct state ownership of firms and cultivation of national champions through subsidies and preferential trade and investment policies, fell out of fashion. Within Europe, for example, the establishment of the EU single market in 1993 placed limits on the extent to which member states could implement direct forms of state support for domestic firms (Bulfone, 2022; Clift & Woll, 2012; Volberding, 2021). Industrial policy became instead increasingly aligned with competition policy and arms-length open-market instruments, favouring tax breaks, tariff exemptions, subsidised credit arrangements and SOE privatisation to promote the competitiveness of domestic industrial firms in global markets (Devlin & Moguillansky, 2013; O'Sullivan et al., 2013; Porter, 1985; Schrank & Kurtz, 2005; Wren, 2001).

In the decades since, industrial policy has undergone something of a renaissance as states have grown increasingly creative in how they administer support for industry, seeking to combine forms of direct state intervention with market-based solutions where private, market-based finance is looked to, to address the capacity issues of the state. Paralleling the take-off of hybrid public-private forms of industrial intervention in emerging contexts such as Brazil and Indonesia (Anguelov, 2020; Ban, 2013; Devlin & Moguillansky, 2013; Kim & Sumner, 2021), state-led forms of financialisation have taken root in China, where public private partnerships and state-guided investment funds have been established to support industrial policy (Jones & Bloomfield, 2020; Pan et al., 2020). In Europe, the European Commission has provided capital in the form of funds such as the European Fund for Strategic Investment and its inheritor, the InvestEU Fund, intended to leverage private investment with public guarantees (Mertens & Thiemann, 2018; Wigger, 2019). This capital is not distributed through direct fiscal transfers, but implemented by EU financial institutions, designed to be market stabilisers, correcting for sectoral underinvestment via the leverage of private finance such that it can better serve the real economy in an approach that has been characterised as governing through markets (Braun et al., 2018).

In what might be coined under the umbrella term market-based industrial policy, state capital has been deployed in service of industrial policy, channelled through state-owned institutional investors like SWFs, state-owned development banks and other state-owned financial institutions for public investment. The disbursement of these public monies has largely been legitimated in terms of the market, that is, if and when the market itself may turn to sources of state capital, to make up capacity shortfalls. SWFs are a representative case. The first obligation of an institutional investor is in meeting the mandate of the sponsor. In the case of state-owned institutional investors like SWFs, the ultimate sponsor is the state. Where there is insufficient private capital, the SWF, as a market participant, may look to other SWFs as a source of state capital to make up the funding shortfall, or act as anchor investor to crowd in private capital. In the context of market-based industrial policy, the choice of funding partner is driven by market rationalities, and constitutes a form of depoliticised investment decision-making. In the case of SWFs like the CIC with over USD 1 trillion under management, the value-added of partnering with another SWF is the pools of liquidity the CIC is able to bring into new markets, in spite of the fact that the ultimate owner is the state.

This is supported by the literature on state capital as a source of patient capital (Deeg & Hardie, 2016). In the wake of the global financial crisis, SWFs have been a source of patient capital to national champions in financial distress (Thatcher & Vlandas, 2021, 2021). As Haberly (2014) argues in the case of Germany, they were perceived by the state as serving a market correcting role in the wake of the crisis that would allow the state to avoid direct intervention in the market i.e. through bailouts. Here, it is the SWFs long-term investor orientation that is favoured in which state capital can stave off hostile takeovers of German industry beholden to short-termist shareholder value logics by Anglo-American institutional investors. However, here, too, it is the liquidity that the Gulf funds were able to bring into the German economy that was welcomed and that is the basis to claim state capital as a source of patient capital.

State capital is assumed simply to be another source of financing wherein the industrial policy prerogatives of the SWF are neutralised and legitimised by their perceived passivity in providing pools of capital without a controlling interest. SWFs are expected to behave like their private counterparts and adhere to investment management convention. Best practice like the limited liability partnership reflects the institutionalisation of the operational independence of (private) asset managers from their SWF clients. Moreover, the same institutional constraints that have proscribed the ability of states to practice more overt forms of state intervention in the post-80s era of industrial policy have institutionalised best practice principles concerning the separation of powers between the state as a regulator and shareholder and the state as a market participant such as in the EU where state aid, competition regulation and restrictions on strategic investment are legally enshrined (Volberding, 2021).

Such an assumption is problematic because the ultimate sponsor of the SWF is the state, and therefore leads to uneven conjunctures between the free flow of capital in an integrated world market and the institutional manifestation of territorially bounded state authority, or domestic financial systems. The transnationalisation of state capital parallels the integration of other financial paradigms, such as Islamic finance, into the global system. The basis for legitimacy is 'normal' financial activity wherein Islamic finance has come to emulate and adopt the rules, institutions and practices that underpin the current era of private, market-based finance (Rethel, 2011). Legitimating the exercise of state capital through SWFs as no different from their private counterparts has been essential in shaping their growing power in global markets, yet this should not invite confusion between form and function (Dixon, 2014). SWFs have sought to legitimate themselves through the adoption of extant forms of financial best practice such as risk-adjusted portfolio diversification (Liu & Dixon, 2021). The form of investment practice at the operational level is no different to that of the world's largest privately-owned institutional investors. But this should not obscure the difference in function. The transnationalisation and integration of state capital in global markets signals an inherent structural power wielded by states as owners in the global political economy that has the potential to deliver both developmental and geoeconomic outcomes (Alami & Dixon, 2021; Babić, 2021). An in-depth examination of how state capital has been deployed in the context of market-based industrial policy prompts us to revisit how we might conceptualise the interface between states and finance in a world market context.

6.3 Theoretical framework

6.3.1 The infrastructural power of finance

This section draws on the concept of infrastructural power, and the analytical distinction between infrastructural and structural power in IPE, to argue that state capital is more than a passive source of de-politicised patient capital. By virtue of their infrastructural power in financial markets, PE firms have been a means to achieve the industrial policy prerogatives of the state through the intermediation of state-to-state co-investment.

Michael Mann's work has inspired a number of accounts of the infrastructural power of finance (Braun, 2020a; Green & Gruin, 2020; Weiss & Thurbon, 2018). In this tradition, the power of the state is seen as interdependent with that of society. The power of the state hinges on the nature of relationships between state and society and the organisational configurations of state and societal actors (Weiss & Thurbon, 2018). Such power is relational and contingent on the legitimacy and consent bestowed by societal groups, such as financial institutions, firms, and civil society groups. The governing institutions of the state may seek to exert influence in financial markets through direct participation. Such entanglements result in the creation of interdependent relationships with other market participants, bestowing them with infrastructural power over economic policy. Central banks have relied on repo and securitisation markets to conduct monetary policy, endowing the participants of these markets – banking institutions – with infrastructural power over the maintenance of the global financial system (Braun, 2020a). Institutional investors have been bestowed with infrastructural power to stabilise domestic stock markets in times of crisis (Chen & Rithmire, 2020). Infrastructural power speaks to the particular structures, be it institutions, networks, or sites, that reproduce the global financial system.

Two features distinguish infrastructural power from other concepts deployed in political economy to theorise the power of finance in relation to that of the state. First, the dependency of the state, or inversely the influence of finance as a form of backgrounded power on the state, has been assumed to conform to logics of economic governance set by the state, in the form of rule-making and rule enforcement, as opposed to those set by the market, such as in the form of value exchange (Braun, 2020a). Such power has been conceived as the structural power of finance and business (e.g. Culpepper & Reinke, 2014). However, distinguishing between infrastructural and structural power is important in order to render visible backgrounded and de-politicised forms of power in the financial system that shape the exercise of state power where the terms of engagement are set (Green & Gruin, 2020). Structural power relates the ability to project power through the advancement of preferential rules, systems of governance and modes of development (Strange, 2004). For SWFs, they may be able to wield structural power in financial markets, such as through diversified ownership of large tracks of global public markets where they have the capacity to move markets e.g. Norges Bank (Babić et al., 2019; Kim, 2021), or influence how they are perceived by other market actors through the establishment of multilateral fora for global best practice e.g. the International Forum for Sovereign Wealth Funds. However, in order for such exercises of power to gain legitimacy, they nevertheless conform to extant rules of global finance upheld by the societal groups who possess infrastructural power in the market. Infrastructural power accrues to these market actors, giving them authority over the implementation of industrial policy. The infrastructural power of these market actors can help states to improve their competitive position or gain influence over other states, corporations and other societal groups in the global political economy, but states are not the direct source of that power (Green & Gruin, 2020).

Second, infrastructural power renders visible the political capacity of the mundane and routinised 'architectures of finance' (Bernards & Campbell-Verduyn, 2019, p. 3). As the literature on financial infrastructures has demonstrated, the technical 'plumbing' of finance, such as payment systems, are inherently political since they have the capacity to structure both human agency and the ideational foundations upon which political power is exercised (de Goede, 2021, p. 352). Infrastructural power not only renders explicit the market as the playing field upon which the state must govern, it is an analytical device that brings to the fore the linkages between the oft taken-for-granted financial infrastructures upon which the everyday reproduction of financial markets depends and the macro-political implications of their reproduction (de Goede, 2021). In the next section, we apply this analytical lens to the world of investment where we demonstrate how the technical rules and relations governing the behaviour of PE firms constitute a form of infrastructural power.

6.3.2 Transnational mediators: The infrastructural power of PE firms in state-to-state co-investment

Asset managers constitute a source of infrastructural power in global finance. They have taken on a pivotal role in the investment chain between investors and invested firms (Braun, 2020b). First, the development of large financial markets and the rise of rational choice economics in the neoliberal era precipitated the institutionalisation of investment management best practice underpinned by theories such as the efficient markets hypothesis and modern portfolio theory (Clark & Monk, 2017). It has become widely accepted best practice that intermediation is the preferred form of investment management, whether the investor is a SWFs, pension fund, endowment fund, insurance company, family office, foundation or other institutional investor. Intermediation is sold on the merits of minimising transaction costs, maximises economies of scale, and leverages the sectoral and asset-class expertise of asset managers for investors.

Second, the contracts which govern the relationship between investors and managers are asymmetrical. Institutional investors such as SWFs are asset owners, for they have a legal claim to invest the assets under management. They are the clients. In the case of SWFs, their legally enforceable property right to the assets in question is bestowed by their sponsor, the state. Asset owners contract out investment management to asset managers such as PE and VC firms who place assets in the market on behalf of their clients (Clark & Monk, 2017).[40] Asset owners rely on managers to make up informational and capacity shortfalls. The investment management agreements that have become standard in the industry may be used to hold clients hostage where they lack the knowledge to write contracts in their favour. The fee-based model of value generation (Christophers, 2015) prevalent in asset classes such as PE expose asset owners to greater risk than managers, who can continue to charge management fees.

SWFs, like all asset owners, rely on a wide range of intermediaries from investment banks to niche asset management firms to invest across a wide range of asset classes from bond markets to VC. However, PE firms are of particular interest because of the SWF turn toward the private market in recent years. As a result of their growing popularity, PE firms have come to possess infrastructural power by virtue of their ability to initiate and control the investment chain between SWFs and invested firms. Recall, the basis for SWF legitimacy has been to emulate cognate institutional investors (e.g. pension funds) and as such, standard practice is to delegate investment management to external PE managers (Bachher et al., 2016).

Figure 6.1 illustrates the organisational dynamics of state-to-state co-investment between two SWFs where PE firms intermediate the investment chain. *PE firms* take on an essential role in identifying, allocating and managing assets on behalf of the SWFs. *State-to-state co-investments* are typically set up as limited liability partnerships with a *general partner* and *limited partners*. The PE firm provides the general partner, the PE manager, to manage a given fund while the client SWF typically commits an amount of capital (*committed capital*) as a limited partner with no managerial Figure

[40] The terms VC and PE are often used interchangeably, especially in the case of the PE firms discussed in this article, where the PE firms have raised equity capital from their state-owned clients and therefore there is no need for leveraged buyout using debt that characterises 'merchant' PE firms that traditionally marks the distinction between VC and PE (Kuebart, 2019).

oversight over the *portfolio of invested firms* (Morgan & Nasir, 2021). The general partner then sources the portfolio of companies that will draw down the fund.

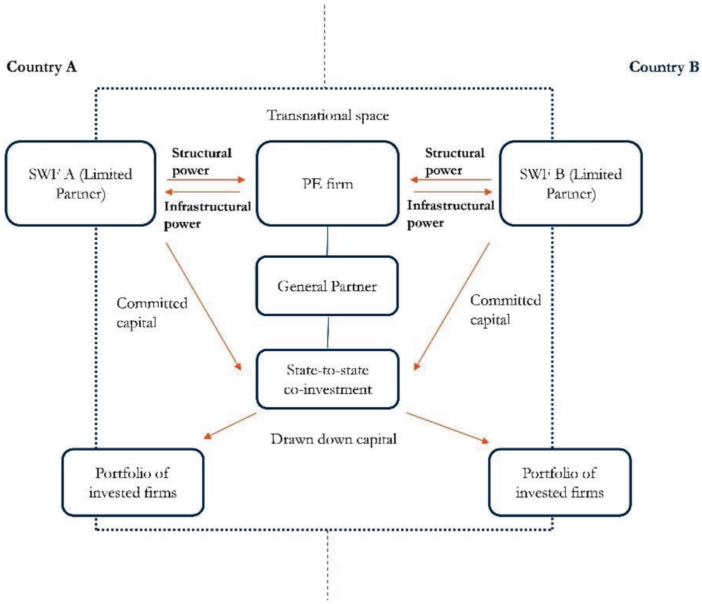

Figure 6.1 The investment chain between SWFs and invested firms where PE firms intermediate the state-to-state co-investment. Source: Author's own design.

The general partner is a gatekeeper for the allocation of state capital to invested firms. While both PE firms and their state-sponsored clients are governed by the conventions of investment management, namely limits on managerial control of limited partners over invested firms, SWFs are beholden to mandates set by their sponsors. This is reflected in the mandate of the PE fund, typically set up with a predefined focus, whether it is industry, product or region specific. In the case of the European Investment Fund, it took on a mandate from the German Ministry for Economic Affairs targeting German technology-focused VCs, which has become a major VC market in recent years (Cooiman, 2021).

PE firms moreover consolidate surplus value in the hands of a financial-managerial elite that reinforces their infrastructural power while undermining the control of other stakeholders in the investment chain. In PE, financial engineering, typically via leveraged buyout, where cheap debt is leveraged to acquire firms, accords a larger proportion of gains to a smaller proportion of equity investors (Froud & Williams, 2007). Leveraged buyout enlists the financial and network power of banks, who may provide additional financing, long-term structured debt or even provide securitisation to help secure the investment. Banks may also use their networks to source investors for PE firms (Morgan & Nasir, 2021). The banks provide both direct and indirect access to investment capital, but PE firms are central to the processes that initiate and control PE investment, affording them infrastructural power in the investment chain.

For SWFs with industrial policy mandates to amplify the international competitiveness of domestic firms, PE firms present an opportunity to extend the reach of industrial policy into new markets (*countries A and B*) beyond the institutional jurisdiction of their own Westphalian borders. PE firms occupy a *transnational space*, able to operate in and traverse multiple governance jurisdictions. Like international financial centres, they act as both conduit for the global circulation of capital and a nexus for the specific forms of governance that shape its circulation (Green & Gruin, 2020). They are interdependent within and between sovereign territories and function as transnational mediators for the development of rules, practices, actors and institutions that shape global finance. This is reflected in the low spatial proximity requirements of PE (and VC). In countries like Germany, VC evidences the highest proportion of overseas investment compared to other asset classes, turning Europe into the largest market for these asset classes outside the US (Fritsch & Schilder, 2008).

SWFs may leverage the infrastructural power of PE firms in their capacity as transnational mediators between the state and new markets. External managers act as an organisational interface between the industrial policy prerogatives of state-sponsored clients and the forms, conventions, and best practice imperatives of global finance. By engaging PE firms, SWFs endow them with infrastructural power to deliver industrial policy goals on behalf of the state. The investment chain becomes a ‘two-way street' (Braun, 2020a), a quid pro quo wherein SWFs derive industrial benefits from the *infrastructural power* of PE firms in territories beyond the state, and in the process delegate to them *structural power* to achieve such ends.

6.3.3 The infrastructural power of PE firms in China

While PE firms as a whole have flourished within global finance predicated on a specific set of investment management forms, conventions and best practices within the asset class, they are also shaped by differences in the governing jurisdictions that oversee the regulation of domestic financial markets. PE firms have concentrated in the older industrialised economies of Europe and North America where the development of the world's largest, highly competitive, financial markets has been accelerated by processes of neoliberalisation and financialisation that have limited the role of the state in financial markets and given greater steering capacity to the risk-adjusted profit maximisation imperatives of private capital. This has given way to certain particularities of practice that have rendered PE firms an essential feature of the market landscape, namely their ability to maximise fees and the return on mandated investments.

The infrastructural power of PE firms in China requires greater elaboration. In contrast to Europe and North America, financial markets in China have only emerged in the past two decades with the privatisation and corporatisation of SOEs, the entry of China to the World Trade Organisation, and the advent of domestic stock exchanges (Chiu & Lewis, 2006; Walter & Howie, 2012; Wang, 2015; Yang, 2007). The state has taken a strong hand in creating, but also stabilising and correcting markets, resulting in gradual financial liberalisation and a supporting role for private capital in driving the direction of financial market development (Petry, 2020; Weber, 2021; Wu, 2021).

The ability of PE firms to initiate and control the investment chain in domestic markets requires proximity to politics because the boundaries between the state and the market are more porous. Töpfer (2018) theorises how the Chinese state has guided the formation of regional cross-border financial networks. Multi-level bargaining, bureaucratic entrepreneurs and party leaders have had decisive effects on the establishment of regional financial networks. Since the 1990s, the handover of Hong Kong saw the establishment of various financial integration schemes between Hong Kong and the mainland, such as the launch of Chinese-law regulated H-shares, a special class of shares designated for the listing of Chinese mainland companies on Hong Kong stock exchanges. Since then, Hong Kong has attracted a high concentration of investors that service the growing flows of capital in and out of the mainland (Gemici & Lai, 2020).

Global institutional investors have benefitted, where such proximity has aligned with the industrial policy prerogatives of the state. The state has sought to internationalise Chinese SOEs by enlisting the services of American investment banks, such as Goldman Sachs, which has developed a major banking presence in China (Wójcik & Camilleri, 2015). SWFs, such as the CIC, have also sought to emulate the world's leading institutional investors including Morgan Stanley and BlackRock by engaging them as external managers and taking up ownership stakes (Liu & Dixon, 2021).

Transnationally linked networks of PE firms have developed their own particularities of power and practice in China. The most successful managers in China are those that are able to gain access to, and leverage, their proximity to politics. Princeling hires, the children of political elites, has become accepted practice in PE and investment banking, giving PE firms and investment banks access to both the networks of the political establishment and of global finance (Forsythe et al., 2019; Robertson, 2015).

The infrastructural power of PE firms in China stems from their embedding in state-led financial networks where the revolving doors between administrative, party and corporate appointments are institutionalised. The central organisation department of the state is responsible for major executive appointments of China's leading SOEs where it has become increasingly common to make joint appointments for the top positions and rotate the leadership among SOEs (Leutert, 2018). Research on elite networks show how, through corporate board memberships, policy-planning and political affiliations, including central banks, Chinese corporate managers are increasingly embedded in the transnational networks of the political and corporate establishment (de Graaff, 2020).

It is in this context that Chinese SWFs like the CIC amplify the infrastructural power of PE firms over private counterparts. In addition to their access to pools of state capital, it is their embedding in China's state-led financial networks that is a source of value in transnational deal-making and thus renders state-to-state co-investments with Chinese SWFs of particular interest.

6.4 SWFs and market-based industrial policy

The following sections situate the SWFs under study within their respective industrial policy contexts, namely the CIC within the context of Chinese industrial policy, and ISIF and SFPI/FPIM within the context of Irish and Belgian industrial policy.

6.4.1 The China Investment Corporation

State-owned institutional investors have often played a developmental role in China's domestic financial markets. They have had an active hand in mitigating financial crises and supporting urban development and mitigating financial crises in China (Chen & Rithmire, 2020; Feng et al., 2021; Ho & Marois, 2019; Wu, 2021). In recent years, state-owned institutional investors have been encouraged to service transnational production-based growth in a clear articulation of industrial policy. Authoritative guidance from 28 state departments has encouraged financial institutions in China to serve the development of overseas construction projects (MOFCOM, 2018). China's overseas infrastructure development, supported by policies like the BRI are a means to develop the structures necessary to further couple Chinese industrial production to global supply chains, enhance Chinese labour mobility and open new markets for production and consumption of Chinese goods and services (Liu & Dixon, 2022; Schindler & Kanai, 2021).

A SWF that has responded in support of the state's externalisation of development is the CIC. It has supported the Belt and Road through state-to-state co-investments with the Russian Direct Investment Fund and its shareholding in the Silk Road Fund (CIC, 2013). It has deliberately positioned itself as a gateway between international and domestic markets, connecting industrially relevant foreign firms to Chinese market and credit and reciprocally Chinese firms to international markets (Liu & Dixon, 2022). For example, Alibaba has been a beneficiary where, through its Western European holdings, the CIC has facilitated the use of Alipay in offshore markets (Steger, 2012).[41] CIC's networks have accelerated the proliferation of Alipay and of Renminbi internationalisation through the digital infrastructures it provides that constitutes a source of state power (Bernards & Campbell-Verduyn, 2019).

At the same time that the CIC is embedded in China's domestic financial system, responsive to the industrial policy prerogatives of the state, it is also a SWF of global stature, transnationally linked to other institutional investors, PE firms and industry organisations. Established in 2007 the CIC now ranks second in the world of SWFs with USD 1.2 trillion under management of which 37% is in non-US developed markets, a proxy for the CIC's Western European portfolio (Capapé, 2021; CIC, 2020). As a SWF, delegation to external managers has been best practice since establishment where in the 15 years since inception it has held even at a 60% externally managed portfolio (CIC, 2020).

6.4.2 ISIF and SFPI/FPIM

We examine how the infrastructural power of PE firms plays out in two cases of state-to-state co-investment between the CIC, and two European SWFs, the ISIF and SFPI/FPIM that functions as a most different systems design where the infrastructural power of PE firms has been pivotal to the ability of the SWFs to achieve industrial policy goals. Both Ireland and Belgium are small open economies that have experienced industrial restructuring that has come with integration into a world market. However, ISIF has reflected a more 'neoliberal' approach to industrial policy in Ireland which has maintained a consistent commitment to FDI-led industrialisation. In Belgium, social value added has been a more consistent priority of the succession of SWFs that has given rise to SFPI/FPIM. In the following we outline their respective roles as instruments of industrial policy.

ISIF was established post global financial crisis to spur domestic industrial development, but it has a far longer history as a global SWF in

[41] Investment manager, state-owned financial institution, 31 December 2019.

the wake of Ireland's FDI-led growth boom of the 1990s, when the first co-investment with the CIC was tabled. Since the mid-20th century, industrial policy in Ireland has hinged on FDI-led industrialisation defined by instruments such as a low-tax regime, double tax treaties with tax havens, direct cash subsidies to attract foreign industrial firms, and willingness to defend the corporate interests of multinationals within the EU (Bohle & Regan, 2021). Exports have been the main driver of economic growth and industrial policy at first focused on attracting low-cost production from the EU including low-skilled labour and assembly type work, later to pivot toward highly skilled labour in a small number of high tech sectors including electronics, pharma, healthcare, software and international services under the guidance of a number of government bodies including the Industrial Development Agency and the National Development Corporation (Bailey & Lenihan, 2015; Brazys & Regan, 2017; Brennan, 2022).

The 1990s saw the emergence of the Celtic Tiger and a boom in surplus savings that precipitated the establishment of the National Pension Reserve Fund in 2001, the precursor to the ISIF (NTMA, 2002). The National Pension Reserve Fund was set up as a global SWF, intended to make gains through diversified global investment, with minimal domestic holdings to serve future social welfare needs of the state (NTMA, 2021). In the wake of the global financial crisis however, the National Pension Reserve Fund was drawn down to bail out two national banks and in 2011 was refashioned into ISIF with a domestic development mandate (NTMA, 2014; Dixon, 2021), signalling a shift in industrial policy toward a greater awareness of the need for state intervention in domestic industry and employment while maintaining Ireland's commitment to FDI-led industrial development (Bohle & Regan, 2021; Brazys & Regan, 2017). The 'Irish component' would become a precedent in the co-investments with China going forward, either supporting regional employment or the scaling of indigenous firms.[42] What remains of ISIF's global portfolio is to maintain cash reserves to fund existing and future Irish investments as they materialise. As of 2020, ISIF maintains a EUR 12.7 billion combined portfolio, 3.4 billion of which is at the discretion of ISIF to invest in global markets (NTMA, 2021).

[42] Interview, senior executive, ISIF, 13th November, 2021

SFPI/FPIM's co-investments with the CIC have had a strong Belgian industrial development mandate, which echoes the emphasis on social value-added that has been a cornerstone of Belgian industrial policy as a whole. Industrial policy in Belgium has reflected the approach of a handful of smaller continental countries in Europe characterised by an open economy but strong economic and social adjustment policies (Aiginger & Sieber, 2006; Katzenstein, 1985). The National Investment Company was established in the 1960s with an investment mandate that prioritised employment creation, culminating in the bail out of a number of large employers with heavy wage bills following the crises of the 1970s. Compared to Ireland, there was an earlier and stronger pivot toward regional development owing to linguistic and religious divisions where resources had to be equally divided between Flanders and Wallonia, both of which were invested with capital in 1980 to develop their own regional investment bodies (de Grauwe & van de Velde, 1980; Foreman-Peck & Federico, 1999). The growing authority of the regions proscribed the role of the federal state in industrial policy and, in lieu of the consolidation and privatisation of the state banking sector in the early 1990s, lead to the downsizing and transfer of holdings in the National Investment Company into the newly created Federal Investment Company. The Federal Investment Company remained essentially inactive until 2006, when it was merged with the Federal Holding Company, another state-owned financial institution which held major stakes in a number of Belgian SOEs. This created a SWF with more capital and discretion to serve industrial development at the federal level (FPIM, 2020). In contrast to ISIF, which still maintains a global portfolio that invests in non-Irish firms, the SFPI/FPIM has, on the decision of its governing board, committed to invest almost exclusively in Belgian small and medium-sized enterprises.[43] SFPI/FPIM is on course to become a wholly territorial investor where capital is used to plug regional equity gaps (Klagge & Martin, 2005; Kuebart, 2019), a strategy move indicative of Belgium's industrial policy commitment to regional development, despite the success of a number of state-to-state co-investment funds in China. The SFPI/FPIM's combined portfolio of over EUR

[43] Interview, senior executive, SFPI/FPIM, 20th October 2021.

14 billion includes delegated assignments from the federal state and EUR 759 million of discretionary capital at its disposal (FPIM, 2021).

Despite their differing organisational trajectories, ISIF and SFPI/FPIM are still SWFs that must comply with the separation of powers that extends from EU regulation, such as in the application of the EU Merger Regulation where independence of commercial decision-making must be established in the case of SOEs (Lallemand-Kirche et al., 2017; Svetlicinii, 2021). Moreover like the CIC, SFPI/FPIM and ISIF are global SWFs that adhere to investment management convention. For small-scale SWFs with mandates to generate diversified, financial returns as well as social impact, they do not have the scale to manage investments in-house, preferring instead to outsource to external managers which has granted PE firms discretion to make investments on their behalf.

6.5 The state-to-state co-investments

We illustrate with two cases of state-to-state co-investment how the role of PE firms in the investment chain has proven decisive in the realisation of industrial policy goals. In the case of ISIF, a PE firm with strong links in Ireland, China and Silicon Valley allowed ISIF to realise a key industrial policy goal, supporting the international expansion of Irish small and medium-sized enterprises into China, and the creation of reciprocal terms for Chinese firms to enter the European market space. The case of SFPI/FPIM demonstrates how PE firms possess infrastructural power in financial markets in two scenarios, but where the outcomes diverged on the ability of the PE firm to exercise structural power on behalf of the SWFs.

6.5.1 The China-Ireland co-investments

For ISIF, this has occurred through one key co-investment with the CIC. The China-Ireland Growth Tech Fund I (herein Fund I) is a VC fund launched in 2013 by the then National Pension Reserve Fund and the CIC targeting growth stage Irish companies in core technology sectors with a strategic ambition to access the Chinese market or Chinese companies seeking access to the EU market by locating in Ireland. For ISIF, the fund functioned as an international scale-up VC, less specialised in geography or industry unlike growth focused VCs which tend to be narrowly framed around specific technologies in digital and health, and more concerned with growth-stage start-ups in later financing rounds with established organisational characteristics (Kuebart, 2019). Fund I had an initial 50-50 commitment of USD 100 million that is now fully invested. Figure 6.2 maps the key relationships.

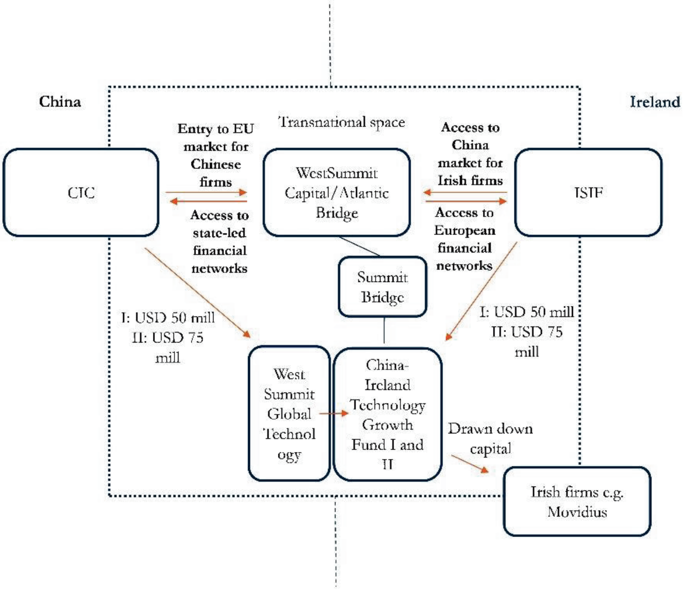

Figure 6.2 The investment chain of the China Ireland Growth Tech Fund I. Source: Author's own design.

The origin story of Fund I begins in 2012 with ANP Capital, a global asset manager that became the general partner of ISIF's first fund, an infrastructure fund. ANP Capital, which specialised in infrastructure, bridged the connection to the CIC which had already made a number of infrastructure acquisitions. There was initial interest from both the National Pension Reserve Fund and the CIC. The former had wanted to invest in strong global VC corporations that would agree to invest in Ireland, which in the wake of the financial crisis was in need of capital. The latter was interested in

Ireland as a key node in technology supply chains into the EU. An MOU was signed in Beijing in 2012 in a high level meeting where both prime ministers were present (ISIF, 2014).

Concurrent to these high-level discussions were the operational negotiations between ISIF and a VC firm, WestSummit, that specialised in growth stage VC technology. WestSummit is a transnational PE/VC firm with offices across Beijing, Silicon Valley and later Dublin that is tightly embedded in China's state-led financial networks. Headed by a founding partner that was a former CIC employee, WestSummit emerged out of CIC and continues to be CIC's principal VC manager. As one interviewee recalled in a meeting at CIC offices in Beijing, the founding partner of WestSummit knew all the senior investment managers at CIC.[44]

WestSummit demonstrated infrastructural power in this deal in three ways. First, CIC did not want to invest directly into a VC fund and had made it a condition that WestSummit come on board as general partner.[45] Second, WestSummit had wanted to diversify its investor base and had made it a condition of a potential ISIF-CIC fund that ISIF commit to a separate technology fund with WestSummit. WestSummit possessed delegated powers from CIC, which it was able to use to not only exercise structural power in opening up new markets for Chinese firms into the EU and thus deliver on the industrial policy prerogatives of the state, but also diversify its own investor base.

Third, the key operational decisions of Fund I were made by the PE firms involved, and not the SWFs. At the time WestSummit did not have a presence in Ireland and ISIF had brought on Atlantic Bridge, an Irish growth-stage VC firm that ISIF had a strong relationship with. Atlantic Bridge was also based in Silicon Valley and Dublin. The former became a key site to establish a potential co-investment because initial discussions between Atlantic Bridge's Ireland representative and WestSummit representatives took place in Silicon Valley where it was established that there was a 'commonality of background style and track record' between the two firms.[46] WestSummit and Atlantic Bridge

[44] Interview, former senior executive, ISIF, 8th November, 2021.
[45] Interview, former senior executive, ISIF, 8th November, 2021.
[46] Interview, senior executive, ISIF, 13th November, 2021.

subsequently became co-general partners of Fund I through a joint venture called SummitBridge. Despite the original mandate of Fund I, which was to invest in both Chinese firm expansion into the EU via Ireland, and Irish growth-stage firms hoping to scale up into the Chinese market, SummitBridge, especially WestSummit, had judged there to be good growth opportunities in China, resulting in the first round (Fund I) investing in Irish technology firms.[47]

At the same time, both SWFs were able to leverage the infrastructural power of the VC firms in meeting their industrial policy mandates. SummitBridge exercised structural power on behalf of their clients. Atlantic Bridge's local market knowhow helped CIC attract a number of Irish technology firms into the Chinese market. In the decade since establishment, SummitBridge has made a number of investments in Irish growth-stage VCs hoping to expand overseas, one of the most successful cases being a company called Movidius, an Irish chip company that had raised USD 90 million in funding between 2006 and 2016. Through WestSummit's connections, Movidius quickly expanded into China and became a major chip provider of the Shenzhen-based robotics company, DJI (Schroth, 2016).[48] Modivius was subsequently acquired by Intel, becoming Intel Movidius, generating considerable gains for both SWFs. For ISIF whose primary interest in Fund I was to help scale Irish firms, SummitBridge exercised structural power to deliver on industrial policy. For the CIC, Movidius' expansion into China also supported Chinese domestic technological upgrading and supply chain integration. Importantly, for ISIF and the CIC, it was not the pools of capital that they could bring as SWFs, but the access to domestic firms and supply chains that the PE firms could secure, especially within China's state-led financial and production networks, that was the primary rationale for the ultimate success of Fund I. The subsequent establishment of a second fund, the China Ireland Growth Tech Fund II launched in 2018, was driven in large part by the earlier successes of Fund I, which was delegated a similar mandate but a larger 50-50 commitment of USD 150 million (NTMA, 2021).

[47] Interview, former senior executive, ISIF, 8th November, 2021

[48] Interview, senior executive, ISIF, 8th November, 2021

6.5.2 The Belgium-China co-investments

SFPI/FPIM has established a number of co-investments with Chinese SWFs. All of the Belgian co-investments have had a designated Belgian interest component where a portion of the funds must be invested in Belgian firms.

Two related Sino-Belgian co-investments are of particular note where the infrastructural power of the PE firms involved has shaped their ability to exercise structural power on behalf of their SWF clients and the success of co-investment. First, the China Belgium Direct Equity Investment Fund (herein Direct Fund) has been the most successful to date. The Belgian Ministry of Foreign Affairs, Foreign Trade and Development Co-operation had a participation in a company called Shanghai Bell in the 1980s, which was later sold to Alcatel.[49] The Ministry had established good relations in China through this investment, which paved the way for the establishment of the Direct Fund in 2004, comprising commitments from various Belgian and Chinese state entities totalling RMB 1 billion (EUR 100 million) with SFPI/FPIM holding an 8.5% share (FPIM, 2021). The general partner was a joint venture between Haitong Securities and Fortis (now BNP Paribas Fortis), two institutional investors that at the time occupied a central place in their respective domestic financial markets. As a renminbi denominated fund, the Direct Fund exercised structural power on behalf of the SWFs by targeting growth-stage Chinese small and medium-sized enterprises with a designated 15% allocated to Belgian firms in China. As of June 2020, SFPI/FPIM's original capital contribution of EUR 8.5 million has netted a dividend of more than EUR 25 million. The Direct Fund has since been made evergreen i.e. invested funds are scheduled or upon request rather than upfront over a predefined investment period (FPIM, 2021).

It was on the success of this first co-investment that a large proportion of the dividend yield was reinvested into two subsequent co-investments, one of which was a Euro-denominated PE fund, the Spiegelfonds, or mirror fund, established in 2012. The Spiegelfonds was designed to mirror the Direct Fund in a reciprocal arrangement by investing in

[49] Senior executive, SFPI/FPIM, 18 October 2021

Belgian and Chinese Belgian-related companies throughout Europe. As with ISIF funds I and II, for the CIC the Spiegelfonds was intended as a means to guide Chinese investments into European brands, technologies and distribution channels via Brussels that had strong growth potential in China, and that could be a means of coupling Chinese consumption and production to European supply chains. With a 50-50 commitment from SFPI/FPIM and CIC totalling EUR 17 million, the Spiegelfonds is fully invested with two out of four projects of Belgian origin, all of which were technology companies, including Epigan, a Belgian semiconductor company (FPIM, 2021). Figure 6.3 illustrates the co-investment dynamics.

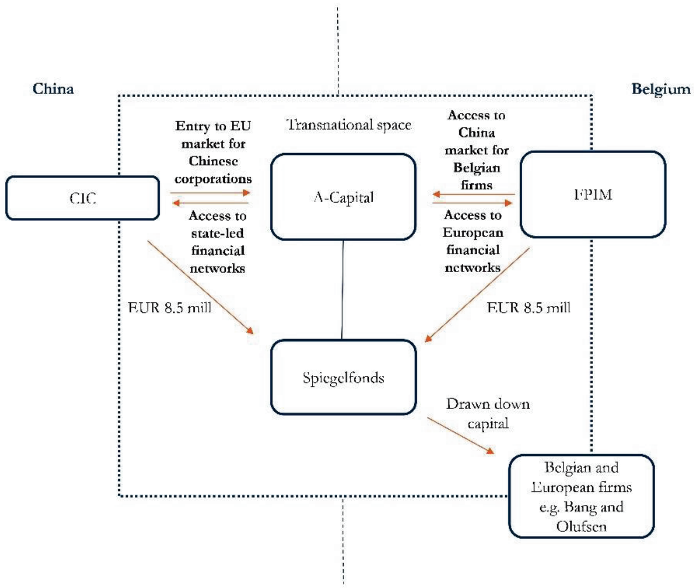

Figure 6.3 The investment chain of the Spiegelfonds co-investment. Source: Author's own design.

Compared to the Direct Fund and the ISIF-CIC co-investments, the Spiegelfonds is considered a failure that hinged on the infrastructural power of the general partners involved and their ability to exercise structural power on behalf of their SWF clients in line with their industrial policy goals.[50] A succession of PE firms have been contracted as general partner on the Spiegelfonds. The first, A Capital, was a PE firm focused on European midcap growth firms, co-investing with Chinese investors into leading European midcap firms with growth potential in China. With offices in Beijing, Brussels and Hong Kong, it was well placed to manage the co-investment. A Capital had in some sense fulfilled its mandate by sourcing a number of sector-relevant European firms. However, A Capital had a mixed record of success with the Spiegelfonds. The PE firm had made a number of poor investment decisions on behalf of its state-sponsored clients that highlights the infrastructural power possessed by the PE firm in the investment chain, but its failure to exercise structural power on behalf of its client. One of the earliest invested firms was Bang and Olufsen, which had presented a promising business opportunity for expansion in China that CIC could facilitate and that had attracted further investment to the electronics firm. However, A Capital had refused to sell at the behest of SFPI/FPIM and CIC when the share price had tripled the value of the company, subsequently dropping below the original purchase price.[51] As limited partners, CIC and SFPI/FPIM only had arms-length control over the investment. The fact that A Capital was able to make the decision to maintain the Spiegelfonds investment in Bang and Olufsen against the wishes of the investors is indicative of the infrastructural power held by the PE firm but its failure to exercise structural power on behalf of the SWFs. The other investments in the portfolio have since also netted mixed results. In 2019, the Spiegelfonds cut its initial stake in Epigan, the semiconductor company, by half and another investment, Sunpartners Technology, a solar energy technology firm that was included as one of the Belgian investments, went into liquidation in 2019, netting negative returns for the investors. A Capital subsequently went out of business and based on shareholder decision, Certi-Fed, a subsidiary of SFPI/FPIM, temporarily took over as general partner. In June 2020, Toppako Capital took over as the third general partner to manage the Spiegelfonds at the onset of the Covid-19 pandemic (FPIM, 2021). Spiegelfonds' experience

[50] Senior executive, SFPI/FPIM, 18 October 2021
[51] Senior executive, SFPI/FPIM, 18 October 2021

with general partners demonstrates how the ability of SWFs to achieve industrial policy goals hinges on both the infrastructural power of the PE firm which is locked in by the limited liability partnership structure that has become best practice investment management for PE funds, and its ability to exercise structural power in service of industrial policy.

In all cases, the infrastructural power of the PE firms was a necessary condition, but as the case of A Capital shows, an insufficient one should the SWFs fail to leverage this power. The success of the ISIF-CIC co-investments was due in large part to the embeddedness of WestSummit in China's state-led financial networks and both WestSummit and Atlantic Bridge's strong ties to Silicon Valley, which benefited invested firms by virtue of their ability to tap into technology supply chains across Ireland, China and the US. In the case of the Direct Fund the combined Haitong-Fortis JV was highly successful in reaping value for both the Chinese and Belgian investors. Both Haitong and Fortis are highly embedded in Chinese and European financial networks respectively and were able to exercise structural power, identifying successful investments and developing Belgian industrial interests in China while generating substantial fees and returns, especially since turning evergreen. In contrast, A Capital represents a case where the PE firm possessed infrastructural power but did not exercise structural power on behalf of its SWF clients. A Capital went against the wishes of the limited partners in its refusal to exit Bang and Olufsen. The resulting consequence was that the SWFs could not leverage the infrastructural power of the PE firm.

6.6 Conclusion

This article has explained an overlooked paradox of the state-finance nexus, whereby PE firms have emerged as unlikely champions of industrial policy in a governance context that has neutralised the interventionist tendencies of the state and given greater steering capacity to private capital in industrial development. We have articulated the power dynamics along the investment chain to demonstrate how SWFs are more than pools of capital. They have been able to leverage the infrastructural power of PE firms for the achievement of industrial policy goals. In doing so, we provide a complementary perspective to the literature on market-based industrial policy and the role of the state as a patient capitalist (Braun et al., 2018; Cooiman, 2021; Haberly, 2014; Mertens & Thiemann, 2018; Thatcher & Vlandas, 2016, 2021; Wigger, 2019). More specifically we 1) build upon the literature on the infrastructural power of finance and financial infrastructures (Bernards & Campbell-Verduyn, 2019; de Goede, 2021) to theorise the explicit links between PE firms as a form of taken-for-granted market power and their capacity to structure industrial policy, and 2) demonstrate how SWFs may exert indirect forms of political power in real world financial markets that cuts between prevailing accounts that assume them to be either passive, or highly strategic investors (Haberly, 2011; Thatcher & Vlandas, 2021).

European and Chinese SWFs have sought to leverage the infrastructural power of PE firms to achieve industrial policy goals in their respective polities. PE firms traverse the boundaries of territorially-proscribed systems of financial governance that give rise to regional financial networks with their own particularities of practice. By engaging external managers, SWFs have delegated power to them, bestowing them with infrastructural power to exercise structural power on behalf of the state.

For ISIF, they have benefitted from the embedding of PE firms in China's state-led financial networks. The tight links between WestSummit and the CIC, and to Chinese supply chains, proved crucial for the success of Fund I and for supporting the growth of Irish firms in China. The co-investment was a means to open up new markets for indigenous Irish firms. For SFPI/FPIM, too, the infrastructural power of PE firms proved a boon to industrial policy by way of the Direct Fund. The joint venture between Haitong and Fortis was highly successfully in identifying viable investments by virtue of the embeddedness of Haitong and Fortis in Chinese and European financial networks respectively. With a Belgian interest component, the co-investment supported the expansion of Belgian firms into Chinese markets and delivered on the strategic development mandate of SFPI/FPIM.

For the CIC, they have leveraged the infrastructural power of PE firms that have exercised structural power to establish gateway co-investments into the EU via ISIF and SFPI/FPIM. In both cases, the co-investments had a mandate to support the market entry of Chinese firms into Europe.

For the ISIF co-investments, the participation of Atlantic Bridge which was embedded in Irish financial networks provided CIC with access to European supply chains. In the case of the SFPI/FPIM co-investments, in contrast to the success of the ISIF funds and the Direct Fund, the Spiegelfonds can be considered an investment for the CIC that hinged on the ability of the PE firm to exercise structural power. Inverse to the Direct Fund, the Spiegelfonds demonstrates the infrastructural power of the PE firm, ironically, by way of the SWFs inability to influence the investment decision-making of the PE firm and as a consequence signal the failure of the PE firm in exercising structural power.

One consideration to be had is that the CIC is significantly larger in size compared to ISIF and FPIM. The market power of the CIC combined with the obvious political advantages of state-to-state co-investment as a means to enter the European market suggest that it may in fact be a one-way street between the CIC and the PE firms. And yet the European SWFs gained more from the improved market access that the PE firms were able to bridge into the Chinese market than the other way around. As the performance of both Fund I and the Direct Fund attest to, they yielded both better industrial policy outcomes and financial returns for ISIF and FPIM respectively than Fund II, which has encountered significant delays due to the onset of Covid-19 and the Spiegelfond, which has performed poorly based on either metric.

Beyond the value these findings generate for the study of market-based industrial policy, public investment, and the role of the state as a patient capitalist, these findings open up another important avenue for future research in that they resonate with respect to the intensification of geoeconomic competition in the global political economy. The infrastructural power of PE firms has enabled states to extend their industrial capacity into new markets beyond the institutional jurisdiction of the Westphalian state. Interventions of the state are typically viewed through the lens of antagonistic realpolitik or a global competition for markets, resources and structural power (Babić, 2021; Clift & Woll, 2012; Farrell & Newman, 2019). The strengthening of foreign investment screening mechanisms (Bauerle Danzman & Meunier, 2021), neo-mercantilist trade policy (Baltz, 2022), and financial sanctions (de Goede, 2021) speak to the intensification of geoeconomic competition between states in world markets. The cases presented here demonstrate how cooperative modes of geoeconomic interaction might play out (Babić et al., 2022) where more often than not these developments refer to the rivalry between China and OECD economies in Europe and North America.

Chinese state capital investment into Europe often entails a geoeconomic threat, but as the dynamics of state-to-state co-investment between European and Chinese SWFs have shown, these are strategic alliances (Haberly, 2011), entailing a quid pro quo of improved market access that has helped to scale indigenous firms across both jurisdictions. The investment chain has enabled European polities to extend the capacity of the state to conduct industrial policy into state-led economies like China where 1) state capital entails greater infrastructural power in China's domestic markets and 2) they may be otherwise proscribed from doing so within the EU regulatory complex. With increasing calls within the EU for a shoring up of strategic autonomy and the EU investment state (Koddenbrock & Mertens, 2022; Lavery et al., 2022; Mertens & Thiemann, 2019), member states may look to SWFs to support industrial policy in increasingly strategic ways beyond its borders.

Chapter 7

Beyond the Spatial Fix: Toward a finance-sensitive reading of the Belt and Road in Serbia

Abstract

The BRI has been theorised as a spatial fix to China's overaccumulation problem, and as such, an implicitly productivist endeavour. This article opens up conceptual space to theorise how historically and geographically mediated forms of financialisation have tempered the unfolding of the BRI in peripheral states of the world economy. With particular attention to the Serbian post-socialist transition context, financialisation has been characterised by underinvestment and a persistent dependency on foreign, market-based capital inflows. These dynamics have 1) precipitated transformations of the state to mobilise Chinese financing for the establishment and implementation of BRI projects, strengthening the role of the state more generally in industrial rejuvenation, and 2) created an institutional palimpsest conducive to non-productive forms of surplus value appropriation that contributes to a growing diversity of BRI projects that reflects the hybridity of accumulation imperatives that underly the BRI.

Adapted from Liu, I.T. (Under review). Beyond the Spatial Fix: Toward a finance-sensitive reading of the Belt and Road in Serbia

7.1 Introduction

In the decade since the establishment of the BRI, a body of interdisciplinary literature has emerged that has sought to capture the multi-faceted dimensions of the BRI as an umbrella phenomenon for China-led political and economic integration. However, there has arguably been greatest attention to the initiation of physical connectivity projects between China and BRI countries, namely land and maritime transport corridors, special economic zones, and other forms of built infrastructure necessary to support more intensive forms of regional economic integration, trade and investment (Bennett, 2016; Bucsky, 2020; Chubarov, 2019; Liu & Dunford, 2016; Z. Liu et al., 2021; Vinokurov & Tsukarev, 2018).

Within the critical tradition, notably Marxist approaches and world systems theory, a number of scholars have sought to embed such projects in the historical and geographical materiality of global capitalist development, conceptualising the BRI as a spatial fix, a sprawling, fragmented infrastructure connectivity project intended to manage the exigencies of capital overaccumulation through spatial means (Apostolopoulou, 2020; Blanchard & Flint, 2017; Chacko & Jayasuriya, 2018; Mayer & Zhang, 2021; T. Summers, 2016; X. Zhang, 2017; M. Zhao, 2016).

These accounts have drawn attention to the productivist rationale of the BRI, as a state accumulation strategy to sustain the extraction of surplus value through trade and commodity production, export China's domestic capital and labour surplus and couple Chinese production and consumption to global supply chains in new markets (Lim, 2018; Schindler & Kanai, 2021). This article contributes to this body of literature by examining an overlooked aspect of the spatial fix: how financialisation as the historically and geographically mediated growth of private, market-based finance in economic and social life where surplus value is appropriated increasingly through financial, non-productive channels has contributed to the expansion of the BRI (Fine, 2013; Lapavitsas, 2013).

With particular attention to financialisation as it has unfolded in peripheral economies (Alami, Alves, et al., 2022; Becker et al., 2010; Bonizzi, 2013), this article develops a finance-sensitive reading of BRI expansion in the Serbian post-socialist transition context. The argument proceeds along two axis. First, financialisation has to varying degrees exacerbated low levels of productive investment and dependency on foreign, market-based capital inflows in peripheral states of the world economy, bringing about concomitant transformations of the state that have enhanced state capacity to mobilise Chinese financing for the establishment and implementation of BRI projects, and strengthen the role of the state more generally in industrial rejuvenation. Second, the legacy of financialisation in peripheral economies like Serbia has created an institutional palimpsest shaping the investment rationale behind BRI projects. Contrary to the emphasis on industrial firms' imperative of productive expansion, BRI investment projects have been mediated by an institutional context conducive to non-productive forms of surplus value appropriation, contributing to an increasing diversity of BRI financing models that reflects the hybridity of accumulation imperatives underlying the BRI.

This article illustrates how these dynamics have played out in Serbia where post-socialist transition, spatial proximity as well as political economic subordination to the IMF, EU, and the US has brought about a unique trajectory of financialisation. This article shows that 1) successive rounds of IMF and EU-backed market liberalisation in Serbia have exacerbated problems of underinvestment and a persistent dependency on foreign market-based capital inflows that has given the incumbent government a political and economic rationale to turn toward China and the BRI, bringing about state transformations that strengthen the role of the state in mobilising Chinese financing for infrastructure development; 2) market liberalising policies that went hand in hand with the financialisation of the economy in the 2000s, including a generous FDI regime and the introduction of PPPs has mediated the investment rationale underlying BRI investment projects in Serbia such that they have been driven by an ad-mixture of both productive and financialised logics of accumulation.

Analysis is based on data collected from the field in Serbia between October and November of 2020, where over 20 semi-structured interviews in Chinese and English with construction managers, government officials, consultants, translators, construction workers and other relevant personnel were conducted. Additional interviews in Beijing and Hong Kong in 2019 and 2020 provided further context. The analysis furthermore draws on an original database of ongoing infrastructure projects in

Serbia, compiled in December 2021, supported with data from official sources including the Serbian Ministry of Construction, Transportation and Infrastructure, MOFCOM, as well as media articles and secondary academic sources.

The next section offers a critical review of the existing literature on the BRI and the role of financialisation therein. The article then follows with a discussion of how financialisation in peripheral economies pertains to the expansion of the BRI before proceeding to a grounded discussion of how these dynamics have played out in Serbia where they have 1) catalysed BRI-friendly transformations of the state and 2) favourable FDI and PPP legislation has implied a hybridisation of accumulation logics underlying BRI projects. The article concludes with implications and ruminations for future research.

7.2 BRI: Spatial fix and beyond

The literature on the political economy of the BRI has mushroomed in volume and in the breadth and depth of analytical approaches since the elaboration of the five cooperation priorities first outlined in the official 2015 Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road. Scholars have sought to theorise the BRI as a regional economic connectivity project in terms of its geopolitical, infrastructural, trade, financial, ecological, scientific and cultural dimensions (Bucsky, 2020; Gong, 2019; Lai et al., 2020; Liu & Dunford, 2016; Vinokurov & Tsukarev, 2018; Winter, 2021; Woods, 2022; Xiao & Parenti, 2022). Recent literature has increasingly opened up conceptual space to theorise the transnational, bottom-up, co-constituted, and multiscalar nature of its construction (Mayer & Zhang, 2021; Oakes, 2021; Oliveira et al., 2020; Paudel, 2021; Schindler, DiCarlo, et al., 2022). These accounts have enriched attempts to draw out the broader capitalist dynamics of the BRI, and have added nuance to interpretations of the domestic political and geopolitical drivers of the BRI, namely as an extension of the Go-West campaign to develop China's comparatively underdeveloped inland provinces, demand for energy security as a consequence of growth, in improving relations within the Global South, and containing security risks in Eurasia (Zhao, 2016).

Literature that has theorised the BRI as a spatial fix stands out in the context of these approaches, where the expanding geographic boundaries of China-led regional connectivity is conceived of as a means to further capital accumulation through spatial expansion. In this vein, the BRI is a state accumulation strategy to manage the exigencies of overaccumulation, domestic economic slowdown, overcapacity in industry from overinvestment (decreasing returns to capital), rising wage levels, excess reliance on capital investment and depressed global demand on the heels of the global financial crisis (Apostolopoulou, 2020; Blanchard & Flint, 2017; Chacko & Jayasuriya, 2018; T. Summers, 2016; X. Zhang, 2017; M. Zhao, 2016). As a spatial fix, physical connectivity through built infrastructure such as road, rail, port, energy, communications, manufacturing facilities and special economic zones become the material basis to re-invest China's surplus productive capacity, further couple Chinese industry to global supply chains and open up new markets for the consumption of Chinese goods and services (Lim, 2018; Schindler & Kanai, 2021).

While such a focus re-centres capitalism in understandings of the BRI, Mayer and Zhang (2021) caution that theorising the BRI as a spatial fix should not invite overly deterministic, structural readings. The state is always possessed of 'heterogenous and shifting spatial strategies inside of global capitalism', and thus ever in need of scholarly reinterrogation (Mayer & Zhang, 2021, p. 6). In official discourse, overproduction has always been highlighted as a key problem for the Chinese economy (X. Zhang, 2017). However, theorising the BRI as a spatial fix tends to reify its expansion as an exclusively productivist endeavour where the focus is on fixed capital formation i.e. built infrastructure necessary to develop the structures to support supply chains and worker mobility needed to sustain the territorial expansion of trade and production (O'Neill, 2013).

Yet such a view is not the whole story. The BRI has unfolded within a larger set piece of capitalist development where historically and geographically mediated forms of financialisation have conditioned the expansion of the BRI as a purely productivist state accumulation strategy. The spread of financialisation where private, market-based finance-led growth has contributed to the appropriation of surplus value increasingly through financial markets, institutions, actors and practices over productive expansion has gained greater influence in peripheral, emerging and subordinate economies of the world market (Alami, Alves, et al., 2022; Becker et al., 2010; Bonizzi, 2013; Fine, 2013; Karwowski & Stockhammer, 2017; Lapavitsas, 2013), many of which overlap with the corridors of the BRI across Eurasia, South East Asia, Latin America, Africa, and within China itself.

To be sure, there is a voluminous literature on the diversity of financing on BRI projects, but these accounts largely centre on the role of the Chinese state through the deployment of state capital via SOEs and state-owned financial institutions, to further productive expansion, including works that delve into the nature and implications of China's bank-based debt-financing of infrastructure projects (Chin & Gallagher, 2019; Jepson, 2021), the creation of multilateral development financing institutions such as the Asia Infrastructure Investment Bank and the New Development Bank (Liu et al., 2020; Ly, 2020), and the emergence of a parallel China-led export-credit development financing regime to that offered by the existing liberal order (Chen, 2021). However, financialisation is analytically distinct from financing, which does not reflect how legacies of financial appropriation mediated by historical and geographical context have conditioned BRI expansion. The financing of BRI projects, albeit significant, is but one piece of the puzzle.

More tellingly, financialisation has unfolded within China itself, bringing about transformations of the state that have mediated the political economic underpinnings of the BRI. The early 2000s marked China's integration into the global economy. The domestic economy became exposed to the effects of expanding liquidity, short-term speculation and massive concentrations of capital emanating from the advanced capitalist core where financialised forms of economic governance, such as the use of quantitative easing and other forms of monetary intervention, enabled vast amounts of liquidity to be channelled into the Chinese economy (Tsui et al., 2017). Such flows have been the material basis for the formation of transnational capitalist alliances, such as between the World Bank and pro-market reformers in China (Meulbroek, 2022; Weber, 2021), and SOE managers and private Chinese capitalists (Tsui et al., 2017), yielding an 'interior bourgeoisie' linked to both transnational and national circuits of capital that has accelerated the adoption of financialised forms of economic governance that have significantly defined the institutional foundations of how the BRI is financed and implemented (Chacko & Jayasuriya, 2018, p. 88; Gonzalez-Vicente, 2019; Oliveira, 2019). This includes corporate governance reforms that have institutionalised shareholder value in the management of state-owned assets and SOEs, the core industrial agents of the BRI who account for over half of BRI projects contracted by number and over 70% by project value (Zhen, 2019).[52] Chinese SOEs, including China's biggest international construction contractors are nested in tiered ownership structures, such as China Road and Bridge Corporation, under the management of the primary state shareholder.

The state has also established SWFs like the CIC, the brainchild of reform-minded officials and Wall Street Returnees, that is both investing China's surplus savings into global financial markets driven by short-termist speculative financial practices alongside the world's largest institutional investors but also, through its shareholdings in the Silk Road Fund, committed to reinvesting long-term capital and providing network resources to SOEs operating in BRI states (Liu & Dixon, 2022).

Lastly, the state has also issued guidelines encouraging Chinese contractors to pursue alternative forms of market-based financing to the bank-based models that have dominated BRI financing, where private partners can be enlisted to co-finance, manage or operate projects that reflects a growing awareness of debt sustainability issues in BRI states (MOFCOM, 2020a; MOF, 2019; Brautigam, 2020).

However, there has been insufficient attention to how financialisation has mediated the expansion of the BRI in peripheral economies outside China. To be sure, financialisation is far from a one-size fits all phenomenon, for some BRI states like Belarus have maintained a strong state-led economic and social model that has seen the economy avoid the kind of market liberalising reforms that have taken place in other post-socialist transition contexts (Liu et al., 2021). At the same time, other BRI states as diverse as Serbia and Zambia have been subject to symptoms of

[52] BRI projects are defined in their broadest sense as China-related projects either equity or loan financed in part by Chinese firms or financial institutions (Liu et al., 2020).

peripheral financialisation such as high levels of foreign bank ownership, which tends to shift lending from small and medium-sized enterprises to the household sector, and have done little to spur productive growth (Becker et al., 2010; Kvangraven et al., 2021).

These states constitute sites of conjuncture between two structuring political economic contexts wherein the BRI, largely conceived of as a productive state accumulation strategy, has been mediated by financialised modes of capital accumulation. Such sites warrant investigation because they are where the 'political-economic contradictions of capitalism are particularly condensed' (Anguelov, 2020, p. 8), and where an analytical lens that privileges the continuities, as opposed to the disjunctures, in capitalist development, can be particularly fruitful for understanding trajectories of global capitalism (Furlong, 2020). It is through an interrogation of financialisation as it has unfolded within these sites that we can understand the expanding contours of the BRI as part and parcel of global capitalism. This article opens up conceptual space to consider, explicitly, how, when and where financialisation has mattered for the material expansion of the BRI.

7.3 Financialisation and the BRI in peripheral economies

The BRI is expanding within a context of world development where financialisation has already gained a foothold in peripheral economies. However, unlike their peers in the advanced capitalist core, the form and function of financialisation in peripheral economies takes on particular characteristics owing to their subordinate position in the global political economy that has been shaped by legacies of colonialism, imperialism and catch-up development (Alami, Alves, et al., 2022).

A key driver of financialisation in peripheral economies has been the adoption of market-fundamentalist approaches to development promoted by the Washington Consensus, notably in Latin America, where market liberalising reforms were in large part 1) a policy response to the Volcker shock of the 1980s that crippled many states in the region that had borrowed from US banks and 2) subsequent intervention by the IMF as sovereign lender of last resort (Bonizzi, 2013; Carroll, 2017; Gabor, 2012; Mawdsley, 2018). The financialisation of development, predicated on US and IMF-led efforts in the 1980s to create a world market underpinned by neoliberal rules, has necessitated an 'institutional fix', that is, concomitant transformations of the state to mediate, consolidate and legitimised private, market-based finance-led growth in peripheral economies (Anguelov, 2020; Furlong, 2020; Meulbroek, 2022; Peck & Tickell, 1994).

One major consequence has been the relative decline in productive over financial investment by industrial firms due to the relative profitability of financial investment (Dunford, 2021), the rise of shareholder value orientations (Aglietta & Rebérioux, 2005; Lazonick & O'Sullivan, 2000), long-short speculative pressure from global institutional investors (Tsui et al., 2017), and high levels of foreign ownership in the domestic banking sector, such as in Central and Eastern Europe, Brazil, the Philippines and Zambia, which has given rise to the expansion of household credit at the expense of financing domestic industry (Bonizzi, 2013; Kvangraven et al., 2021). High levels of productive underinvestment reflects the inability of peripheral economies to realise long-term investment for industrial upgrading and real growth in GDP that reinforces their subordinate position in the international system (Alami, Alves, et al., 2022).

Related to the issue of underinvestment, is a disproportionate shift toward foreign, market-based sources of capital to finance industrial development that has seen foreign investors appropriate a greater share of domestic surplus through short-termist speculative investment. These flows have been sustained by a set of policy instruments including capital account liberalisation, high interest rates, privatisation, and preferential tax and mobility regimes (Bonizzi, 2013; Becker et al. 2010). Bank-based forms of development financing, namely official development assistance, have lost ground to private market-based capital in the political arena where it is believed that varying forms of PPPs can be leveraged for infrastructure development (Mawdsley, 2018). In PPPs, the infrastructure may be packaged into various products (assetised) that maximise short-term revenues and sold to the highest bidder via commodity markets (O'Neill, 2013). Private partners may leverage their knowledge and expertise in financialising infrastructure to maximise short-term profitability over long-term developmental gains to the advantage of transnational investors.

These dual dynamics have had two implications for the material expansion of the BRI. First, the BRI offers patient capital for infrastructure development and industrial investment in peripheral economies that is an alternative to Washington Consensus-backed forms of market-based development where states are either faced with development aid tied to complex bureaucratic procedures and governance conditionalities, commercial lending offered at market rates, or PPPs in the case of infrastructure, beholden to short-termist investor logics (Chen, 2021; Kaplan, 2021; Mawdsley, 2018). Empirically, this is supported by the high incidence of overlap between peripheral economies that have been subject to IMF conditional lending and BRI states. Drawing on data provided by Kentikelenis et al. (2016), all of the states identified as subject to the highest overall IMF conditionality burdens in the period between 1985 and 2014 including Romania, Pakistan, Tanzania, Kyrgyzstan and several West African countries, have signed on to the BRI.

In contrast to the Washington Consensus, China's BRI financing, whether equity or debt, have been conceptualised as state-coordinated due to the stronger role of the state, as opposed to international private capitalists via the market, in the financing and implementation of BRI projects (Liu & Dixon, 2022). This is particularly pronounced in infrastructure development where projects typically follow from MOUs and other framework agreements between China and BRI states, often concluded at the highest level of state. In addition to Chinese SOEs who, as previously elaborated, have been the core industrial agents on BRI projects, Chinese state agencies like MOFCOM play a coordinative role on BRI projects, matchmaking regions, to projects, to firms and investors, and who work intensively with parallel agencies in BRI states to realise projects (Liu & Dixon, 2022).

The more visible role of the state is reflected in the ratio of China's sovereign lending to BRI states, which accounts for 66% of China's total outward FDI stock to these countries (Liu & Dixon, 2022; Liu et al., 2020). Moreover, of all outstanding loans in BRI countries, 70% is held by China's two main development banks, China Development Bank and Exim, which lend at semi-commercial rates, and where projects are usually evaluated over an industrial cluster or geographic region (Chin &

Gallagher, 2019; Liu et al., 2020). As a consequence, many peripheral economies have been able to mobilise Chinese development financing on BRI projects where they cannot from elsewhere, especially when they constitute a key logistical corridor between China and new markets.

However, BRI projects have required an institutional fix inverse to that of the Washington Consensus wherein the strong role of the Chinese state in the financing and implementation of projects has necessitated a similar alignment in BRI states. Lending in many cases has been tied to the selection of Chinese SOEs as lead contractors. In the case of Engineering, Procurement and Construction (EPC) or turnkey projects, where the BRI state need only 'turn the key' once the construction is completed, the approval of the loan agreement is conditional on the approval of the commercial agreement with the contractor, transforming them into EPC+F (finance) projects (Liu & Dixon, 2022).

Existing rules on public procurement such as the Agreement on Government Procurement promulgated at the global level and backed by Washington Consensus governance conditionalities requires open tender for the selection of construction contractors (WTO, 2022). The financing conditionalities on BRI projects would require an amendment of existing law in order for EPC+F projects to legally bypass the competitive tender process. Paralleling the rise of the infrastructure state in Laos, Nepal and Ethiopia where they have introduced political and institutional reforms that bolster state capacity to mobilise Chinese development financing on BRI projects (Chen, 2020; Paudel, 2021; Schindler, DiCarlo, et al., 2022), financialisation has essentially provided material and ideological legitimacy to peripheral states to pursue alternative models of development beyond the Washington Consensus, bringing about transformations of the state such that it has come to play a greater role in economic development.

Second, at the same time that there has been a strengthening of the role of the state in the economy, there has also been continuity where financialisation-linked market liberalising reforms in peripheral economies have been sustained by alliances between international private and domestic capitalists despite the state transformations that have been initiated to accommodate the more visible role of the state arising from China-backed projects.

Policies that have attracted foreign private investors are also a boon to Chinese SOEs on BRI projects. Financialisation in peripheral economies essentially creates an institutional palimpsest that layers the productive rationale of the BRI onto an institutional landscape conducive to financialised logics of surplus value appropriation, encouraging both productive investment and profit-seeking through financial, non-productive channels on BRI projects. Precedent illustrates how Chinese SOEs in the context of their global integration have been incentivised to decouple from the productive rationale of the BRI. First, SOEs have channelled capital into the financial services sector, including leading investment banks, accountancy firms and law firms that have enculturated SOEs to financial best practices that enhance profitability not through productive expansion but economising on invested capital that constitutes a form of shareholder value maximisation (Aglietta & Rebérioux, 2005). This includes outsourcing through temporary contracts, seeking out tax-friendly FDI destinations, and adopting practices such as roundtripping through offshore subsidiaries where they can enjoy the tax and regulatory benefits afforded to foreign investors in China (Liu & Dixon, 2021; Wójcik & Camilleri, 2015). Temporary sub-contracting is standard practice on infrastructure projects while prominent SOEs engaged on BRI projects such as China Harbour Engineering Company have adopted accounting practices such as the use of offshore tax havens in Delaware and the Bahamas to avoid double taxation (Gonzalez-Vicente, 2019; Liu, 2021).

Second, SOEs already demonstrate their capacity to maximise the interests of the firm over the developmental rationale of the BRI. SOEs have at times made alliances with domestic capitalists in BRI states to realise projects that reflects more the competition and threat of moral hazard within the state than a productive use of state capital (L. Jones & Zou, 2017; Shi, 2015). For example, Guangxi provincial state and capital interests formed a partnership with Malaysia's Pahang state in 2013 to develop port, rail and road infrastructure only to be followed by a similar project along the same peninsula developed between Guangdong province and the Malacca state (L. Jones & Zeng, 2019). The conjuncture of financialisation- and BRI-linked state transformations in peripheral economies constitutes a structuring political economic context that reflects the hybridity of capital accumulation logics underpinning the expansion of the BRI.

7.4 Financialisation in post-socialist Serbia

One site of conjuncture where the hybridity of productive and financialised accumulation logics has played out is Serbia where historical trajectories of development rooted in the transition from socialist Yugoslavia and post-war reconstruction has given rise to financialisation, characterised in particular by underinvestment in production and dependency on foreign, market-based capital inflows, in the post-socialist context.

The introduction of market-liberalising reforms was precipitated by a period of economic decline after a post-war mid-century growth boom. Foreign capital had already become a major pillar of growth as early as 1965 (Radenković, 2017). Paralleling macroeconomic conditions in Latin America, high levels of foreign borrowing plunged the country into debt crisis on the heels of the Volcker Shock and the concomitant rise in global interest rates in 1979, precipitating the conclusion of seven stand-by arrangements with the IMF that lead to further liberalising reforms promoting marketisation, internationalisation, state rollback, governance reforms, and the wholesale abandonment of socialism beginning in the late 1980s (Mikuš, 2016). Thereafter, the period from 1990 until 2000 was characterised by the decomposition of socialist Yugoslavia, civil war, hyperinflation and economic isolationism, though prior to the severing of ties in March 1999, the US had already sought to influence a pro-liberalising reform agenda through the advocacy of the National Endowment for Democracy in Serbia, a US-funded non-governmental organisation subject to congressional oversight (J. M. Scott & Steele, 2005).

The Milošević era came to an end in 2000 after intervention in Yugoslavia by the North Atlantic Treaty Organisation. Thereafter successive waves of IMF and EU accession-linked financial liberalisation led to underinvestment in productive capacity, overexposure and dependency on foreign capital inflows, as well as high levels of foreign debt and ownership in the financial sector, features that have come to characterise financialisation in the post-socialist Eastern European periphery (Ban & Bohle, 2021; Becker et al., 2010; Nelson, 2020).

The EU in particular exercises structural power in the Western Balkan states of Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia via the Stabilisation and Association Agreement, which Serbia signed in 2008. The agreement grants accession states access to EU assistance and support programs but that entails the adoption of governance reforms that will eventually align with the regulatory frameworks of the EU (Lađevac, 2020; Pavlićević, 2019). Combined with post-liberalisation regional market integration, political and economic proximity to the EU has put pressure on accession states to adopt a strictly market correcting role in economic governance, accelerating dynamics of financialisation in the region.

Financialisation has, in the context of rapid market liberalisation in the 2000s, been linked to low levels of productive underinvestment. Serbia first witnessed a growth boom, fuelled by global savings and a high interest rate, that led to a dynamic of import-led development. Combined with an appreciating exchange rate due to the rapid inflow of capital, this prompted a growing structural imbalance in the economy (Radenković, 2017). Investment largely flowed into the FIRE sectors (finance, insurance and real estate) as a result of the restructuring and privatisation of the banking sector. In the period 2000-2012, Serbia evidenced the lowest share of total investments to GDP in the Western Balkans and of the top ten foreign investments in Serbia, only two have been greenfield projects (Radenković, 2017, p. 33). Equity inflows were largely used to buy up former state-owned financial institutions that has helped to shore up the power of international private and domestic capitalists (Radonjić, 2018). Highly unusual for developing countries, by 2008 financial services amounted to 46.9% of FDI, above the global participation rate (Becker et al., 2010; Radenković, 2017).

Financialisation has persisted in the post-financial crisis era. If anything, Serbia's current account deficit and worsening international investment position exacerbated the effects of the crisis. The dinar steadily depreciated, sparking concerns that foreign banks would transfer funds out of Serbia, precipitating subsequent rounds of IMF assistance and structural adjustment (Becker et al., 2010). Due to the dominance of the FIRE sectors underpinned, in particular, by transnational alliances between domestic and EU capitalists, Serbia's post-crisis experience emulates similar failures to de-financialise other economies in the EU periphery (Ban & Bohle, 2021). Expansionary monetary policy in Serbia and as a result of quantitative easing measures enacted by the Federal Reserve and the European Central Bank saw an increase in bank lending, but that flowed primarily to the household sector as banks, largely foreign owned, sought to avoid credit risk from real economy lending. Between 2005-2015, growth in real economy money supply accounted for only 93 billion dinars, versus 179 billion in the household sector, fuelling a chronic state of productive underinvestment (Radenković, 2017).

Financialisation in Serbia has also been characterised by a dependency on foreign, market-based capital inflows that has been an outcome of market liberalisation. In terms of monetary and exchange rate policy, the persistence of capital inflows has been sustained by a high benchmark interest rate, which has encouraged speculation since foreign investors sell foreign currency to purchase state securities in dinars. Although this leads to a loss of liquidity, the state has sought to maintain this dynamic since the purchase of dinars is used to maintain the exchange rate (Radenković, 2017).

There have also been successive waves of fiscal policy reforms to mobilise foreign capital that, combined with the privatisation of the banking sector, channelled more FDI into FIRE sectors over real economy assets. Beginning with the 2002 Law on Foreign Investment that equalised the rights of foreign and domestic investors, the state has since established a host of subsidy and tax relief measures for foreign investors. According to the Decree on Rules for State Granted Aid issued in 2014, large-scale investors could potentially receive up to 50% of the total value of their investment, and foreign investments that meet certain conditions are exempt from corporate tax for the first ten years of operation (Radenković, 2017).

Lastly, the state has sought to use financialised forms of infrastructure development to spur productive growth. The Law on Public Private Partnerships and Concessions was introduced in 2011 and a nine-member

PPP Commission established in 2012, providing an institutional framework for private, market-based infrastructure procurement. Between 2012-2020, the PPP Commission approved 169 projects, totalling EUR 3 billion in value (Public Procurement Administration, n.d.). These figures are modest, relative to the value of China-financed EPC+F projects, but over 25 sub-national city and municipal authorities have entered into at least one PPP or concession contract (Gazivoda, 2021), signalling a maturing of the PPP model in Serbia as a model of infrastructure financing.

7.5 The BRI and state transformation in Serbia

As the preceding section has outlined, financialisation has taken on unique features in the context of Serbia's post-socialist transition and has laid the foundations for Serbia to sign on to the BRI. While there has been a strong geopolitical rationale for Serbian support for China-led connectivity in the region, especially as a means to balance EU, US and Russian influence, it was not until after the global financial crisis in the face of Serbia's rapidly declining economic fundamentals that political economic relations with China rapidly picked up. Materialised in the debate around monetary stability (curbing inflation) versus developing the export base (exchange rate depreciation), the question of how to rebalance the economy was a key election issue in the aftermath of the financial crisis (Becker et al., 2010).

Although the BRI was not officially launched until 2013, Serbia had already made an official pivot to China by signing the Agreement on Comprehensive Strategic Partnership with China in 2009 on the heels of the financial crisis, marking Serbia as China's only strategic partner in Southeast Europe at the time (Lađevac, 2020). Subsequent to the signing of the strategic partnership, Serbia joined the 16+1 cooperation mechanism initiated by China in 2012, and that has become integrated with China's diplomatic efforts to promote the BRI in 16, later 17, Central and Eastern European states (Jojić, 2017). Serbia is a key BRI state in the context of the proposed China-Europe Land-Sea Express Route, a logistical corridor enabling the transport of goods by sea and rail from China via the Port of Piraeus through the Western Balkans and Hungary into Western Europe (Zweers et al., 2020). Moreover, the financial crisis gave Serbia an additional reason to turn toward China for post-war industrial reconstruction and development since EU funds promised as part of the Stabilisation and Association Agreement had failed to materialise in the context of the EU's ongoing liquidity issues (Lađevac, 2020).

The strategic partnership precipitated a series of state transformations in Serbia that have strengthened the capacity of the state to establish BRI projects. First, China and Serbia signed a landmark treaty, the 2009 Agreement on Economic and Technical Cooperation in the Area of Infrastructure. This was the first major institutional reform to bolster the role of the state, as opposed to the market, in mobilising Chinese financing for industrial development. The agreement ties Chinese financing to construction, clearing the need for pre-selection and open tender of the lead contractor on public infrastructure projects, allowing Chinese contractors to bypass the hurdle of competitive pre-selection where they would have to compete against other, mostly European, contractors (Rogelja, 2020). Moreover, the treaty stipulates that contractor and sub-contractor selection procedures be outlined in the (confidential) commercial contract, thus protecting the allocation of loan funds from public scrutiny. The treaty also empowers any state entity, including banks and SOEs, to act as representatives of China in negotiations with the investor, the Serbian government or Serbian SOEs. In the realm of labour, the treaty grants immigration clearance exceptions for construction staff, and more generally casts a legal grey area exempting Chinese labour workers from Serbian labour law (Liu, 2020).

Second, both the 2009 agreements laid the foundations for the first major Chinese infrastructure project in Europe to be undertaken in Serbia. Valued at EUR 170 million, the Pupin Bridge in Belgrade was an EPC+F project launched in 2011 that set the precedent for China financed EPC+F projects in Serbia going forward. As of year-end 2021 there were 11 active infrastructure projects tied to Chinese contractors that had progressed beyond MOU stage (Table 7.1).[53] Five were confirmed EPC+F projects, totalling over EUR 2 billion in lending.[54]

In the 10 years since establishment of the BRI, the political impetus to support subsequent transformations of the Serbian state has been sustained. As President Tomislav Nikolić expressed in an official visit to Beijing in 2017, more BRI projects would go ahead so that Serbia could 'fit much better within the Belt and Road Initiative' (Mu, 2017). This has been reflected in the introduction of further legislative reforms empowering the state to initiate infrastructure projects. In February 2020, the Serbian government introduced 13 new laws and amendments concerning the implementation of public infrastructure works, in particular a law on highway and railway infrastructure that authorises the state to expedite the typically complex land expropriations necessary on public works going forward, including all pipeline projects not yet initiated (Gazdic & Jandrić, 2020). Such legal reforms strengthen the capacity of the state to deliver projects, though this has come at the cost of democratic due process, notably in the relocation of Roma settlements.[55]

These state transformations sit at odds with the market-based regulatory frameworks governing EU accession states that they are required to implement as a condition of EU membership. In fact, the amendment of existing legislation to bypass competitive tender on public procurement projects violates EU regulation and has been criticised by the EU, such as in the case of the Belgrade-Budapest railway where Hungary, as one of the main investors, is an EU member state (Rogers, 2019). The transformations of the state that have mobilised Chinese financing on BRI projects in Serbia therefore signal a deliberate divergence from path dependent trajectories of financialisation that have unfolded as a result of market liberalisation.

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[53] Only those projects that have progressed beyond MOU stage are included here, that is, at the very least where preliminary agreements identifying the key parties, investor and main contractor, have been signed.

[54] This number will potentially increase to 7, totalling EUR 5 billion in outstanding Chinese loans if the Belgrade-Nis railway and the Belgrade metro will be loan financed by China.

[55] Interview, SOE manager, 21 October 2020; Translator, 4 November 2020.

Table 7.1 Table of active BRI projects in Serbia as of December 2021. Source: Author's own; see Appendix C.

Name	Financing model	Project size	Financing terms	Investor/ operator	Main contractor(s)	Commence-ment date
Belgrade-Nis railway	EPC(+F)	EUR 2050 million	EUR 500 mill loan from European Bank for Reconstruction and Development to cover 50%. Exim may cover rest.	Serbia Railways Infrastructure	China Road and Bridge Corporation	Framework agreement signed in 2018
Belgrade-Subotica railway (section of the Belgrade-Budapest railway)	EPC+F	EUR 1243 mill	EUR 1 billion loan from Exim	Serbia Railways Infrastructure	China Railways International and China Communica-tions Construction Company	Works began June 2018
Belgrade Bypass highway	EPC+F	EUR 657 mill	Loan worth EUR 184 from China Import Export to cover 85%	Roads of Ser-bia and the Ministry of Construction, Transport and Infra-structure	Power China and Azerbaijani firm Azvirt	Works began September 2018

Kostolac B thermal coal-fired power plant	EPC+F	EUR 822 mill	Loan worth EUR 443 mill from China Exim loan to cover 85%	Elektro-privreda Srbije	China Machinery and Engineering Corporation	Expected completion in 2022
Fruska Gora tunnel	EPC+F	EUR 660 mill	Exim loan. Amount undisclosed	Putevi Srbije (Roads of Serbia)	China Road and Bridge Corporation	Works began May 2021
Industrial Park in Borca	FDI: Greenfield joint venture	EUR 300 mill	Investment worth EUR 220 mill from China Road and Bridge Corporation	Joint venture between Government of Serbia and China Road and Bridge	China Road and Bridge Corporation	Agreement signed May 2019
TE-TO Pancevo thermal power plant	EPC	EUR 180 mill	Majority Gazprom financed	Joint venture between Centroenergoholding (sub of Gazprom Energoholding and Serbian oil firm Nis)	Shanghai Electric Group	Works began March 2019
Kolubara thermal power plant	EPC	EUR 385 mill	Unknown	Elektro-privreda Srbije	Power China	Preliminary deal signed in early 2020
Preljina-Pozega highway	EPC+F	EUR 450 mill	Exim loan of EUR 381 mill	Putevi Srbije (Roads of Serbia)	China Communications Construction Company	[Highway opened January 2022]
Belgrade Metro	EPC(+F)	EUR 4.4 bill	Donation from French government of EUR 8.3 mill. China expected to cover the financing for the Chinese portion of construction	City of Belgrade, Ministry of Construction Transport and Infrastructure, PUC Belgrade Subway and Train	Power China and Alstom	Works began Nov 2021
Resnik-Velika Plana rail	EPC	EUR 340	To be determined	Serbia Railways Infrastructure	China Road and Bridge Corporation	Framework agreement concluded in 2019

7.6 BRI in context: FDI and PPPs in Serbia

At the same time that there has been divergence, there has also been continuity where the financialised policy terrain that has sustained market-based sources of foreign capital flows has brought about a hybridisation of accumulation logics underlying BRI projects in Serbia. The FDI regime and the PPP framework are of particular interest in this respect.

To begin with, the major BRI-linked investments have been brownfield projects,[56] as opposed to greenfield projects that can generate new productive capacity, employment and industrial spillover effects, where investors can still take advantage of Serbia's generous FDI regime that has largely facilitated the flow of foreign capital into privatised former state assets in the FIRE sectors without the greater financial risk and capital outlay required of greenfield investments. In terms of infrastructure, there is only one ongoing greenfield project, the industrial park in Borca, a joint venture co-financed by the Government of Serbia and China Road and Bridge, though even there, there has been little progress on the project since the initial agreements were signed (table 7.1).

The highest profile BRI-linked investment project has been the Smederevo steel plant. Formerly owned by US Steel, the Smederevo steel plant was acquired by Hesteel Group, a Hebei provincial-level SOE, in 2016, after the Serbian government re-acquired the highly indebted plant from US Steel for EUR 54 million with another subsequent capital injection of EUR 120 million (HBIS Group, n.d.). As the first FDI project in the country mentioned in official discourse on the BRI, the plant has been touted as a symbol of the 'iron friendship' between China and Serbia (State Council, 2018). Less covered in official media is how the project has been able to take advantage of the existing FDI regime. The Serbian state has granted Hesteel highly favourable tax and labour subsidies, including tax exemptions for up to the first 13 months of employment for Chinese expatriated workers.[57] The investment has been built on FDI-favourable legislation intrinsically linked to processes of market liberalisation and financialisation in Serbia, yet it still constitutes a form of productive

[56] BRI investment project is defined here as projects entailing FDI equity financing from Chinese investors, as opposed debt financing on infrastructure projects.

[57] Interview, SOE consultant, 3 November 2020.

reinvestment that has kept in operation one of the country's biggest exporters (State Council, 2018).

The other major FDI investment in official BRI discourse has been the acquisition of the RTB Bor copper mining complex by publicly listed Zijin Mining, in which the municipal city of Shanghai holds a quarter stake (Ministry of Foreign Affairs, 2022). Zijin acquired 63% of the highly indebted RTB Bor copper mining complex in 2018 from the government of Serbia (Zijin Mining, 2018). This is a project for which Serbia's FDI regime proved decisive. The terms of the deal were that the government was to cancel a large sum of existing debt (rumoured up to EUR 5.8 billion) on the books, owed to central and municipal authorities, in addition to tax exemptions on the first ten years' revenue stream and imported construction materials used to upgrade existing facilities, terms that clinched the acquisition for Zijin (*N1*, 2019).[58] In addition to state-owned investments, private Chinese investors, less covered in official discourse, have also taken advantage of the regime. One study estimates for Mei Ta, a private Chinese company that signed an agreement with the Serbian government in 2016, the state's outlay of EUR 21 million in employment subsidies and tax breaks far exceeds the sum paid in taxes and contributions over the same period totalling EUR 10.1 mill for a five-year investment cycle (Radenković, 2017).

In the second instance, the PPP framework in Serbia has encouraged the development of a greater diversity of BRI financing forms beyond EPC+F and EPC. The Kovin Energy Complex, a proposed underwater coalmine and thermal power plant in Kovin, represents one of the first forays into market-based forms of BRI financing in Serbia. The ongoing financier of the project was NIS whose shareholders comprise a conglomerate of Russia's state-owned Gazprom, the Serbian government and various minority shareholders (NIS, n.d.). At the time, Gazprom was facing funding cuts in the wake of the Crimea sanctions and had wanted to take a backseat in the development of the Kovin project. Huadian, one of China's five largest power generation firms that has been involved in BRI projects in Indonesia, Romania, and Kenya came on board in what was proposed as a BOT project, a common form of PPP that entails equity

[58] Interview, SOE manager, 23 October 2020.

ownership for the contractor (Eder & Mardell, 2018; Skidmore, 2022; Tritto, 2021). In the case of Kovin, Huadian would have been the majority owner (Energy System Integrator, 2016).[59]

Kovin would have been a departure from the more state-coordinated financing models that predominated on BRI projects at the time. Pupin Bridge in Belgrade had only broken ground in 2011. When the Kovin project had been brought to Huadian in 2012, EPC+F projects were the norm.

The plan was to emulate the business model of private firms in the energy market like EFT Group, an established Serbian private firm that had developed a number of coal-fired power plants in Bosnia that had adopted the BOT model (EFTb, n.d.). Huadian and Gazprom had hired a Serbian engineering management consultancy who advised the investors to take advantage of the new PPP law, which intersected with state efforts to attract international energy companies to co-develop energy infrastructure sorely in need of upgrade.[60] However, the consultancy proposed that the state should not be the end buyer of the electrical energy, and rather emulate the success of EFT Group in selling to European electrical energy trading companies where higher prices could be fetched than in the regulated domestic market.[61] In contrast, other BRI state-coordinated energy projects in development at the time like the Kostolac coal-fired power plant are part-financed by the Serbian state via the national power utility Elektroprivreda Srbije (Table 7.1).

Although the Kovin project has stalled, it represents one of the first attempts to diversify BRI financing in an institutional context predisposed to financialised forms of infrastructure development. Huadian had taken seriously the possibility of selling on the private market, having gone as far as signing an MOU with the Swiss energy trader, Alpiq.[62] Buoyed by recent legislation promoting PPPs, the Kovin project was initiated by a

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[59] Interview, private consultant, 10 March 2021.

[60] The energy market in Serbia is characterised by mostly public ownership, outdated infrastructure and a high dependency on coal, which accounts for 70% of Serbia's energy mix (Petrikić, 2015).

[61] Interview, private consultant, 10 March 2021.

[62] Interview, private consultant, 10 March 2021.

transnational alliance between domestic and international state and private capitalists that had induced Huadian to seek out alternative sources of market-based financing. It represents a hybridisation of accumulation logics underpinning the BRI wherein infrastructure projects can serve both productive expansion and act as a channel for surplus value to be appropriated by the private market.

7.7 Conclusion

This article enriches current debates on the broader capitalist dynamics of the BRI by developing a finance-sensitive reading of how it has unfolded in peripheral economies. In doing so, it builds on existing literature that has sought to conceptualise the BRI as a transnational spatial fix (Apostolopoulou, 2020; Blanchard & Flint, 2017; Chacko & Jayasuriya, 2018; T. Summers, 2016; X. Zhang, 2017; M. Zhao, 2016). Where such accounts theorise the BRI as implicitly production-based, this article has opened up conceptual space to consider, explicitly, how the financing and implementation of BRI projects in peripheral economies like Serbia has been mediated by historically and geographically informed processes of financialisation.

First, financialisation in Serbia has taken place within the context of post-socialist transition and post-war reconstruction where Washington Consensus-style market liberalisation has brought about productive underinvestment and high dependence on market-based capital inflows, symptoms characteristic of peripheral economies that reinforces their subordinate position in the global political economy. Financialisation has consequently been the political and economic backdrop to a series of state transformations that have bolstered the capacity of the Serbian state to mobilise Chinese financing on BRI projects for industrial rejuvenation, including a foreign policy pivot toward China, discretionary legislative reforms that empower the state to expedite China-financed infrastructure projects, and the initiation of a large number of state-coordinated BRI projects.

Second, path dependent market liberalising policies that have characterised the financialisation of the Serbian economy have created an institutional palimpsest conducive to both financialised and productive investment on BRI projects. At the same time that a generous FDI regime and the promotion of PPPs has attracted short-termist speculative foreign investment into the Serbian economy, these policies have also been a boon to BRI projects that have been able to utilise the existing policy landscape to achieve discretionary tax and labour gains. The highest profile FDI investments, the Smederevo steel plant and the Bor copper mining complex, have both been brownfield projects linked to the large-scale privatisation of former state-owned assets in the FIRE sectors as opposed to greenfield projects that generate new industrial capacity. Lastly, as the case of Kovin illustrates, institutional conditions favourable to the establishment of PPPs has encouraged a greater diversity of BRI financing forms that have the potential to empower the private market in assetising and trading infrastructure.

Although the BRI is touted as a productivist state accumulation strategy, fragmented configurations of state and market power have clearly informed its unfolding. The BRI has come to symbolise the more visible role of the state in carving out policy space for industrial development, but as this article has shown, its expansion has been underpinned by a hybridisation of productive and financialised accumulation logics. Together with the resulting state transformations that have empowered the Serbian state, the insights generated here reinforce the value of an analytical lens that privileges continuity, as well as disjuncture, in understanding capitalist development as an uneven and *combined* process (Alami & Dixon, 2021; Dunford et al., 2021; Furlong, 2020; Rolf, 2021).

How the intersection of financialisation and the BRI has played out in Serbia also has implications for contemporary trajectories of development more broadly. While market-based forms of financing like PPPs are still relatively nascent in the context of the BRI, one can foresee how they will become ever-more prevalent as China and peripheral economies alike look increasingly to the financial sector to aid development (Gabor, 2021; Mawdsley, 2018; Schindler, Alami, et al., 2022), reinforcing calls for critical scrutiny of the extent to which the financialisation of development can truly shore up the industrial base and rebalance indebted peripheral economies.

The approach taken in this article amplifies the need to constantly reassess the BRI vis a vis the concrete processes and social relations constituting the historical and geographical development of capitalism (Alami & Dixon, 2021), and how it is through the interrogation of intersections or sites of conjuncture of structuring forces (Anguelov, 2020) that the concrete unfolding of capitalist development gains clarity.

Chapter 8

Conclusion

8.1 China in the world

At the beginning of this book, I set the scene with the well-worn expression, the 'rise of China'. I might now propose, eight chapters on, an amendment. What these pages have offered is a revisionist account of the rise of China *in world historical context* that emphasises co-constitution, hybridity and continuity as structuring principles of capitalist organisation. More specifically, this book has offered a framework to place the rise of China within the post-financial crisis transnational flow of Chinese state capital into European markets.

Social, economic and political upheavals have foregrounded China's integration into the world economy. It has taken place within the context of China's opening up and reform and post-socialist transition, the global spread of neoliberalism and market-based modes of economic governance, the growing centrality of finance in economic life, and the ripple effects of the global financial crisis. These developments, among other era-defining phenomena, have created the conditions for the accelerated transnationalisation of Chinese state capital in the global political economy.

In answering the research question, How does Chinese state capital transnationalise? I have sought to address three blind spots in the existing literature. First, prevailing accounts in comparative political economy and IPE tend to adopt ideal-type, methodologically nationalist, unitary state assumptions about the nature of Chinese economic organisation that draws attention to the top-down, party-state centric, geopolitical drivers of the externalisation of Chinese economic activity (Fligstein & Zhang, 2011; Naughton & Tsai, 2015; Nölke et al., 2015; Norris, 2016; Witt, 2010). The state plays a central role as director and mediator of economic organisation in China, but it is also a multi-levelled entity embedded in the broader social structures of capitalist social relations in the world economy. I have addressed this blind spot by developing a historically and geographically attuned reading of the rise of China ground in the post-financial crisis era along the China-Europe geographical axis where there is both volume and diversity in Chinese state capital accumulation. As the empirical chapters have shown, the transnationalisation of Chinese state capital into European markets has been a process co-constituted between state and non-state actors, institutions, practices and logics that traverse the boundaries proscribed by ideal-typical geographies of state and market power between an advanced liberal core and an underdeveloped state-led periphery.

The second, related blind spot is the implicit assumption that China's global integration has largely been an outcome of trade and productive expansion. Critical IPE and economic geography are two disciplines that have sought to theorise the rise of China from a world historical perspective, however implicit to these accounts has been an emphasis on the productivist logic underpinning China's centrality in global supply chains, infrastructure development and intensifying trade rivalry with the US (Apostolopoulou, 2020; Blanchard & Flint, 2017; Schindler & Kanai, 2021; T. Summers, 2020; X. Zhang, 2017). I have advanced a finance-sensitive reading of the transnationalisation of Chinese state capital to argue that financialisation has had variegated effects on state accumulation strategies to deliver industrial development. The findings show how state and non-state financial institutions, actors, logics and practices across China and Europe have mediated the transnationalisation of Chinese state capital.

Third, the analytical lens adopted in this book has privileged the micro-level in understanding the macro-structural drivers of China's world integration as part and parcel of global capitalist development. The attention to micro-processes in this book has shown how everyday dealmaking and capital allocation, the building blocks of capital accumulation through financial channels (Giddens, 1979; S. Hall, 2009; Jarzabkowski et al., 2015; Sewell, 2008), have been a medium for the transnationalisation of Chinese state capital. Privileging the micro-level has demonstrated the continuity with which Chinese state accumulation strategies have intersected with extant instruments of market-making emanating from the advanced capitalist core to bring about the legitimacy of Chinese state capital in global markets.

8.2 Role of the state

Beyond just a book about the rise of China, this is a book that theorises the broader significance of China's world integration at this current conjuncture of global capitalist development. The transnationalisation of

Chinese state capital has come to symbolise the changing role of the state in the economy as both a material development and an ideological battle over what constitutes legitimate forms of economic governance. I address here the specific academic contributions of the book and refer the reader to the 'Impact paragraph' for an exegesis on the societal implications of the research.

First, to the material developments. This book has shown how the transnationalisation of Chinese state capital, entailing profit plus interests, has signalled a more visible role of the state in economic organisation that demonstrates 1) combination, that is, how the transnationalisation of Chinese state capital has amplified the role of the state in economic governance in territories beyond China and 2) unevenness in historical and geographical progression, whereby the more visible role of the state has taken on variegated trajectories of development at the state, global and regional levels.[63] For one, the Chinese state has been a direct participant in the transnationalisation of Chinese state capital as a coordinator of infrastructure development, through the investment activities of the CIC, and in the implementation of BRI projects. These state accumulation strategies have serviced China's industrial development beyond the territorial borders of the Westphalian state. For another, the transnationalisation of Chinese state capital has contributed to a more visible role of the state in Europe. In Western Europe, the combination of Chinese and European state capitals through state-to-state co-investment has bolstered the capacity of the Irish and Belgium states to implement industrial policy beyond the borders of the EU. In the post-socialist European periphery, Chinese state capital has similarly catalysed transformations of the state that have strengthened its ability to deliver industrial development. And at the global level, the transnationalisation of Chinese state capital has been predicated on the practice of finance by SWFs like the CIC that both conform to market-based rules of financial investment that govern global markets and adapt them such that they can be leveraged to achieve state-mandated developmental goals.

[63] See Alami & Dixon (2021) and Rolf (2021) for an exposition on uneven and combined development.

These material developments have given rise to changes in the ideological superstructure. The book has from the outset sought to dispel assumptions concerning the nature of economic organisation predicated on the separation between states and markets wherein an advanced liberal core characterised by free and open markets is juxtaposed against a state-led, authoritarian periphery. The transnationalisation of Chinese state capital has shown these two seemingly opposing world orders to be in concert, wherein global capitalism is co-constituted by state and market-based modes of capital accumulation that traverse idea-typical geographies of state and market relations.

The findings show how financialisation and other forms of market-based economic governance have been adopted and incorporated into the Chinese political economy. These engagements have been fundamental to a transnational understanding of Chinese economic externalisation where hybridisation has proven necessary for the legitimation of Chinese state capital flows into a world market context underpinned by liberal rules. The research speaks to the fundamentally pluralist nature of capitalist development, contextualising debates about contestation and assimilation of the liberal international order within the defining macro-structure of social organisation of our time, global capitalism.

Such an observation resonates vis a vis the ideological legitimacy of a strong state in liberal heartland economies. While the state has never left China, at this historical conjuncture, the transnationalisation of Chinese state capital has intensified the return of the state in the core economies of Europe. In recent years, state capital has gained legitimacy in European discourse, evidenced by such reports as the 2020 European Bank for Reconstruction and Development transition report, titled 'The state strikes back' (EBRD, 2020). Europe has conformed to a crucial case logic in this book, whose analytical value has been in demonstrating the growing visibility and diversity of state-led forms of economic governance in geographies of the liberal core that has followed the neoliberal hegemony of the preceding decades.

8.3 Contributions by chapter

Having discussed the core contributions of the thesis, I now turn to the specific insights drawn from each of the empirical chapters.

8.3.1 China's state-led infrastructure financialisation

The thematic core of chapter 4 lies in questioning the juxtaposition of production versus finance in much of the financialisation literature whereby capital accumulation through financial channels is assumed to be disconnected from the productive circuit. Building on the critique of the financialisation of infrastructure (Christophers, 2015a; Furlong, 2020; Maher & Aquanno, 2021; Pike & Pollard, 2009), this chapter challenges the assumption that financialisation constitutes a usurpation and hollowing out of the structures fundamental to trade and commodity production such that infrastructure as a public good is increasingly assetised in favour of short-termist speculative financial investment.

Chapter 4 offers an interrogation of financialisation in geographies beyond the advanced capitalist core. The value of the China case has been to show how financialisation can be contiguous and complementary to infrastructure development and productive expansion by extension. Financialisation in the advanced capitalist core has implied a roll back of state-led bank-based debt-financed infrastructure development in favour of financialised modes of infrastructure development, but through the transnationalisation of Chinese state capital, chapter 4 shows how financialisation has been emergent from and contingent upon the productivist mode of capitalist accumulation. If anything, the transnationalisation of Chinese state capital has been a means to amplify state power through financial channels to delivery industrial development.

Chapter 4 addresses the three blind spots in the existing literature by 1) shifting the empirical focus of analysis away from ideal-type assumptions about neoliberal financialisation in the advanced capitalist core and grounding it in the context of post-2008 China where a variegated trajectory of state-led financialisation has taken root; 2) developing a finance-sensitive reading of the transnationalisation of Chinese state capital by conceptualising China's state-led financialisation of infrastructure, bringing financialisation in dialogue with production; 3) adopting a practice-oriented analytical approach that identifies the specific set of practices, institutional configurations and network properties that are the constitutive elements of the transnationalisation of Chinese state capital and in doing so, detecting China's state-led financialisation of infrastructure as a form of capitalist change.

More generally, chapter 4 articulates the 'state' dimension of the theoretical framework (chapter 3) by specifying how state and financial power intersect and mediate the transnationalisation of Chinese state capital into European markets along two, interrelated modalities of investment. First, financial intermediaries like the CIC are coordinating development into Western European markets that departs from expectations about profit-maximising market behaviour in the advanced capitalist core. Second, alternative, financialised forms of infrastructure development are being pursued in the Western Balkans. Combined, these two modalities demonstrate how the state is leveraging financialisation to further industrial development beyond the borders of the Westphalian state that speaks to the more visible role of the state in economic governance.

8.3.2 The global financial professions

Where the focus of chapter 4 is the state-finance nexus, chapter 5 explores the role of global finance in mediating the transnationalisation of Chinese state capital. Chapter 5 articulates how the practice of finance by the global financial professions has been a means to legitimate the circulation of Chinese state capital into global markets as an exclusively profit-maximising realisation of value no different from private capital. They have depoliticised and rationalised the flow of Chinese state capital, entailing profit-plus imperatives, into global markets underpinned by institutions, actors, logics and practices that service private capital accumulation. More concretely, chapter 5 theorises three logics of practice by which the global financial professions have legitimated the transnationalisation of Chinese state capital into European capital markets: adoption of existing best practice, alliance formation with already legitimate financial professionals and re-creation of financial practice that serves both profit maximisation and the extra profit interests of the state such as co-investment with other SWFs mandated to invest in BRI projects.

The role of the global financial professions in transnationalising Chinese state capital has hitherto flown under the academic radar because the basis of their own legitimacy is the performance of technical expertise predicated on positivist methodologies as valued by the market (Fourcade, 2006; W. R. Scott, 2008). This chapter brings into the foreground their power to depoliticise their own role in the reproduction of global financial flows and Chinese state capital by extension.

Chapter 5 addresses the three blind spots in the literature on the externalisation of Chinese economic activity by 1) grounding the transnationalisation of Chinese state capital in both the *specific* developmental trajectory of the global financial professions that follows the spread of neoliberal ideas in the 1980s emanating from the advanced capitalist core, and the *universalist* logics that underpin their proliferation, legitimacy and reproducibility at the global level; 2) building out a finance-sensitive reading of the transnationalisation of Chinese state capital by articulating the underacknowledged role of the global financial professions, as opposed to SOEs and other industrial agents, in the transnationalisation process; and 3) taking the practices of global finance as the unit of observation, the value of which has been to detect how Chinese state capital has come to embed in global markets through varying logics of practice.

The broader theoretical value of Chapter 5 is in demonstrating how global finance, especially in the wake of the 2008 crisis, is co-constituted by state and private capital accumulation logics that supersedes attempts to define them as mutually exclusive phenomena. This chapter has also shown how the legitimacy of global finance, predicated in the past few decades on the ability of financial institutions, actors, logics and practices to normalise the political implications of their reproduction has, somewhat ironically, played a fundamental role in mediating the 'profit plus' imperatives of the state to bring about the hybridity of the global order. State capital is increasingly considered a constituent building block of the global political economy, made clear by the manner in which the state has been able to re-create financial practice that both conforms to private accumulation logics that proliferate at the global level and services the industrial developmental prerogatives of the Chinese state.

8.3.3 Market-based industrial policy in Western Europe

The findings from chapter 6 contribute to two bodies of literature, on the trajectory of market-based industrial policy and the role of the state as a patient capitalist. In a governing context like the EU, arms-length market-based instruments are preferred over direct intervention, giving private capital greater steering capacity in industrial growth and development (Braun et al., 2018; Mertens & Thiemann, 2018; Wigger, 2019). What role state capital plays in industrial development has been largely legitimated by the market in which the political imperatives of state capital, via vehicles like SWFs, are neutralised and legitimised by their perceived passivity in providing pools of capital as patient capitalists (Haberly, 2014; Thatcher & Vlandas, 2021).

This chapter examines an overlooked function of state capital in Western European capital markets whereby PE firms, which have become central actors in the investment chain, become the means via which state capital is used to achieve industrial policy mandates beyond the borders of the state. Through the empirical lens of state-to-state co-investment between Chinese and Western European SWFs, chapter 6 demonstrates how SWFs, contrary to dominant accounts of their benign, arms-length role as patient capitalists, have been able to leverage the infrastructural power of PE firms to fulfil industrial policy mandates traditionally considered to be the purview of strong state economies.

Chapter 6 addresses the three blind spots in the literature by 1) developing a historically and geographically embedded explanation for the transnationalisation of Chinese state capital into Western Europe where the promotion of market-based industrial policy within the EU context distinguishes Chinese state capital engagements in the region; 2) elaborating how the role of SWFs and PE firms and their particular logics and practices have been brought to bear on Chinese and European industrial development, not as a juxtaposing mode of capital accumulation but in service of industrial development; and 3) privileging the micro-level processes, institutional configurations and network properties along the investment chain that constitute the implementation of industrial policy and the transnationalisation of Chinese state capital.

More generally, chapter 6 shows how the particularities of arms-length state-market interactions in Western Europe that favour market-based private-led industrial development have mediated the transnationalisation of Chinese state capital into the region. Irish and Belgian industrial policy have taken on distinct trajectories of their own, but the basis of the state-to-state co-investments with the CIC has been the shared context of EU integration and the rules and norms governing state intervention within the EU single market. This shared legacy of EU membership has defined the transnationalisation of Chinese state capital into Western Europe and the particular configuration of state-market relations that is market-based industrial policy that presages a more visible role of the state in European economic affairs.

The value-added of chapter 6 has moreover been in conceptualising the Western European region as a distinct dimension through which financialisation have mediated the transnationalisation of Chinese state capital. The role of PE firms and the limitations placed by EU law on the Irish and Belgian SWFs' ability to fulfil their industrial policy mandates can be set in contradistinction to both state-led financialisation in China that has effectively sought to rein in financialisation in service of industrial development, the facilitating role of the global financial professions in re-purposing financial practice to service the profit plus imperatives of the Chinese state, and the transformations of the state in Serbia that have been a direct and active means of attracting Chinese state capital.

8.3.4 The Belt and Road in Serbia

Where chapter 6 examines the intersection between arms-length market-based industrial policy in core economies, chapter 7 pivots on how the spread of financialisation into peripheral economies has mediated the transnationalisation of Chinese state capital. The core argument advanced in this chapter is that financialisation has had material and ideological consequences in peripheral economies that have signed on to the BRI. A body of literature has sprung up to theorise the broader capitalist dynamics of the BRI, however implicit to this body of scholarship, as could be said of the critical literature on the externalisation of Chinese economic activity as a whole, is a tendency to conceptualise the BRI as a spatial fix and therefore a largely productivist state accumulation strategy, ignoring how financialisation as it has played out in specific historical and geographical contexts has mediated the expansion of the BRI (Apostolopoulou, 2020; Blanchard & Flint, 2017; Chacko & Jayasuriya, 2018; T. Summers, 2016; X. Zhang, 2017; M. Zhao, 2016).

Chapter 7 has sought to fill the gap in the literature by developing a finance-sensitive reading of the BRI in Serbia, where legacies of post-socialist transition, post-war reconstruction and Washington consensus-style market liberalisation has brought about financialisation characteristic of peripheral economies, namely productive underinvestment and high dependence on market-based capital inflows, that reproduces their subordinate position in the global political economy. The findings show how financialisation has precipitated a series of state transformations that have strengthened the ability of the Serbian state to mobilise Chinese state capital for industrial development via BRI projects and hybridised the investment logics underpinning BRI projects such that they are informed by a combination of both financialised and productive investment.

Chapter 7 addresses the three blind spots in the literature by 1) grounding analysis in the specific historical and geographical context of the post-socialist European periphery as both an instance of peripheral economies that have been particularly receptive to transnational flows of Chinese state capital and as a region where financialisation and other political economic processes have been mediated by interventions emanating from Western Europe and other core economies; 2) developing a finance-sensitive reading of the BRI which has been largely conceptualised as a productivist state capitalist impulse; and 3) incorporating micro-level, agent-centric analysis of specific BRI projects, and as such, demonstrating the hybridisation of BRI investment logics through the concrete investment decisions made by SOEs.

Like chapter 6, chapter 7 addresses how financialisation as it has played out at the regional level has mediated the transnationalisation of Chinese state capital. However, path dependent trajectories of financialisation across the East-West divide have brought about distinctly different amalgamations of Sino-European capital and state-market power. In contrast to the accommodations made by member states in the enactment of market-based industrial policy, the transformations of the state that have accompanied the expansion of the BRI in Serbia evidence a more assertive character. The transnationalisation of Chinese state capital has clearly instigated a more visible state interventionism across Europe, but the effects have not conformed to ideal-type expectations about state and market power in the liberal core versus a statist periphery.

8.4 Limitations and future research

The ambition of this book has been to enrich scholarly understanding of the rise of China in a way that captures the messiness of its real-world expansion and its significance therein for global capitalist development. By grounding analysis in the context of post-financial crisis transnational state capital flows between China and Europe, I have sought to generate broader theoretical insights about the hybridity of state-market relations and the more visible role of the state across the global political economy.

However, in having laid out the contributions of the book, one must address the tensions that arise in deriving from an albeit complex single phenomenon generalisable conclusions that operate at such a high level of abstraction. On the one hand, one would wish to avoid exceptionalising China as a unique case of a state-led economy or state capitalism that is the limitation of single case studies on Chinese political economy (Breslin, 2013; Naughton & Tsai, 2015). This would dampen considerably the theoretical insights generated from analysis and reproduce a sort of reverse ethnocentrism in presenting China as *the* case of state revival, ignoring the rich history of developmental states, state-led industrialisation and industrial policy in Asia, Latin America and post-war Europe. On the other hand, the ontology of this book has been to eschew static, ideal-type assumptions about economic activity that superimpose assumptions derived from cases, largely located in the advanced capitalist core, onto the nature of China's world integration at this contemporary conjuncture.

Another point of contention is the issue of temporality. To analogise Heraclitus, no constituting agent of capitalist social relations may play out in the same way twice. The fieldwork conducted in this book took place between 2019 and 2021. The interviews I conducted in Beijing and Hong Kong occurred in a Covid-free context. This proved to be very fortunate since the Chinese government has maintained a zero-Covid policy ever since, limiting face-to-face contact with interviewees and travel in and out of China more generally. However, the post-Covid global political economy is quite a different beast from the one before the onset of the pandemic, affecting not only the conditions that the research was conducted in, but the object of study itself. China's relations with the EU and the US have worsened in the face of the global economic downturn. Already in the pipeline, a more aggressive and defensive EU policy on China has materialised in the past three years (Weinhardt et al., 2022), while the speed and scale of BRI expansion in peripheral economies has been questioned in the context of pandemic prevention measures, China's own worsening economic fundamentals and borrower states' repayment issues that have recently come to light (Kynge et al., 2022). Moreover, global market volatility, inflation, a depreciating Euro and hawkish central bank countermeasures in the past year alone constitute a drastically different macroeconomic environment. These developments prompt a further re-examination of the findings.

The antidote lies in recapitulating the value of single case studies. This book has offered a deep dive analysis of the transnationalisation of Chinese state capital based on the identification of within-case causal process observations, as opposed to cross-case observations, that has reflected the exploratory, y-centred research goals of the book (see Rohlfing, 2012). The transnationalisation of Chinese state capital is not generalisable to the rise of China as a single phenomenon, but rather a crucial case that has enabled the identification of diversity, multiplicity and plurality, as opposed to singularity, in causal pathways leading to the outcome of interest. 'Universals are never fully successful in being everywhere the same' (Tsing, 2005, p. 10). The value of this book lies in showing how some universal configurations of ascendant state power manifest in particular times and places.

Limitations can also be windows of opportunity for future research. Economic life is perpetually in flux and how the intersections of state and market power have played out in this book are likely to manifest in different configurations under a different set of political economic circumstances. I elaborate a few here that are particularly salient at this contemporary conjuncture. First, as I have touched on above, intensifying relations between China, the EU and the US increasingly proscribe the circuits through which Chinese state capital can flow across borders. From the imposition of outright economic sanctions to 'level playing field' policies such as the EU's proposed new anti-coercion instrument, the global political economy has entered an era of geoeconomic competition that heralds both a reassertion of state power in the liberal heartland, an increasingly restrictive global market hitherto offering unfettered access to Chinese state capital, and an opportunity for peripheral economies to leverage the interests of the great powers for policy space. This book has offered a set of ontological and methodological tools to make sense of the future state of play where new configurations of state power are unfolding in a global political economy increasingly characterised by hybridity, plurality, and even hypocrisy.

Second, this book has demonstrated the potential for state capitalist combination in the European context, that is, how the transnationalisation of Chinese state capital has contributed to a similar instrumentalisation of European state capitals. It speaks to a vibrant research agenda on the role of the state in European economic governance where recent scholarship has documented the re-emergence of industrial policy, the politicisation of central banking and a revisionist EU foreign economic policy (Babić et al., 2022; Bulfone, 2022; van 't Klooster, 2022). Deserving of more exploration is how more assertive forms of state power are likely to play out across Europe in their entanglements with foreign state capitals beyond the pathways documented in this book, such as in the use of financial infrastructures like payment and banking systems, currency swap agreements and digital currencies that have become ever more geopolitically salient (de Goede, 2021).

Lastly, as a country that has undergone unprecedented change and transition in the past three decades, Chinese state-market relations continue to serve as a crucial case in political economy scholarship. In the three years since I began my fieldwork, the state has defied expectations concerning the purview of state intervention in the market on a number of occasions. Ant Group's pulled Hong Kong IPO listing, the near-miss default of Evergrande dubbed the 'most indebted property developer in the world', and the continued restructuring of overseas Chinese lending all point to the consolidation of state power in Chinese economic affairs. Yet to recapitulate the core contributions of this book, these milestones have taken place in an integrated world market context where capital flows continue to flow within, between and beyond national jurisdictions. How the Chinese state will continue to adapt, instrumentalise and innovate its entanglements in global markets will continue to prove theoretically generative.

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Appendices

Appendix A: List of interviewees and fieldwork sites

Table A.1 List of interviewees by position, date, time and location of interview.

Position	Date	Time	Location
Academic	28/10/2019	2:00-3:00 PM	Beijing
Academic	31/10/2019	3:30-5:30 PM	Beijing
Academic	28/10/2019	3:00-4:00 PM	Beijing
Academic	29/10/2019	11:30-12:30 AM	Beijing
Academic	09/11/2019	2:00-3:00 PM	Beijing
Academic	14/11/2019	2:00-2:45 PM	Beijing
Academic	20/11/2019	7:30-9:00 PM	Hong Kong
Academic	29/11/2019	4:30-6:00 PM	Hong Kong
Academic	30/11/2019	11:00-12:30 AM	Hong Kong
Academic	03/12/2019	5:30-6:30 PM	Hong Kong
Academic	04/12/2019	5:30-06:30 PM	Hong Kong
Academic	05/12/2019	1:30-3:00 PM	Hong Kong
Academic	02/12/2019	4:00-5:00 PM	Phone
Academic	30/12/2019	2:00-3:30 PM	Beijing
Academic	14/11/2019	10:30-11:30 AM	Beijing
Academic	30/12/2019	12:00-1:30 PM	Beijing
Academic	16/09/2020	10:45-11:30 AM	Phone
Academic	15/09/2020	4:30-5:30 PM	Phone
Academic	10/09/2020	11:00-12:20 AM	Phone
Academic	31/09/2020	10:00-11:30 AM	Phone
Academic	15/10/2020	4:00-5:00 PM	Belgrade
Academic	26/10/2020	4:00-5:00 PM	Belgrade
Academic	10/11/2021	2:00-3:00 PM	Phone
Academic	06/10/2021	4:00-5:00 PM	Dublin
Construction worker	21/10/2020	4:30-5:30 PM	Belgrade
Construction worker	21/10/2020	4:30-5:30 PM	Belgrade
Corporate lawyer	20/11/2019	8:30-10:00 AM	Hong Kong
Corporate lawyer	29/11/2019	9:00-9:30 AM	Hong Kong

Corporate lawyer	20/10/2021	2:30-4:14 PM	Brussels
Corporate lawyer	25/06/2021	12:30-1:30 PM	Phone
Diplomat	30/10/2019	12:30-1:00 PM	Beijing
Diplomat	30/10/2019	11:30-12:30 AM	Beijing
Diplomat	28/10/2019	3:00-4:00 PM	Beijing
Diplomat	09/12/2019	2:00-3:00 PM	Hong Kong
Diplomat	09/09/2020	6:00-6:30 PM	Belgrade
Engineer	03/11/2020	6:30-8:30 PM	Belgrade
Financial analyst	23/11/2019	1:30-4:30 PM	Hong Kong
Financial analyst	26/11/2019	9:00-10:00 PM	Hong Kong
Financial analyst	05/12/2019	9:00-10:00 AM	Phone
Financial analyst	11/12/2019	1:30-2:30 PM	Beijing
Government official	21/11/2019	8:30-9:30 AM	Phone
Government official	15/11/2019	10:30-11:30 PM	Phone
Government official	17/12/2019	6:30-7:00 PM	Phone
Government official	24/01/2020	10:00-11:00 AM	Phone
Government official	04/03/2020	10:00-10:30 PM	Phone
Government official	07/11/2020		Belgrade
Government official	12/11/2020	11:00-11:30 AM	Phone
Government official	25/01/2022	5:00-5:30 PM	Phone
Investment manager	04/11/2019	10:00-12:00 PM	Beijing
Investment manager	20/11/2019	12:00-1:30 PM	Phone
Investment manager	22/11/2019	1:00-2:00 PM	Hong Kong
Investment manager	18/11/2019	9:00-10:00 PM	Hong Kong
Investment manager	30/11/2019	3:00-4:00 PM	Hong Kong
Investment manager	04/09/2019		Maastricht
Investment manager	04/12/2019	10:00-10:30 AM	Hong Kong
Investment manager	27/10/2019	9:00-10:00 PM	Beijing
Investment manager	30/12/2019	12:00-1:30 PM	Beijing
Investment manager	28/10/2021	4:00-5:00 PM	Phone
Investment manager	20/10/2021	11:30-13:00 AM	Leuven
Investment manager, SOE/SWF	03/12/2019	4:00-4:30 PM	Hong Kong
Investment manager, SOE/SWF	11/12/2019	11:00-12:30 AM	Beijing
Investment manager, SOE/SWF	20/12/2019	4:00-5:00 PM	Beijing
Investment manager, SOE/SWF	31/12/2019	10:00-11:30 AM	Beijing

Investment manager, SOE/SWF	13/01/3030	2:00-3:15 PM	Auckland
Investment manager, SOE/SWF	24/01/2020	11:00-12:00 AM	Auckland
Investment manager, SOE/SWF	08/11/2021	2:30-4:30 PM	Dublin
Investment manager, SOE/SWF	20/10/2021	2:30-4:14 PM	Brussels
Investment manager, SOE/SWF	08/11/2021	10:15-11:30 AM	Dublin
Investment manager, SOE/SWF	08/11/2021	10:15-11:30 AM	Dublin
Investment manager, SOE/SWF	08/11/2021	10:15-11:30 AM	Dublin
Journalist	11/02/2019	3:00-4:20 PM	Beijing
Journalist	13/11/2019	10:00-11:00 AM	Beijing
Journalist	14/11/2019	10:30-11:30 PM	Beijing
Journalist	26/11/2019	10:30-11:30 AM	Hong Kong
Journalist	03/12/2019	10:00-11:00 AM	Phone
Journalist	04/12/2019	10:00-11:00 AM	Hong Kong
Journalist	05/11/2019	3:00-4:00 PM	Beijing
Journalist	03/01/2020	12:30-1:30 PM	Beijing
Journalist	13/01/2020	2:00-3:00 PM	Phone
Journalist	16/10/2020	3:45-4:45 PM	Belgrade
Management consultant	13/11/2019	4:00-5:00 PM	Beijing
Management consultant	29/12/2019	2:00-3:00 PM	Beijing
Operational manager	06/12/2019	11:30-12:30 AM	Hong Kong
Operational manager	29/12/2019	3:30-5:30 PM	Beijing
Operational manager	14/10/2020	10:00-18:30	Zrenjanin
Operational manager	14/10/2020	10:00-18:30	Zrenjanin
Operational manager	10/03/2021		Phone
Operational manager, SOE/SWF	07/11/2019	4:30-5:30 PM AM	Beijing
Operational manager, SOE/SWF	06/11/2019	10:00-11:00 AM	Beijing
Operational manager, SOE/SWF	14/01/2020	3:15-4:00 PM	Auckland
Operational manager, SOE/SWF	05/10/2020	12:00-1:00 PM	Phone
Operational manager, SOE/SWF	21/10/2020	3:-3:10 PM	Belgrade
Operational manager, SOE/SWF	21/10/2020	11:00-11:30 AM	Belgrade
Operational manager, SOE/SWF	21/10/2020	4:00-7:30 PM	Belgrade
Operational manager, SOE/SWF	22/10/2020	3:00-5:30 PM	Kostolac
Operational manager, SOE/SWF	22/10/2020	3:00-5:30 PM	Kostolac

Operational manager, SOE/SWF	23/10/2020	1:00-2:00 PM	Bor
Other	17/12/2019	10:00-12:00 AM	Beijing
Other	17/10/2020	5:00-8:45 PM	Serbia
Policy analyst	30/10/2019	2:30-4:00 PM	Beijing
Policy analyst	07/11/2019	1:00-2:30 PM	Beijing
Policy analyst	09/06/2020	4:00-5:30 PM	Phone
Policy analyst	29/09/2020	10:00-11:00 AM	Belgrade
Translator	03/11/2022	5:00-7:30 PM	Belgrade
Translator	28/10/2020	11:15-12:45 AM	Belgrade
Translator	25/10/2020	7:00-8:30 PM	Belgrade
Translator	18/10/2020	1:00-3:45 PM	Belgrade

Table A.2 List of fieldwork sites by project description, date and location of visit.

Project description	**Location**	**Date**
Belgrade bypass	Belgrade, Serbia	20/10/2020
Belgrade-Budapest high speed rail	Various sites along the tracks between Zemun in Belgrade and Stara Pazova, Serbia	20/10/2020
HBIS Smederevo steel plant	Smederevo, Serbia	22/10/2020
Kostolac coal-fired thermal power plant	Kostolac, Serbia	22/10/2020
Pupin bridge	Belgrade, Serbia	03/10/2020
Shandong Linglong tyre factory	Zrenjanin, Serbia	14/10/2020
Zijin copper mine	Bor, Serbia	23/10/2020

Appendix B: An organisational history of the CIC[64]

B.1 Introduction

When one thinks of the world's largest SWFs, the CIC naturally comes to mind. With almost USD 1 trillion assets under management, the CIC ranks second among global SWFs in the IE Sovereign Wealth Research Ranking 2019 (Capapé, 2020). Its size and the developmental trajectory of its ultimate sponsor, the People's Republic of China, has engendered equal parts fascination and scrutiny from investors, regulators and academics.

Since Opening Up and Reform in 1987, China has undergone rapid transformation, and adopted a pragmatic, experimentalist approach to economic development, best encapsulated by the idiom, 'crossing the river by feeling the stones', made famous by former Premier, Deng Xiaoping.

The CIC is a microcosm of China's experimentalist approach to economic governance. This in-depth chapter chronicles the CIC's unique story from inception 13 years ago, which is a story of organisational learning and adaptation at its core. Established in 2007, a handful of reformist policymakers and Wall Street returnees were the architects behind the CIC. Over the years, the organisation has evolved from a fledging SWF highly reliant on external expertise to a global SWF with the capacity to move markets. More importantly, CIC is paving a new way forward that is increasingly reflective of its unique identity.

The CIC is in many ways a hybrid entity, adaptive to China's legacy of socialism manifest in the commitment to state ownership, new industrial policy and a prioritising of national economic development, but also financialised and marketised forms of economic governance that reflect broader trends in the global economy.

64 Adapted from Liu, I. T., & Dixon, A. D. (2021). SWFs in-depth. The great experiment: China Investment Corporation in Europe and beyond. In J. Capapé (Ed.), Sovereign wealth funds 2020: Fighting the pandemic, embracing change. Center for the Governance of Change. https://docs.ie.edu/cgc/research/sovereign-wealth/SOVEREIGN-WEALTH-RESEARCH-IE-CGC-REPORT_2019.pdf

B.2 A snapshot in time

We first provide a broad strokes contextualisation of the CIC in 2020, in terms of its current corporate structure, growth trajectory and its distinguishing features relative to China's other SWFs, as well as the macroeconomics and contentious backstory behind its establishment, which are pivotal in understanding many of the CIC's early investment decisions.

The contemporary CIC is in fact three discreet entities under one umbrella: CIC International, CIC Capital and Central Huijin. CIC International manages the SWF's public equity, fixed income, PE, minority and co-investments. CIC Capital is charged with managing the fund's direct investments in infrastructure, energy, agriculture and other forms of FDI, as well as bilateral, multilateral and platform investments. Central Huijin, for which operational firewalls are maintained from the other two entities, is a key shareholder of China's largest state-owned banks and financial institutions, including the Big Four commercial banks: Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, and China Construction Bank Corporation.

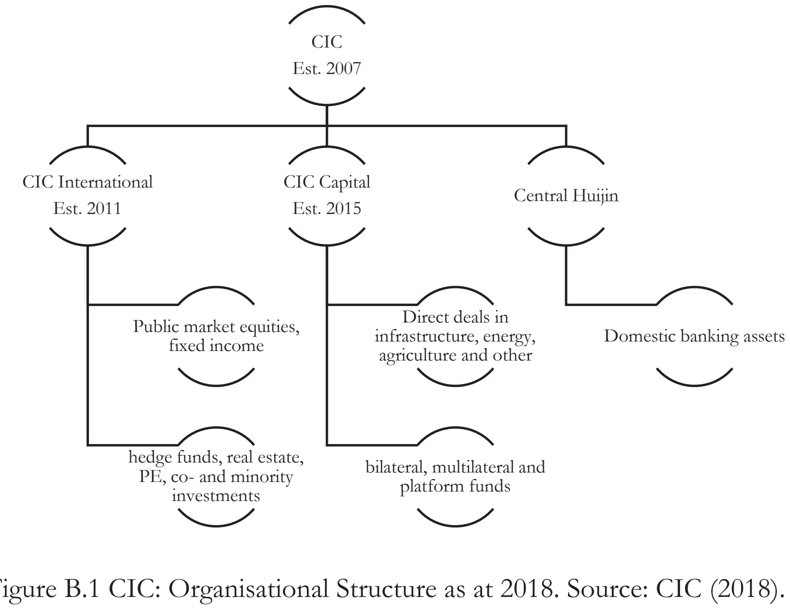
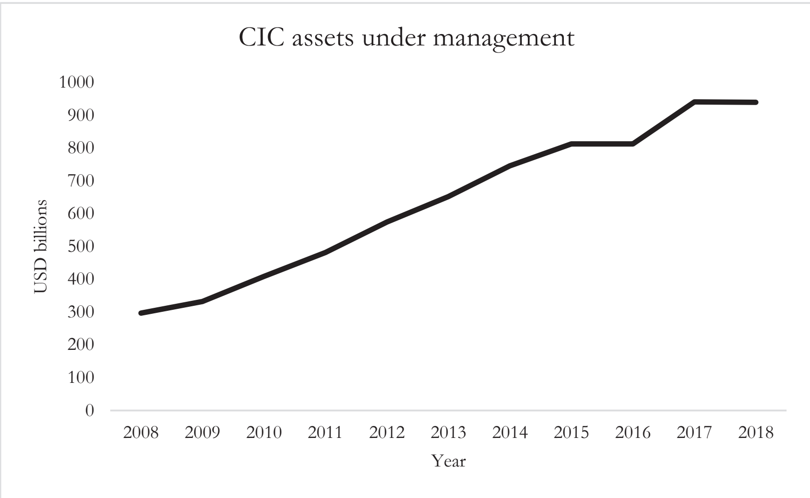


Figure B.1 CIC: Organisational Structure as at 2018. Source: CIC (2018).

Although the CIC is internationally regarded as a global SWF, when speaking of the CIC's global investment activities, it is to only CIC International and CIC Capital that we refer. As indicated by the distribution of staff, Central Huijin, CIC's domestic banking arm, is more than double the fund's global portfolio. Of the 660 staff at CIC as of June 2019, only 205 belong to CIC's global investment arms(CIC, 2019).

Assets under management reflects the same dynamic. The CIC's global portfolio comprises a combined USD 280 billion while Central Huijin holds a combined USD 620 billion in state-owned financial equity as of year-end 2018, approximately 40 per cent of central state-owned banking capital.

Injected with an initial 200 billion in registered capital in 2007, the CIC has realised an annualised cumulative net return of 5.18% since inception. However, the ride has not been smooth. The CIC has had to contend with a poor global investment climate on the heels of the financial crisis when the CIC posted heavy losses in a number of financial acquisitions, and again around 2015 when growth plateaued.



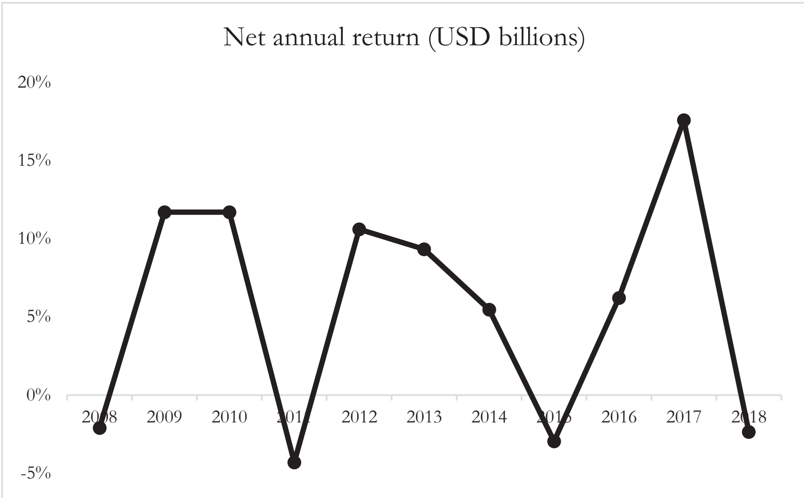


Figure B.2 CIC assets under management and net annualised returns in USD billions, 2008-2018. Source: CIC (2020).

The CIC was established as a global SWF with a mandate to diversify China's foreign reserve holdings, however the majority of holdings belong to Central Huijin, a pivotal organisation charged with managing the state's banking sector. To understand the CIC's unique structure, it is important to understand the bureaucratic and macroeconomic beginnings of the organisation.

B.2.1 Contentious beginnings

The CIC was born out of an inter-ministerial turf-war between the reformist central bank, the People's Bank of China, and the central planners, the Ministry of Finance. At the time, the State Administration of Foreign Exchange, which regulates access to the state's foreign exchange holdings, was administered by the central bank, and was charged with managing the country's growing pot of US dollars.

The CIC's beginnings inform heavily the early attention paid to the organisation from within China and the domestic pressure on the CIC to outperform its central bank counterpart, the State Administration of

Foreign Exchange. The question of what to do with China's sizeable foreign exchange reserves and subsequent increase in money supply, had spurred discussion among policymakers. China's foreign exchange reserves had grown from just over USD 250 billion in 2001 to over USD 2 trillion in 2009. Proponents from the Ministry of Finance desired more

Birds of a feather

The CIC is not China's first nor only SWF. The State Administration of Foreign Exchange established a Hong Kong subsidiary in 1997, which has been actively managing a portion of the country's foreign reserves ever since (C. Walter & Howie, 2012). It both regulates and manages the state's foreign reserve holdings and it is the exclusive organ designated to clear foreign currency into renminbi for Chinese banks. As such, the State Administration of Foreign Exchange is an essential administrative step in realising projects for cross-border state-owned trade and investment. As of 2020, it manages China's official reserve assets of USD 3.2 trillion.

The other prominent SWF is the National Social Security Fund. As its name suggests, the fund is primarily intended to complement the state's social security system with conservative investment returns. Established in 2000, it is the sole SWF mandated to ensure national social security funding and relies almost exclusively on third-party assets managers. With a considerably narrower investment mandate, it differs from the CIC in terms of its ability to undertake higher risk, strategic or direct investments (Norris, 2016). As of 2018, the National Social Security Fund has over USD 322 billion in assets under management, the bulk of which is invested in domestic assets.

Relative to the State Administration of Foreign Exchange, the CIC is modest in size, but it is the only organ officially mandated to diversify the country's foreign exchange holdings as a global SWF. The CIC has autonomy over its own foreign exchange, giving it significant latitude to invest overseas. Moreover, buoyed by the successful public listing of three of the Big Four banks on the Hong Kong Stock Exchange, CIC was able to use the dividend payouts from its bank holdings to offset the early losses from its global investment portfolio.

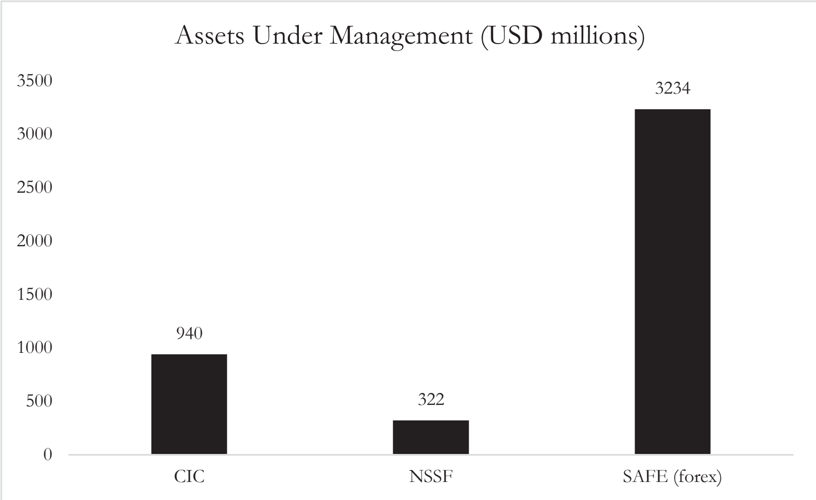


Figure B.3 Chinese SWFs assets under management, 2018. Sources: (NSSF, 2019; CIC, 2019; SAFE, 2020)

aggressive reserve management, who ultimately won out in this bureaucratic tussle and a significant portion of reserves were to be administered by a new entity, the CIC, which would manage a hefty portion of China's foreign reserve holdings, and with the absorption of Central Huijin, then owned by the central bank, restructure the financial system. CIC was fully incorporated in 2007 and capitalised via a Ministry of Finance special treasury bond issue of USD 200 billion to the central bank. The interest on the bond issue was expected to be paid out of CIC's own coffers, creating considerable pressure for the newly established entity (C. Walter & Howie, 2012).

Adding fuel to the fire were the regulatory rumblings taking place at the global level. The CIC among other emergent SWFs had raised concern among recipient nations including the US and the EU. Larry Summers, then US Secretary of the Treasury, had publicly called for oversight (L. Summers, 2007). SWFs were in the spotlight because they represented the growing significance of state capitalist countries like China, Russia and Singapore in issues of national security. Beginning in 2005, the Dubai

Ports World controversy, where the United Arab Emirates-based SOE attempted to acquire US port management businesses at 6 major US ports, had ignited discussion within the US surrounding the national security implications of acquisitions by foreign governments. US Treasury then lead multilateral efforts that ultimately resulted in the Santiago Principles, a set of best practice principles for global SWFs, established in 2008. In the wake of these developments, the CIC was not only facing scrutiny from domestic regulators, but also internationally.

B.3 The History of the CIC

The history of the CIC can be characterised by three phases. The early years from 2007 to 2010, defined by learning, a paired-back organisational structure, and a focus on financial acquisitions. Coinciding with the global financial crisis, the CIC committed to a series of bold financial investments that reflected a willingness to take on risky projects. Next came the middle years from 2011-2014 characterised by a scaling back of the kinds of high-profile investments made in the early period. This is an era of retrenchment for the SWF, with greater attention to organisational capacity building. Around this time the CIC also ventured into new partnerships with SWFs and private institutional investors via bilateral and multilateral partnerships that resulted in a series of successful infrastructural acquisitions. Finally, in the post 2015 era, the CIC takes flight. With the establishment of CIC Capital, the SWF renewed its commitment to diverse forms of direct investment and partnerships amidst the shifting sands of China's domestic and international economic outlook. We lay out these three periods of CIC development in the penultimate sections of the chapter.

B.3.1 The early years: 2007-2010

The period from 2007 to 2010 is characterised by a high degree of learning for the CIC. Moreover, this learning was largely based on adopting existing systems and practices. The organisation of the CIC emulated the internal structure of funds from abroad. Prior to the establishment of CIC International and CIC Capital, the structure of the organisation was much more paired back. The global portfolio was still managed under CIC as a single entity, and so meant that direct investments could be considered part of the same portfolio as public market equities and fixed income, restricting managers' discretion in pursuing direct projects that they would later have under CIC Capital.

To build capacity, the CIC adopted two major strategies. First, the organisation insourced professional talent via the recruitment of returnees and the aid of institutional peers who provided pro-bono expertise. The first chairman of the CIC, Lou Jiwei, a former Ministry of Finance official, led an experienced team of senior executives, including Jin Liqun, current Chairman of the Asian Infrastructure and Investment Bank, who had served in senior positions at the Asian Development Bank, the World Bank, and the Monetary Policy Committee of central bank prior to joining the CIC.

However, the SWF lacked a tranche of middle management that would have the required experience to build operational and investment capacity from the inside. The CIC has always maintained an active policy of recruiting returnees from abroad. In the 10 years since incorporation, the number of global investment staff with overseas education or work experience has grown from over 50 to 82%.[65] Yet the average age of global investment staff, based on 2018 figures, averages 38, reflecting the relative youth of the organisation.

The CIC tried to bridge the gap between new graduate hires and senior management by stipulating a hiring policy of a minimum of six years of relevant international experience. Another, arguably more immediate solution, was the secondment of professionals from institutional peers to the CIC. These arrangements were particularly common in the early years when CIC was heavily reliant on external expertise. They helped to build up operational and managerial capacity. CIC had reached out to a number of other banks for assistance to fill out the missing middle layer. Morgan Stanley, which CIC had acquired a minority stake in 2009, was one such partner who in 2008 tasked operational personnel to advise on the right infrastructure for the CIC. One consequence of the recommendations made was the establishment of an independent investment management

[65] See CIC Annual Reports, 2008-2018, http://www.china-inv.cn/chinainven/Media/Annual_Report.shtml

operations team that would separate out the operational requirements of the SWF from the management of information technology.

The second strategy was to outsource the firm's investment management functions. In 2009, 59% of CIC's global portfolio was externally managed, a proportion that has essentially stayed the same in the decade since. Working with long-standing peers like Goldman Sachs, Morgan Stanley, and HSBC as well as PE funds like KKR, TPG, Blackstone and Carlyle Group has been critical for deal sourcing. These relationships have coalesced into several key acquisitions in the financial sector. The association with Blackstone led to one of the CIC's largest direct transactions to date. In December 2017, CIC acquired Logicor, Blackstone's European logistics portfolio, in a EUR 12.25 billion transaction (CIC, 2018a).

Failing to take flight

CIC was aggressive in acquiring financial investments from the get-go. The then new SWF was on a mission to achieve higher returns than the low yield US Treasuries of which the majority of China's dollar reserves were held in. In the spring of 2007, CIC acquired a 9.9% stake in Blackstone in a USD 3 billion transaction at their peak in the PE fund's IPO, with no discount or influence, while barring the CIC from selling for four years or making similar investments for a year. Blackstone's share price fell sharply shortly thereafter, and CIC's stake value halved a year later. Similarly, CIC purchased USD 5.6 billion in mandatory convertible securities of Morgan Stanley common stock amounting to a 9.86% stake, which was later followed up in 2009 with USD 1.2 billion of Morgan Stanley common stock. In contrast to the Blackstone transaction, which was concluded in a matter of weeks, the CIC was more careful in the Morgan Stanley acquisition, which was preceded by months of negotiation. Nevertheless, the deal lacked the kinds of protections SWFs like Temasek and Kuwait Investment Authority received when they invested in Merrill Lynch, such as the right to receive more favourable terms if more favourable terms were extended to subsequent investors. These early forays into US banking were heavily devalued in the wake of the global financial crisis, drawing much criticism from within China where the CIC was still in the limelight (Kwong, 2008; Sender, 2008; Sender & Wighton, 2007).

The Blackstone deal also came at a time when other state-owned banking giants were facing scrutiny from their overseas losses. China Development Bank had purchased a 3.1% stake in Barclays Bank in order for Barclays to increase its offer to purchase ABM Amro (Sanderson & Forsythe, 2015). By end of 2008, Barclays share price had fallen by 70%. These early purchases were indicative of the growing pains experienced by the CIC and the pressure it was under as a fledging organisation with USD 200 billion of public money to manage, and informed to some extent the tone of relations with the Ministry of Finance moving forward. In 2010, the CIC had requested an additional USD 200 billion capital injection from the Ministry of Finance, but that was eventually cut back by half by the Ministry of Finance.

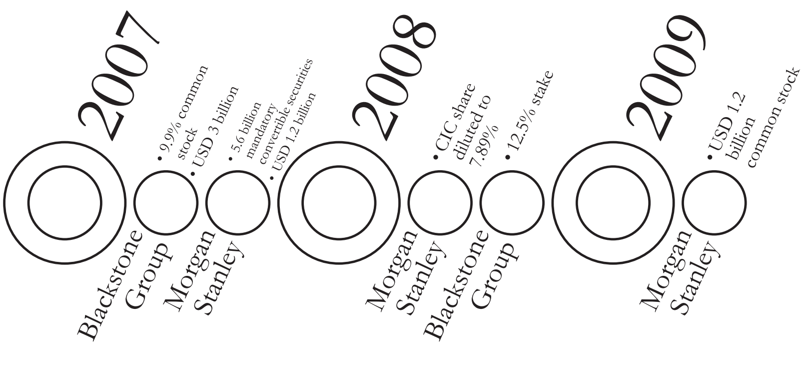


Figure B.4 CIC's first forays into finance, 2007-2009. Source: CIC (2009)

B.3.2 The middle years: 2011-2014

In the aftermath of the global financial crisis, the CIC sought to strengthen the foundations laid previously. If the early years of the CIC were characterised by learning through adoption and bold acquisitions in finance, the middle years were defined by a maturing of organisational capacity and a venturing into diverse forms of partnership. Such arrangements were then helpful in securing a number of energy investments reflective of policy priorities at the national level.

In 2011, the Board of Directors extended CIC's investment performance target to be based on a 10-year horizon. The extension gave the CIC latitude to restructure the organisation in a way that was more resilient and aligned with the nature of the fund as a long-term investor, and less beholden to short-term volatility and liquidity risks. The CIC established CIC International, which legally separated the SWFs global portfolio from Central Huijin. For all intents and purposes, these two entities became operationally distinct. CIC opened subsidiary offices in Toronto and Hong Kong in the same year, expanding the SWF's operations abroad, and facilitating access to local market knowhow. The opening of the Toronto office, in particular, is not without significance, given the size of Canada's mining sector and CIC's focus on energy investments in this period.

The CIC also made a number of refinements to its project cycle. The SWF streamlined its investment decision-making, inaugurated a project management system, set up a dealing room, experimented with a number of allocation and investment benchmark adjustments, and established a separate PE investment model that would precede the establishment of CIC Capital in 2015.

B.3.2.1 Peer-to-peer

These kinds of organisational changes facilitated the fund's exploration of diverse forms of peer partnership that saw it leverage its size for knowledge, expertise and local knowhow brought by its partners. In 2014, CIC signed 44 deals including PE, co-investments and direct investments. These included CIC's first forays into partnerships with other SWFs in the form of bilateral government-to-government arrangements. In 2011, the CIC established the Russia-China Investment Fund together with Vnesheconombank and the Russian Direct Investment Fund and entered talks with FPIM to set up a limited partnership, the Spiegelfonds. Similar discussions were held in 2014 to set up a multilateral fund with the

Association of Southeast Asian Nations to promote regional investment cooperation.[66]

Oil, gas, mining and infrastructure
In lieu of building up its long-term asset portfolio, the CIC prioritised direct investments in oil, gas, mining and infrastructure to 'gear investments toward lower risk assets, such as steady return assets and resource-related assets' (CIC, 2018a). The government had also prioritised energy security to meet the country's developmental needs. SOEs like the China National Offshore Oil Corporation were making key acquisitions in oil and gas giants like Canada's Nexen. CIC followed suit, acquired a number of energy and infrastructure assets, including a USD 3.15 billion minority investment in GDF Suez (now Engie), a 10% stake in Heathrow Airport entailing board representation, and an 8.68% stake in Thames Water, the UK water and wastewater company.

By 2014, direct acquisitions in these sectors became increasingly challenging as recipient countries sought to introduce tougher foreign investment regulations. The groundwork laid in establishing peer-to-peer partnerships would however pay off in subsequent years.

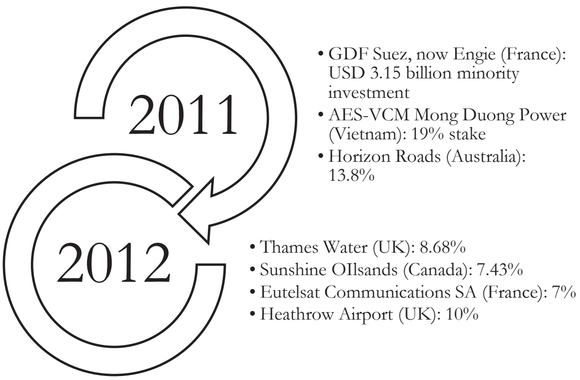


Figure B.5 Key CIC deals in oil, gas, mining and infrastructure, 2011-2012. Source: CIC Annual Reports (2012; 2013).

[66] See CIC Annual Reports, 2011-2014, http://www.china-inv.cn/chinainven/Media/Annual_Report.shtml

B.3.3 CIC takes flight, 2015-now

The CIC has gradually come into its own from the period beginning 2015. Supported by government initiatives to encourage outbound investment, the CIC found new ways to overcome a challenging global investment climate via new consortium and partnership arrangements that allow it to leverage its expertise and access to the China market.

In 2015, CIC Capital was established with a mandate to manage the fund's direct, bilateral, multilateral and platform fund investments. CIC recognises the distance to be covered to become internationally competitive. Citing Chinese companies' poor overseas merger and acquisition completion rate, President Tu Guangshao remarked on the need to develop a long-term, systematic overseas acquisition strategy (Tu, 2017a). The organisational layout of CIC Capital reflects those existing industries prioritised for direct, long-term holdings, including infrastructure, mining, energy, and agriculture. The restructuring has granted greater autonomy to the appraisal and management of direct investments, which were previously authorised under a single investment committee for CIC's entire global portfolio. CIC Capital was set up with its own investment and management committee charged with independent decision-making from CIC International, which focuses primarily on public market and fixed income investments.

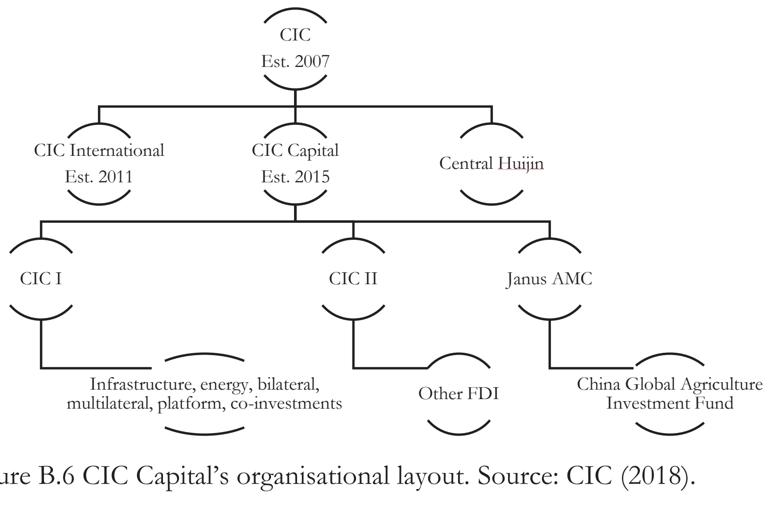


Figure B.6 CIC Capital's organisational layout. Source: CIC (2018).

B.3.3.1 The CIC Ecosystem

In this period, CIC undertook a number of consortia deals that facilitated deal-making in priority industries. With private investors, CIC acquired stakes in European infrastructure assets. In 2015, CIC along with Allianz Capital and MEAG Munich ERGO, acquired minority stakes in Tank and Rast, a German autobahn service provider. Similarly, acquisitions like that of Danish telecoms provider TDC in 2018 typify the benefits of consortia deals where CIC can leverage the expertise of long-term global infrastructure funds like Macquarie Infrastructure and Real Assets, as well as the local knowhow of three leading Danish pension funds.

With Chinese SOE partners like COSCO, Chinese shipping industry veterans, CIC acquired 65% of Kumport, Turkey's largest container port. Similarly, CIC put up 15% of the original investment in the Silk Road Fund, a key investor in BRI projects.

CIC also established several fund partnerships in this period to meet specific strategic objectives. The US market has always presented a challenge for the CIC in terms of direct investments. In its first ever co-general partner arrangement, CIC and Goldman Sachs established the USD 5 billion China-US Industrial Cooperation Fund to target US companies with China market potential. Similarly, a partnership with the Ireland Strategic Investment Fund, called the China-Ireland Growth Tech Fund II, was established in 2018. The new fund enables CIC to take on VC, an area that CIC, with a minimum investment stake of USD 100 million, cannot scale in-house.

Most recently in 2020, CIC announced the France-China Cooperation Fund in partnership with BNP Paribas and Eurazeo with close to EUR 400 million in first round funding. Like the CIC-Goldman fund, the France-China Cooperation Fund targets companies aiming to grow in China.

These partnerships are indicative of CIC's evolving strategy in adapting to broader economic transformations at the global and domestic level. First, domestic economic policy has shifted from low-cost export-intensive development to an emphasis on indigenous innovation, technological upgrading and consumption-led growth. Second, Western countries have become increasingly difficult to penetrate owing to the tightening of foreign investment regulation and national security reviews.

CIC has sought to leverage its 'China perspective', that is, CIC's knowledge and access to the China market, to meet these dual challenges. Bilateral and multilateral funds like that of CIC and BNP Paribas are a means of Going Out, Bringing In, securing foreign expertise and access with local partners, in exchange for capital and access to the China market. This has meant the promotion of partnerships with Chinese SOEs and financing. In 2018, CIC constructed a CIC ecosystem application to facilitate intra- and inter- organisational information sharing within the CIC group institutions, or 'Greater CIC'. The CIC ecosystem is a '1 + 3 + N' configuration of CIC, CIC International/CIC Capital/Central Huijin, and domestic and foreign partners and Central Huijin's holding companies. The three-tiered '1 + 3 + N' configuration specifies enhanced information sharing and cooperation among the CIC international investment departments, the leveraging of CIC's international investment capabilities and domestic know-how in the interests of expanding Central Huijin's domestic holdings, and to foster cross-border business among the 'N' partners of the CIC ecosystem. Linking these CIC constituents enables the organisation to 'firmly grasp the strategic positioning of Chinese enterprises' overseas investment in order to better play the sea' (Tu, 2017b).

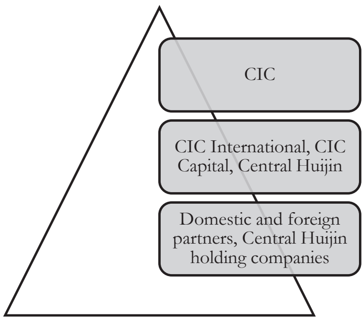


Figure B.6 The CIC Ecosystem. Source: CIC (2018).

CIC has also sought to implement BRI policy as a means of capitalising on the 'China perspective', for instance with brownfield infrastructural projects in the Balkans. In 2015, CIC put up 15% of Silk Road Fund's initial investment, a key BRI financing vehicle. As President Tu had put it, 'by strengthening the construction of the BRI we can expand a new way of investing abroad' (Tu, 2017a).

CIC's strategic choices in the last five years show how the SWF has evolved in a manner where it is increasingly able to harness its own institutional capacity and carve out an organisational vision that capitalises on its unique identity at the intersection of domestic and international capital.

B.4 Conclusion and future scenarios

The CIC has evolved, from contentious beginnings that thrust the SWF into existence, to an organisation increasingly able to forge its own strategic path. It is an organisation that has needed to adapt with the times, equipping it with the kind of resilience needed in the current investment climate.

The global economy holds unprecedented challenges for SWFs. Markets have been rocked by the spread of COVID-19 and governments globally have intervened to maintain stability. With the provision of stimulus plans, tapping of reserve funds and new bond issues comes rising protectionism against foreign investment.

In the foreground for the CIC is the ongoing US-China Trade War, which has accelerated Beijing's efforts to reduce technological and economic reliance on the world's largest economy without compromising the world's reliance on China. The Chinese economy currently underpins 40% of global supply chains.

Given the current political economic landscape, we can foresee two key considerations for the CIC. First, the SWF will attempt to balance its mandate to diversify foreign exchange reserves with the current thrust of industrial policy, which favours domestic investment. This means the fund will pivot more toward its domestic portfolio and engage in partnerships and consortia deals supported by CIC's 'China perspective' that bring foreign technology to China or cultivate domestic enterprise. The CIC ecosystem is one such long-term strategy that will place the CIC on a trajectory to integrate itself deeper into the intra-state network of SOEs, state banks and funds targeting priority technologies like semiconductors and microchips.

Second, the CIC has autonomy over its own reserves. In contrast, central-level SOEs that are realising the bulk of foreign projects are heavily invested in BRI countries, which are coordinated at the government-to-government level. For the CIC, whose target markets are non-BRI countries in Europe and North America, minority stakes will be the way forward, but where the commercial terms, regulatory environment and the optics of any given transaction are equally decisive for deal making.

Unchartered waters lie ahead for SWFs. The CIC's ability to weather the coming storm is ultimately dependent on its ability to build lasting arrangements to bridge the divide between the demands of China's domestic and international markets.

Appendix C: Database of Chinese construction projects in the Western Balkans

The following provides a baseline survey of *ongoing* infrastructure projects in the Balkans involving Chinese state-owned construction firms as at December 2020. The total value of ongoing projects in the region totalled EUR 14.44 billion. Only those projects that have progressed beyond MOU stage are included, that is, at the very least where preliminary agreements identifying the key parties, investor and main contractor, have been signed. Completed projects, that is, projects that have already been handed over to the investor/operator, are not included, for instance Mozura Wind Park in Montenegro. Since these projects have already been handed over to the investor/operator, there is no longer Chinese construction involvement and have therefore limited data to offer in terms of sub-contracting dynamics and labour conditions. A total of 24 projects were identified as ongoing. Two each in Montenegro and North Macedonia, nine in Bosnia and Herzegovina, and 11 in Serbia. Although all six Western Balkan states were within the scope of this report, with the exception of a concession to operate Tirana International Airport by China Everbright Group, neither Albania nor Kosovo yielded any active construction projects.

In the tables included below, projects are classified by infrastructure **sector** e.g. energy, transport; **sub-sector** e.g. coal, highway; **project type** e.g. EPC or EPC+F; **project value** in EUR; the terms of **financing**; the **investor** e.g. Roads of Serbia; the **main contractor** e.g. Power China, and identifiable **sub-contractors**; **labour** specifying the number of workers; **timeline** for expected completion; and additional **notes.** I include a separate reference list of documentary sources used to compile the survey.

Table C.1 Bosnia and Herzegovina.

Name	Sector	Sub-sector	Project Type	Project size	Financing	Investor	Main Contractor/ Sub-contractors	Labour	Timeline	Notes
Ulog 35MW Hydro-power Plant	Energy	Hydro-power	EPC+F	EUR 44 mill	CDB (last rumoured 2019)	Privately-owned EFT Group (Serbia) holds 30-year concession to operate	Sinohydro		Construction deadline is 2020, but may be delayed due to Covid-19. Original construction period of 42 months.	
Dabar 160MW Hydro-power Plant	Energy	Hydro-power	EPC	EUR 200 mill	Pending	Elektro-privreda Republike Srpske and its subsidiary Hidroelek-trane na Trebišnjici (HET)	China Gezhouba Group, subsidiary of China Energy Engineering Corporation (CEEC)		Commercial contract signed May 2020.	
Banovici 350MW Thermal Power Plant	Energy	Coal	EPC+F	EUR 500 mill	ICBC to provide 85% loan financing. Estimate is placed at EUR 425 mill	RMU Banovici	Dongfang Electric Corporation Limited		Under construction. Expected completion date was in 2018 but construction delayed.	

3 hydro-power plants: Buk Bijela, Foca, and Paunci along the Bistrica River	Energy	Hydro-power	EPC+F	EUR 100 mill	ICBC rumoured	Elektro-privreda Republike Srpske	China National Aero-tech-nology Interna-tional Engineering Corp. (AVIC-ENG)		Feasibility study deadline of 9 months after contract awarded in Dec 2019. Financing yet to be secured. All RS pro-jects with China have been halted due to Covid.	Contingent on commence-ment of construction works is that AVIC would construct a pipe manufactur-ing plant in the nearby town of Foca. AVIC will also cover the feasibility study for the construction of the airport in Trebinje.
Pocitlj-Zvi-rovici, Corridor Vc (TEN-T)	Transport	Highway	EPC	Total value: EUR 100 mill. Lot 1: EUR 55.6 mill; lot 2: EUR 28.1 mill	EUR 1 mill EIB loan; EUR 5 mill WBIF grant	Autoceste FBiH	Lot 1: China State Construc-tion Engineering Company (CSCEC); lot 2: Azvirt, Sinohydro and Power China Road Bridge Group		Construction began December 2019 on lot 1 with a construction term of 24 months. Construction term on lot 2 is 30 months.	

Banja Luka-Mliniste, 62km of	Transport	Highway	EPC+F	EUR 1.4 bill	Exim	Autoceste FBiH	Power Construction Corporation of China (Power China) and Sinohydro		Construction status unknown. Project delayed for 4 years after signing of agreement in 2014 pending financing.	
Tuzla TPP, Block 7, 450 MW thermal power plant unit in Bosnia's Federation	Energy	Coal	EPC+F	EUR 722 million	EUR 614 million Exim loan to cover 85% of the construction of the new block. The maturity of the loan is 20 years, with a 5-year grace period. The loan will cover 85 % of the investment, while the remaining 15 % will be provided from EPBiH's own funds.	Elektroprivreda BiH	Chinese consortium led by China Gezhouba Group, subsidiary of China Energy Engineering Corporation (CEEC). Three Bosnian civil engineering companies - ITC Zenica, Prijedorputevi and Integral Inzenjering subcontracted.	15 Chinese engineers and 1000 Chinese workers to join the works in phases.	Construction started August 2020. Estimated 56 month construction period.	Largest post-war investment in the country

Banja Luka-Prijedor-Novi Grad (E-661), 42km	Transport	Highway	EPC+O: 33 year concession to operate	EUR 297 mill	CSI will pay a one-off EUR 4.47 mill fee for the concession contract plus an annual fee of EUR 32.5 mill.	Auto-putevi RS	China Shandong International Economic and Technical Cooperation Group (CSI), subsidiary of Shandong Hi-Speed Group, for construction and operation.		Concession contract signed October 2018. Three year construction period. Completion expected 2023.	
St Apostle Luke Hospital in Doboj	Building	Hospital	EPC	EUR 45 mill	Republika Srpska	City of Doboj/ Republika Srpska	China Sinopharm International Corporation		Work began in January 2020. Term of completion is 36 months.	

Table C.2 Montenegro.

Name	Sector	Sub-sector	Project Type	Project size	Financing	Investor	Main Contractor/Sub-contractors	Labour	Timeline	Notes
Bar-Boljare, section 1, 41km, of E-763	Transport	High-way	EPC+F	Estimated value has increased due to exchange rate volatility, now approaching EUR 1 bill. Total value of the highway is EUR 1.6 bill.	Exim financed 85% of the first section, worth EUR 809 mill at 2% interest on a 20-year repayment scheme and 6 year grace period. Construction materials exempt from VAT.	Ministry of Transport, Montenegro	China Road and Bridge Corporation (CRBC, subsidiary of CCCC) to build the first section. MOU signed to complete the rest on a PPP basis. 30% of sub-contracting to go to domestic firms.	3605 workers are building the first section when construction began in 2017, 2/3 of which are from CRBC, 1/3 local Montenegrin. Approximately 480 workers were unable to return to the construction site during the Covid lockdowns in spring 2020.	Under construction. Construction term of 4 years was due September 2020. By February 2020, 83% had already been completed. New annex has been signed to the commercial contract extending construction term to June 2021.	Only section 1 of 4 has been realised of the total length of the highway. For the remaining sections, the Montenegrin government signed an MOU in March 2018 for CRBC to build and Exim to finance with a loan worth EUR 1.5 bill. The government is looking into PPP financing with private concession to operate for 30 years.
Pljevlja Thermal Power Plant, block 1	Energy	Coal	EPC	EUR 54.4 mill	Unknown	Elektroprivreda Crne Gore (EPCG)	Consortium of Dongfang Electric, Bemax, BB Solar and Permonte for modernisation of the existing plant. Preliminary design made by Steag Energy Services.	ECPG currently employs 1200 personnel at the power plant and nearby coal mine.	Commercial contracts signed March 2020. A 39 month completion period, with a 24-month guarantee period. Completion due in 2023.	EPCG has committed the project to be compliant with EU Directive 2017/1442 on environmental standards for large combustion plants. It is Montenegro's only coal-fired power plant.

Table C.3 North Macedonia.

Name	Sector	Sub-sector	Project Type	Project size	Financing	Investor	Main Contractor/Sub-contractors	Labour	Timeline	Notes
Kicevo-Ohrid, 57km, Corridor 8; Miladinovtsi-Stip, 53km	Transport	High-way	EPC+F	EUR 187 mill additional value estimated in Nov 2018, bringing total value of the project from EUR 411 to EUR 598 mill	Original Exim loan valued at EUR 496 mill at 2% interest with a 20 year payback period for both Kicevo-Ohrid and Miladinovci-Stip, but figure has since been revised	Macedonian Public Enterprise for State Roads	Sinohydro (Power China sub) with sub-contractor Macedonian Granit Construction Stock Co, and GIM, Euroconsulting and GEING Krebs and Kiefer to provide engineering services	49% to be Sinohydro contracted	Estimated completion by middle of 2021 for Kicevi-Ohrid. Miladinovtsi-Stip opened to traffic in 2019.	
Krupiste-Kocani, 14km section of the Stip-Kocani expressway	Transport	High-way	EPC	EUR 18 mill	EBRD loan financed	Macedonian Public Enterprise for State Roads	Sinohydro Bureau 7, subsidiary of Power China.		Contracts signed in 2019. Construction yet to begin. Construction period of 2 years.	

Table C.4 Serbia.

Name	Sector	Sub-sector	Project Type	Project size	Financing	Investor	Main Contractor/ Sub-contractors	Labour	Timeline	Notes
Belgrade-Nis, Corridor X	Transport	Rail	EPC+F	EUR 1.059 for all 3 sections. Section 1: EUR 304 mill; section 2: 562 mill; section 3: EUR 157 mill	Financing yet to be determined. In October 2020, Vucic asks EU for grant to cover 50% of the construction works. If not provided, the full tender would be awarded to CRBC. Ambassador to Serbia Chen Bo agreed to expedite the loan with Exim for the project, reportedly from the usual 18-21 months down to 3 months	Serbia Railways Infrastructure	CRBC (CCCC sub) has submitted a bid. Preliminary design with feasibility study and environmental impact assessment has also been carried out separately with PPF8 funds from the IFA and WBIF		CRBC signed a framework agreement to construct the first section in 2018, but financing is yet to be determined.	

Belgrade-Subotica, Corridor X, 2 sections: Belgrade-Star Pazova; Novi Sad-Subotica	Transport	Rail	EPC+F	Belgrade-Stara Pazova: EUR 300 mill; Novi Sad-Subotica: EUR 943 mill	Exim loan worth EUR 1 billion	Serbia Railways Infrastructure	CRI-CCCC are the main contractor. In addition, a reported 170 subcontractors are involved. China Railway 21st Bureau Group is a labour sub-contractor, under which are contracted various Chinese labour sub-contractors and Serbian sub-contractors. Unclear whether Nikolic Doo, a local construction firm was sub-contracted to the Chinese sections, in addition to the Russia-financed RZD section. Serbia CIP also involved in redesign of the project.	In March 2020, a reported 362 workers were working on the section Belgrade-Stara Pazova. Estimated ratio of Chinese to Serbian workers is 4-500:100. In 2020, controversy surrounding Nikolic Doo and unpaid Indian workers on the project came to light, including unlawful contracts, poor working conditions. Nikolic Doo was in mid-2000 purchased by Marera Property Mgmt.	Section Belgrade-Stara Pazova: works began June 2018, expected completion date within 36 months, in autumn 2021. Works began end of 2019, for construction period of 2.5 years with estimated completion in the summer of 2022 [must be delayed because of Covid].	One of the first BRI projects committed in the Balkans

Belgrade Bypass: Section B, lots 4, 5, and 6 (20.4km); Section C	Transport	Highway	EPC+F	Section B: EUR 207 mill; section C: EUR 450 mill (based on technical documentation)	Section B: Exim loan of EUR 184 mill to cover 85% of the total cost of lots 4, 5, and 6, with 15% from the budget of Serbia. In 2017, an annex was added to the contract changing the currency from EUR to RMB. Section C: an estimate of EUR 510 mill loan obligation with funder undetermined.	Roads of Serbia and the Ministry of Construction, Transport and Infrastructure.	Section B: Power China and Azerbaijani firm Azvirt. Agreed 49% local labour minimum. Machinery operation mostly sub-contracted to Serbian firms. Section C: MOU has been signed with Power China and Azvirt.	Lots 4, 5, and 6 of project B: 350 workers. Works delayed due to Covid-19. New workers were meant to be brought over in February 2020, but unable to travel due to visa restrictions	Construction on Section B started September 2018, with a construction term of 47 months, including 12 months for delayed commencement on B6. B4 due for completion end of 2020; B5 end of 2021; B6 end of 2022.	
Kostolac B Thermal Power Plant: B1 and B2 revitalisation and construction of a new 350MW B3 unit	Energy	Coal	EPC+F	EUR 300 mill (B1 and B2 upgrade); EUR 522 mill (B3)	Exim loan to cover 85% of the construction of B3, with repayment period of 20 years, 7 year grace period at an interest rate of 2.5%. Loan is estimated at EUR 443 mill	Elektroprivreda Srbije	China Machinery and Engineering Corporation (CMEC). Several Chinese sub-contractors are engaged on specific sub-sections of construction. China Energy Engineering Company subsidiary Jiangsu First Electric Power Construction Company is subcontracted to build the chimneys on units B2, and B3	Currently 150 staff on site: estimated 80:20 Chinese to local	B1 and B2 completed July 2017. Expected completion of B3 due 2022, but owing to delays, only 50% of the construction works are completed. An estimated 2-3 years are needed for completion.	First new power plant to be built in Serbia in 30 years. Major environmental concerns over emissions.

Fruska Gora tunnel, Nova Sad-Ruma, 45.4km	Transport	High-way	EPC	EUR 660 mill	Exim loan. Amount undis-closed	Putevi Srbije (Roads of Serbia)	CRBC (CCCC sub) to build. Designer of preliminary design is the Highway Insti-tute, Belgrade. The feasibility study and environmental impact study for three sections are financed by the government of Serbia and Vojvodina.		Agreement signed October 2020. Expected completion by March 2024.	Longest tunnel in Serbia
Industrial Park in Borca	Building	Indus-trial zone	FDI: Green-field JV	EUR 300 mill	CRBC to invest EUR 220 mill	JV between Government of Serbia and CRBC	CRBC (CCCC sub)		Estimated start date of construction was March 2020. Assumed de-lays due to Covid-19	
TE-TO Pancevo 200MW thermal power Plant	Energy	Natural gas	EPC	EUR 180 mill	Majority Gaz-prom financed	JV between Centroener-goholding (sub of Gaz-prom Ener-goholding and Serbian oil firm Nis)	Shanghai Electric Group as main con-tractor. Italy's Ansaldo Energia to supply gas turbines and the generator.		Construction began March 2019, due for completion end of 2020. Likely delayed due to Covid-19.	

Kolubara B, 350MW Thermal Power Plant	Energy	Coal	EPC	EUR 385 mill	Unknown	Elektro-privreda Srbije	Power China	A predicted 220 staff will be required to man the plant and 1000 workers needed to complete construction.	Preliminary deal signed in early 2020. Construction due to begin 2021 with completion by end of 2024. Progress halted in September 2020 due to conflict over the public hearing on the spatial plan and environ-mental impact assessment.	
Preljina-Pozega of E-763, 30.1km	Transport	High-way	EPC+F	EUR 450 mill	Exim loan of EUR 381 mill	Putevi Srbije (Roads of Serbia)	CCCC		Construction started May 2019. Due to be completed Dec 2021.	

Belgrade Metro	Transport	Rail	EPC	EUR 4.4 bill for both subway lines: EUR 2.3 bill for line 1; EUR 2.1 bill for line 2	Donation from French government of EUR 8.3 mill. Serbia intends to borrow EUR 580 mill with EUR 80 mill from France. China expected to cover the financing for the Chinese portion of construction.	City of Belgrade, Ministry of Construction Transport and Infrastructure, PUC Belgrade Subway and Train	Power China as main contractor on construction works valued at 70% of project total. Alstom in charge of electromechanics, trains, rail cars etc. to make up the remaining 30%. Feasibility, conceptual design and environmental impact to be conducted by French firm Egis.		Construction expected to begin Dec 2021	
Resnik-Velika Plana upgrade, 84km	Transport	Rail	EPC	EUR 340	To be determined	Serbia Railways Infrastructure	CRBC (CCCC sub)		Framework contract concluded in 2019 for joint preparation of the technical and economic study for Corridor X railway. Technical and commercial details of specific subsections to be determined.	

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Impact paragraph

This book theorises the drivers and implications of the rise of China in the post-financial crisis world economy where the integration of Chinese state capital into global markets has taken on elevated significance. In answering the research question, How does Chinese state capital transnationalise? the book develops a novel analytical approach that grounds the rise of China in the specific historical and geographical context of post-2008 transnational state capital flows between China and Europe, assumes finance to have a material impact on what has largely been theorised as an expansionary economic phenomenon driven by trade and production, and takes seriously the micro-level of practice, process and agency in bringing about structural change in global capitalism.

The book offers an empirically nuanced account of the rise of China in world historical context and draws out its significance therein for global capitalist development. The empirical findings show how the transnationalisation of Chinese state capital has been a process co-constituted between state and private capitals across China and Europe that subvert expectations about the role of the Chinese state as a top-down unitary actor and the prevalence of arms-length market governance in Europe and North America. Through an articulation of the diverse institutions, actors, logics and practices constituting the transnationalisation of Chinese state capital, one of the main academic contributions of the book is to demonstrate how global capitalist development is characterised by hybridity, continuity and plurality, challenging long-held beliefs about the legitimate role of the state in the economy. The findings contribution to an interdisciplinary scholarly debate in political economy and economic geography that has recognised the changing role of the state in economic life.

The book captures a fundamental change in the global political economy characterised by the increasing visibility of the state. The findings, concerning the enactment of industrial policy in Western Europe and capacity-enhancing state transformations in Serbia speak to both the material and ideological changes that the transnationalisation of Chinese state capital has brought about in the world economy. The book demonstrates how the rise of China signals the growing legitimacy of state-led forms of economic governance.

The book observes a paradigm shift in what for the past three decades has been an ideological consensus at the global level concerning the 'right' way to do economic development. The state has been relegated to a supporting role, giving full shrift to the powers of the market and private capital in generating and distributing economic benefits to society. The rise of China and the concomitant effects it has engendered in the rest of the world has armed policymakers with a legitimate basis to pursue forms of economic intervention regarded as adverse to the healthy functioning of free markets. The book documents instances of governance characterised by ideological pluralism and combination, as opposed to hegemony and imperialism. As the findings on industrial policy in Ireland and Belgium attest to, even states in the advanced capitalist core where neoliberal forms of governance have become entrenched, have become more activist and ad-hoc in their approach to industrial development.

We have been witness to successive crises brought on by market failures, first in 2008 and most recently in the aftermath of Covid-19 where the largely monetarist response to rising inflation has hit ordinary households hardest. Across Europe, the imposition of price controls in the face of the energy crisis speaks to the necessity of state intervention at this contemporary conjuncture where the market has failed to enact redistributive justice. Future crises loom larger still in the form of global warming for which market-based solutions have yet to prove effective. When the time horizons required to bring about energy transition exceed those of the investment cycle determined by the market, the state may prove necessary to implement the kinds of coherent and coordinated response required to curb the appropriation of social value and extractive practices ingrained in the systems and processes that support modern life, and realise the wholesale infrastructural upgrades required to bring about a low-carbon society.

This book makes a case for enhancing the role of the state in dealing with society's most pressing issues. It absolves the states that have long-pursued state-led forms of economic development that have been castigated by hegemonic Washington Consensus institutions for poor economic governance and reveals the hypocrisy of pro-market politics where interventionist economic policies exist alongside level playing field rhetoric. The book provides a revisionist history of China's world integration that shows how capitalist development since the 2008 crisis has become increasingly pluralist, fragmented, hybridised and hypocritical. By showing what simply 'is' economic governance, the book prompts a reconsideration of what is 'right' economic governance.

Such ruminations resonate with respect to a number of policy-relevant audiences. First and foremost, the book lends support to an emerging consensus at the global multilateral level and within the EU about the changing role of the state in economic development. There is growing recognition and empirical support within the development community for stronger state intervention in developing, directing and implementing industrial development (Alami et al., 2021; EBRD, 2020). The shift in rhetoric poses challenges for development financing institutions like the IMF that have since the 2008 financial crisis reincorporated many of the mandated market liberalising reforms they no longer claim to support, including labour market liberalisation, reductions in the public sector wage bill, and government spending more generally (Kentikelenis et al., 2016). The reinstatement of such programmes has done little to appease peripheral states' concerns over their reduced policy manoeuvrability, instigating a further turn toward Chinese sources of state capital investment and the lack of conditionality it promises. For peripheral states, the transnationalisation of Chinese state capital offers an alternative to the prevailing development paradigm while for the Washington Consensus institutions it represents the emergence of an increasingly competitive market landscape to which they must adapt. As we have witnessed in recent years however, there has been neither an embrace of a global state-led consensus or a doubling down on market fundamentalism. Peripheral economies like Serbia are already combining developmental approaches to deliver development where Chinese state capital has been a major source of investment financing alongside EU sources. Conversely, China's own developmental path shows how escape from subordination within a world market context requires both autonomy and adaptation where an admixture of state control and market liberalisation have prevailed. Whether in the form of the de-risking state (D. Gabor, 2021), the investment state (Mertens & Thiemann, 2019), or the revival of industrial policy, we are likely to see an increasing pluralisation of development strategies.

Second, the findings frame global geopolitics in the years to come. Intensifying rivalry between China and the US will place pressure on the EU and third-party states to forge their own pathway forward without getting caught in the crossfires. Small states like Serbia walk a tightrope between EU, US, Russian and Chinese interests while the EU has sought to formulate a coherent foreign policy around the strategic autonomy initiative that distances the EU from its Atlantic neighbour while safeguarding EU economic interests in its commercial relationship with China. However, long-standing tensions between member states that straddle the Neo-mercantilist Europeanist-Neoliberal transatlantic divide, not to mention that between the eastern and southern periphery, threatens the development of a coherent policy agenda (Lavery et al., 2022). In the past few years, a host of legislative proposals have been launched to address the 'China threat', including the international procurement instrument, anti-coercion instrument, the European supply chain act, and an updated EU industrial strategy. The success of these proposals largely hinges on the competence they are designated, whether exclusive to the EU or shared with member states, but if they will follow the trajectory of the EU Foreign Investment Screening Framework, it is that such proposals are likely to result in initial legislation that is broad in substance, but limited in enforcement power, in order to accommodate the interests of all.

What is clear is that regardless of the multi-levelled politics that will continue to drive EU policy on China, there will be high demand for updated knowledge on the political economy of China and its engagements in Europe. Compared to the epistemic communities that bridge the Atlantic, Europe's source of knowledge on China is historically, culturally and linguistically less embedded, yet for those precise reasons all the more important to overcome. This book provides in-depth empirically-grounded research on the real-world messiness of the domestic drivers and implications of Chinese economic activity in Europe. If the EU is to truly 'level the playing field' within China, policymakers must first and foremost understand the multi-levelled nature of the Chinese state and its interactions with the rest of the world.

In contrast, the role of the Chinese state is taken for granted by Chinese scholars and policymakers and needs not be recapitulated to these audiences. The social significance of the book lies in making explicit the post-financial crisis global economy in which China's rise has taken place. In the space of three decades, China has graduating from an isolationist economy to the second largest economy in the world. The pace of growth renders it a huge challenge for Chinese policymakers to remain aware of its growing stature, the expanding limits of its political and economic power, and the implications of an extension of that power in the rest of the world. The findings shed light on the intricacies of European political economy, the simultaneous symbiosis and tensions between the Commission and member states, and the diverse impacts of Chinese investment within this context. Just as European policymakers require independent and updated knowledge on China, this book holds value for Chinese policymakers in understanding China's competences and limitations in its engagement with varied European interests, especially in the context of the emerging bipolar world order.

Engagement with these diverse policy audiences has been a fundamental part of this book project, initially as a source of primary data but that quickly morphed into an advisory relationship and a direct channel to disseminate the research findings. I have maintained a direct relationship with the European Commission through the Directorate-General of Economic and Financial Affairs (DG ECFIN) over the past three years. In June 2020, I gave a presentation on my fieldwork findings to over 70 officials from DGs ECFIN, Financial Stability, Financial Services and Capital Markets Union (FINSMA), and TRADE. Since then, ECFIN has consulted me on the EU position on the G7/G20 initiative on enhancing debt transparency. In addition, I have advised on Chinese state-owned investment for diverse stakeholder audiences including the International Forum of Sovereign Wealth Funds and Spanish business and enterprise, for whom I wrote an organisational history of the CIC (see Appendix B). I have moreover maintained a dialogue with my interviewees over the years, many of whom are incumbent in decision-making roles within multilateral development financing institutions, SWFs and other governmental organisations, sharing with them the research outputs generated over the course of writing this book.

Beyond direct channels, I have also disseminated my findings to civil society groups via the Centre for Research on Multinational Corporations and the Dutch trade union association, Handel Anders! concerning the implications of the EU-China Comprehensive Agreement on Investment for European labour for which I appeared on a panel discussion with prominent societal stakeholders including Dutch Member of European Parliament Samira Rafaela. Popular media has also been a means to remain socially engaged. I have written op-eds for blogs including the *Interpreter* at Lowy Institute and the Global Network on Financial Geography, and have been interviewed by *Bloomberg*, *het Financieele Dagblad*, and Serbian press concerning the findings in this book. Lastly but not least, I have sought to build out the epistemic community between China and Europe through the China in Europe Research Network (CHERN) comprising like-minded academics, policymakers and analysts.

This book has shone a light on the changing dynamics of one of the most fundamental relationships of social organisation of our time. It is my belief that, in revisiting the role of the state in the economy, we may better resolve the inherent contradictions of capitalism and that it is through closer linkages with the broader policy and civil community that scholars may better address society's most pressing challenges.

Nederlandse samenvatting

Sinds de financiële crisis van 2008 zijn er steeds meer buitenlandse investeringen vanuit de Chinese overheid? China naar de rest van de wereld gegaan. Een aanzienlijk deel van deze investeringen is afkomstig van de overheid, waardoor de activiteiten van Chinese staatsbedrijven en staatsinvesteringsfondsen op de wereldmarkten veel wetenschappelijke en populaire aandacht krijgen. Chinese staatsinvesteringen worden onder de loep genomen omdat ze een fundamentele verandering betekenen in de manier waarop de wereldeconomie wordt gezien. Sinds eind jaren zeventig worden de mondiale handel en investeringen geleid door een reeks neoliberale beginselen die de vrije werking van de markten moeten waarborgen en de activiteiten van de staat aan banden leggen. Particuliere bedrijven werden, in plaats van staatsbedrijven, beschouwd als de belangrijkste motor van de economische ontwikkeling.

De groeiende aanwezigheid van Chinees staatskapitaal op de wereldmarkten stelt lang gekoesterde opvattingen over legitieme vormen van economisch bestuur op de proef omdat staatskapitaal wordt geïnvesteerd om zowel commerciële als politieke opbrengsten te genereren die de belangen van de staat dienen. Staatskapitaal wordt in dit boek gebruikt om onderscheid te maken tussen staatseigendom en particulier eigendom, wat wordt geïnvesteerd om zowel commerciële opbrengsten als politieke opbrengsten te genereren die de belangen van de staat dienen. Particulier kapitaal wordt daarentegen uitsluitend gedreven door winstmaximalisatie.

Er bestaan echter veel misvattingen over waarom en hoe Chinees staatskapitaal in het buitenland wordt geïnvesteerd. De Chinese staat wordt vaak gezien als een unitaire politieke actor die alle bronnen van staatskapitaal gebruikt om geopolitieke doelen te bereiken die de internationale invloed van de Chinese staat vergroten. In dit boek zal het begrip transnationaliteit worden gebruikt om te betogen dat staatskapitaal niet alleen door een unitaire staat wordt geïnvesteerd, Het proces van investeren in staatskapitaal is veeleer transnationaal, waarbij een veelheid van staatsbedrijven, staatsinvesteringsfondsen, particuliere bedrijven en investeerders betrokken zijn die binnen de staat opereren maar ook daarbuiten.

De literatuur over de drijfveren en gevolgen van Chinese investeringen in staatskapitaal in vergelijkende politieke economie, internationale politieke economie en economische geografie heeft drie blinde vlekken waarop dit boek zich meer specifiek richt. Ten eerste is er onvoldoende aandacht voor de verschillende vormen van Chinese staatskapitaalinvesteringen in verschillende tijdsperioden en geografische gebieden. Ten tweede zijn financiële instellingen, actoren, logica's en praktijken een fundamenteel maar over het hoofd gezien middel voor Chinese staatsinvesteringen. Ten derde is er onvoldoende aandacht voor de wijze waarop investeringsbeslissingen en processen op microniveau vorm hebben gegeven aan de macro-structurele veranderingen in de wereldeconomie die het Chinese staatskapitaal teweeg heeft gebracht.

Het boek beantwoordt de onderzoeksvraag: hoe wordt Chinees staatskapitaal transnationaal?? Dit speelt zich af op drie geografische schalen waar financiën bijzonder essentieel zijn gebleken. Dit zijnde staat, de wereld en de regio. In de empirische hoofdstukken van het boek onderzoek ik in hoofdstuk 4 hoe de Chinese staat gebruik heeft gemaakt van financiële kanalen om staatskapitaal in Europese markten te investeren. In hoofdstuk 5 laat ik de rol zien van mondiale financiële professionals die de Chinese staatskapitaalstromen naar Europa hebben vergemakkelijkt. Hoofdstuk 6 beschrijft hoe Ierse en Belgische staatsfondsen naast Chinese staatsfondsen hebben geïnvesteerd in West-Europese bedrijven. Hoofdstuk 7 laat zien hoe in de Europese post-socialistische periferie, de Servische staat Chinese staatskapitaalinvesteringen heeft gemobiliseerd.

Op basis van veldwerk dat tussen 2019 en 2021 in Peking, Hongkong, Servië, België en Dublin is verricht, zijn er twee belangrijke implicaties met betrekking tot de aard van het economisch bestuur in de wereldeconomie. Ten eerste is Chinees staatskapitaal geïnvesteerd door zowel staatsinstellingen, en door particuliere instellingen, actoren, regels en praktijken in China en Europa. Dit ondermijnt de verwachtingen over een politiek gedreven unitaire Chinese staat en de vrije markten van Europa en Noord-Amerika. Ten tweede hebben de Chinese investeringen in staatskapitaal geleid tot een meer zichtbare rol van de staat in de rest van de wereld. De empirische hoofdstukken laten bovendien zien hoe het mogelijk is voor de Chinese staat om financiële kanalen te benutten om staatsdoelen te bevorderen. Dit is mogelijk door de toenemende co-constructie van wereldwijde financiën door staats- en particulier kapitaal, de uitbreiding van de overheidscapaciteit in West-Europa om industrieel beleid te voeren en de versterking van de staat in de Europese periferie die economische ontwikkeling bevordert. Ten derde, en vervolgend op, laten de bevindingen van dit boek zien hoe er een paradigmaverschuiving is over de legitieme rol van de staat in het economisch bestuur van de wereldeconomie.

中文摘要

自 2008 年金融危机以来，中国的对外投资不断增加。这些投资的很大一部分来自于政府，这引发了学术界和公众对中国国有企业和主权财富基金在全球市场上的活动的大量关注。中国国有投资之所以引起了全球的关注，因为其显示出与人们认知的世界经济运行方式存在根本性的不同。自 20 世纪 70 年代后期以来，全球贸易和投资一直受到新自由主义原则的指导，该原则旨在保障市场的自由运作并遏制国家的活动，私营企业相较于国有企业更被视为经济发展的主要引擎。

中国国有资本在全球市场上的存在感越来越强，这对长期以来关于经济治理的合法形式的信念提出了挑战，因为国有资本（在本书中用来区分国家所有权和私人所有权）投资既是为了商业回报也服务于满足国家利益的政治回报。与此相反，私人资本纯粹是受利润最大化的驱动。

然而，对于中国国有资本为何以及如何投资海外，存在许多误解。中国政府往往被视为一个单一的政治行为体，引导所有国有资本实现地缘政治目标，从而增强中国的国际影响力。在本书中，我使用跨国的概念来论证国家资本不仅仅是由单一制国家投资的。相反，国有资本投资的过程是跨国的，涉及到国家内外经营的众多国有企业、主权财富基金、私营公司和投资者。

更具体地说，本书解决了关于中国国有资本跨国投资在比较政治经济学、国际政治经济学和经济地理学的相关文献的三个盲点。一是对中国国有资本跨国投资在不同时期、不同地域的不同形式关注不足。二是金融机构、个体、逻辑和实践一直是中国国有跨国投资的基本但被忽视的方面。三是对于微观层面投资决策如何塑造了中国国有跨国投资带来的全球经济格局变化的关注不足。

在金融已被证明尤为重要的三层地理范围之中，即国家、全球，地区，本书回答了中国国有资本如何跨国化的研究问题。在本书的主要实证章节中，我在第四章考察了中国政府如何利用金融渠道往欧洲市场使用国有资本进行投资。在第五章中，我展示了全球金融专业人士如何促进中国国有资本流入欧洲。第六章阐述了爱尔兰和比利时主权财富基金如何与中国主权财富基金合作

投资于西欧公司。第七章分析了身为欧洲后社会主义边缘国家的塞尔维亚是如何动员中国国有资本投资的。

基于 2019 年至 2021 年间在北京、香港、塞尔维亚、比利时和都柏林进行的实地调查，研究结果得出了关于世界经济中经济治理性质的三个主要结论。首先，中国国有跨国投资由中国和欧洲的国有和私有机构、个体、逻辑和实践组成，颠覆了对政治驱动的单一制中国对立于欧洲和北美自由市场的普遍预期。其次，中国的国有对外投资使国有化以及国有资本在世界其他地区更加明显。实证章节展示了中国政府如何通过金融渠道来实现国家目标，中国国有和私有资本对全球金融的共同构筑越来越多，对西欧国家制定产业政策的影响力以及促进欧洲边缘国家产业发展。第三，推而广之，本书展现了国家在整个世界经济治理中的合法角色的范式转变。

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