

Investing for the state

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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 re-consideration 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 graduated 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.