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# Legitimizing State Capital: The Global Financial Professions and the Transnationalization of Chinese Sovereign Wealth

Imogen T. Liu  and Adam D. Dixon 

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## 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 transnationalizing state capital wherein the movement of capital entails both profit maximization and the extra-profit interests of the state. State-capitalist entities such as sovereign wealth funds (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 China Investment Corporation, China's premier SWF, to argue that the transnationalization 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 normalizing 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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## INTRODUCTION

The stock of Chinese foreign direct investment into the European Union (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 € 16 billion to € 160 billion (European Commission, 2019: 57). The acquisition of German robotics manufacturer KUKA, the possible roll-out of telecommunications provider Huawei's 5G network, and steady state-owned enterprise (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 and Dixon, 2020a; van Apeldoorn et al., 2012: 475). 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 emphasizes the hybridity of state capital's transnational expansion as simultaneously state-led and convergent with the liberal international order and global capitalism (Alami and Dixon, 2020b; Babic et al., 2020; Belesky and Lawrence, 2019; de Graaff, 2020; Haberly and Wójcik, 2017; McNally, 2020; Narins and Agnew, 2020). 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 maximization has been the guiding spirit of capitalism (Boltanski and Chiapello, 2005: 163; du Gay and Morgan, 2013: 12). Yet, the global financial crisis in the last decade opened up a larger space for state capital to enter. State capitalist entities such as sovereign wealth funds (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 (2018: 23) refers to as 'profit plus' interests. State capital disrupts ideological norms surrounding the non-interventionist, safe-keeper 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.<sup>1</sup>

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

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1. 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, 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.

embedding and reproducing state capital at the global level (Boussebaa and Faulconbridge, 2019; Faulconbridge and Muzio, 2012; Fourcade, 2006; Hall, 2009; Scott, 2008; Wójcik and Camilleri, 2015). The professions are an expert-driven social order pivotal to the maintenance of capitalism (Fourcade, 2006: 153). As professional services have followed the globalization of capital into emerging markets (Boussebaa and Faulconbridge, 2019), the practice of the professions has become a means to legitimate state capital within the liberal international order. Professionals depoliticize 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 normalizing 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 utilizing its existing foundations.

We illustrate our argument using the case of the China Investment Corporation (CIC), China's premier SWF. The CIC is mandated to diversify the country's foreign exchange reserves, with US\$ 1,047 billion under management at the end of 2019 (CIC, 2020: 61). It has been a politicized 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 (Clark, 2005), facilitating the transnationalization 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 internalizing private capital accumulation logics, that is, practices intended to achieve profit maximization. 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 effecting the appearance of the autonomous reproduction of profit-maximizing 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 transnationalization 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.

## LEGITIMATING THE TRANSNATIONALIZATION OF STATE CAPITAL

### 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 (du Gay and Morgan, 2013: 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: 137–38; Bexell, 2014: 292–93; Brassett and Tsingou, 2011: 3; Suchman, 1995: 587). In the context of state capital, it is a common mistake to draw a distinction between state capitalists in the sense of statist countries self-legitimizing 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 International Monetary Fund and its offspring the International Forum of Sovereign Wealth Funds (IFSWF)<sup>2</sup> — 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’ organization must offer an acceptable theory of itself (Bourdieu, 1996: 265; Meyer and Scott, 1983: 201). 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 (Clark, 2003: 94). As such, a spirit of capitalism is not derived from a totalizing societal consensus, but is justified within and between social groups or ‘legitimate orders’ that imply a certain rationality of their own (du Gay and Morgan, 2013: 17). Legitimation does not exist ‘out there’ as external to actors, but is constituted through interaction (Bexell, 2014: 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

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2. The IFSWF is a peer-administered institution to monitor SWF best practice as laid out in the Santiago Principles.

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 materializes 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 (CFA) may advise on the allocation of client capital as per 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.

### **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 and Muzio, 2012: 139; Groysberg and Lee, 2009: 741). Moreover, professionals gain legitimacy through practice that necessarily involves social interaction (Hall, 2009: 178; Ortiz, 2012: 193). Expertise is not simply held or possessed; it must be exercised in practice to demonstrate value within the global capital network (Castells, 2010: 505). For example, securitization 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 (Hall, 2009: 181).

The global financial professions follow the arc of neoliberal ascendancy beginning in the 1980s (Scott, 2008: 232). 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 rationalized 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: 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 and Tsingou, 2014: 404–05).

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 depoliticization of the role of the state in capital accumulation is normalized.

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 territorialized markets at a range of geographical scales’ (Christophers, 2014: 755). The transnationalization 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 and Muzio, 2012: 141). 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.: 143–44). Professionals are an expert-legitimated order pivotal to this expansion, helping to spread the practices and institutions aligned with the spirit of capitalism.

### **Global Financial Professions as Carriers of State Capital**

Just as the global financial professions have essentialized 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 and Faulconbridge, 2019: 76). State capital has been no stranger to the services of these market makers. Professionals have played a pivotal role in China’s modernization story; their services have been employed to transform inefficient bureaucracies of the state into national champions (Li, 2018; Walter and Howie, 2012). The same practices that have fostered modernization have also enculturated state capitalist entities to the spirit of capitalism that has ossified into established financial practice. IPO (initial public offering) 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 transnationalization. Hall (2009: 178) 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: 29). 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 transnationalization 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 depoliticized. 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 and Camilleri, 2015: 475). 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 and Sejko, 2016: 102–03).

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 internalizing the rationalized 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. Private equity (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 (Jones and Murphy, 2011: 375). 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 (MBA) 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: 151–52, 171). 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 socialization. Corporate networks can act as pipelines for learning, but the degree of trust between partners impacts the quality of interaction (Bathelt et al., 2004: 40). 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: 530–32). Creating opportunities for socialization is therefore a means to generate legitimacy. Such spaces can take the form of co-hosted events, industry and associational conferences, and regular boards 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: 525–26) 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 materialized 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: 395). Recreation may also be the natural consequence of localization. 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: 6; Töpfer, 2018: 263). 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 US\$ 16 million settlement with the US Securities and Exchange Commission over allegations of corrupt princeling hires (Forsythe et al., 2019).<sup>3</sup>

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 and 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 and Hall, 2018).

## METHODOLOGY

The China Investment Corporation (CIC) is an illustrative case that demonstrates the role of the global financial professions in legitimating the transnationalization of state capital. Hence, case selection here follows a typical case selection logic whereby the theorized cross-case outcome, transnational state capital, is present (Rohlfing, 2012: 77). 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 transnationalization 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 generalizability, but the value of generating within-case causal inferences is not to generalize to a broader population of cases, but to uncover the myriad pathways leading to the outcome of interest.

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3. 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).

Established in 2007, the CIC is one of the world's largest transnational state investors with over US\$ 1,047 billion in gross assets under management by year-end 2019 (CIC, 2020: 61). 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 politicized 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 politicized 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 transnationalization 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 organizational umbrella with public market and fixed income assets (CIC, 2016: 34).

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 and Strauss, 1967; Lai, 2012: 1281). 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.

### LEGITIMATING THE TRANSNATIONALIZATION OF THE CIC

A handful of reformist policy makers and Wall Street returnees were the architects behind the CIC. Over the years, the organization has evolved from a fledgling SWF highly reliant on external expertise to a global SWF with the capacity to move markets. More importantly, the organization is transnationalizing Chinese state capital in a manner revealing of its centrality in global capital markets. The CIC has been politicized 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 (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: 651). In International Monetary Fund 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.<sup>4</sup>

Within China itself, the CIC was the product of an inter-ministerial turf war between the People's Bank of China (PBOC) and the Ministry of Finance (MOF) over the country's foreign reserve holdings. At the time, the State Administration of Foreign Exchange (SAFE), which regulates access to the state's foreign exchange holdings, was administered by the PBOC, and was charged with managing the country's growing pot of US dollars. Proponents from the MOF 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 PBOC — restructure the financial system. The CIC was fully incorporated in 2007 and capitalized via a MOF special treasury bond issue of US\$ 200 billion to the PBOC. 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 PBOC counterpart, SAFE, and to meet its credit obligations to the MOF (Dixon, 2019; Eaton and Zhang, 2010; Shih, 2009; Walter and Howie, 2012: 148–53; Zhang and He, 2009).

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4. Interview, senior official, international financial institution, 24 January 2020.

In contrast to domestic scepticism, global financial professionals embraced the new SWF and, 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.<sup>5</sup>

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 state, interests that were to manifest in more explicit ways as the organization 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 organization 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.

### 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 SAFE, not to mention the heavy interest obligation on its books. The CIC both lacked and urgently needed financial expertise.

In terms of outsourcing, the most visible form 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 per cent 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: 34; 2020: 38). Less

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5. Interview, journalist, financial press, 5 December 2019.

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, the CIC was cognisant of the international scrutiny surrounding its establishment in the early years, so much so that it hired Brunswick Group, a London-based crisis management firm, to handle its public relations.<sup>6</sup> Second, together with investment bankers, lawyers play such an active role in deal negotiation that investment managers viewed their role to be secondary: 'At most we attend the management presentation', remarked a CIC interviewee.<sup>7</sup> 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: 903). 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 United Kingdom (UK) Department for Business, Energy and Industrial Strategy in major UK deals.<sup>8</sup>

The practice of insourcing professionals, meanwhile, has enabled the CIC to achieve greater cultural and organizational embeddedness. The CIC has always maintained an active policy of hiring and recruiting returnees from abroad. In the 10 years after incorporation, the proportion of global investment staff with overseas education or work experience grew from just over 50 per cent to 82 per cent (CIC, 2010: 42; 2018a: 51–52). However, the age of global investment staff averages just 38 (CIC, 2019: 33), 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 recognized 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 (Chun, 2017). Prior to his appointment as chief investment officer, Li Keping, who was then the Vice-Chairman of the National Council for Social Security Fund, was purportedly invited to give an investment workshop at CIC (ibid.). 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.).

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6. Interview, journalist, financial press, 5 December 2019.

7. Interview, investment manager, state-owned financial institution, 31 December 2019.

8. Ibid.

Importantly, these are all established firms that demonstrated an awareness of the need to practise 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.<sup>9</sup>

### 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.<sup>10</sup> 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 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: 154). The association with Blackstone led to one of CIC's largest transactions to date: in December 2017, it acquired Logisor, Blackstone's European logistics portfolio, in a € 12.25 billion transaction (CIC, 2018a: 43).

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, specializing 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

9. Interview, operational manager, investment bank, 6 December 2019.

10. Interview, operational manager, state-owned financial institution, 6 November 2019.

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).<sup>11</sup>

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 that'.<sup>12</sup> 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: 34; 2018a: 44). 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, 2018a: 41). 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 US\$ 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 realize actual returns.<sup>13</sup>

Fourth, the CIC has created opportunities for socialization 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 boards of directors' meetings provide opportunities to create new associations and exchange information. As one interviewee remarked, 'you know what everyone is doing'.<sup>14</sup> The SWF professionals that were interviewed drew a distinction between socialization that is practice driven and socialization that is politically driven. While the Institutional Investor Roundtable is valued by investment managers, fora such as the IFSWF, which is more

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

12. Interview, operational manager, state-owned financial institution, 6 November 2019.

13. *Ibid.*

14. Interview, investment manager, state-owned financial institution, 31 December 2019.



oriented toward soft law, are not valued for their network-making capabilities. They do not build legitimacy among practitioners.

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.

### Recreation

The CIC has created new practice that conforms to the worldview of both the financial professions and the state. Such practice builds 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 capitalize on the ‘China perspective’ with the aim of developing domestic enterprise (CIC, 2019: 47). We highlight three channels 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: 34; 2019: 51). These ventures sit alongside private partnerships like those announced with HSBC and Nomura Securities (Yue and Lu, 2018). While these bilateral agreements adhered to commercial principles, the CIC is also an active participant of the Belt and Road Initiative (CIC, 2019: 4). Infrastructure is a priority sector of the Russia–China Investment Fund which has signed, together with RDIF and Vnesheconombank, a memorandum of understanding 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 € 500 million, the CECIF targets European small- to medium-size 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 organization’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.<sup>15</sup> This aligns with established practice in PE whereby autonomy is naturally important for management teams (Robertson, 2015: 4). 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'.<sup>16</sup>

Third, the CIC has sought to create a 'multi-dimensional cross-border investment ecosystem' (CIC, 2019: 4). 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 also as operating as checks and balances.<sup>17</sup> The organization is not merely adopting practices that allow it to reproduce the global capital network as directed by private profit maximization; rather, it is recreating practice that allows it to reproduce networks with the 'private plus' interests of state capital. As state capital 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.

## CONCLUSION

The global financial professions are handmaidens to the transnationalization of state capital. Their transformative power lies in the rationalization and subsequent depoliticization of state capital as a techno-substantiated and exclusively profit-maximizing realization of value. The material interests of the state are normalized 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

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15. Interview, operational manager, state-owned financial institution, 6 November 2019.

16. Interview, investment manager, PE firm, 14 November 2019.

17. *Ibid.*

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-maximizing imperatives of capitalism as well as the political-strategic interests of the state.

Like other recent studies (Alami and Dixon, 2020b; Babic et al., 2019; de Graaff, 2020; Narins and Agnew, 2020), these findings demonstrate the hybridity of state capital transnationalization. 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 corporatize and professionalize Chinese SOEs into internationally competitive companies (Wójcik and 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 and Forsythe, 2018). The legitimacy of state capital poses less of an issue from these sources than China, arguably the most politicized source of state capital flowing into the advanced capitalist states. The legitimation of state capital by the financial professions is therefore a pathway to transnationalization 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 utilizing 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 transnationalizing state capital. The professions play an influential role in the supranational governance of trade and investment (Dezalay and 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 and Sejko, 2016: 102–03). Similarly, the IFSWF is a peer-run organization 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 IFSWF 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 delegitimize 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.

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