Alberto Quadrio Curzio - Valeria Miceli, Sovereign Wealth Funds. A complete guide to state-owned investment funds

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RECENSIONE

Alberto Quadrio Curzio - Valeria Miceli, *Sovereign Wealth Funds. A complete guide to state-owned investment funds*, Harriman House, Petersfield (UK), 2010.

Geo-economics of the world has changed dramatically over the last decade. The sovereign wealth funds (SWFs) symbolize this change and the substantial shift in the balance of economic power. There are 53 sovereign wealth funds around the world whose assets totaled about 3.8 trillion dollars, a value roughly equal to the GDP of Germany, of which 74% is held by only ten SWFs. The Gulf Council Countries, China, Singapore, Russia and Lybia are the dominant emerging countries that own SWFs. In Europe only Norway is an important player in this powerful business. This explains why the issue of sovereign wealth funds in recent years has gained the spotlight of international public opinion.

Alberto Quadrio Curzio – a distinguished economist and Vice President of the National Academy of Lincei – and Valeria Miceli – a lecturer in economics from Catholic University of Milan – are the authors of a major book on this topic: *Sovereign Wealth Funds. A complete guide to state-owned investment funds*, in which they aim at describing the role of SWFs in global financial market, assessing the weight and the strategies and predicting their developments. In this book Quadrio Curzio and Miceli answer key questions, such as: when and how did SWFs emerge?, what are the main financial, economic and political consequences of the operations of SWFs?, what approach has been taken by international organizations towards SWFs?

A sovereign wealth fund (SWF) – according to IMF' definition (*Santiago Principles*, 2008) – is a state-owned investment fund composed of financial assets such as stocks, bonds, real estate, or other financial instruments funded by foreign exchange assets. These assets can include: balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports.

As their name implies, SWFs have two defining qualities: i) ownership and control by the government; ii) pursuit of high risk-adjusted returns or long-run wealth maximization as the central objective. Apart from these strictly economic targets, SWFs may pursue political strategies. This explains why SWFs pose profound questions for countries that own them with respect to macroeconomic policy, and raise issues for countries that receive SWF investments as well as for the international financial system as a whole. In fact government ownership introduces potential political and economic power issues into the management of these cross-border assets.

Transparency in sovereign wealth funds is an essential requirement for the international financial system and the international public opinion. In 2008 the IMF promoted a collaborative project to develop a voluntary code of conduct or a set of best practices for SWFs, then the International

Working Group (IWG) of Sovereign Wealth Finds was created. IWG was able to define a set of Generally Accepted Principles and Practices of SWFs, known as the Santiago Principles[1]. Despite this Principles, a sort of perceived threats from SWFs still exist among the international public opinion and within the international institutions, particularly when the activity of SWFs is associated with unfamiliar and opaque foreign governments.

China is the country leader of SWFs, the total assets owned by its SWFs are about 1.05 trillion dollars. China's reserves today comfortably exceed all plausible estimates of what the country needs for traditional liquidity purposes. This huge amount of capitals is continuously fed from trade surpluses that result in surplus currency in an economy growing at double-digit annual rate and from high domestic savings, thus enhancing its role of big power in the new global scenario. The emergence of excess reserves has led to more active reserve management. This, in turn, has resulted in the creation of China Investment Corporation (CIC) in 2007, which is the most important SWF in China with total assets of 332 billion dollars (at the end of December 2009) and that is fully owned by the Government, the fund reports directly to the Council of State and strictly depends from the Prime Minister. The CIC is the owner of a large part of the banking and financial system of China as it has the Central Huijin Investment Company, succeeding in all shares held by it (China Development Bank, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank.). Thus CIC is the expression of the new state capitalism, the bearer of interests that go beyond the declared maximization of financial returns. Alongside the CIC there are the Safe Investment Company, a subsidiary of the company's management of foreign reserves owned by the Central Bank, the National Social Security Fund (pension fund) and the Investment Portfolio of the Hong Kong Monetary Authority authorized to invest its assets in foreign equities. The transparency level of the Investment Portfolio of Hong Kong is the highest among the Chinese funds. However China should be considered a valuable partner for business particularly by the European countries, that have to accept the new economic scenario in which its SWFs are part of it.

In conclusion, SWFs are new important players in world finance and in the globalized economy. They bring with them opportunities and risks. It is difficult to say clearly which of the two will prevail, however Alberto Quadrio Curzio and Valeria Miceli have contributed with their excellent book to clarify the role of sovereign wealth funds.

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[1] In April 2009 it was established an International Forum of SWFs. The Forum is a voluntary group of SWFs which will meet, exchange views on issues of common interest, and facilitate an understanding of the Santiago Principles and SWFs activities.