Building the Diverse Community

Beyond Regionalism in East Asia

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How the rise of East Asian Sovereign Wealth Funds affected the European Union?

Introduction and research propositions

A sovereign wealth fund (SWF) can be defined as a pool of capital controlled by a government or a government-related entity that invests in assets in search of competitive, risk-adjusted returns (Balding 2011). As of November 2014, SWFs assets totaled USD 6.977 trillion compared to USD 6.106 trillion in December 2013 (SWF Institute 2014) controlling a massive amount of global capital. Although incomparably less powerful than conventional asset managers, SWFs top the rankings of all major classes of alternative investment managers: including private equity-, hedge- and exchange traded products (ETPs) (Maslakovic 2014).The lion's share of this wealth has been accumulated by a handful of states, mainly from the Middle East, Europe and East Asia.[1]

Major Middle Eastern and European SWFs derive their capital base from the extraction of natural resources – this is the case of funds owned and managed by countries such as Kuwait, Abu Dhabi, Norway, Saudi Arabia or Russia. The so-called "commodity funds," as they are sometimes dubbed, have been incorporated in varying historical circumstances but they generally tend to act similarly, that is, as stabilization funds reducing

[1] The term "East Asia" is used in this paper to describe Northeast Asia as well as Southeast Asia collectively.

the volatility of government revenues or saving funds that are to accumulate wealth for future generations (Curzio, Miceli 2010).

The capital of "non-commodity funds" is derived from sustainable fiscal surpluses and foreign reserves. East Asian countries, with China and Singapore as the most prominent examples, are the ones (with the exception of Brunei and East Timor) that own SWFs whose financial resources have been amassed thanks to brisk macroeconomic growth and not due to access to vast natural resources. In recent years, non-commodity SWFs have gained traction due to dynamic exportation and the rising value of assets under their management.

The thrust of this paper is analyzing how the spectacular rise of East Asian SWFs has affected the European Union (EU). Did they act as market stabilizers or have they contributed to heightened capital market volatility? How important is Europe in the SWF investment strategies and how much have they already invested? Do they behave in a similar way to other alternative investors? What are the geographical and industrial preferences of East Asian SWF acquisitions in Europe? Finally, whether their activities bear a demonstrable political risk. Theoretically, as state sponsored actors, SWFs can be used by their creators for politically minded purposes, potentially harmful for the recipient countries (Truman 2010, Weiner 2011, Csurgai 2011). Clark and Monk (2012) go so far as defining SWFs as "long-term investors whose holdings are selected on the basis of their strategic interests (fund and nation) rather than the principles of modern portfolio theory." This definition makes an important distinction between the owner and the fund itself suggesting that sometimes the ruling elites of a country and its fund managers might have conflicting interests. Pistor and Hatton (2010) even observed that the overriding objective of SWFs is to maximize the gains of the ruling elite in the SWFs' home countries.

This research study is based on empirical data gleaned from the Sovereign Wealth Fund Institute (SWFI) Transaction Database – arguably the most comprehensive and authoritative resource tracking SWF investment behavior globally. Despite all the efforts, the investment activity of these SWFs in the EU remains relatively elusive. East Asian SWFs are widely perceived as particularly opaque (even among all SWFs whose transparency in general leaves plenty to be desired). On the oft-cited Linaburg-Maduell Transparency Index the majority of them ranked relatively low, their average hovering at 6.6 (of maximum 10.0 points).[2]

[2] The Linaburg-Maduell transparency Index is a rating of SWF transparency. The index is based on ten equally-weighted drivers of SWF transparency.

Europe as the top investment destination of global SWFs

As evidenced by Figure 1, Europe has – since time immemorial – been global SWF's first choice in asset allocation in the entire history of SWF activity (as per the SWFI database). The supremacy over the runner-up (the Americas having posted barely a half of Europe's investment total) attests to Europe's lasting competitiveness in attracting global SWF inflows. SWF investments tend to be relatively inert – the global shift of power towards East Asia has resulted in a redistribution of capital resources, yet the investment targets have not evolved significantly. This inertia owes a great deal to the lasting competitiveness of European and American financial markets which enable reliable access to a wide spectrum of investment asset classes and instruments (cf. Maslakovic 2014).

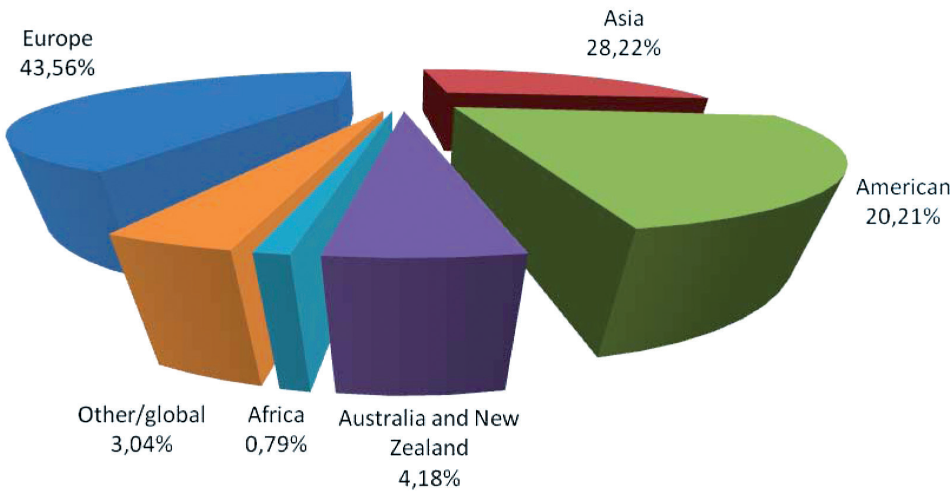

Figure 1. Geographical breakdown of direct investments by global SWFs in 1974–2014 (in %)

Source: own calculations based on SWF Institute 2014 Transaction Database.

As displayed in Table 1, Europe's effectiveness in luring global SWF investment is particularly striking in light of the rather distant place (third) of both Americas – whose competitiveness in attracting global capital flows, especially by the US, is widely recognized (Maslakovic 2014). Evidently, investment efficiencies – although important for the capital allocation process – are not the exclusive bargaining power when it comes to accommodating global SWF assets. Among ancillary comparative advantages wielded by Europe are: political and cultural diversity, growing homogeneity, and general nonalignment with political movements overtly hostile to the Arab World (home to numerous SWFs).

Africa, the emerging "investment frontier," despite a rising visibility (notably among East Asian SWFs) has remained peripheral in global investment league tables. Before commanding a larger pool of SWF investment, African economies will have to achieve the critical mass needed to develop adequately diversified and liquid capital markets.

Table 1. Direct investments (in total) by global SWFs by geographic location in 1974–2014 (in USD billion)

Region	Investment size
Europe	370.27
Asia	239.90
Americas	171.78
Australia and New Zealand	35.52
Africa	6.72
Other/global	25.83
Total	850.02

Source: own calculations based on SWF Institute 2014 Transaction Database.

The characteristics of East Asian SWFs

According to the SWF Institute (2014) East Asian SWFs command USD 2.492 trillion assets under management (AuM), which represents 35% of all SWF assets globally. As of November 2014, there were eight East Asian states (plus Hong Kong) having at least one SWF. The vast majority of all SWF assets in East Asia is controlled by China and Singapore (see Table 2).

Singapore, the most important commercial, transportation and communication hub in South-East Asia, is an epitomic economic success story of the 20th century. Since the beginning of the 20th century and, particularly, when the British colonial rule ended, the city has benefitted from continuous economic growth (Huff 1994). Singapore has thus run recurring fiscal and trade surpluses that prompted the establishment of two SWFs – Temasek Holdings (Temasek) in 1974 and the Government Investment Corporation of Singapore (GIC) in 1981. Designed as flagship entities, with privileged access to capital, not only have both funds invested surplus liquidity but they have also been used to help manage the local economy (Balding 2012).

Table 2. Assets under management and origins of East and Southeast Asian SWFs as of November 2014

State	AuM	Origin
China	1426.7	non-commodity
Singapore	497.0	non-commodity
Hong Kong	400.0	non-commodity
Korea	72.0	non-commodity
Malaysia	40.0	non-commodity
Brunei	40.0	oil
East Timor	16.0	oil
Vietnam	0.5	non-commodity
Indonesia	0.3	non-commodity

Source: own calculations based on SWF Institute 2014 Transaction Database.

The People's Republic of China (PRC) moved to establish their funds much later. The rapid development of mainland China started only with an economic reform package introducing market principles initiated in 1978. The following decades of uninterrupted, brisk economic expansion combined with a fixed exchange rate have spurred exportation. China has consequently sterilized the capital account surplus resultant from large foreign exchange reserve receipts. Chinese foreign currency reserves skyrocketed from USD 610 billion at the end of 2006 to USD 4 trillion by June 2014 (Wildau 2014) and their SWFs act as de facto reserve investment managers allocating the reserve assets to risky yet potentially profitable investments.

The PRC has two major SWFs – China Investment Company (CIC) and the SAFE Investment Company (SIC), a Hong Kong based subsidiary of SAFE – commanding a total of USD 1.2 trillion under management (SWF Institute 2014).[3] The other two vehicles: the National Social Security Fund and the China-Africa Development Fund are much smaller in size.

The smaller funds are widely viewed as obscure, non-transparent operations. For example, SAFE had even refused to acknowledge SIC's very existence, until it was confronted with an irrefutable press report in 2008 (Anderlini 2008). CIC, as a flagship Chinese SWF, exhibits a great deal more transparency – being a member of the International Forum of Sovereign Wealth Funds (IFSWF) and generally compliant with the Santiago Principles – a voluntary international code of conduct for SWFs adopted in 2008 (IWG 2008).

Singaporean SWFs also differ in the degree of transparency. Temasek scored 10 on the Linaburg-Maduell Transparency Index whereas GIC a mere 6 (November 2014). Such a disparity demonstrates that SWFs are managed on a case-specific basis and may be used by their sponsoring states for varying purposes.

Table 3. Shows the magnitude of seven East Asian SWF investing in Europe, alongside the countries of origin, years of establishment and asset totals:

Table 3. East Asian SWF investing in EU countries as of November 2014

SWF	Country of origin	Established	AuM (USD bn)
1	2	3	4
China Investment Corporation (CIC)	China	2007	652
SAFE Investment Company (SAFE)	China	1997	568
Hong Kong Monetary Authority's Investment Portfolio (HKMA)	China	1993	400
NationalSocial Security Fund	China	2000	202

3 The State Administration of Foreign Exchange (SAFE) is responsible for the management of Chinese foreign exchange reserves.

1	2	3	4
Korea Investment Corporation (KIC)	South Korea	2005	72
Government of Singapore Investment Corporation (GIC)	Singapore	1981	320
Temasek Holdings	Singapore	1974	177

Source: SWF Institute website (18 November 2014).

It is noteworthy that although Singaporean SWFs have a much longer history than other East Asian funds, the SWFs from mainland China have massively outstripped them in total assets under management. Korea Investment Corporation, managing only USD 72 billion, is difficult to compare with rich funds from the two aforementioned Asian states. Due to this fact, we decided to exclude it from further analysis.

East Asian SWF investments in Europe

Since the 1980s, East Asian SWF transactions in countries currently belonging to the EU amounted to ca. USD 68.9 billion. Among them, the Government of Singapore Investment Corporation has been the most active (as of May 2014 it had closed about 594 transactions totaling ca. USD 33 billion).

Figure2 sums up the impact of East Asian SWF investments in Europe since the 1980s. Clearly, the SWFs differ considerably in size. Singaporean and Chinese funds top the league tables of leading investors, and taken together their European investments account for ca. 99% of all East Asian SWFs' investments in Europe. In fact, Singaporean funds account for 57.4% and Chinese funds account for 41.5% of East Asian SWF's European transactions.

Notwithstanding their powerful domiciles, East Asian SWF investments represent 22% of all SWF investment exposure to the EU, which puts them only in third place after the Gulf Cooperation Council countries (GCC), i.e. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) and Norway, which account for 35% and 30% of all investments in the EU, respectively.

EU countries are a major investment target for East Asian SWFs, as deduced from publicly available information. In fact, in its annual report, the GIC stated that investments in Europe represented 29% of its portfolio (with 34% allocated to the United States and 27% to Asia) at the end of March 2014.[4] Conversely, CIC does not explicitly mention Europe in its annual disclosure, however, it concedes that investments in non-US advanced economy equities (of which Europe probably makes a significant part) represented 36.8% of the entire equity portfolio at year-end 2013 (against 46.1% for US equities).[5]

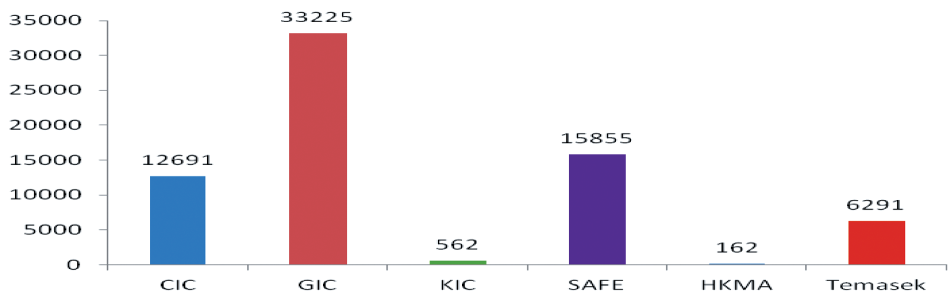

Figure 2. The size of investments in the EU by each East Asian SWF

Source: own calculation based on the SWF Institute Transaction Database.

Based on the transaction record going back to the 1980s and excluding East Asian SWF transactions in their own economies, European countries account for most, i.e. 31%, of all East Asian SWF investments, more than those in the US or China. Even including inward transactions, Europe remains the main recipient of East Asian SWF funding, with 25% of all deals.

Geographical and industrial preferences of East Asian SWFs investing in Europe

As portrayed by Figure 3, East Asian SWF' investments in the EU are relatively undiversified compared to the geographical breakdown of non-East Asian SWFs. In fact, the United Kingdom (UK) is the leading destination for East Asian funds, with 64% of all assets invested in this economy, followed by France (16%), and Germany (5%). Although other SWFs also

[4] *Report On The Management Of The Government's Portfolio For The Year 2013/14*, Government of Singapore Investment Corporation, August 2014, p. 14: www.gic.com.sg/images/pdf/GIC_Report_2014.pdf

[5] *Annual Report 2013*, China Investment Corporation, p. 32.

allocate most of their investments to the UK, however, the participation of this economy in their portfolio is much smaller (i.e. 37%). In turn, Germany accounts for 18% and France for 13% of all investments. The share of UK assets in East Asian SWF portfolios is also more significant than that of GCC SWFs (50%).

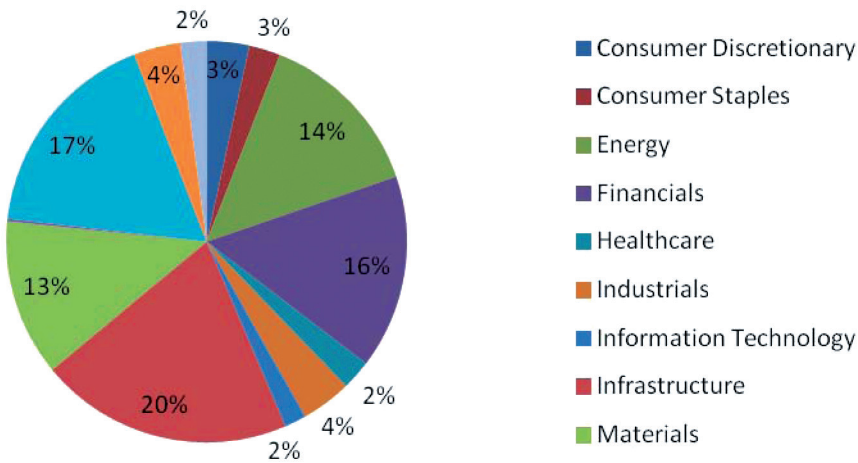

Figure 3. Asian SWF investments in Europe by sectors (% of all investments)

Source: own calculation based on the SWF Institute Transaction Database.

In industrial terms, East Asian SWFs have placed most of their assets in infrastructure (ca. 20.4%), real estate (17.3%), financial (15.6%), energy (13.8%) and materials (12.6%). Comparing to SWF global investments, it can be inferred that European portfolios are visibly less concentrated on the financial industry (accounting for 32% of their global portfolio) but more on infrastructure (12% of the global investments), energy (9%), materials (8%), and have a more or less comparable focus on real estate.

Underexposure to the financial industry cannot be fully explained by the recent financial crisis. In fact, East Asian SWF investments in the European financial sector represented a similar proportion of their overall investments in the EU between the years 2000 and 2007 (15.2%) than between 2008 and 2014 (15.8%). A lower focus on the financial sector could be explained by an overall distrust in the soundness of European financial companies rather than by any short term policy or capital moves. As a matter of fact, East Asian SWF investments in the Swiss financial sector alone (widely viewed as a safe haven) are more important than their financial involvement in the entire European financial sector (15% vs. 12% of all investments in financial companies), not to mention investments in American financial companies (27.4%). Such a stance argues for a definitive propensity on the part of these SWFs to favor asset protection over risk adjusted investment efficiencies. On the other hand, it is also worth noting that East Asian SWFs demonstrate a strong belief in the robustness of the Chinese financial sector. In fact, CIC's allocation to Chinese companies makes up about half of all its investments in financial companies. This is also the case of Singaporean SWFs, which dedicate almost a third of all their investments in financials to Chinese companies (28.4% versus 21.3% and 11.8% into American and European companies respectively).

As Table 4 manifests, the investment policy of East Asian SWFs has significantly evolved over the past few years. Their investments between 2008 and 2014 have been carried out in a broader range of sectors than before (this may be also due in part to the fact that CIC has been active only since 2007, although it does not explain in full the relatively low degree of investment diversification by industry of other SWFs prior to that date). In fact, as demonstrated below, between 2000 and 2007 investments in infrastructure and real estate accounted for almost 60% of all investments, with no exposure to industrials or utilities and limited emphasis on energy.

Table 4. East Asia SWF European investments in 2000–2007 and 2008–2014 (% of all investments)

Industry	2000–2007 (in %)	2008–2014 (in %)
1	2	3
Consumer Discretionary	0.5	4.5
Consumer Staples	1.6	2.8
Energy	1.6	17.8
Financials	15.2	15.8
Healthcare	4.0	1.9
Industrials	0.0	5.4
Information Technology	0.0	2.3

1	2	3
Infrastructure	30.6	17
Materials	15.8	11.6
Media and Entertainment	0.0	0.3
Real Estate	27.8	13.8
Telecommunication Services	2.9	4.0
Utilities	0.0	2.8

Source: own calculation based on the SWF Institute Transaction Database.

A comparison of industry allocations by East Asian and other SWFs

Basing on Figure 4, it is hard to detect spectacular similarities between East Asian and other SWFs in investment allocations by industry. In fact, while East Asian SWFs put most of their assets in infrastructure, the exposure of other SWFs to this industry has been much more subdued. Conversely, while GCC SWFs have very vigorously pursued the industrial sector, East Asian SWF interest in this domain has been relatively low (vis-à-vis all other SWFs).

However, certain similarities do come to the fore. Both East Asian and GCC SWFs are allocating an important share of their assets to real

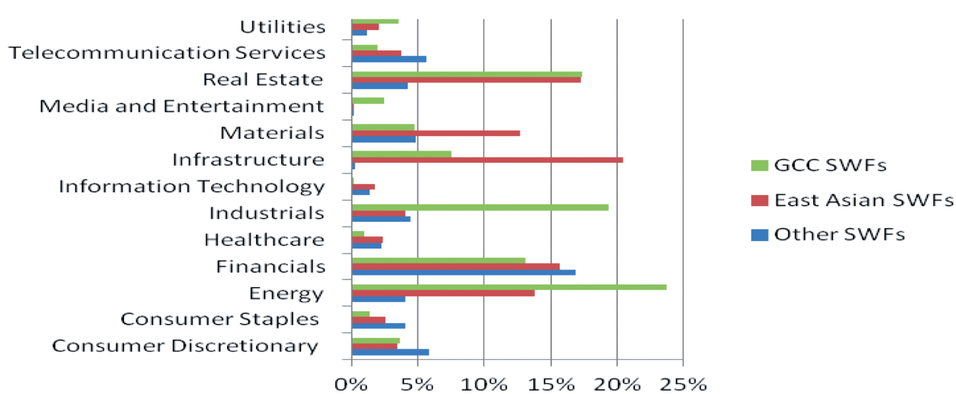

Figure 4. Industrial asset allocation by origin (% of all investments)

Source: own calculation based on the SWF Institute Transaction Database.

estate, and they are slightly less exposed to the financial industry than other SWFs. It is also vital to note that while East Asia SWFs are devoting a large share of their investments to the energy sector, the share of investments in this space in the case of GCC SWFs is even more sizeable (24%).

As demonstrated by Figure 5, East Asian SWFs had ranked among the most active SWF players in Europe until 2007–2008.

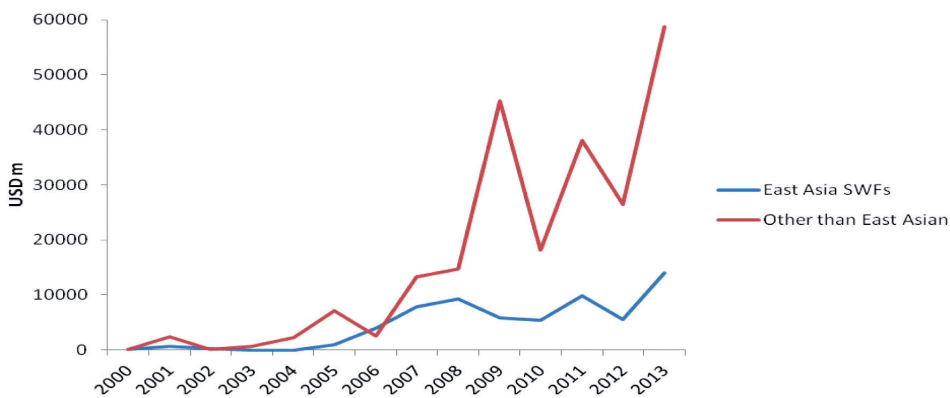

Figure 5. Annual Investments by East Asian SWFs vs. other SWFs in the EU in 2000–2013

Source: own calculation based on the SWF Institute Transaction Database.

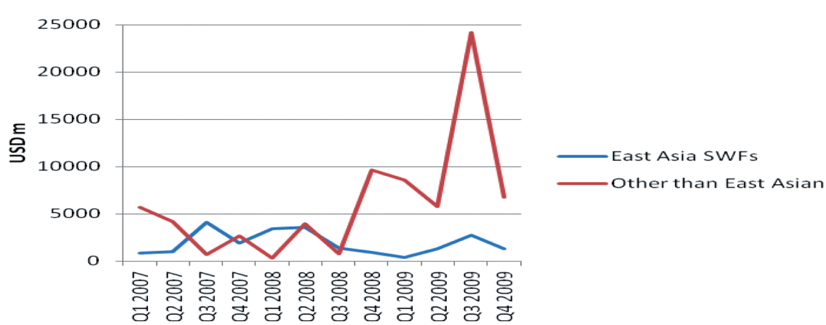

Figure 6. Quarterly Investments by East Asian SWFs vs. other SWFs in the EU in 2007–2009

Source: own calculations based on the SWF Institute Transaction Database.

Figure 6 highlights that East Asian SWF investments massively outnumbered other SWF contributions to Europe in some quarters of the 2007–2008 period, i.e. at the very onset of the subprime crisis. However, both images attest to a growing shift of gravity towards non-East Asian and away from East Asian SWFs (starting from 2009).

SWFs investing in Europe – comparison with other alternative asset managers

Besides the sheer composition of SWF funding for Europe, it is by far more intriguing to compare their exposure with other classes of alternative investment. These, in line with the methodology proffered by Maslakovic (2014) besides SWFs, encompass:

➢ *exchange traded products (ETPs)* – *de facto* index-based strategies combining avowed investment passivism with low fees and high liquidity;

➢ *hedge funds* – elitist investment strategies whose overriding objectives are non-conformism, absolute return delivery and fee structures skewed towards predefined success measures;

➢ *private equity funds* – activist institutions committing capital to non-public ventures and grooming them towards a profitable resale.

Such characteristics are particular to the three classes of alternative investment management are – to a large extent – responsible for demand factors (including the makeup of investment portfolios). These can be differentiated as follows:

➢ *exchange traded products (ETPs)* – their uptake is, on the one hand, a function of market development and sophistication, and, on the other, access to efficient capital markets offering exposure to tradable indices and baskets of investment assets;

➢ *hedge funds* – these institutions make recourse to state-of-the-art managerial talent, efficient capital markets and offshore tax planning, whereas their appeal is also determined by the abundance of high-net-worth individuals (HNWIs) – their natural catchment area;

➢ *private equity funds* – such investment vehicles largely depend on innovation (as a prerequisite for eligible deal-flow opportunities) as well as investment exits (active markets for initial public offerings, IPOs).

Since no reliable data on hedge fund investment activity in Europe are available (most sources depict hedge funds exclusively by their domicile), this study is limited to the other two classes of alternative investment management.

Exchange traded products

Exchange traded products (ETPs), as an increasingly compelling alternative to actively managed investment strategies, have gained global traction to a large part thanks to low costs and serviceability in helping diversify investment portfolios across ever-broader spectra of financial assets and instruments. ETPs have expanded particularly swiftly in the US, however, their propagation in Europe has also been palpable. Both regions are home to several relatively well-developed and efficient capital markets, which have increasingly called for exposure to infinitely more sophisticated investment opportunities (Figure 7).

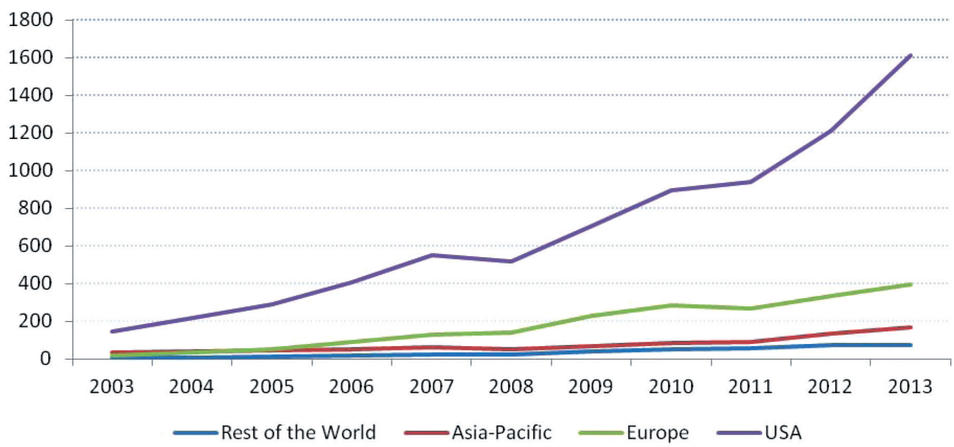

Figure 7. Exchange Traded Fund (ETP) Assets under Management in 2003–2013 (in USD billion)

Source: *ETP Landscape – Industry Highlights*, BlackRock, November 2014, available at: http://www.blackrockinternational.com/content/groups/internationalsite/documents/literature/etfl_industryhilight_nov14.pdf [December 21, 2014].

As shown in Table 5, the leadership of the US market for ETPs can be explained by efficiency related aspects. With much more pressure on cost competitiveness than in other parts of the world (including Europe) and the legacy of disenchanting returns fetched by active investment strategies (notably during the last global financial depression), the American investment market has increasingly reoriented towards passive investment products (including ETPs).

Table 5. Exchange Traded Product (ETP) Assets under Management in 2003–2013 (in USD billion)

Region	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Rest of the World	5.8	7.9	12.1	16.1	24	21.3	42.6	51.6	54.2	73.7	75.4
Asia-Pacific	34.8	39.9	42.8	48.4	60.3	53.1	65.1	84.9	90.7	135.2	167.4
Europe	20.5	32.3	50	89.4	127.1	137.7	226.9	283.6	270.1	334.3	396.6
USA	144.1	217.4	292	404.5	548.8	516.3	706.3	893.3	939.3	1214.2	1614.4
Global	205.2	297.5	397	558.4	760.2	728.4	1040.9	1313.4	1354.3	1757.4	2253.8

Source: *ETP Landscape – Industry Highlights*, BlackRock, November 2014, available at: http://www.blackrockinternational.com/content/groups/internationalsite/documents/literature/etfl_industryhilight_nov14.pdf [access: December 21, 2014].

Despite a lower scale than that of the US market, the stellar ascent of European ETP assets under management has been accompanied by an equally exponential proliferation in ETP fund numbers. Interestingly, both ETP assets and fund counts have defied downward volatility attributable to both recent crises: the global financial depression of 2007–2009 and ensuing turbulences in the Eurozone (Figure 8).

As comprised in Table 6, investment inflows into European ETPs have mirrored both country size as well as opportunities related to the efficiencies of local financial markets. Demand for ETPs has been concentrated on single-country strategies and European assets (rather than pan-European and Asia-Pacific products).

The industrial makeup of inflows into European ETPs has demonstrated relative emphasis on financials, consumer cyclicals, industrials and basic materials. These choices have on the one hand responded to investment portfolio needs of institutional and private investors, while on the other had have been a function of the structure of the European market for financial instruments (Table 7).

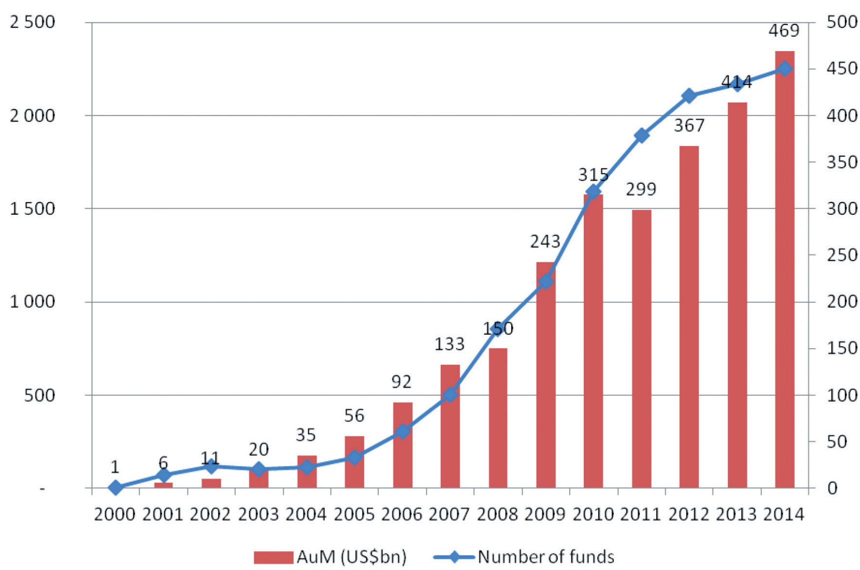

Figure 8. European Exchange Traded Product (ETP) Assets under Management and ETP Fund Numbers in 2000–2014

Source: *ETP Landscape – Industry Highlights*, BlackRock, November 2014, available at: http://www.blackrockinternational.com/content/groups/internationalsite/documents/literature/etfl_industryhilight_nov14.pdf [December 21, 2014].

Table 6. European Exchange Traded Product (ETP) Flows by Geographic Exposure (to Equity) as of November 2014

Region		Assets (USD million)	Number of funds
Pan European Strategy		3 412.0	20
Nordic Regional		4.3	19
Pan European Total		83 378.3	317
Single Countries	Germany	25 385.4	57
	UK	18 330.6	54
	Switzerland	10 037.9	32
	France	5 324.6	19
	Sweden	2 175.4	12
	Italy	3 882.7	21
	Others	3 220.9	35
	Single Country Total	68 357.5	230
Europe Equity Total		151 735.8	547
North America		75 588.7	156
Asia-Pacific		25 669.4	105
Global		34 398.9	129
Developed Equity Total		287 392.8	937
Emerging Markets Equity	Broad	17 248.8	50
	Regional	3 761.6	31
	Country	13 435.5	101
EM Equity Total		34 445.9	182
Equity Total		321 838.7	1 119

Source: *ETP Landscape – Industry Highlights*, BlackRock, November 2014, available at: http://www.blackrockinternational.com/content/groups/internationalsite/documents/literature/etfl_industryhilight_nov14.pdf [access: December 21, 2014].

Table 7. European Exchange Traded Product (ETP) Flows by Sectorial Exposure (to Equity) as of November 2014

Pan European Sector	Assets (USD million)	Number of funds	% of assets
Basic Materials	870.1	12	5.8
Consumer Cyclicals	428.6	19	2.9
Consumer Non-cyclicals	687.2	7	4.6
Energy	798.4	9	5.4
Financials	5 523.0	23	37.1
HealthCare	1 725.3	9	11.6
Industrials	614.3	18	4.1
Real Estate	2 536.8	9	17.0
Technology	233.7	7	1.6
Telecommunications	535.5	9	3.6
Utilities	541.7	8	3.6
Theme	410.4	6	2.8
Sector Total	14 905	136	100.0

Source: *ETP Landscape – Industry Highlights*, BlackRock, November 2014, available at: http://www.blackrockinternational.com/content/groups/internationalsite/documents/literature/etfl_industryhilight_nov14.pdf [access: December 21, 2014].

Comparing the activity of ETPs to that of East Asian SWFs investing in Europe, the following observations can be made:

➢ *country differences*: the key country specific strategy for European ETPs is Germany, unlike the UK (the top destination for East Asian SWF investment);

➢ *geographical diversification*: most European ETPs are focused on regional strategies, single-country instruments are not as important, whereas SWF investments (and particularly East Asian SWF portfolios) are concentrated around a few European economies;

➢ *consumer goods and services*: consumer cyclicals and non-cyclicals account for a similar proportion of European ESP and East Asian SWF portfolios invested in Europe;

- *innovation*: technology investments are similarly peripheral to both alternative investment institutions active in Europe;
- *real estate and infrastructure*: real estate investments rank high in the investment portfolios of both types of institutions, yet they seem to be more important to European ETPs than East Asian SWFs involved in Europe;
- *materials (commodities)*: investments in raw materials were marginal for European ETPs (5.8% of their portfolios for 2013), whereas they equaled 11.6% of East Asian SWF investments in Europe;
- *financials*: despite a relatively large proportion of East Asian SWF investments allocated to the financial services sector as of 2013 (15.8%), their significance for European ETPs was more than twice as high during that period (37.1%).

Private equity funds

Appendix 1 sums up private equity investment in Europe broken down by regions and individual countries in 2007–2013 (a period spanning both major crises to have affected Europe since the turn of the millennia). The European private equity industry is led by the UK (the most significant recipient of this funding) and the continental European heavyweights France and Germany) – denoting factors as related to an established private equity culture, as to the abundance of deal flow opportunities arising from economic scale, diversity and industrial innovation.

Although no detailed composition of Asian private equity fund exposure to Europe is available, aggregate figures demonstrate a marginal presence of this financing source in Europe. Throughout 2007–2013, despite the severity of the global financial crisis, recurring shocks in the Eurozone and resultant undervaluation of numerous European corporate targets, Asian (and Australian) private equity institutions accounted for less than a percentage of all funds engaged in European non-public companies (Appendix 2). The data appears to show that the European private equity industry is to an overwhelming degree self-reliant, however, clear reservations have to be made regarding *de facto* non-European funds having formal European domiciles (the so-called capital in transit).

Private equity investment coming into Europe in 2007–2013 has been primarily focused on consumer goods, retail, business and industrial products, life sciences as well as communications. High technologies remained relatively under-represented in this ranking, proving that most of the capital focused on traditional industries. Such a composition underscores the need for sustained efforts aimed at incentivizing funding for innovation in Europe (Appendix 3).

Comparing the activity of this alternative investment class to that of East Asian SWFs investing in Europe, the following observations can be drawn:

- *the position of the UK*: evidently, the UK (and the City – London's financial center) matters infinitely more to East Asian SWFs than to private equity funds or SWFs in general, although the UK tops all of the league tables;
- *geographical diversification*: the private equity business investing in Europe, although primarily driven by global funds, has access to domestic capital sources and is more diversified across individual countries, SWFs (especially those of East Asian provenance) target a limited number of European economies and is by definition "export oriented";
- *consumer goods and services*: investments in defensive sectors (basic goods) represent a vital element of private equity funding in Europe, whereas their share in East Asian SWF portfolios in much lower (this attests to relative conservatism in private equity activity and routine behavior by SWFs which tend to focus on other long-term investments);
- *innovation*: despite the relative conservatism of private equity funds active in Europe (their investment in high technologies made up a paltry 9.3% of their portfolios in 2013), the European private equity industry still earmarks more for innovative industries than East Asian SWFs;
- *real estate and infrastructure*: for private equity, investments in real estate and infrastructure are secondary to the process of acquiring stakes in undervalued nonpublic companies, whereas for East Asian SWFs they serve as key investment classes;
- *materials (commodities)*: East Asian SWFs allocated some 11.6% of their assets to European commodities (as of 2013), while for private equity funds such investments were marginal (2.3% in the same year);
- *financials*: with 15.8% exposure to the financial services industry as of 2013, East Asian SWFs are far ahead of private equity funds operating in Europe (a meager 6.2% share in the same year).

Conclusions

Europe remains a tempting destination for East Asian SWFs. Almost a third of their investments have been committed to EU countries. Nearly all of the assets have been invested by Chinese and Singaporean funds. The investment policy of East Asian SWFs has significantly evolved over the past few years. Their financial commitments between 2008 and 2014 were carried out in a broader range of sectors than before, which leads us to believe that they endeavor to diversify their European portfolios in a similar way to other SWFs. However, in terms of target sectors, they are much more exposed to infrastructure and much less to industrials.

Stark contrasts are noticeable with regard to the exposure to the UK market. For East Asian SWFs, the UK is definitely the top destination, with 64% of all assets allocated to this economy. For other SWFs, notably from GCC states, it is also the most significant market, but they have held more diversified portfolios. The differences can be attributed to the strength of the traditional bonds between this top European financial center and both respective areas.

Despite the widespread belief that SWFs routinely espouse politically-biased agendas, evidence supporting hostile activities by Asian SWFs is scant. Investment diversification and behavioral patterns similar to other market players help downplay concerns over the motifs of Asian investments in Europe (particularly heightened in times of economic crises in the Eurozone (Meunier 2011, 2014). Comparisons of East Asian SWF investments with other alternative asset managers (e.g. private equity funds and exchange traded products) demonstrate investor specific differences rather than a particular bias in the investment activity of such SWFs.

Our research on Asian SWFs thus generally supports the claim (Mezzcapo 2009) that SWFs can be considered beneficial for target countries as they tend to be relatively large, highly liquid, long-term orientated, not significantly leveraged, and with a substantial appetite for risk-taking, while being less affected by market conditions (than other financial institutions).Thanks to these features East Asian SWFs should be perceived as market stabilizers rather than sources of market volatility.

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Appendix 1. Breakdown of private equity investment in Europe (by the regions and countries of target companies) in 2007–2013

AllPrivate Equity	2007		2008		2009		2010		2011		2012		2013	
Amounts in € thousands	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Country														
Austria	905.5	1.2	326.2	0.6	178.3	0.7	703.0	1.6	321.8	0.7	282.3	0.7	539.9	1.4
Balticco-untries	217.0	0.3	88.0	0.2	6.7	0	33.5	0.1	53.4	0.1	29.6	0.1	60.4	0.2
Belgium	2 323.3	3.1	700.8	1.2	1 168.2	4.6	972.4	2.2	977.3	2	1 408.4	3.7	1 029.1	2.7
Bulgaria	179.0	0.2	91.6	0.2	185.2	0.7	82.2	0.2	7.2	0	84.2	0.2	11.1	0
Czech Republic	181.1	0.2	423.0	0.8	1 358.0	5.3	228.8	0.5	143.9	0.3	105.9	0.3	134.3	0.3
Denmark	1 835.2	2.5	1 207.4	2.1	479.0	1.9	385.7	0.9	880.6	1.8	861.6	2.2	1 841.6	4.8
Finland	1 069.0	1.4	659.6	1.2	677.2	2.6	589.9	1.3	846.3	1.8	606.4	1.6	791.0	2
France	12 149.3	16.3	8 919.5	15.9	3 142.2	12.3	6 646.0	15	9 612.1	20	5 274.9	13.7	6 442.9	16.7
Germany	10 448.0	14	9 583.7	17	3 023.8	11.8	4 894.9	11	6 666.9	13.8	6 626.0	17.3	4 927.5	12.8
Greece	151.0	0.2	283.5	0.5	152.5	0.6	39.1	0.1	10.1	0	35.6	0.1	4.8	0
Hungary	222.7	0.3	464.0	0.8	213.6	0.8	65.0	0.1	194.8	0.4	103.0	0.3	56.8	0.1

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Ireland	528.9	0.7	313.1	0.6	510.5	2	751.6	1.7	314.3	0.7	265.5	0.7	170.6	0.4
Italy	3 520.8	4.7	5 350.2	9.5	1 893.5	7.4	1 609.1	3.6	2 221.0	4.6	1 339.2	3.5	1 538.2	4
Luxembo-urg	687.4	0.9	829.4	1.5	912.4	3.6	92.0	0.2	313.6	0.7	68.0	0.2	155.0	0.4
Nether-lands	4 626.1	6.2	2 784.9	5	885.5	3.5	2 055.1	4.6	2 885.3	6	1 379.9	3.6	2 372.0	6.1
Norway	1 178.5	1.6	1 124.7	2	709.2	2.8	1 886.7	4.2	905.1	1.9	966.7	2.5	1 657.3	4.3
Other CEE*	163.8	0.2	82.5	0.1	128.3	0.5	47.1	0.1	38.9	0.1	138.0	0.4	49.4	0.1
Poland	434.2	0.6	635.7	1.1	274.6	1.1	652.7	1.5	678.4	1.4	473.0	1.2	380.0	1
Portugal	213.0	0.3	358.8	0.6	303.4	1.2	192.3	0.4	531.9	1.1	228.3	0.6	321.1	0.8
Romania	212.4	0.3	294.0	0.5	220.9	0.9	119.1	0.3	65.9	0.1	27.6	0.1	70.1	0.2
Spain	3 697.1	4.9	2 199.1	3.9	1 114.3	4.3	2 945.9	6.6	2 349.8	4.9	2 012.6	5.2	1 969.2	5.1
Sweden	3 085.3	4.1	2 288.3	4.1	1 112.1	4.3	2 766.5	6.2	3 354.3	7	2 527.3	6.6	813.7	2.1
Switzer-land	1 522.6	2	876.6	1.6	582.7	2.3	1 345.0	3	1 185.0	2.5	1 840.2	4.8	755.1	2
Ukraine	261.7	0.4	353.7	0.6	38.2	0.1	96.2	0.2	63.3	0.1	43.3	0.1	18.9	0
United Kingdom	20 028.3	26.8	13 127.5	23.3	5 037.9	19.7	12 718.4	28.6	10 248.7	21.3	10 024.9	26.1	9 616.0	24.9
European-total	69 841.2	93.5	53 365.7	94.9	24 308.4	94.9	41 918.5	94.4	44 870.1	93.2	36 752.3	95.7	35 726.2	92.6

Asia & Australia	1 269.0	1.7	636.9	1.1	183.4	0.7	286.6	0.6	832.7	1.7	338.9	0.9	181.9	0.5
Canada	180.0	0.2	91.6	0.2	23.6	0.1	13.4	0	280.7	0.6	246.8	0.6	24.6	0.1
Israel	59.9	0.1	244.0	0.4	26.4	0.1	366.9	0.8	295.3	0.6	38.2	0.1	47.0	0.1
USA	3 130.4	4.2	1 843.6	3.3	998.0	3.9	1 315.8	3	1 838.1	3.8	960.8	2.5	2 584.8	6.7
Other rest of the world	221.9	0.3	74.1	0.1	81.1	0.3	516.3	1.2	24.7	0.1	65.4	0.2	27.7	0.1
Total rest of the world	4 861.2	6.5	2 890.1	5.1	1 312.5	5.1	2 498.9	5.6	3 271.5	6.8	1 650.1	4.3	2 865.9	7.4
Total	74 702.3	100	56 255.8	100	25 620.9	100	44 417.4	100	48 141.7	100	38 402.4	100	38 592.1	100

Source: *European Private Equity Activity Data 2007–2013*, The EVCA Yearbook 2014, available at: http://www.evca.eu/research/activity-data/annual-activity-statistics/ [access: December 22, 2014]. *Other CEE consists of Ex-Yugoslavia & Slovakia. NB: The investments made in non-European portfolio companies include only transactions made by European offices of the private equity firms.

Appendix 2. Breakdown of private equity investment in Europe (by the regions and countries of private equity companies) in 2007–2013

AllPrivate Equity	2007		2008		2009		2010		2011		2012		2013	
Amounts in EUR millions / Country	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Austria	393.8	0.5	214.3	0.4	140.2	0.5	129.6	0.3	124.1	0.3	154.9	0.4	88.0	0.2
Balticco-untries	71.5	0.1	40.3	0.1	6.5	0	27.9	0.1	28.4	0.1	20.5	0.1	17.7	0
Belgium	1 047.5	1.4	636.0	1.1	1 018.2	4	475.7	1.1	590.3	1.2	521.9	1.4	920.1	2.4
Bulgaria	39.1	0.1	15.0	0	6.3	0	4.6	0	11.0	0	65.1	0.2	1.6	0
Czech Republic	69.5	0.1	39.7	0.1	61.4	0.2	36.5	0.1	192.6	0.4	16.6	0	23.9	0.1
Denmark	1 334.2	1.8	512.1	0.9	452.5	1.8	439.2	1	421.3	0.9	693.6	1.8	1 458.2	3.8
Finland	381.4	0.5	486.5	0.9	370.5	1.4	441.7	1	436.8	0.9	483.2	1.3	531.5	1.4
France	12 724.8	17	8 551.1	15.2	3 456.8	13.5	5 958.5	13.4	9 264.1	19.2	5 247.3	13.7	5 943.9	15.4
Germany	8 082.8	10.8	7 115.1	12.6	2 618.6	10.2	4 825.7	10.9	4 439.4	9.2	5 315.3	13.8	5 908.4	15.3
Greece	89.6	0.1	233.7	0.4	39.2	0.2	15.0	0	9.3	0	0.0	0	1.1	0
Hungary	48.1	0.1	33.9	0.1	191.3	0.7	45.2	0.1	78.1	0.2	104.3	0.3	22.7	0.1
Ireland	321.1	0.4	75.3	0.1	59.0	0.2	48.4	0.1	64.8	0.1	92.6	0.2	94.0	0.2

Italy	2 838.6	3.8	3 399.6	6	1 384.7	5.4	905.2	2	1 210.9	2.5	1 191.9	3.1	1 078.7	2.8
Luxembo-urg	67.5	0.1	425.4	0.8	82.3	0.3	101.1	0.2	240.4	0.5	249.5	0.6	70.7	0.2
Nether-lands	2 842.8	3.8	1 763.2	3.1	805.4	3.1	1 326.5	3	2 101.1	4.4	1 362.2	3.5	988.8	2.6
Norway	698.5	0.9	770.1	1.4	641.7	2.5	936.3	2.1	706.2	1.5	879.9	2.3	883.2	2.3
Other CEE*	43.9	0.1	29.7	0.1	31.0	0.1	14.8	0	16.6	0	39.4	0.1	31.3	0.1
Poland	435.2	0.6	727.3	1.3	482.2	1.9	504.4	1.1	692.2	1.4	540.6	1.4	351.5	0.9
Portugal	206.1	0.3	399.0	0.7	299.3	1.2	203.5	0.5	442.3	0.9	229.0	0.6	255.2	0.7
Romania	156.1	0.2	122.6	0.2	82.9	0.3	80.3	0.2	48.1	0.1	24.3	0.1	48.5	0.1
Spain	2 923.5	3.9	1 680.7	3	959.2	3.7	2 479.7	5.6	1 973.9	4.1	1 475.3	3.8	750.5	1.9
Sweden	3 010.3	4	3 330.3	5.9	1 337.1	5.2	3 134.9	7.1	2 166.4	4.5	2 021.8	5.3	1 545.9	4
Switzer-land	969.6	1.3	1 083.6	1.9	717.6	2.8	1 555.2	3.5	640.5	1.3	661.8	1.7	611.4	1.6
Ukraine	48.5	0.1	141.9	0.3	12.3	0	94.3	0.2	60.0	0.1	67.0	0.2	19.8	0.1
United Kingdom	34 011.9	45.5	22 813.3	40.6	9 793.4	38.2	19 534.3	44	21 085.1	43.8	16 236.3	42.3	16 075.1	41.7
European-total	72 855.8	97.5	54 639.8	97.1	25 049.3	97.8	43 318.5	97.5	47 043.8	97.7	37 694.1	98.2	37 721.6	97.7

AllPrivate Equity	2007		2008		2009		2010		2011		2012		2013	
Amounts in EUR millions	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Country														
Israel	11.8	0	5.8	0	0.0	0	2.3	0	5.5	0	5.2	0	2.4	0
USA	1 140.8	1.5	1 281.1	2.3	525.9	2.1	471.1	1.1	881.0	1.8	607.9	1.6	742.1	1.9
Other rest of the world	201.3	0.3	73.2	0.1	7.9	0	48.5	0.1	0.0	0	0.0	0	0.0	0
Total rest of the world	1 846.5	2.5	1 616.1	2.9	571.6	2.2	1 098.9	2.5	1 097.9	2.3	708.3	1.8	870.5	2.3
Total	74 702.3	100	56 255.8	100	25 620.9	100	44 417.4	100	48 141.7	100	38 402.4	100	38 592.1	100

Source: *European Private Equity Activity Data 2007-2013*, The EVCA Yearbook 2014, available at: http://www.evca.eu/research/activity-data/annual-activity-statistics/ [access: December 22, 2014]. *Other CEE consists of Ex-Yugoslavia & Slovakia. NB: The investments made by non-European private equity firms include only the European transactions.

Appendix 3. Industrial breakdown of private equity investment in Europe in 2007–2013

AllPrivate Equity	2007		2008		2009		2010		2011		2012		2013	
Amounts in EUR millions / Sectorfocus	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Agriculture	437.4	0.6	163.2	0.3	92.7	0.4	171.3	0.4	133.1	0.3	115.2	0.3	755.2	2.1
Business &industrial products	9621.0	13.8	8953.4	16.8	2640.8	10.9	4173.6	10	6237.1	13.9	4721.2	12.8	5034.1	14.1
Business &industrial services	7542.4	10.8	4950.3	9.3	1919.6	7.9	3441.4	8.2	2929.9	6.5	3951.5	10.8	3356.7	9.4
Chemicals & materials	2624.4	3.8	2488.5	4.7	662.7	2.7	1022.5	2.4	1388.1	3.1	1859.2	5.1	827.3	2.3
Communica-tions	10053.1	14.4	6147.6	11.5	3231.1	13.3	4746.0	11.3	4913.1	10.9	3307.9	9	3198.4	9
Computer&-consumerelec-tronics	3434.0	4.9	3898.3	7.3	2052.8	8.4	3892.2	9.3	4457.3	9.9	2979.5	8.1	2647.1	7.4
Construction	3541.9	5.1	2328.3	4.4	439.5	1.8	587.0	1.4	1212.1	2.7	829.3	2.3	413.6	1.2
Consumer goods&retail	10211.5	14.6	6537.0	12.2	3011.9	12.4	8168.7	19.5	6692.5	14.9	5262.7	14.3	4937.3	13.8

AllPrivate Equity	2007		2008		2009		2010		2011		2012		2013	
Amounts in EUR millions	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Sectorfocus														
Financial services	3370.5	4.8	2972.9	5.6	2320.1	9.5	2305.4	5.5	3424.1	7.6	1560.6	4.2	2214.7	6.2
Life sciences	6633.1	9.5	5042.4	9.4	3473.0	14.3	5805.6	13.8	4986.5	11.1	5426.1	14.8	4693.4	13.1
Real estate	230.4	0.3	64.6	0.1	76.5	0.3	204.6	0.5	599.9	1.3	703.3	1.9	123.5	0.3
Transportation	3518.1	5	1294.3	2.4	667.2	2.7	2096.7	5	2215.9	4.9	755.1	2.1	1300.2	3.6
Unclassified	326.3	0.5	288.8	0.5	269.4	1.1	31.7	0.1	19.6	0	112.6	0.3	421.5	1.2
Total invest-ment	69841.2	100	53365.7	100	24308.4	100	41918.5	100	44870.1	100	36752.3	100	35726.2	100
Subtotal High -Tech	6249.2	8.9	4928.4	9.2	2730.8	11.2	3357.2	8	5215.4	11.6	3242.5	8.8	3316.4	9.3

Source: *European Private Equity Activity Data 2007-2013*, The EVCA Yearbook 2014, available at: http://www.evca.eu/research/activity-data/annual-activity-statistics/ [access: December 22, 2014].

Building the Diverse Community

Beyond Regionalism in East Asia

The processes in East and South Asian became a peculiar subject for global community of international relations in the field. The presented volume is a collection of papers dealing with the processes of regionalization in East and South Asia. We collected papers from different academic unit both from Europe and Asia. Taking regionalization as a core subject of the volume the readers will discover the complexity of ongoing processes in East and South Asia. We present collection of papers from a very different perspectives starting from the theoretical debates, through economic dimensions of integration to policical and military scope of regionalization in East and South Asia. The whole volume presents the diversity of understanding among international relations scholars community. By shaping the diverse view we can possess the better and in depth understanding of East Asia.

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