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Sovereign Wealth Fund investments in Europe as an instrument of Chinese energy policy



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HIGHLIGHTS

- The energy sector account for almost half of Chinese's SWF investments in the EU.
- SWFs should be treated differently on the energy market than private investors.
- SWFs' representatives on company boards may create a conflict of interests.

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ABSTRACT

Chinese Sovereign Wealth Funds (SWFs) are new instruments of Chinese 'Go Global' strategy and the politics of maintaining raw materials and energy security. Europe has lured 60% of the total USD 27.3 billion invested by Chinese SWFs in the energy sector globally, which provokes the question as to how important SWF investments are in the political sense and what security concerns they bring. This paper is the first that presents a comprehensive picture of Chinese SWF investments in the European energy market and one of the very few papers about SWFs based on multiannual, comprehensive empirical data. The author argues that Chinese SWFs are different players on the energy market than private investors, could be potentially harmful for some European interests. By installing representatives on the company boards, China gains access to sensitive information that could be then transferred to Chinese competitors. Moreover, through its SWFs China could take control over energy companies or critical infrastructure and increase its political influence in European countries, making them more vulnerable to political pressure. Therefore, the European policy-makers should consider taking special steps to monitor and maybe limit Chinese SWFs expansion in the energy sector.

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1. Introduction

Keeping an iron grip on energy and raw materials is a *sine qua non* for continued economic growth, which is the cornerstone of China's social stability and survival of the Chinese Communist Party. A predominant view among China watchers is that since the mid-90s, China's diplomatic purpose is to 'maintain the international conditions that will make it feasible for China to focus on the domestic development' (Goldstein, 2001). In other words, 'China's diplomacy is geared totally towards China's own development' (Schambaugh, 2012).

Securing access to foreign natural resources is necessary for both continued economic growth and the survival of the Communist Party, since growth is the cornerstone of China's social and political stability (Zweig and Jianbai, 2005). Energy resources

are particularly important, because China is the world's biggest energy user and oil importer. China's reliance on energy imports poses a challenge for the state and its future development. Therefore, energy, particularly oil and gas, has become a strategic component of China's foreign and security policy in recent times. Paul (2010) called this strategy of Chinese elites 'the scramble for energy'.

Chinese companies are often used as tools to implement Beijing's policy. The scope and scale of Chinese commercial activities abroad often depend on the financial resources provided by the state in the form of subsidies and credits to companies. Securing access to energy, for example oil and gas, is high on the agenda for the government and therefore state-owned companies such as Petrol China, Sinopec, and China National Offshore Oil Corporation (CNOOC) are rapidly investing overseas in order to acquire foreign assets that can help China to continue fueling this economic growth (Klinck, 2011; Norris, 2016).

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Obviously, not only enterprises could be used as tools to implement foreign policy – Sovereign Wealth Funds (SWFs) are equally good in this regard, if not better. Due to the different objectives, management structures, sources of capital and investment policies, it is difficult to generalize them. There is no widely accepted definition of SWFs (Rožanov, 2005, IMF, 2008, Clark et al., 2013), however, without any doubt one can say that they are ‘government-owned or controlled funds operated as the government’s investment tools, in order to achieve a series of economic and political objectives’ (Sun et al., 2014). Reflecting on SWFs from the perspective of political science they can be perceived as state-controlled entities that could be instruments of economic statecraft. This term, conceptualized by Baldwin (1985), basically means pursuing foreign policy goals by economic means. Thus, theoretically, as state sponsored actors, SWFs can be used by their mandators for politically driven purposes (Truman, 2010; Weiner 2011; Csurgai, 2011). The Chinese case is particularly interesting because of the enormous value of assets at the disposal of the institutions controlled by the state as well as the ever growing political ambitions of China in international relations (Norris, 2016).

The main aim of this paper is to analyze Chinese SWF investments in the energy sector of the European Union (EU) in the context of their potential use as an instrument of Chinese foreign policy. What are the political consequences of Chinese SWF investments in the European energy sector? What security concerns do they pose to Europe? On the basis of statistical data, the paper confirms claims (Cieślak, 2014; Sun et al., 2014) that the characteristics of investment patterns and performance of the Chinese SWFs indicate that they are tools of the state’s ‘Go Global’ strategy and the politics of maintaining raw materials and energy security. Chinese SWFs on the wider scale than other state investors, such as state-owned enterprises, are engaged in investments aiming at securing the strategic energy interests. Their acquisition in the energy sector might be commercially motivated but the literature suggests that SWF behaviors often include political motives. Due to this fact, the paper argues that the EU member states should consider treating Chinese SWFs as different players on the energy market than private investors. Examples of SWFs installing their representatives on company boards, which gives impact on a company’s management and access to its secrets, shows a clear conflict of interest as well as being possibly harmful for European interests. Moreover, through its SWFs China could take control over energy companies or critical infrastructure and increase its political influence in European countries, making them more vulnerable to political pressure. This paper is the first that presents a comprehensive picture of Chinese SWF investments on the European energy market and one of the very few papers about SWFs based on multiannual, comprehensive statistical data. Given the lack of publicly available data on SWF asset allocations, the majority of the research has been done on the theoretical side, supported by case studies or statistical research based on a small number of transactions (Sun and Hesse, 2009; Norris, 2016).

The paper is divided into six sections. Section 2 discusses the methodology used, in particular the source of the statistical data and some limitations resulting from the non-transparent information policy of SWFs. In Section 3 Chinese SWFs are briefly presented and conceptualized as an instrument in the Chinese foreign energy policy toolbox on the basis of existing literature. In Section 4 the characteristics of SWF investments in energy related sectors in the EU have been made. Their investments are analyzed in terms of their value and sectoral distribution. Next, in Section 5 the author discusses the concerns related to the Chinese SWF activities in the European energy market. This study concludes in Section 6 with an assessment of the phenomenon of the Chinese ‘renationalization’ of the energy sector in Europe and presentation of questions for policy-makers that it provokes.

2. Methodology

This research study is based on an in-depth literature review and statistical data gleaned from the Sovereign Wealth Fund Institute Transaction Database – probably the most comprehensive and authoritative resource tracking SWF investment behavior globally. Chinese SWF transactions indexed by the SWF Institute were extracted out of the database, in which till mid-2014 11,633 SWF transactions were cataloged. Then, the list was combined with a few additional transactions found in the Sovereign Wealth Center database. Finally, there is a list of 229 Chinese SWFs transactions dated from 2007 to 2014. Out of these, 34 transactions were related to the energy and natural resources sector in the EU.¹

Certainly, SWFs are widely perceived as relatively opaque. They often operate through special purpose vehicles (SPVs), which complicate the identification of their beneficial ownership, or accurate and timely portfolio compositions. Particularly, the Chinese SWFs are notorious for inferior standards of transparency measured via the Linaburg-Maduell Transparency Index.² Sufficed to say that in 2013, China Investment Company (CIC) scored 7 and the State Administration for Foreign Exchange (SAFE) only 4 out of a maximum of 10 points (SWF Institute).³ Due to this fact, their investment activity is commensurately obscure and although the list of transactions, used in this research, is based on the most comprehensive data that is available, some omissions are possible. However, considering the aforementioned constraints, it can be claimed that this statistical research is sufficiently representative to enable the postulation of conclusions and recommendations.

3. Chinese SWFs as foreign policy instruments

The People’s Republic of China has several public investment vehicles that invest overseas but among them two major SWFs can be singled out. The first is CIC, formally established in September 2007 to manage and diversify Chinese foreign exchange reserves beyond its traditional investments in dollar-denominated bonds. This is a flagship fund, officially acknowledged as an SWF, subordinate directly to the State Council and supervised by representatives from agencies such as the People’s Bank of China (PBoC) and the Chinese Ministry of Finance (Martin, 2010; Blanchard, 2014). This fund provides annual reports, has official representative offices overseas, eleven-member boards of directors and even an ethical Code of Conduct. CIC’s website states: ‘The mission of CIC is to make long-term investments that maximize risk adjusted financial returns for the benefit of its shareholder.’ All of this makes CIC similar to a typical financial corporation. However, Gao Xiqing, former CIC president, bluntly stated that Chinese overseas investments aim to make profits but in the same time build influence (Blanchard, 2014).

The second is the SAFE Investment Company (SIC), a Hong Kong based subsidiary of SAFE, an institution primarily responsible for the management of Chinese foreign exchange (Thomas and Chen, 2011). On the contrary to the CIC, this fund is much more obscure, and China had repeatedly refused to acknowledge its existence until it was confronted with incontrovertible evidence collected

¹ Energy-related transactions in the SWF Institute’s database are classified in a few different categories’ Energy or ‘Materials’ sometimes ‘Utilities’. Therefore, I decided to analyze all entries from those categories and classify transactions on my own.

² The Linaburg-Maduell transparency Index is a method of rating the transparency of SWFs. The index is based on ten essential principles and each of them add one point to the transparency rating.

³ In the 1Q 2016 CIC scored 8 and SAFE only 5 points.

amid a media probe in 2008 (Anderlini, 2008). Some academics (Sun et al., 2014; Blanchard, 2014) refuse to recognize it as an SWF but the vast majority of researchers do, SIC appears in SWF databases (SWF Institute) and actively invest abroad in a similar manner to CIC.

Both funds have a total of USD 1.3 trillion under management (SWF Institute), invest globally and compete with each other. Eaton and Ming (2010) proved that China's top leaders have quietly sanctioned competition between CIC and SAFE to have valuable karat-and-stick mechanisms with which to discipline and control fund managers. Norris (2016) proved that the Chinese government has to struggle to control the behavior of its SWFs and we should not perceive it as something automatic. While SIC is relatively easy to direct, the control over CIC is much more problematic, due to various factors, including its increasing reliance on third-party mandates for foreign capital allocation. Nevertheless, he concluded that both Chinese SWFs should be treated as tools of economic statecraft. It means that they not only are to gain commercial returns but also bring strategic returns in politics, and particularly in energy security.

This dualism of SWF goals is typical and well-described in the literature – a funds' objectives usually varied from strategic and highly-politicized to purely financial. Murphy (2012) called it a 'double bottom line' that manifests in two ways. In addition to earning excess financial returns, funds benefit from increased political influence or furthering strategic interests of the sponsor. However, it is worth mentioning that there is no clear consensus in academic literature as far as the explanation of the SWF investment strategies is concerned. Some researchers (Balding, 2008; Loh, 2010; Epstein and Rose, 2009) pointed to an absence of non-economic investment motives, however, such voices are in the minority. Most researchers argue that SWF investment policies are not entirely driven by profit maximizing objectives, but they give different explanations (Chhaochharia and Laeven, 2008; Knill et al., 2012). Hatton and Pistor (2012) observed for instance that in political entities without electoral democracy, such as China, the overriding objective of SWFs is to maximize the gains of the politicians. They claim that SWF behavior can be explained by the 'autonomy-maximization theory'. In accordance with this theory the true stakeholders in the SWFs are the ruling elites in the sovereign sponsor, and that as such, it is the interests of these elites that SWFs advance.

The most convincing argument is proposed by Shemirani (2011) who claims that the behavior of a particular SWF is always a mix of three motives, although they are mixed in different proportions, depending on the fund and may change over time. Firstly, SWFs can act as a state's foreign policy tool. Secondly, funds are a 'metamorphosis of state-run business' and together with other state-owned or state-controlled entities are instruments of states acting like entrepreneurs e.g. increase earnings and manage political risks. Lastly, SWFs serve as various types of 'domestic compensation'. A political leader might need, for instance, to provide compensation for their voters or supporters of the political regime in order to ensure the continuity of their government. Another example is a need to manage macroeconomic deficiencies or bail out some troubled institutions.

Chinese SWFs have rarely been analyzed as instruments of economic statecraft (e.g. USCC, 2008; Blanchard, 2014; Kamiński, 2015; Norris, 2016). Moreover, SWFs as such have not yet been conceptualized in the literature as tools of a state's foreign policy. However, for the purpose of this paper, some basic classification of the possible methods in which Chinese SWFs are used in foreign policy is needed. On the basis of existing literature (Blanchard, 2014; Kamiński, 2015) one can point out four of them. Firstly, they could be used directly to pressure another country, in the form of the well-known 'checkbook diplomacy'. Secondly, thanks to SWF

investments China can increase its political influence in foreign countries. In many countries Chinese funds have become so important for their financial stability that the rapid disinvestment could be dangerous. (Drezner, 2008). Thirdly, SWFs investments could build a positive image of China. Particularly in times of economic crisis, states and enterprises perceived China as a potential 'white knight' that came and rescued troubled economies (Godement and Parello-Plesner, 2011). It created a golden opportunity for Chinese public diplomacy. Due to their opacity, SWFs are particularly suitable for such political actions. Finally, through its SWFs China could take control over strategic industries or critical infrastructure. In this context, energy can serve as an example of such a particularly vulnerable sector and host countries can be naturally cautious about Chinese investments in it. Most researchers agree that SWF investments in the energy industry aim at enhancing China's energy security (e.g. Miao and Liyan, 2011; Sun et al., 2014). As presented in the next section, Chinese SWF investments in the energy sector is flourishing.

4. Chinese SWF investments in the energy and natural resources sectors in Europe

Chinese SWFs have been very active on financial markets since 2007. Particularly during the economic crisis, when they invested heavily. As one of the few institutional investors in the world they increased and not decreased their investments portfolio. Later the value of investments stabilized at the level of USD 5–6 billion yearly. As far as investments in Europe are concerned, Chinese SWFs allocated almost USD 34 billion in 2007–2014. In the crisis year of 2008 the Chinese share of all non-European SWFs investments in the EU was as high as 34% then dropped to about 14% in 2013 (Kamiński and Wiśniewski 2014).

The sectoral breakdown of SWF investments across the EU (contained in Table 1) proves that securing access to natural resources is among the top policy goals of Chinese funds. The energy and materials sectors dominated SWF portfolios, accounting for almost half of all SWF investments in Europe. A large proportion of Chinese SWF investment has come also been in real estate (mainly in the United Kingdom (UK)) and in the financial services sector. Together those two sectors account for one-third of all Chinese SWF investments in Europe. This sectoral allocation seems to be in line with general market trends in SWF activity – natural resources, finance and real estate tend to dominate the portfolio allocation of also other, non-Chinese SWFs (Castelli and Scacciavillani, 2012). However, such a predominance of energy-related investments is unusual, in comparison to other SWFs investing in the EU, that allocated on average about one-quarter of their portfolios to this sector (Kamiński and Wiśniewski, 2014).

From the two Chinese SWFs that invested in the energy sector in Europe, SIC is much more active than CIC. It pursues stakes in

Table 1

Sectorial distribution of Chinese SWF investments in the EU (2007–2014). Source: Own calculations based on SWF Institute Transaction Database and SWF Center Transaction Database (2014).

Sector	Value (US\$m)	Share
Energy and materials	16,570.00	48.88%
Industry	1098.00	3.24%
Financials	4538.57	13.39%
Infrastructure	1339.00	3.95%
Real estate	6548.75	19.32%
Telecommunications and information technologies	2010.11	5.93%
Other sectors	1795.63	5.30%
Total	33,900.06	100.00%

Table 2
The list of the 15 biggest SWF acquisitions in the European energy sector. Source: Own calculations based on SWF Institute Transaction Database and SWF Center Transaction Database.

	Date	Target country	Target name	SWF	Percentage owned after transaction	Transaction amount (USD million)
1	2011	France	GDF SUEZ E&P	CIC	30.00%	3273
2	2008	France	Total	SIC	16%	2800
3	2014	Italy	Eni SpA	SIC	201%	1880
4	2008	Netherlands	Royal Dutch Shell PLC	SIC	Less than 1%	1366
5	2014	Italy	Enel SpA	SIC	2,07%	1080
6	2012	United Kingdom	BHP Billiton PLC	SIC	1.38%	856
7	2011	France	LNG Atlantic liquefaction plant in Trinidad and Tobago	CIC	10.00%	853
8	2010	United Kingdom	Royal Dutch Shell PLC	SIC	1.14%	777
9	2007	United Kingdom	Rio Tinto Plc	SIC	Less than 1%	641
10	2008	United Kingdom	BG Group Plc	SIC	Less than 1%	570
11	2008	United Kingdom	Xstrata Plc	SIC	Less than 1%	476
12	2007	United Kingdom	BHP Billiton PLC	SIC	Less than 1%	407
13	2008	United Kingdom	National Grid PLC	SIC	Less than 1%	310
14	2009	United Kingdom	Anglo American Plc	SIC	0.94%	272
15	2009	United Kingdom	Rio Tinto Plc	SIC	0.84%	181

leading European resource companies, such as BP, Royal Dutch or Total and between 2007 and 2014 was involved in 30 out of the 34 transactions recorded in the energy and materials sector in Europe. On one hand it supports the claim of Norris (2016) and Blanchard (2014) that CIC is to a lesser extent used as a tool of economic statecraft. On the other, it also proves that contrary to some researchers (Sun et al., 2014) one should not exclude this fund when analyzing Chinese SWF investments in energy. SIC is widely used by China to satisfy strategic and political purposes and maybe for this reason is much less transparent than CIC.

During the analyzed period of time, CIC completed only one sizable transaction in the energy sector – in 2011 it acquired a 30% equity stake in the exploration and production division of GDF SUEZ, a French multinational energy company rebranded as ENGIE in April 2015. What is distinctive in this deal is the fact that CIC secured itself the right to nominate two out of the seven members of the company's international board of directors. In consequence, it gave CIC access to the company's secrets, sensitive information as well as direct influence on the management, which is unusual in the case of SWF investments. This transaction was associated with the acquisition of a 10% stake in the LNG Atlantic liquefaction plant in Trinidad and Tobago, which could serve as a good example of Chinese SWF opacity. The stake was acquired from GDF SUEZ in 2011 by Summer Soca LNG Liquefaction S.A. Only after a solid inquiry on the internet can one realize that it is a subsidiary of CIC, and due to this fact a part of strategic LNG infrastructure is owned by a foreign state. It is a consistent strategy of Chinese SWFs to act in the shadows whenever it is possible. Although their movements are still possible to track by professionals and possibly the secret services of certain states, at the same time they are completely murky for the wider public. Shadowy operations provoke security concerns, featured in Section 5.

The acquisition of GDF SUEZ E&P was on the top of the list of the 15 biggest Chinese SWF investments in the European energy sector (Table 2). Hitherto, this is one of only two cases where Chinese SWFs were allowed to buy such a big packet of shares of an energy company.⁴ Usually they acquire only minority stakes, no bigger than 2–3%, and remain passive investors who do not engage in the management of the owned company.

Analyzing the Top 15 list, we can figure out that the chosen companies are big corporations, whose assets are liquid and can be

easily traded on the open market. It is also worth noticing that only four countries in Europe attracted Chinese SWFs: the UK, France, Italy and the Netherlands. This is very characteristic behavior for SWFs, which tend to buy relatively large and highly liquid companies listed on developed markets (Fernandes, 2009).

As was already mentioned above, the energy sector attracted a substantial part of Chinese SWF investments in Europe. In certain years (2007, 2011, 2014) almost all Chinese acquisitions went to this sector, while in other years about 20–30% of all their money was invested in the EU (Fig. 1). It was only in 2013 when SWFs made a break in pumping their portfolios full of European energy assets – SIC purchased a USD 0.16 million stake in Antofagasta PLC, which was the only recorded transaction.

This was in line with the lesser value of energy investments also in other parts of the world in 2013 (Fig. 2), when the total value of energy-related acquisitions dropped 10 times in comparison to a year earlier. In 2013 Chinese SWFs were concentrated on real estate acquisition, mainly in the UK, that consumed about 60% of the money invested that year. It shows that the investment priorities of Chinese SWFs evolve over time, which supports Shemirani's (2011) theoretical observation that the strategic priorities and level of politicization of a particular fund can change over time.

With USD 16.5 billion invested, the EU energy market is the most attractive energy market for the Chinese SWFs in the world. Europe has lured 60% of the total USD 27.3 billion value of recorded transactions in the energy sector. This success on one hand testifies that the EU energy market remains more open and attractive for foreign investors than the United States (US) market, on the other, it poses some regulatory questions for the host countries, discussed in Section 6.

The concentration on energy and natural resources proves that SWFs behave differently than other Chinese investors. According to official statistics, Chinese foreign investments are not so concentrated on the energy sector. For instance, in 2012 this sector attracted only 14% of Chinese FDI worldwide. It proves that SWFs, much more than other entities such as state-owned enterprises that they are often compared with, engaged in investments aiming at securing the strategic energy interests of China. SWFs are new instruments of Chinese energy policy. Through these funds' overseas direct investments China aims at enhancing their energy supply security and gaining access to energy assets. The effectiveness may be limited by the fact that in the majority of acquired enterprises they keep a hands-off management approach, which hinders their influence on the production and operational activities of the company. However, the role of SWFs may change in the future, together with the rising number of cases in which

⁴ The other is acquisition of a 49% stake in the United Kingdom onshore wind portfolio of Statkraft, Norwegian state-owned energy company and Beijing-based Gingko Tree Investment, a subsidiary of Chinese SAFE, bought stakes in three operational wind farms – Alltwalis in Wales as well as Baillie and Berry Burn in Scotland.

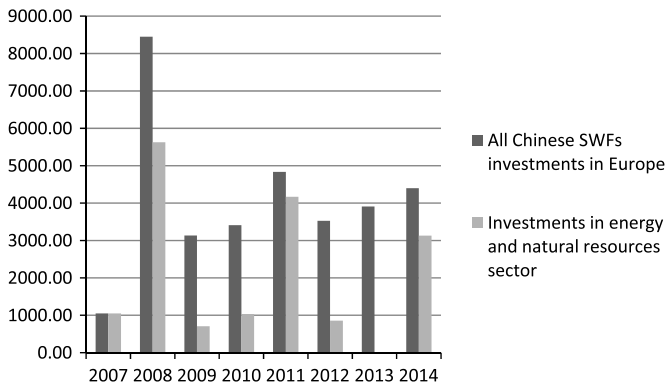


Fig. 1. Investments in the energy and natural resources sector in relation to all Chinese SWF investments in Europe (2007–2014) in USD million.

Source: Own calculations based on SWF Institute Transaction Database and SWF Center Transaction Database.

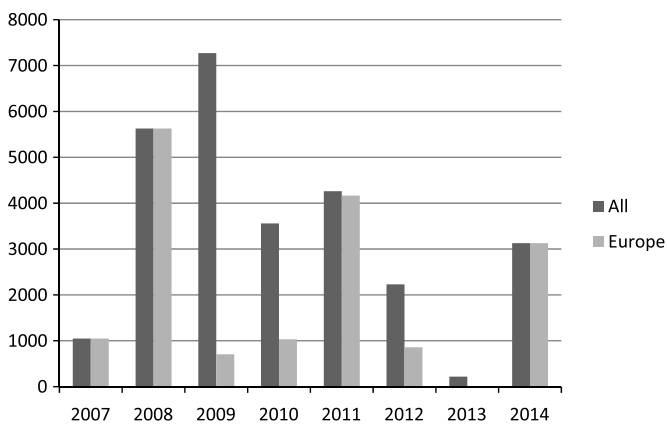


Fig. 2. Investments in the European energy and natural resources sector in relation to all Chinese SWF investments in this sector (2007–2014) in USD million.

Source: Own calculations based on SWF Institute Transaction Database and SWF Center Transaction Database.

acquisitions will be followed by nominations of board members, just as in the case of buying a part of the GDF SUEZ.

5. Concerns regarding Chinese SWFs investments

Concerns over the rising role of SWFs in the global economy and the potential consequences of their capital expansion are widespread among academics and echoed by some politicians. Even Barack Obama, during his initial presidential campaign in 2008 commented: 'I am obviously concerned if these... Sovereign Wealth Funds are motivated by more than just market consideration and that's obviously a possibility' (Loh, 2010). Truman (2010) enumerates five types of concerns: 1. mismanagement of investments by SWFs to the economic and financial detriment of the country with the fund; 2. pursuit of political and economic power objectives via SWFs; 3. exacerbation of financial protectionism inspired by SWFs; 4. potential for financial turmoil and uncertainty associated with SWF activities; and 5. conflicts of interests between countries with SWFs and countries in which they invest.

For the needs of this paper numbers two and five are the most important and should provoke a serious discussion about the future role of Chinese SWFs in the European energy sector. Firstly, as entities controlled by the state, SWFs serve as tools of Chinese foreign policy and foreign energy policy as well. Due to this fact, they are different players on the energy market than private

companies and are in a way similar to state-owned enterprises, which mix commercial motives with searching for strategic returns that cannot be measured by money. In consequence, the rising presence of Chinese state capital in the European energy sector could lead to a situation where they take control over some important energy companies or critical infrastructure. This situation increases Chinese political influence in European countries, making them more vulnerable to political pressure. Tonelson articulated when asked in his testimony in front of the US Congress in 2008: 'If, for example, the Chinese government held significant stakes in a large number of big American financial institutions, especially market-makers, and if our nation's current period of financial weakness persists, how willing would Washington be to stand up to Beijing in a Taiwan Straits crisis?' (Drezner, 2008). The energy sector is as 'strategic' as the financial one so as we can travesty this question and ask what if the Chinese government held significant stakes in a large number of big European energy companies? How willing would European countries be to stand up to Beijing in the case of political crisis? Taking into consideration the fast growth of Chinese political ambitions in the world and its assertiveness (Christiansen, 2011), political clashes by the EU with Beijing seem inevitable (Vangeli and Austerman, 2013).

Secondly, investments by SWFs also create clear possibilities of conflicts of interests between funds and owners or managers of targeted companies as well as governments of host countries (Truman, 2010; Norris, 2016). It is easy to imagine that politically motivated funds invest in a company to be able to influence the management or gain access to privileged technological know-how. Sensitive information could be stolen and transferred to, for example, a state-owned enterprise that is a direct competitor (Fry et al., 2011). From the investor-state point of view, losses from the investment in a foreign company can be balanced by additional gains in the domestic company. Apart from industrial espionage, a hostile fund could also facilitate the sabotage of critical energy infrastructure.

The above mentioned concerns are usually refuted by SWFs and some researchers on the basis of the observation that funds tend to concentrate on long-term profits, buy minority stakes and are not interested in having an impact on the management of a company. In other words, SWFs remain in the position of a passive investor, owning a small stake of shares and with no influence on the management of a company (Fotak et al., 2013). However, this does not always prove to be true. CIC, for instance, whose president publicly said in 2008 that the fund does not want board seats and has instructions to take passive roles in its investments, has gained influence on the boards of four prominent companies operating in the strategic energy sector (Koch-Weser and Hacke, 2013). On the board of AES Corporation, a global power company, CIC installed Guobao, who had been a high-level Chinese government official, being the former Vice-Chairman of the National Development and Reform Commission – the main planning agency. Other companies with CIC representatives on the board were: Canadian Teck Resources, Shanduka Group from South Africa and the already mentioned exploration and production division of GDF SUEZ. The appointment of a person with a political background may not automatically lead to hostile actions by the Chinese government but obviously raises questions about the potential political motivations behind his activities.

Nobody has been caught red-handed undertaking hostile actions, but potential conflicts of interests between a foreign country, to which a member of the board is subordinate to, and the interest of the company and host country is clear. The absence of negative experiences does not remove concerns that the occurrence of abuses will only be a matter of time. This is remarkable and make concerns over the possible harm to European interests legitimate.

The limited scale of Chinese SWF investments in energy and

natural resources in Europe, having invested on average only USD 2 billion per year during the analyzed period, relieves pressure on the EU member states to undertake immediate steps to answer the threats described above. However, SWFs are in the EU to stay and policymakers should not disregard them, but rather use the time they have to prepare Europe for the future rising role of China's state financial vehicles.

6. Conclusions and policy implications

Chinese SWFs are different actors on the energy market than private companies. The literature shows that as government controlled entities they tend to mix commercial goals with political ones. The analysis of their behavior in Europe indicates that, with almost 50% of their funds invested in energy-related transactions, they are much more engaged in securing the state's strategic energy interests than other Chinese investors.

Buying stakes in energy companies by the Chinese SWFs is associated with two major risks. Firstly, taking control over energy companies or critical infrastructure China can increase its political influence in European countries, making them more vulnerable to political pressure. Secondly, installing representatives on company boards, gives China access to sensitive information that could be then transferred to Chinese competitors. Therefore, the EU member states should treat Chinese SWFs as different players on the energy market than private investors, which means imposing special regulations concerning the monitoring of SWFs' acquisitions.

The expansion of Chinese SWFs in Europe analyzed within this paper can also be perceived as an illustration to the words of the famous US economist Lawrence Summers, who wrote in the Financial Times that SWFs 'shake the logic of capitalism' that used to be based on ongoing privatization (Summers, 2007).

The question is profound and goes to the nature of global capitalism. A signal event of the past quarter-century has been the sharp decline in the extent of direct state ownership of business as the private sector has taken ownership of what were once government-owned companies. Yet governments are now accumulating various kinds of stakes in what were once purely private companies through their cross-border investment activities.

In other words, we observe a process of renationalization of some sectors of the economy by foreign countries that use SWFs and state-owned enterprises. Such a phenomenon is dangerous per se for the energy and natural resources sector that is perceived as strategic for the security of states. On the other hand, regulatory responses to SWFs are associated with the risk of becoming overtly protectionist and imposing unwanted costs (Kratsas and Truby, 2015). Therefore, while discussing the shape of the European energy market one has to face a major dilemma: how should the energy sector be prevented from foreign renationalization without unnecessary costs? It is linked with a few other important questions that European policy-makers should answer:

- To what extent should foreign state entities, such as SWFs, be involved in the decision-making processes and have access to commercial secrets as well as know-how of energy companies?
- How to establish a fair set of rules for much needed foreign-state investors? Research shows that all of them are theoretically dangerous for our interests but some of them (e.g. Norway) are potentially much less perilous than others (e.g. China, Russia).
- Who should be responsible for monitoring the investments of

foreign states? Tracking Chinese SWFs, that invest in a non-transparent way, can be very troublesome. Thus perhaps a common, Pan-European agency should be established in order to make the monitoring system more efficient.

Answering those questions would be far beyond the scope of this paper, though the author believes it is vital to raise them in the context of the Chinese SWF investments in the European energy market. SWFs represent a new type of challenge that we have to face – the rapidly growing role of states as investors on capital markets. There is evidence that this phenomenon could be potentially harmful for the European energy sector, and due to this fact the discussion about an efficient monitoring mechanism should return to the agenda. National policies towards SWFs are of limited use (Thatcher, 2013) and the EU decision to avoid bringing legislative action at the European level (European Commission, 2008) should be reconsidered during the discussion of the Energy Union.

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