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Investment strategy of sovereign wealth funds from emerging markets: the case of China

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Abstract. Chinese sovereign wealth funds SWFs continue to expand rapidly and have become increasingly active in real-time strategic transactions recently. They have focused not only on financial markets in developed countries, but they also concentrate on commodity investment in emerging markets (mainly in African or Central Asian markets). The main goal of this paper is to examine investment patterns and performance of two large Chinese sovereign wealth funds: the State Administration of Foreign Exchange Investment Company (SAFE IC) and the China Investment Corporation (CIC). In the absence of official data on the activities of the funds, the article is based largely on press releases relating to the operation of funds and corporate reports of the companies invested in by the Chinese SWFs. The paper presents sectoral and geographical directions of China's SWFs investment and tries to describe how the investment strategy of the aforementioned vehicles changed until mid-2013. The main limitation of the adopted methodology derives from the lack of information and poor transparency of the analysed vehicles. Moreover to obtain the correct information on the details of fund investments (size, value, date) each press release requires extensive verification.

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Contents:

1. Introduction

The term 'sovereign wealth fund' (SWF) has often appeared in press reports over the current global economic crisis. At a time of global economic downturn, the funds in developing countries have become very active, especially in Asia and the Middle East. The concept of SWF is difficult to define (O'Brien et al., 2011; Shemirani, 2011). The most important features of SWF were accurately stated in the Morgan Stanley report, including five characteristics distinguishing SWFs from other investment vehicles: full sovereignty, high currency exposure, high risk tolerance, long-term investment horizon and being free of encumbrances (IMF, 2008). The article adopts the above definition of SWF.

The existence of SWFs has emerged as a result of the processes of internationalisation and progressive abolition of restrictions on the movement of capital, and the global economic crisis has only enhanced the scale of capital available to these vehicles. The activity of SWFs in the capital markets arises mainly due to the need for more profitable investments in the light of the U.S. dollar depreciation, and the declining rates of return on investment in safe debt instruments (e.g. treasury bonds). Since mid-2008, SWFs have invested heavily in the largest international corporations at the brink of financial bankruptcy. In view of the prevailing economic downturn, sovereign investment funds often play the role of the lender of last resort for many of the capital market institutions, corporations, and even whole countries suffering from the crisis. At the end of 2012 all SWFs in the world officially managed assets worth \$ 5.2 trillion (roughly 1/3 of the GDP of the U.S.) (SWF Institute, 2013).

Economic analysts watching the activities of the SWF agree that they play an important role in mitigating the consequences of the global crisis. However, the same economists are concerned with the growing dependence of many corporations, and even entire countries, on the capital belonging to SWFs (Truman, 2010). In addition, the lack of transparency in the functioning of many sovereign investment funds does not allow a clear evaluation of the activities of these institutions and increases concerns about the real intentions of SWFs (1). Other doubt raising factors include the aggressive conduct of SWFs, their investment focused on strategic sectors of given countries (e.g. energy sector, telecommunication, transport) and the ability to pursue geopolitical objectives of the countries they represent (Bolton et al., 2012).

The SWFs particularly observed by economists since the end of 2007 are the Chinese vehicles. SAFE IC, CIC, National Social Security Fund, and China-Africa Development Fund together officially manage nearly \$ 1.2 trillion. It means that they own 22.8 percent of total SWFs' assets (Fig. 1). The available funds are invested in various projects around the world – from the purchase of small blocks of shares in global markets to direct foreign investment. The China Development Bank, one of the three banks pursuing the economic policies of the Middle Kingdom, the so-called 'policy banks', is occasionally included among the Chinese national investment vehicles. Although the activity of the bank is focused on national projects (2), its investment strategy in recent years has visibly expanded to include purchases of shares of foreign institutions, e.g. the United Kingdom (Wearden, 2007), or engaging in international investment projects, particularly related to the commodity sector, e.g. in developing countries: South Africa (Bloomberg, 2011).

The article focuses on the characteristics of investment patterns and performance of the two largest Chinese SWFs: SAFE IC and CIC. The aim of this article is to outline the overall investment strategy of SWFs and the breakdown of the largest investments made by these sovereign investment funds in recent years. In the absence of official data on the activities of the funds, the article was based largely on press releases relating to the operation of funds and corporate reports of the companies invested in by the Chinese SWFs.

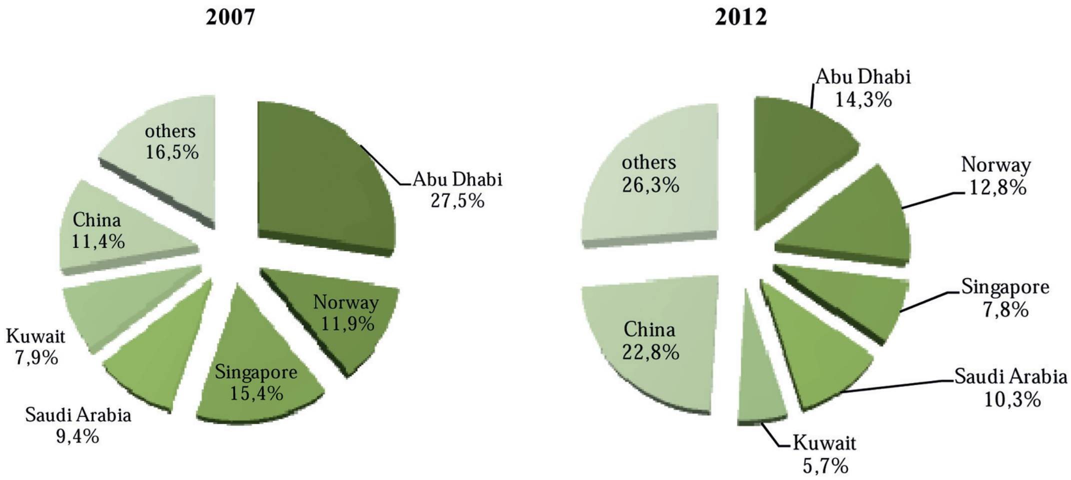

Fig. 1. Share of SWFs' assets in 2007 and 2012 by country

Explanation: * the others comprise mainly assets belonging to: Hong Kong Monetary Authority Investment Portfolio, Australian Future Fund and Russian National Welfare Fund.

Source: Author's own study on the basis of SWF Institute, 2013

2. The investment directions of Chinese sovereign investment funds

Analysing the Chinese SWFs investment trends, the article focuses on the two largest funds, in terms of the assets managed, SAFE IC and CIC. SAFE IC was separated from the State Administration of Foreign Exchange managing the foreign reserves of the People's Republic of China (PRC) and registered in June 1997 as a subsidiary in Hong Kong. As a direct branch of SAFE, the fund is under the control of the central bank (People's Bank of China). CIC was founded a decade later, in September 2007, by the decision of the Ministry of Finance. CIC's funding came in the form of debt not equity. For the initial capitalisation of CIC, the Ministry of Finance issued special government bonds denominated in renminbi that were purchased by the largest of China's commercial banks. The proceeds were then used to buy foreign exchange from the People's Bank of China. Unlike SAFE IC, CIC is not a legal subsidiary of any government agency or central bank and reports like a ministry directly to the State Council.

The role of both sovereign vehicles is to diversify investments and achieve higher rates of return than in the case of investments in debt securities. The analysed funds were very active just before and at the beginning of the global financial crisis. From 2007 to 2009 both funds invested at least $ 30 billion in the largest financial institutions in the world. After the peak of their investments' value in 2009 (at least $ 11.4 billion) and bearing losses from unsuccessful ventures especially in the U.S. market, the vehicles have avoided transactions that needed high financial involvement (Table 1, Fig. 2).

Table 1. The most important investments of SAFE IC and CIC between 2007 and mid-2013

A	B	C	D	E	F
				SAFE IC	
2008	I	180	<1%	ANZ Banking, Commonwealth Bank of Australia, National Bank of Australia	Australia
2008	IV	2,800	1.6%	Total	France
2008	IV	1,990	<1%	BP	UK
2008	VI	2,510	20%	TPG	U.S.
2011	VIII	720	3.04%	Munich Re	Germany
2012	VI	200	10%	Veolia Water	UK
2012	VII	500	n.a.	Blackstone	U.S.
2012	VII	1,500-2,000	n.a.	shares bought back from General Motors' Pension Fund*	U.S.
2012	V	438	100%	Drapers Gardens**	UK
2012	VI	186	10%	Affinity Water**	UK
2012	XII	107	49%	One Angel Square**	UK
2013	II	840	40%	UPP Group**	UK
				CIC	
2007	V	3,030	9%	Blackstone	U.S.
2007	XII	5,000	10%	Morgan Stanley	U.S.
2008	III	100		Visa	U.S.
2008	IV	3,200	80%	JC Flowers	U.S.
2008	X	200	3%	Blackstone	U.S.
2009	III	800		Morgan Stanley	U.S.
2009	VI	1,210	1%	Morgan Stanley	U.S.
2009	VI	500		Blackstone	U.S.
2009	VI	710	3%	Blackrock	U.S.
2009	VII	1,500	17%	Teck Resources	Canada
2009	VII	370	1%	Diageo	UK
2009	VIII	450	19%	Songbird Estates	UK
2009	VIII	1,090	17.8%	Goodman Group	Australia
2009	IX	940	11%	JSC KazMunaiGas E&P	Kazakhstan
2009	IX	600		Oaktree Capital Management distressed asset fund	U.S.
2009	IX	600		Goldman Sachs distressed asset fund	U.S.
2009	X	250	13%	South Gobi Energy	Mongolia
2009	X	300	45%	Nobel Holdings	Russian Federation
2009	XI	1,580	15%	AES	U.S.
2009	XII	500		CVRD (Vale)	Brazil
2010	II	960	2%	Apax Finance	UK
2010	II	1,500		Lexington Partners, Pantheon Ventures, Goldman Sachs	U.S.
2010	III	200	12.5%	Brookefield Fund	Canada
2010	V	1,220	5%	Penn West Energy	Canada
2010	XI	1,030	29%	General Growth Properties	U.S.
2010	XII	200	18.6%*	BTG Pactual	Brazil
2011	II	100		VTB Group	Russian Federation
2011	II	190		Morgan Stanley	Japan
2011	VIII	3,240	30%	GDF Suez	France
2011	VIII	360	19%	AES and POSCO	Vietnam
2011	X	1,000		Russian Direct Investment Fund	Russian Federation

A	B	C	D	E	F
2011	XI	850	10%	GDF Suez	Trinidad-Tobago
2011	XII	800		Government of Singapore Investment	Japan
2011	XII	250	25%	Shaduka Group	South Africa
2012	I	920	9%	Thames Water	UK
2012	II	300		Sunshine Oilsands***	Canada
2012	IV	200		Blackrock	U.S.
2012	V	420	5%	Polyus	Russian Federation
2012	VI	490	7%	Eutelsat	France
2012	VIII	500		Cheniere Energy (joint investment with GIC)	U.S.
2012	X	730	10%	Ferrovial	UK
2012	XI	400		Deutsche Bank	UK
2012	XI	110	13%	Brookefield	Canada
2012	XI	460	34.2%	Government of Singapore Investment and Canada Pension Plan – 2 joint ventures	Brazil
2013	II	100	20%	Moscow Stock Exchange	Russian Federation
2013	IV	100		Russia Forest Products	Russian Federation

Explanation: A – year; B – month; C – value of trans action (million USD); D – shares; E – investment target; F – country; * together with GIC, Ontario Teachers' Pension Plan Board, ADIC, JC Flowers, RIT Capital Partners, Grupo Santo Domingo and wealthy families Rothschild, Agnelli, and Motta; ** investment was disclosed by Gingko Tree Investment Ltd belonging to SAFE IC' *** with Sinopec

Source: Author's own study on the basis of Heritage Foundation, 2013; The New York Times, 2013; The Guardian, 2013; The Wall Street Journal, 2013; Reuters, 2013; Bloomberg, 2013

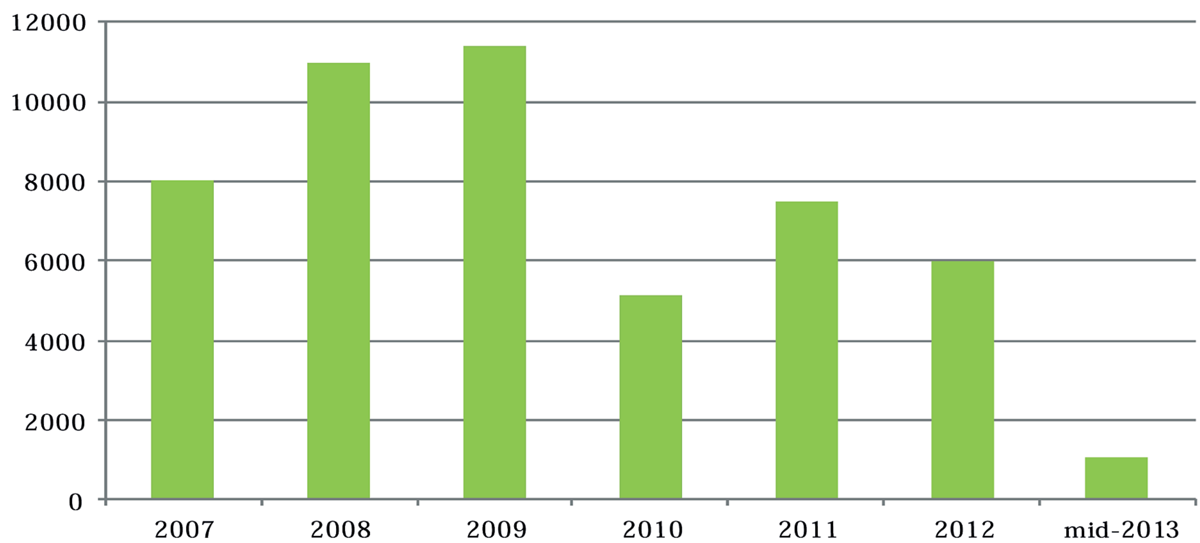

Fig. 2. SAFE IC's and CIC's investment value in 2007-mid-2013 ($ millions)

Source: Author's own study on the basis of China Investment Corporation, 2008; China Investment Corporation, 2009; China Investment Corporation, 2010; China Investment Corporation, 2011; China Investment Corporation, 2013; Heritage Foundation, 2013; The New York Times, 2013; The Guardian, 2013; The Wall Street Journal, 2013; Reuters, 2013; Bloomberg, 2013

2.1. State Administration of Foreign Exchange Investment Company

On the establishment of SAFE IC, the assets of the fund amounted to only $ 13 million. According to the data available, in 2012 the SAFE IC had assets estimated at nearly $ 570 billion. This represented about 17 percent of the total official foreign exchange reserves of China in 2012 (State Administration of Foreign Exchange, 2013). Establishing the Hong Kong SAFE enabled SAFE IC to make more diversified, and more risky, investments; however, in practice SAFE IC in 2007 focused on investments in safe, usually low-yielding securities, mainly bonds (3). It is estimated that about a half of the reserves managed by SAFE are invested in U.S. treasury securities (4). The activity of SAFE IC was shrouded in mystery from the very beginning. In addition, the lack of transparency of the fund is compounded by the fact that its investment strategy has not yet been made public. It does not have any website to publish reports on its investment, financial statements or any annual reports. The investment strategy of the fund can only be surmised based on the few press reports on SAFE IC equity in the world (Cieślik, 2013).

Analysing the SAFE IC operation since the outbreak of the global crisis, it appears that the fund focuses its investments on developed countries. Geographically, the fund is interested in the countries of the European Union (mainly in the capital market of the UK), Australia and the United States (Fig. 3). The SWF has diversified its investments into four sectors: financial, energy, real estate, and to a lesser extent agriculture (Fig. 4). At the beginning of its activity, SAFE IC had invested the largest amount of funds in the petrochemical industry and corporations operating in industries associated with the extraction and processing of crude oil. Generally, SAFE IC was interested in energy sector investment. The largest disclosed SAFE IC investments include the $ 2.8 billion purchase of 1.6 percent of shares of the French corporation Total, and the acquisition of less than 1 percent of shares of the British BP petrochemical corporation for nearly $ 2 billion. Further SAFE IC transactions in the British market include minority equity holdings in other corporations related to the energy sector: Royal Dutch Shell, Rio Tinto, BG Group, and BHP Billiton. SAFE IC has invested also in the real estate industry since mid-2011. Through SAFE IC's fund Gingko Tree Investment Ltd, registered in Britain, the Chinese vehicle has invested in real estate deals: student housing (UPP Group), and office buildings in London (Drapers Gardens) and Manchester (One Angel Square) (Mcmahon, 2013). A relatively unusual SAFE IC transaction was the purchase of 10 percent of British Veolia Water and water utility – Affinity Water Ltd. The British Veolia Water China's vehicle acquired in cooperation with group of investors (Fortado, 2012). Broadly speaking, in non-financial sectors SAFE IC has invested about $ 6.4 billion (56 percent of total investment), excluding purchasing minority shares on the UK capital market (which amount has not been reported yet) (Table 1, Fig. 3, 4).

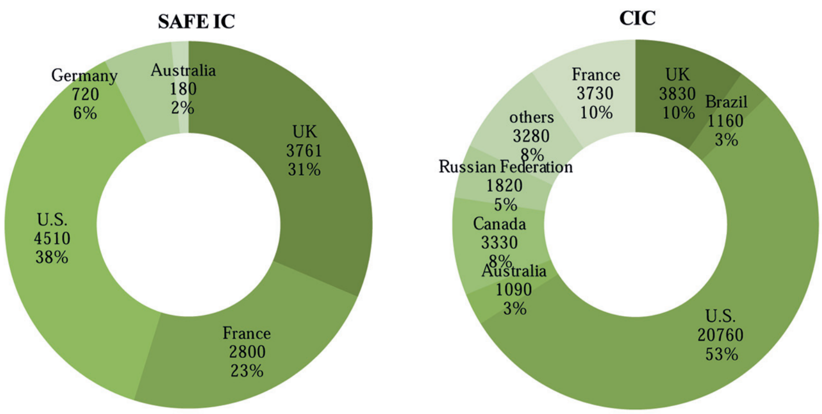

Fig. 3. SAFE IC's and CIC's investments by country until mid-2013

Source: Author's own study on the basis of CIC's annual reports China Investment Corporation, 2008; China Investment Corporation, 2009; China Investment Corporation, 2010; China Investment Corporation, 2011; China Investment Corporation, 2013

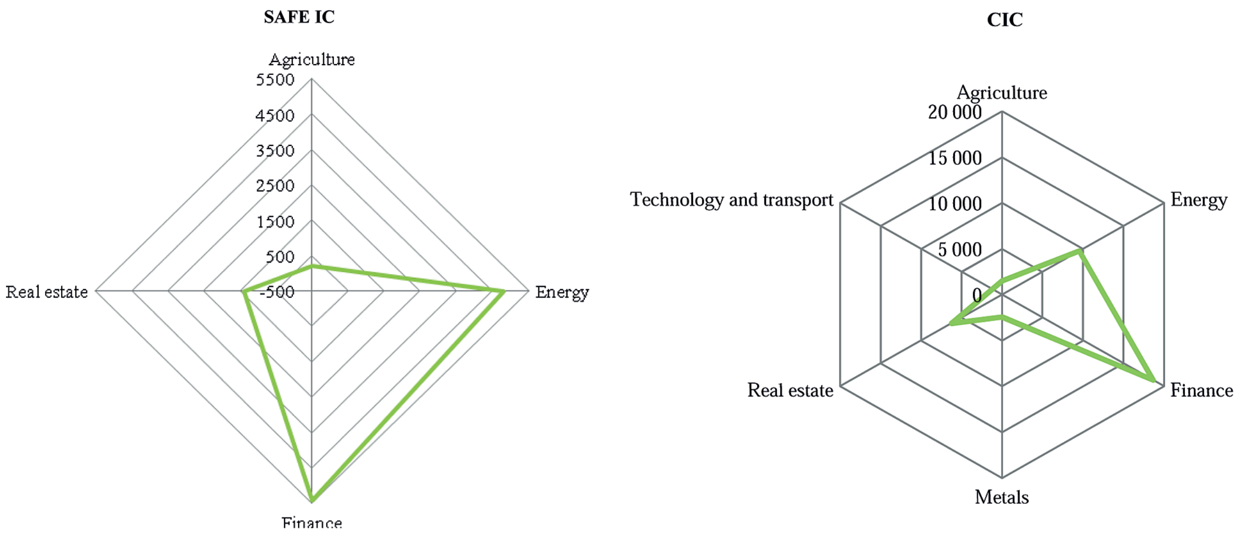

Fig. 4. Sectoral structure of SAFE IC's and CIC's international investments in 2007-mid 2013 ($ million)

Source: Author's own study on the basis of press releases Heritage Foundation, 2013; The New York Times, 2013; The Guardian, 2013; The Wall Street Journal, 2013; Reuters, 2013; Bloomberg, 2013

To a lesser extent SAFE IC focused on foreign financial institutions, although it could have bought many sinking American corporations during the global financial crisis. The possible explanation for the SAFE IC withdrawal from this sector is that a competitive vehicle, China Investment Corporation, has been particularly active in this area for the past few years (5). Between 2009 and 2010 SAFE IC refrained from any investment activity (Fig. 5). Only since mid-2011 SAFE IC has invested in the financial sector more aggressively, though still has avoided more risky ventures. Interestingly, SAFE IC shows little involvement in the United States. The only revealed purchase so far was a 20 percent stake in Texas Pacific Group for more than $ 2.5 billion in 2008. SAFE IC is also speculated to have repurchased stakes in vehicles managed by the largest U.S. asset management companies from the General Motors pension fund (Pignal, McCrum, 2013). The transaction amount and types of shares purchased, however, were not disclosed. SAFE IC's last transaction in the American market was the injection of $ 500 million in a private equity fund – Blackstone – in mid-2012 (Table 1). The purchases of minority shares of Australian banks (ANZ Bank, Commonwealth Bank of Australia and National Australia Bank) in January 2008 for a relatively moderate amount ($ 800 million), more than 3 percent of shares in German Munich Re, the injection in Blackstone, and the stake acquisition in Texas Pacific Group are the only revealed SAFE IC projects in the financial sector. It is estimated that SAFE IC has invested in the foreign financial sector roughly $ 5.4 billion so far (46 percent of total investment), of which at least half was invested in the period 2011-2012 (Table 1).

Analysing the information available in the media about SAFE IC investments, it is difficult to clearly identify the strategy and objectives of this vehicle. Sector-wise, the investments made by SAFE IC are considerably diverse. We can observe the shifting from energy sectors towards real estate. The financial sector also plays a more important role than in 2008. Geographically SAFE IC is still 'developed countries loyalist' in its investment strategy. The vehicle has focused on American and British markets for almost five years and invested nothing in developing states yet (Table 1, Fig. 3, Fig. 5).

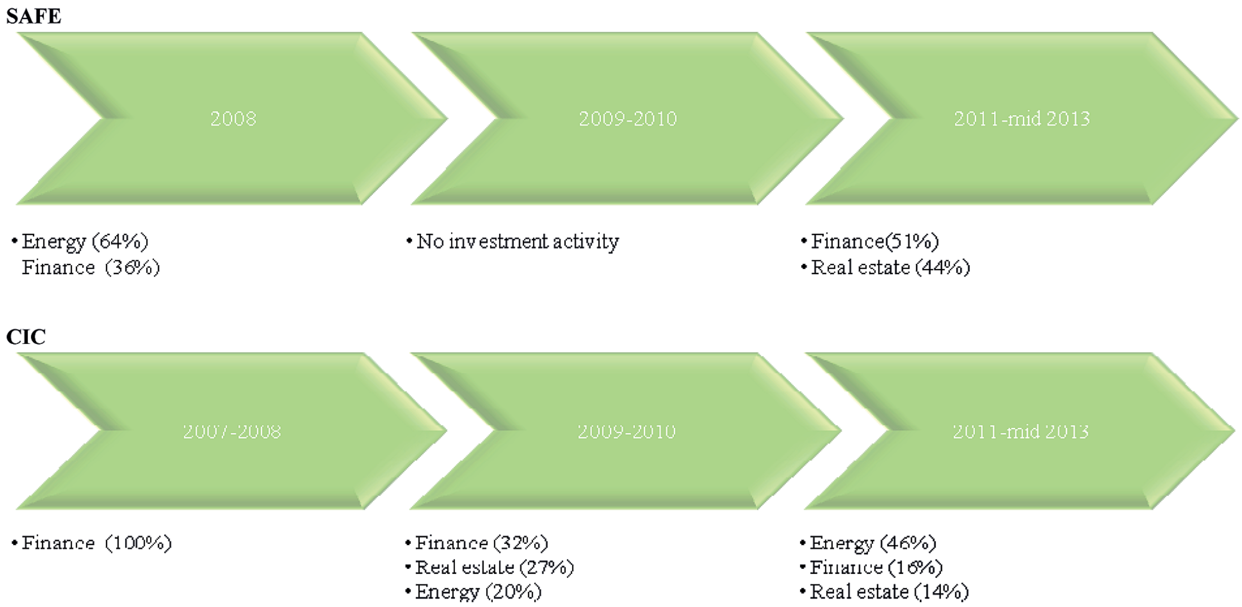

Fig. 5. The investment strategy of SAFE IC and CIC – roadmaps

Explanation: Numbers in parenthesis mean 'of total investment value in analysed period'

Source: Author's own study on the basis of China Investment Corporation, 2008; China Investment Corporation, 2009; China Investment Corporation, 2010; China Investment Corporation, 2011; China Investment Corporation, 2013; Heritage Foundation, 2013; The New York Times, 2013; The Guardian, 2013; The Wall Street Journal, 2013; Reuters, 2013; Bloomberg, 2013

2.2. China Investment Corporation

The financial services corporation – UBS – estimated that, in the period 2003-2006 China earned around 2–4 percent return on foreign reserves. With a higher domestic rate of investment (4 percent) than returns from U.S. dollar holdings (3.5 percent), maintaining large US dollar assets for China meant living with losses in the value of its holdings (National Bureau of Asian Research, 2013). Moving investments out of the dollar would have led to depreciation of remaining dollar holdings, which would not have been a viable strategy. China has caught itself in a 'dollar trap'. This situation was the main reason why CIC was established (Cieślik, 2013). When in 2007 the Chinese government decided to create CIC (6), \$ 200 billion were deposited under its management from a special bond issued by the Ministry of Finance of the PRC. 'The mission of CIC is to make long-term investments that maximise risk adjusted financial returns for the benefit of its shareholder.' (China Investment Corporation, 2013). In 2012, the fund assets had already amounted to \$ 482 billion. From the beginning, CIC was active commercially, dependent on financial instruments, and consequently its attitude to investment operations is rather commercial. CIC also shows a slightly higher transparency than SAFE IC. Although CIC refrains from indicating the sectors of investment focus, it emphasises its interest in long-term projects (China Investment Corporation, 2013).

Similarly to SAFE IC, CIC has invested most resources in developed countries, the North American region (43.8 percent of total investment) in particular, primarily in the U.S. financial market (Fig. 3). In recent years, the fund has shown interest in projects in developing countries (Mongolia, Brazil, Vietnam, South Africa, Kazakhstan, and the Russian Federation), particularly investments in raw materials and energy sectors. According to the last official "Annual Report 2011", CIC concentrated its investment on long-term projects (31 percent of total assets) (7), then on shares (25 percent of total assets) and fixed-income financial instruments (21 percent of total assets). Its investment structure in 2011 differs from that in 2008, when CIC invested mainly in safe cash funds. In 2011 CIC investments focused on equities and cash fund investments practically did not exist anymore. More funds have been directed to risky assets. CIC's alternative investments (usually higher-return assets and more risky) have comprised real estate funds, energy market funds, hedge funds, and private equity. CIC managers seem to prefer higher returns to higher risk. The share of alternative investments between 2008 and 2011 rose from 0.6 percent to 27.6 percent (Fig. 6).

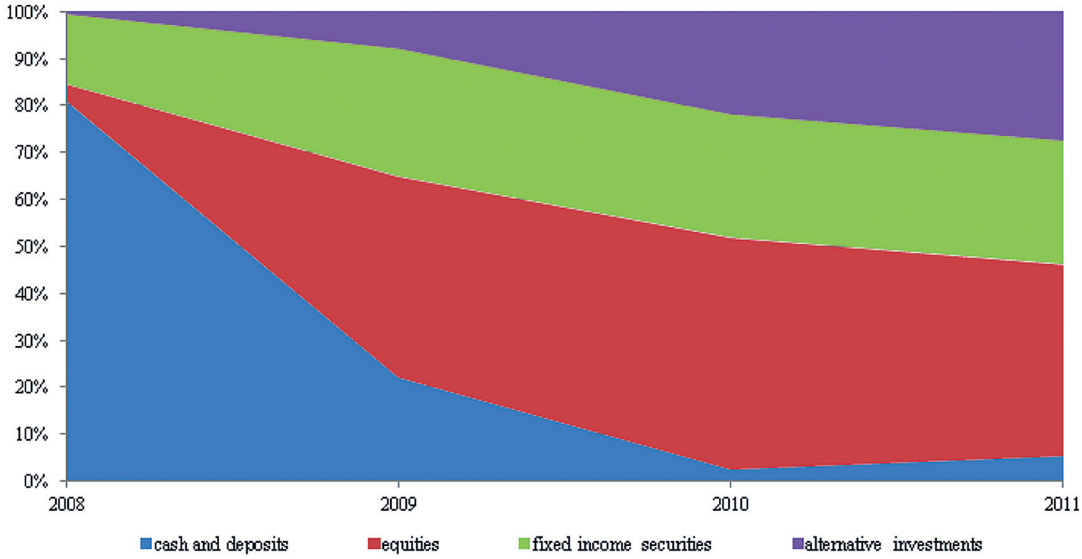

Fig. 6. Structure of CIC's foreign investments in 2008-2011

Source: Author's own study on the basis of CIC's annual reports China Investment Corporation, 2008; China Investment Corporation, 2009; China Investment Corporation, 2010; China Investment Corporation, 2011; China Investment Corporation, 2013

The CIC sector strategy is clearly moving towards portfolio diversification. Since 2007, a significant reconstruction in the CIC investment orientation can be observed. In the light of the global economic crisis and the threat of bankruptcy for major financial institutions of the U.S. and European markets, CIC has focused on buying shares of declining financial sector institutions involved in the real estate market at bargain prices (Table 1). Some of the CIC investments aroused much controversy, especially those conducted in the U.S. at the beginning of the global crisis. The most media oriented CIC projects in the United States include investments in Morgan Stanley and Blackstone (8). From unsuccessful investments CIC's authorities learned much. First, CIC restrained its investment activity in order to limit the loss. CIC disclosed just a single investment in 2007 and 2008. It invested $ 3.2 billion in American private equity company JC Flowers (Table 1).

At the time of gradual mitigation of the global economic crisis, the Chinese fund shifted its focus to corporations associated with an activity linked to China's economic development strategy (The Central People's Government of the PRC, 2011). Closer analysis of the investments list discovers that CIC had focused on the financial sector until 2008. After unsuccessful deals at the beginning of the global financial crisis, SWF began to diversify its investment directions. First, CIC concentrated on the real estate and energy sectors. In time CIC began to invest in the foreign agricultural sector, technology, and transport. According to official data, between 2007 and mid-2013 CIC disclosed 48.3 percent of its total investment in the financial sector, 28.6 percent in the energy sector (e.g. JSC KazMunaiGas Exploration Production, Sunshine Oilsands, Penn West Energy), and 16.1 percent in real estate (e.g. Goodman Group) (Fig. 4, Table 1). Now the fund's portfolio also includes small shareholdings of developing and prospective corporations from outside the aforementioned sectors, i.e. pharmacy, cosmetics, energy, information technology, food processing, and the media. Finally, at the end of 2011, the CIC assets in held shares included the Bank of America, Burlington Northern Santa Fe, Apple, Chesapeake Energy, Citigroup, Coca Cola, Eli Lilly, Hartford Financial Services, Ingersoll-Rand, Johnson & Johnson, Merck, Metlife, Motorola, News Corp, Pfizer, Sprint Nextel, Terex, and Wells Fargo (Martin, 2010). In most cases CIC remained in the role of a passive investor. Though in time more and more CIC authorities have become board members in the corporations whose shares SWF had bought (Wu et al., 2011).

CIC is also interested in cooperation with other funds. While trying to find an optimal allocation for its assets, CIC has continually changed the way it manages its investments. SWF has outsourced 57 percent of its global investment portfolio and has made over 30 major transactions with external fund managers. Recently, State Corporation Vnesheconombank and its Russian Direct Investment Fund (RDIF) and CIC signed a Memorandum of Understanding which sets forth a number of principles to promote future cooperation on investments in infrastructure projects and projects in the Russian Far East Region (Russian Direct Investment Fund, 2013). It is difficult to state whether this initiative focuses only on commercial benefit or whether political interests are also included.

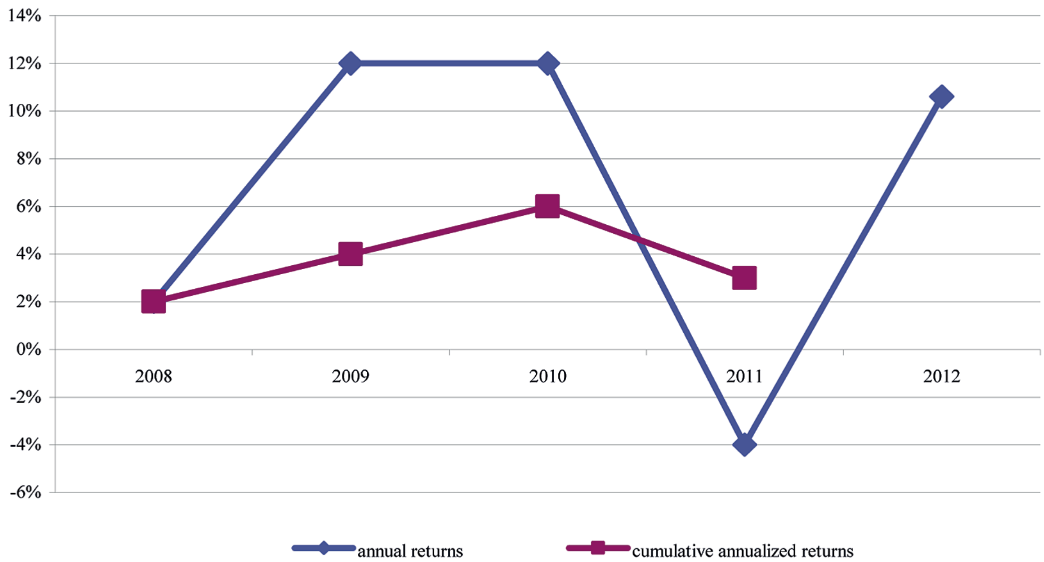

Fig. 7. CIC's international investment portfolio returns in 2008-2012

Source: Author's own study on the basis of CIC's annual reports and the Wall Street Journal

As mentioned above, CIC invests mainly in developed states, but recently has invested in developing ones too. Between 2007 and mid-2013 CIC disclosed 48.3 percent of total investment in the financial sector, 28.6 percent in the energy sector, and 16.1 percent in real estate. At the time of gradual mitigation of the global financial crisis, CIC focused on the real estate and energy sectors (according to China's development strategy set in 12th Five Year Plan). The energy sector has generated 46 percent of CIC's total investment value since 2011. The financial sector has become less important. CIC allocated more capital to alternative investments (Fig. 6). At the beginning of 2013 CIC's vice-president stated that real estate would not be a major target for the fund's investments, but would continue to be a part of its portfolio. The fund will concentrate on long-term investments (Xiaotian, 2013). This strategy may yield a profit. In 2012 China's sovereign wealth fund registered a 10.6 percent return ratio on its investments (Fig. 7). Although CIC is characterised by higher transparency than SAFE IC, many of its investments have been announced in press releases after much delay. The vehicle's sector strategy is clearly moving towards portfolio diversification (Cieślik, 2013). CIC has seemingly implemented the Santiago Principles (International Working Group of Sovereign Wealth Funds, 2014) and has supported efforts to promote free capital flows and cross-border investments. CIC is characterised by a comprehensive corporate governance system and its investment decisions are driven by commercial objectives and the aim to maximise long-term financial returns (Carr, 2013).

3. Comparison of SAFE IC's and CIC's strategies

Comparing the strategies adopted by SAFE IC and CIC we can indicate several implications. In the past SAFE IC chose more carefully and prudently its investment objects than CIC did. This allowed SAFE IC to avoid substantial losses from risky investment during the global financial crisis. As contrasted with CIC, the board of SAFE IC restrained the company from investing. The slight diversification of SAFE IC's investments did not harm its activity significantly, because most of its investments were long-term and not so risky. On the other hand, concentrating only on the financial sector in developed countries, CIC bore a substantial loss at the beginning of the global crisis.

Nowadays we observe that the funds have switched roles. SAFE IC's investments are less diversified and more risky than CIC's. A slight degree of SAFE IC investment diversification increases the potential risk. Especially dangerous is investing in the real estate market in times of volatile markets in developed countries. CIC, in turn, learned from previous mistakes and decided to diversify more its investment targets. Analysing the current strategy of the vehicles, SAFE IC is moving towards very risky and possibly more profitable projects, while CIC has begun to move towards stable, less spectacular, but more reliable returns on investment. It is interesting that the funds focus on different sectors nowadays. It is difficult to state if these strategies were formulated by chance or were the result of mutual consultancy. What is interesting, CIC seems to support the government policy of energy security more than SAFE IC nowadays. We observe a specific division of the global market between the analysed SWFs. It reduces the risk of competition between vehicles and potentially conflicting targets. This approach seems to be safer than implementing a strategy of competition between SWFs in the light of uncertain international markets.

Regardless of the domestic strategy of CIC and SAFE IC, we cannot forget that these vehicles remain subject to political control by the Chinese Ministry of Finance and the government, which exercises strict control over financial and investment policy. Perhaps the investment policies of vehicles are the result of state administration decisions. However we cannot deny that China has shown less reticence in using its great wallet for political purposes outside its borders after the failed investments at the beginning of the global crisis. There is little public evidence to date that CIC and SAFE IC have actively worked to direct corporate strategy or shift economic patterns. While CIC and SAFE IC have both repeated that their investment strategies adhere to market principles and are not subject to political or policy influence, a review of their investment holdings fails to support their claims.

4. Conclusions

Using the current global downturn, Chinese SWFs made many portfolio investments and acquisitions of entities on a global scale. The number and value of investments made indicates that the Chinese SWFs are becoming increasingly important investors in the global market. Although China's SWFs' investment tactics have not been specified, a significant dependence on China's long-term development plans is observed. The investment strategies of Chinese SWFs clearly represent the state's 'Go Global' strategy and the politics of maintaining raw materials and energy security. Therefore, through SWFs, resources are continually invested in projects related to China's priority industries. The nominal values of SAFE IC and CIC transactions are not very high. They are within the following ranges: less than \$ 300 million and between \$ 500 and \$ 999 million (Fig. 8).

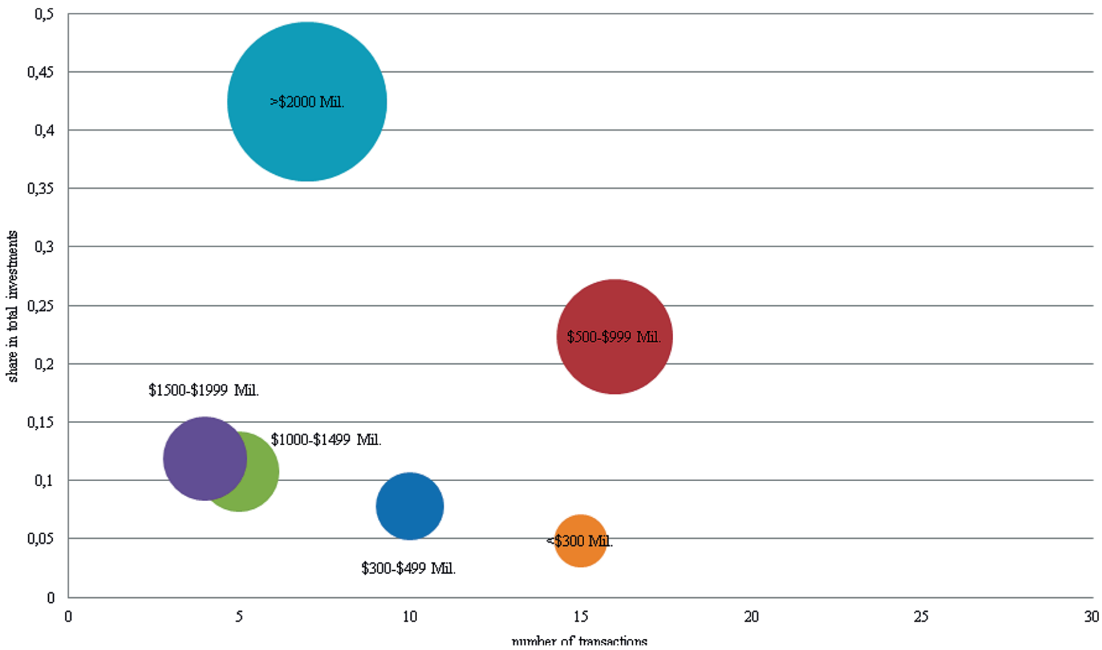

Fig. 8. Number of transactions and their share in total investments of SAFE IC and CIC together until mid-2013

Source: Author's own study on the basis of press releases Heritage Foundation, 2013; The New York Times, 2013; The Guardian, 2013; The Wall Street Journal, 2013; Reuters, 2013; Bloomberg, 2013

In general, a clear outline of strategies and motives of Chinese SWFs is an extremely complicated task, especially in the light of the limited information on SWFs. The main constraints of this analysis derive from the lack of information and poor transparency of these funds. Moreover to obtain correct information on the details of fund investment (size, value, date) each press release requires extensive verification.

Economists usually perceive Chinese SWFs as actors who play an important role in mitigating the consequences of the global crisis and are an increasingly important factor in economic development in emerging markets, helping the creation of new jobs and transfer of technology. SWFs seek strong and stable financial returns in order to multiply their assets and can be ideal financiers of large infrastructure projects (focus on long-term investments). Generally governments are in a deepening quandary over doing business with Chinese SWFs for two main reasons. First, CIC and SAFE IC are government-linked entities, raising the fear of politically motivated investments designed to pursue state policy aims rather than economically driven decisions. China's SWFs can be perceived as the potential threat of a rival nation employing SWF capital to acquire strategic assets and use them as a potential 'weapon' against the host country. There is also the risk that a foreign government will use an SWF to acquire proprietary knowledge, patented technology, or trade secrets. Second, the two analysed funds disclose little information about their strategy. Consequently economists wonder about their real purpose and activities (O'Brien et al., 2011). However, the undeniable fact is that the Chinese sovereign investment funds have become an important subject of the global institutional investor community and their role is likely to increase.

So far we cannot find a consensus among economists whether these vehicles are a threat or a salvation (Truman, 2010). A great deal of discussion has taken place in the press in Western countries about China's SWFs. Gerard Lyons from Standard Chartered Bank expressed widely held concerns: 'The big worry is that [SWFs] see an opportunity to buy a strategic stake in key industries around the globe. … If the West accepts that Chinese firms can buy freely overseas using state reserves then this should lead to pressure for China to open its domestic markets further.' However, we should remember that China's SWFs manage only a part of its total foreign exchange reserves. Chinese SWFs are still too small to acquire most of the Western firms. The combined capitalisation of corporations from developed countries is much higher than the assets of all China's SWFs (Nolan, 2012). One thing is unquestionable – the ability of these Chinese SWFs to successfully manage domestic and international political concerns and play a constructive role in macroeconomic financial policy will ultimately determine their success (KPMG, ESADE, Invest in Spain, 2013).

Notes

(1) According to the SWF Institute, the largest SWFs in 2012, in terms of managed assets, were the Norwegian Government Pension Fund, Abu Dhabi Investment Authority, the Chinese SAFE IC, Saudi Arabian Monetary Authority Foreign Holdings and China's CIC. Only the Norwegian fund is characterised by high transparency; other major funds are placed at the end of the ranking in terms of transparency.

(2) CDB is a specific bank focusing on the execution of infrastructure projects. The most spectacular projects financed by the bank include the Three Gorges Dam construction and the construction of an airport in the Shanghai Pudong area. The total assets of CDB in 2011 amounted to over $ 990 billion. (China Development Bank, 2011)

(3) Part of the SAFE investments was conducted through a controlled entity, Central Huijin Investment Ltd, submitted to CIC at the end of 2007. Central Huijin Investment Ltd, "in accordance with authorization by the State Council, makes equity investments in major state-owned financial enterprises, and shall, to the extent of its capital contribution, exercise the rights and perform the obligations as an investor on behalf of the State in accordance with applicable laws, to achieve the goal of preserving and enhancing the value of state-owned financial assets. Central Huijin does not conduct any other business or commercial activity. It does not intervene in the day-to-day business operations of the firms in which it invests." (Huijin Investment, 2013)

(4) According to the U.S. Treasury, by the end of June 2012, China held roughly $1.16 trillion in U.S. government bonds. China's commitment to the U.S. debt decreased, compared to the first half of 2011, when it was estimated at $ 1.73 trillion. (Orlik & Davis, 2012) (U.S. Department of the Treasury, 2013)

(5) After the creation of CIC, press reports indicated competition and even conflict between SAFE IC and CIC.

(6) Although CIC took over Central Huijin from SAFE, the article considers only the CIC investments.

(7) Disclosed mainly by China Central Huijin.

(8) These investments eventually exposed CIC to high losses. It is worth mentioning that CIC disclosed the Blackstone investment before the fund was officially established.

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