

New CER essay

State, money and rules: An EU policy for sovereign investments

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The European debate about sovereign wealth funds (SWFs) has been somewhat inconsistent. But the EU has made more progress towards a coherent policy than most people realise. Initially, many Europeans had feared that SWFs from China, Russia and oil-rich Arab countries could use ownership of western companies for political purposes or to skew the commercial playing field. As the financial crisis deepened, the Europeans complained that SWFs were too cautious or cash-strapped to help bail out western banks and businesses. Nicolas Sarkozy's recent idea that EU governments should secure stakes in strategic local companies to prevent them from falling into foreign hands indicates that the debate will go on.

The attempt to construct an international framework for SWF investments has been one of the more remarkable episodes in multilateral rule-making in recent years. EU countries quickly decided against new rules at the EU level and instead supported multilateral efforts to set standards – which have also made swift progress. In less than a year, the SWF working group backed by the IMF came up with a set of voluntary principles for the transparency and accountability of SWFs. Meanwhile, the OECD is harnessing its existing rules on investment to construct guidelines for recipient countries.

However, this CER essay warns that the spectre of individual EU countries erecting new investment barriers has not disappeared. Such national reactions could lead to a fragmentation of the single market; they could put off potentially long-term investors; and they could make the EU look hypocritical when it preaches about economic openness and adherence to multilateral rules to the likes of China and Russia. Similarly, current proposals about how to take the EU's SWF policy further – from golden shares to reciprocity – are not promising. The Europeans should give the 'grand bargain' between the SWFs and the recipient countries a little more time to work.

Notes for editors:

1. The CER will host debates about SWFs in Brussels on January 13th with David O'Sullivan, and in London on January 15th with Lord Myners. For enquiries please contact the CER on +44 20 7233 1199 or events@cer.org.uk.

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