

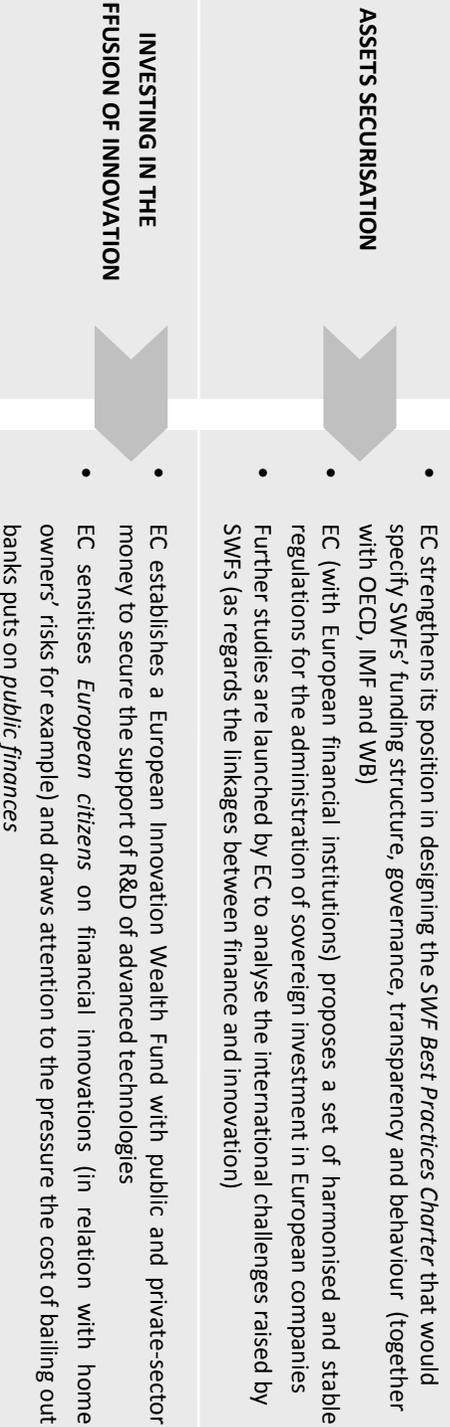
Sovereign Wealth Funds (SWF) are nothing but international assets held by governments (traditionally, foreign currencies), and have existed since the early 50s'. Today, between 20 and 30 countries, the reserves of which are larger than those needed for day-to-day purposes, have created a 'sovereign fund' to manage their 'surplus' resources. They are here to stay, whilst they witness remarkable evolutions. Firstly, their worldwide size has dramatically increased over the last years - notably because they relate to oil boom profits-, from \$500 billion in the early 90s' to an estimated \$3 trillion today, and \$10 trillion in three years from now. Secondly, the way governments make use of them has evolved too. From self-protective tools, these funds are turning into strategic policy instruments. Reasons for that are twofold: firstly, increasing western worries about Persian countries' possible influences on their own strategic assets and, secondly, the revelation -through the financial crisis- of the great fragility of rich market-driven and open economies. Thirdly, they materialise our very mixed global economic system stuck between state-led and market-led, and between open and protectionist. It is against this background, featuring the global economic turmoil, that innovation oriented sovereign funds are developing (e.g. in Finland, Ireland, Japan and New-Zealand).

➤ For the two drivers identified through the semantic analysis of the world press on the issue, *Pierre Bitard and Alain Quévieux suggest possible policy responses.*

Key drivers

Matching policy shifts and reforms

by Pierre Bitard and Alain Quévieux, December 2008



IDEAS FOR CHANGING EUROPE

POLICY SUPPORT ON THE MOVE

A RESEARCHER'S THINKING

What has received less attention are the particular risks associated with ownership by government-controlled entities, particularly where the ownership stake is taken through direct investments.

A BUSINESSMAN'S INTEREST

I see strong parallels between the challenge raised by the new age of 'globality' and the cultural challenges my firm initially faced, especially the American workers suspicions of their new Chinese colleagues. The root of the problem is a scarcity mentality in which people see things as a zero-sum game.

Instead, we need an abundance mentality that believes everyone can become better off.

William J. AMELIO,

Lenovo President and Chief Executive Officer

Larry Summers, Charles W. Eliot university professor at Harvard

• **Size of the SWFs:** the total assets holdings of these funds amount to about €2 200 billion. To be compared to €9 500 billion US GDP, they account for about 2% of the global financial assets.

• **Major players:** by all accounts, the Abu Dhabi Investment Authority is the world's largest SWF, with assets of €640 billion. Norway holds the second largest, "Government Pension Fund – Global", €280 billion.

GRIPS Intelligence Corner
SWFs: securing strategic assets

• **Upcoming issues:** In the US and the EU pending legislations may lead to strict policies of reviewing large acquisitions by SWFs in strategic sectors—infrastructure, telecommunications, media, and energy. SWFs tend to multiply (see the €6 bn Brazilian WF created in December 2008, and the debate about a Japanese Wealth Fund), increasing fund raising competition and uncertainty —the growing influence of SWF on world finance remains largely unknown).

The 500 million Euros 'Innovation Fund –Ireland'

The core of the Irish Framework for Sustainable Economic Renewal (December 28, 2008)

SECURING THE ENTERPRISE ECONOMY AND RESTORING COMPETITIVENESS

A fiscal support is being applied to pump billions of euro into the economy through unparalleled investments in infrastructure which will make the economy more competitive. This constitutes proportionately the largest capital programme in the EU; Capital investment allocations will be reviewed to identify scope for re-priorisation towards more labour-intensive activities; Steps to broaden the tax base will be taken, having due regard to the recommendations of the Commission on Taxation.

BUILDING THE IDEAS ECONOMY - CREATING THE "INNOVATION ISLAND"

Up to 500 million will be generated to create a venture fund, known as "INNOVATION FUND - IRELAND", to support early stage RD-intensive SMEs. The capital will be divided into five venture funds of between 75-150 million; The new fund will be operated in co-ordination with existing financial supports from Enterprise Ireland for early stage RD intensive SMEs, in order to ensure efficient allocation of resources and avoid overlaps.

BECOMING THE WORLD'S LEADING LOCATION FOR BUSINESS INNOVATION

"We will combine our role as an attractive home for research and development investment by multinationals with being a highly-attractive incubation environment for the best entrepreneurs and talent in Europe and beyond.

We already have some excellent indigenous global businesses based in Ireland, but it is essential that we have the means of converting research, development and innovation into commercialised products and services delivered by companies based out of Ireland. The establishment of the 500 MILLION INNOVATION FUND will play a major role in this drive.

This approach will shape the next phase of the Irish economy's development, delivering quality and well-paid jobs. Many of these jobs will be highly skilled: that is why such importance is given in the framework to training and up-skilling. "

May Coughlan is Tanaste and Minister for Enterprise, Trade and Employment (The Irish Times, December 30, 2008)