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## Article

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Thomas Junghanns and Jan Körnert

# The Potential for a Sovereign Wealth Fund to Acquire and Exert Influence Over the Eurozone

The financial clout of the world's sovereign wealth funds (SWFs) is massive, and many of these are controlled by authoritarian regimes. It cannot be ruled out that these funds might acquire shareholdings in banks that play key roles in other countries. This paper studies the extent to which SWFs have the potential to use shareholdings in critical banks as mechanisms to exert influence on other countries' banking, economic and political systems. We identify banks holding critical positions within the eurozone countries that might be exploited in the pursuit of power and determine whether SWFs could acquire simple or qualified majorities in these banks and whether they would have sufficient assets to enter into such investments. The paper concludes that three authoritarian regimes – China, Abu Dhabi and Saudi Arabia – each have a SWF which would need to invest not even half of its assets to acquire such sweeping influence.

As described by Schumpeter (1939) and later Diamond (1984), banking systems are an indispensable part of modern economic systems and thus have significant and broad influence. According to Weber (1980) and Albert (1955), this influence may also be understood as power because it allows banks to steer socio-political processes in pursuit of their own interests or even to more forcibly assert their will. Moreover, these mechanisms to potentially exert influence, or even raw power, do not end at the borders of national economies. Because of the interdependencies of economies and political systems in developed industrial societies, the influence of banks may be observed not only in the political systems of nations, but it may also be extended to supranational structures such as the institutions of the European Union (Körnert, 2019).

For this reason, banks that play a key role in national banking systems may be attractive targets for certain inves-

tors, whereby a controlling shareholding in a bank could serve as a means to gain influence or even directly assert power. The large external investments into the financial sector witnessed over the past two decades should therefore come as no surprise, even as the financial returns from these have often been below average (Brett, 2017). Sovereign wealth funds (SWFs) are special-purpose institutional investment vehicles created and owned by national governments, often with very substantial assets and concentrated financial resources (TheCityUK, 2015; SWFI, 2019). In viewing SWFs as external investors, special considerations arise when these are domiciled in and controlled by authoritarian regimes, which could potentially seek to acquire controlling shares in key banks in order to gain and assert power over the banking, economic and political systems of other countries and even undermine democracy and the rule of law.

This paper examines which eurozone banks occupy key positions in their respective countries through which such potential power could be acquired and exercised. It then analyses whether full control over each of these banks through a qualified majority shareholding could be attainable, or at least the limited control of a simple majority. Subsequently, it investigates which SWFs have sufficient assets to acquire simple or qualified majority shareholdings in not just one but a broad constellation of these banks. Finally, the article considers what percentage of the SWF's assets would be required to acquire these shareholdings.

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Of the 27 member states of the EU, 19 are members of the eurozone, with the European Central Bank (ECB) acting as the common central bank for all 19 of these national banking systems. Of the 5,561 banking institutions within the EU, 4,452 are domiciled in the eurozone (Statista, 2020).

Through this study, we aim to contribute to an international discussion already documented by Alhasel (2015) and recently put into a broader and more current context by Wang et al. (2021). The underlying question is whether the investments of SWFs are purely financial or whether they could be intended to serve a geopolitical aim. In our attempt to partly answer this question by adding a new layer of understanding, we consider the world's major SWFs in the context of the Democracy Index ratings of their home countries. In his study of the literature, Alhasel (2015) also refers to the earlier study by Balding (2008), who asserted that it is still unclear whether the financial power of SWFs might be sufficient to influence markets and cause political damage. Through this study, and through the analysis presented herein specifically of national banking systems within the eurozone and of potential mechanisms for the assertion of broader influence on economic and political systems, we aim to bring greater clarity to this question. Our investigation relies substantially upon two earlier preliminary studies by Körnert and Junghanns (2019, 2020), which outlined a methodology and presented initial results for the five smallest EU member states: Malta, Cyprus, Estonia, Latvia and Lithuania.

### Sovereign wealth funds and the Democracy Index

SWFs are investment vehicles established and owned by a sovereign government. Their overt aim is invariably the pursuit of conventional investment objectives. For 55 of the world's 89 SWFs, the investable wealth is derived from the home country's production and export of commodities. The remaining 34 non-commodity-based SWFs derive their wealth from trade and balance of payment surpluses, from foreign exchange transactions or from privatisation transactions (TheCityUK, 2015; SWFI, 2019). Although several have their origins in the 19th century, two-thirds of the world's SWFs active today were established just within the past 20 years (Capapé, 2018).

Table 4 lists the countries with the largest total SWF assets. Within each of these, state-controlled funds manage total wealth in excess of \$100 billion. The largest single SWF is that of Norway. China (excluding separately listed Hong Kong), however, has the world's greatest total SWF assets, although these are divided among four different SWF vehicles. The Democracy Index published by *The Economist* (2020) provides a convenient measure of the

degree of democracy in each country, and thus of its government's proximity to democratic principles and the rule of law. Every year, *The Economist* assesses the state of democracy in 167 different countries, ranks these countries according to various criteria and divides them into four classifications: full democracies, flawed democracies, hybrid regimes and authoritarian regimes. The disproportionate share of SWF wealth under the control of authoritarian regimes should already raise eyebrows.

The obvious concern is that authoritarian regimes could use SWFs to acquire controlling shareholdings in strategically important companies abroad, thereby pursuing not just ostensible conventional investment objectives but also economic advantage or even hegemonistic aims. The gateway for such geopolitical ambitions could very well be the banking system of the target country.<sup>1</sup> For example, an investment position in a banking institution may establish not only management control over the bank itself but also, by extension, significant levers of influence on the respective country's economic system, its political system and even supranational political structures to which it belongs.

### Mechanisms for asserting power on banking, economic and political systems

Various conspiracy theories about the "power of the banks" accusing Jews, Freemasons, Marxists and Bolsheviks (Tanner, 1998) prompted the West German government in the 1970s to appoint a study commission on "fundamental issues of the banking industry" (*Grundsatzfragen der Kreditwirtschaft*) to investigate the power position of Germany's banks. The study commission argued that it is the combined interplay of four instruments that enables the transfer of power beyond the banking system to the broader economic system (Studienkommission, 1979). These four instruments, which have since been further examined many times under the label "accumulation theory", can be briefly summarised as follows: Building upon the (1) lending relationships, banks also (2) take equity stakes in these same client companies. The bank's involvement as both lender and shareholder often leads to (3) a seat on the client company's supervisory board. Furthermore, one must additionally consider (4) the limited discretionary voting power (in the same client companies as well as many other companies) which third parties may and typically do assign to German banks for shares held in custody.

<sup>1</sup> Banking systems are part of the critical infrastructure of countries (CISA, 2021; Körnert and Junghanns, 2019).

Political economy also offers an insightful approach to examining the fundamental interrelationship between economy and politics, which in turn suggests a theoretical framework for the mechanism by which power may be transferred from the economic system to the political sphere. The relationship between the economic and political systems may, for purposes of understanding, be reduced to four basic types: primacy of the economic system, primacy of the political system, totalitarian control and coordination over all aspects of society (*Gleichschaltung*), and interdependency.<sup>2</sup> In modern industrial societies such as the EU, it is the fourth type which is normally prominent: mutual interdependency between the economic and political systems. On the one hand, the government in power seeks to influence and guide developments in the economic sphere to further its political and policy goals; on the other hand, the stakeholders in the economic system go to great lengths to assert their interests within the spheres of politics and public policy.

Political leaders and policymakers are, not surprisingly, by no means immune to the interested parties within their banking and economic systems. These powerful voices may be brought to bear not only on political leaders and policymakers at the national level but also beyond, to supranational bodies such as the structures and institutions of the EU. In particular, the Council of the European Union and the European Council are both susceptible to such influence (Körnert, 2019). Thus, should a foreign power, by way of its SWF, acquire controlling stakes in eurozone banks sufficient to exert power over national banking systems, and more broadly entire economic systems, this acquired power could potentially be further exerted not only on national political systems but also on supranational structures.

### Significant banks as first-level filter

Assuming for the moment that there are foreign-controlled SWFs that would strive to acquire controlling shareholdings in eurozone banks with the express aim of gaining and exerting influence upon the economic and political systems to which these banks belong, then not all 4,452 banks in the 19 eurozone countries are equally suited to this aim. The starting point for such geopolitical or even hegemonistic ambitions might well be the eurozone's "significant banks" under the Single Supervisory Mechanism, which the ECB has since 2014 been identifying and placing under its own direct supervision. The number of eurozone banks designated by the ECB (2020)

as such was 117. When determining which banks are significant, the ECB applies five criteria; meeting any one of these is sufficient to qualify a bank as significant. Specifically, these criteria are: the absolute size of the bank, the economic relevance of the bank to the respective member state or to the monetary union as a whole, the cross-border activities of the bank, direct public financial support to the bank within the framework of the European Stability Mechanism and the size of the bank relative to the banking system of the respective member state.

For our purposes, however, we consider these criteria for the selection of significant banks to be insufficient to assert that a foreign power could gain access to the mechanisms described earlier simply by controlling any one of these banks. Only banks which are both vulnerable to acquired foreign control and hold a systemically vital position in the target country's banking system are candidates for gaining influence over the country's banking, economic and political systems. Thus, we further assume that a bank may only exert influence or outright power within a country if it is either of disproportionate and thus systemically problematic size, or if it – alone or in a narrow combination – has a dominant market position within the country. We shall designate any bank which is of problematic institutional size and/or which has a dominant market position as a "critical bank". It should be noted that critical banks under either of these two criteria are a pure subset of ECB-designated significant banks.

### Critical banks because of problematic institutional size

A eurozone bank may be deemed problematic because of its institutional size<sup>3</sup> when

- 1a it is designated as a global systemically important bank (G-SIBs) by the Financial Stability Board and is based within the eurozone, or
- 1b the respective bank's consolidated total assets exceed a set percentage of the host country's annual GDP, with this threshold percentage depending upon the country rating.

Under the first of these two criteria (1a), we can readily determine that there are eight such G-SIB in five different eurozone countries: Deutsche Bank in Germany; BNP Paribas, BPCE, Crédit Agricole and Société Générale in France; UniCredit in Italy; ING in the Netherlands; and Banco Santander in Spain (FSB, 2019).

<sup>2</sup> For more information on the four basic types as subsequently summarised, see Schmid and Buhr (2015).

<sup>3</sup> For further discussion on the formulation of similar criteria, see Körnert and Junghanns (2020).

In constructing the second criterion (1b), we decided against a fixed percentage threshold in relating the total assets of a bank to the annual GDP of its host country and opted instead for a sliding schedule of percentage thresholds based upon the respective country's Standard & Poor's (2019) rating. Starting with the entire spectrum of 22 ratings used by Standard & Poor's, we neglect the lowest rating of D (default) and begin with the country rating of C, assigning a threshold percentage of 20 (i.e. a bank is deemed critical if its total assets exceed 20% of the country's annual GDP).

### Critical banks because of dominant market position

In order to identify those banks within a country that are critical because of their dominant market positions, we rely upon the definition of dominant market share under the competition and anti-cartel law of Germany, the eurozone's largest member state, specifically section 18 paragraphs 4 and 6 of the German Act against Restraints of Competition. Using this same definition,<sup>4</sup> we consider a bank to have a dominant position in a eurozone country if

- 2a the bank holds at least a 40% share of the total market, or
- 2b a combination of up to three of the country's banks would together hold at least a 50% share of the total market.

We determine market share by dividing the consolidated total assets of the bank (or narrow combination of banks) by the aggregate total assets of the country's entire banking system. This asset-based calculation of market share is usual within the banking sector and can be readily and objectively determined (Schildbach, 2017). It is also particularly suitable within the context of this study because each of the aforementioned four instruments of accumulation theory can be logically related to bank assets.

### Assignment and exclusion of critical banks

In order to identify the critical banks within each country of the eurozone under the above criteria, we must necessarily determine to which national banking system each should belong. The ECB's process for the determination of significant banks presents a particular problem here in that it assigns branches and subsidiaries in eurozone countries to the top-level consolidating entity, i.e. the parent company. If we were to take this approach in this study, this would mean that eurozone bank subsidi-

aries and bank branches owned by foreign banks would be assigned not to the banking system of the countries in which they operate – and could potentially be exploited for the acquisition and assertion of power – but rather in the country in which the parent entity is based. Thus, in order to carry out our analysis of power misuse potential, we must instead identify and select banks – including subsidiaries and branches – at the level of the countries in which they operate.

In cases where several banks meet multiple selection criteria, we further impose a simplifying restriction: For reasons involving both the theoretical mechanisms of power and transaction cost theory, we consider only those variants which result in the fewest designated banks. Because more than one bank in a country may fulfil criterion 1a, 1b or 2a, we shall in such cases examine only the largest bank (i.e. with the greatest consolidated total assets or largest market share). In addition, it is possible that more than one combination of two or three banks might fulfil criterion 2b; in this case, we limit further examination to the single combination of banks with the largest overall market share. The following section examines the practical attainability of majority shares in the critical banks which we will, through the above process, identify within each eurozone country.

### Controlling share thresholds and willingness to sell

For an investor, an equity stake in a critical bank can offer a convincing power base, particularly where the investor is able to acquire a qualified majority, that is more than 75% of the share capital of a stock corporation. This is an important distinction because, under the relevant provisions of the stock corporation laws of eurozone countries, an investor in this position has the legal power to decide, for example, to amend the articles of association, to increase or decrease capital, or to dissolve the company. Qualified shareholdings also pave the way for members of the supervisory board to be dismissed. However, even a simple majority stake, in which an investor acquires more than 50% of a target bank's share capital, opens up the potential to exert a significant degree of control because the investor can, with this simple majority, take the opportunity of a general shareholder meeting to force the adoption of any shareholder resolutions not specifically requiring a qualified majority.

We thus refer to the potential for the exercise of power arising from simple majority control as "limited" power exercise potential. By the same token, we refer to the far stronger position of control over a bank arising from a shareholding above the threshold for a qualified majority as "extensive" power exercise potential. Here, however,

<sup>4</sup> See also the similar discussion of this issue in Körnert and Junghanns (2020).



we must address the particular situation that may arise when, under criterion 2b, a narrow combination of banks offers the means for a foreign-controlled SWF to gain a position of influence in a country. In this case, it is the weakest control position among the two or three acquired banks that should determine the power exercise potential of the combination. In other words, if a SWF cannot obtain a qualified majority at any one of the banks, the combination of banks meeting criterion 2b shall be assumed to offer only limited power exercise potential.

Moreover, in order to acquire majority control of a bank, the current owner(s) must be willing and able to sell the relevant shares. For a bank that is organised as a stock corporation, the greater the proportion of shares in free float, the easier it is to acquire the bank. This arises from the fact that small shareholders, in contrast to institutional or strategic investors, lack a strategic motivation and tend to act based on their short-term interests (Guserl and Pernsteiner, 2015; Buss, 2010). We therefore assume, for the purpose of this analysis, that the entirety of a bank's shares in free float could be acquired provided that the offered price is sufficiently attractive.

This point at which a takeover offer becomes sufficiently attractive to induce shareholders to sell can be estimated on the basis of historically paid control premiums. Various studies have found that control premiums range on average between 15% and 40%, with premiums paid for past acquisitions in the banking and financial sector being at the lower end, namely 15% to 25% (Gilmour et al., 2017). In order to determine a realistic acquisition cost while at the same time not underestimating the ease by which an unwanted foreign investor could take over a critical bank, we assume that the acquisition of a critical bank would cost a control premium of 25% in excess of its current market capitalisation.

### Methodology for assessing attainability of control over critical banks

The study applies seven steps to identify those critical banks which could be exploited to exert influence upon the eurozone's banking, economic and political systems, and to subsequently calculate the percentage of total assets that a SWF would need to commit in order to acquire control of not just one but a broad constellation of these critical banks across the eurozone. The first step is to create a list of all significant banks within the eurozone, which is already conveniently provided by the ECB, with 117 eurozone banks currently deemed significant. In the second step, we narrow down this list to a smaller subset of critical banks using the criteria defined above. Applying these, we identify a total of 36 banks in the eurozone that

meet our definition of critical banks. After ensuring that these 36 critical banks are correctly assigned to the relevant countries (step three) and excluding certain banks that are less relevant to our analysis (step four), a total of 21 critical banks remain for closer examination. In the fifth step, the 21 remaining critical banks are then examined for their vulnerability to takeover, considering in particular the legal form and ownership structure of each potential target. In our sixth step, we likewise determine the maximum attainable shareholding of each, whether this would represent a simple or qualified majority share, and thus whether the target bank would offer limited or extensive power exercise potential. In the seventh and final step, we estimate the acquisition cost for each of these critical banks, including the assumed control premium, which would have to be paid, along with the total cost to acquire a broad constellation of these critical banks across the eurozone. We then relate this combined acquisition cost to the total assets of the world's largest SWFs, thereby providing a sense of the potential to acquire such sweeping power through the acquisition of this set of critical eurozone banks.

### Determination of critical banks, power exercise potential and acquisition cost

Table 1 summarises the power exercise potential in each eurozone country that could be achieved through such acquisitions, meaning firstly that critical banks must be identifiable, and secondly, that majority control must be attainable. In Austria and Luxembourg, there are none. Although there are critical banks in Ireland, Portugal and Slovakia, their ownership structures preclude any opportunity for a SWF to acquire a controlling share: state ownership in the critical banks in Ireland and Portugal, and cooperative ownership in the case of a critical bank in Slovakia. The banking systems of these five countries thus offer no evident potential to gain power through the acquisition of critical banks.

In the case of Greece, Malta, Slovenia, Belgium and Latvia, simple majority control of critical banks could be attained, but anchor shareholders would preclude the possibility of obtaining a qualifying majority, as summarised in Tables 1 and 2. In the case of the Greek, Maltese and Slovenian critical banks, the anchor shareholder is the state, while in the case of the Belgian and Latvian banks, major corporate shareholdings would pose a difficult obstacle.

In the nine remaining banking systems of the eurozone – Cyprus, Finland, France, Germany, Italy, the Netherlands, Spain, Estonia and Lithuania – we assume that qualifying majorities could be acquired due to a high proportion of

Table 1

**Power exercise potential within the banking systems of the eurozone countries**

Countries	Rationale		
Austria, Luxembourg	No critical banks identified	None	Power exercise potential
Ireland, Portugal	Controlling share unattainable (state-owned)		
Slovakia	Controlling share unattainable (cooperative ownership)		
Greece, Malta, Slovenia	Anchor shareholder (state) precludes 75% share	Limited	
Belgium, Latvia	Anchor shareholder (private) precludes 75% share		
Estonia, Lithuania	Full control indirectly attainable via parent company	Extensive	
Cyprus, Finland, France, Germany, Italy, Netherlands, Spain	Qualifying majority directly attainable		

Source: Authors' own elaboration.

shares in free float (see Tables 1 and 2). While in Estonia and Lithuania this qualified majority control of critical banks could only be indirectly achieved through control of the parent companies, each of the remaining seven countries offers a critical bank target in which a qualifying majority could be directly acquired.

Thus, 14 of the eurozone's 19 member states offer potential avenues for a foreign SWF to gain either limited or extensive power through the acquisition of critical banks, as presented in Table 2. For each target country, the relevant critical banks are named along with the criteria that resulted in designation as a critical bank. We have, in addition, included the estimated cost for acquiring qualified or simple majority control for each of these banks.

Table 2 summarises the estimated cost to acquire control of these critical banks organised by target country. Should the research objective be to consider the potential for power acquisition not just in one country but rather throughout the eurozone in the broadest possible constellation, then the sum of the final column of Table 2 would be an incorrect aggregation due to double counting, as certain parent banks are critical banks in multiple countries.

Table 3 eliminates this double counting by listing target banks rather than target countries; it is comprised of the 17 banks in which a qualified or simple majority would need to be acquired in order to be able to control the

Table 2

**Acquisition cost of simple or qualified majority shareholdings in critical eurozone banks**

	Target country	Critical banks	Criteria	Acquisition cost (USD billion)
Extensive power exercise potential through qualified majority share	Cyprus	Bank of Cyprus	1b	0.55
	Estonia	Swedbank (Estonia)	2a	15.60
	Finland	Nordea Bank	1b, 2a	30.68
	France	BNP Paribas	1a	69.29
	Germany	Deutsche Bank	1a	15.01
	Italy	UniCredit	1a	30.59
	Lithuania	Swedbank (Lithuania)	2b	15.60
		Luminor (Lithuania)	2b	7.37
	Netherlands	ING	1a, 1b	43.74
	Spain	Banco Santander	1a, 1b, 2a	65.20
Limited power exercise potential through simple majority share	Belgium	KBC Group	2b	19.58
		BNP Paribas Fortis	2b	69.29
	Greece	Eurobank Ergasias	2b	3.59
		Alpha Bank	2b	3.12
		National Bank of Greece	2b	1.93
	Latvia	Swedbank (Latvia)	2b	15.60
		SEB (Latvia)	2b	12.85
		Luminor (Latvia)	2b	7.37
	Malta	Bank of Valletta	1b	0.43
	Slovenia	NLB	2b	0.85
		Nova KBM (incl. Abanka)	2b	2.58

Source: Authors' own elaboration.

critical banks in all 14 eurozone countries where such control is possible. In other words, if a SWF were able to acquire simple or qualified majority ownership of all 17 of these banks, it would gain limited or extensive power potential in the banking systems across 14 out of 19 eurozone countries, which is sweeping dominance indeed. To achieve this aim, we calculate that the investor would need to commit a total of some \$322.96 billion. The following section relates this amount to the total assets of the world's largest and most powerful SWFs.

**Percentage of total SWF assets required to gain sweeping dominance**

As shown in Table 4, China – the world power with the greatest SWF assets – would need to commit 19.47% of

Table 3  
Critical banks in the eurozone

Critical bank	Home country of bank/parent	Potential target country	Acquisition cost (USD billion)
Alpha Bank	Greece	Greece	3.12
Banco Santander	Spain	Spain	65.20
Bank of Cyprus	Cyprus	Cyprus	0.55
Bank of Valletta	Malta	Malta	0.43
BNP Paribas	France	France, Belgium	69.29
Deutsche Bank	Germany	Germany	15.01
Eurobank Ergasias	Greece	Greece	3.59
ING	Netherlands	Netherlands	43.74
KBC Group	Belgium	Belgium	19.58
Luminor	Estonia/USA	Latvia, Lithuania	7.37
National Bank of Greece	Greece	Greece	1.93
NLB	Slovenia	Slovenia	0.85
Nordea Bank	Finland	Finland	30.68
Nova KBM	Slovenia	Slovenia	2.58
SEB	Latvia/Sweden	Latvia	12.85
Swedbank	Estonia, Latvia, Lithuania/Sweden	Estonia, Latvia, Lithuania	15.60
UniCredit	Italy	Italy	30.59
Total cost to acquire control of all 17 critical banks:			322.96

Source: Authors' own elaboration.

its total SWF assets to acquire this sweeping control. In fact, the SWFs of eight different countries have total SWF assets in excess of the amount required to acquire the complete constellation of these banks. Any one of these could, in principle, pursue this course of action. Where the particular concern arises is that five of these eight countries with massive SWFs are categorised as authoritarian regimes: China, Abu Dhabi, Saudi Arabia, Kuwait and Qatar. Each of these can and must be regarded in this scenario as an undesirable investor because each of these is ruled in defiance of democratic and constitutional principles.

In considering the percentages of total SWFs that would have to be committed to gain power in the eurozone through national banking systems, there is another important point to be made, which is that considerable influence may also be exerted on EU institutions through individual EU member states. For example, Malta and Cyprus, each have one critical bank, Bank of Valletta

Table 4  
Percentage of total SWF assets required to gain power exercise potential through eurozone banks

		SWF assets		Democracy Index	
		Total (USD billion)	Percentage required	Rank	Regime type
Country with SWF					
1	China	1,658	19.47	153	Authoritarian
2	Norway	1,217	26.54	1	Full democracy
3	Abu Dhabi	932	34.65	145	Authoritarian
4	Singapore	815	39.63	75	Flawed democracy
5	Saudi Arabia	697	46.34	159	Authoritarian
6	Kuwait	592	54.55	114	Authoritarian
7	Hong Kong	457	70.67	75	Flawed democracy
8	Qatar	328	98.46	128	Authoritarian
9	Dubai	210	153.79	145	Authoritarian
10	Malaysia	160	201.85	43	Flawed democracy
11	South Africa	160	201.85	40	Flawed democracy
12	Russia	153	211.08	134	Authoritarian
13	Kazakhstan	126	256.32	139	Authoritarian
14	South Korea	122	264.72	23	Full democracy
15	Australia	102	316.63	9	Full democracy

Note: In the case of countries with multiple SWFs, total SWF assets are shown as a single aggregated amount. The SWF assets of certain sub-national government entities are listed separately where direct control by the higher-level national government cannot be determined.

Source: SWFI (2020); Economist (2020).

and Bank of Cyprus respectively. The acquisition of both of these together would cost just \$0.98 billion (Table 2), which is only 0.06% of China's total SWF assets. Even Kazakhstan would only have to invest 0.7% of its SWF assets. Although Malta and Cyprus are very small countries, each has a powerful veto right within institutions of the EU.

## Summary

Critical banks within the eurozone countries are a pure subset of significant banks as defined and designated by the ECB. For any foreign power with hegemonistic ambitions, these banks are acquisition targets of the highest order because they offer opportunities to gain and exert power upon the national banking systems of eurozone countries which can then be more broadly transferred to their economic and political systems. Where decision-making and voting processes are structured as they are in the EU, such influence can be further extended to the su-



pranational level. Any nation which values democracy and the rule of law – both within the EU and beyond – would do well to keep a vigilant watch on the ownership structure of its critical banks, just as it would with any other critical infrastructure. In the case of the EU, it is essential that protections against this threat not depend upon a patchwork of national investment protection laws but rather that such long overdue protective regulations be thoughtfully and carefully anchored into law at the EU level.

It is fervently hoped that these findings are translated into action before SWFs, with their massive wealth, attempt a large-scale entry into the eurozone as described in this study. Of particular concern as such unwanted investors are the SWFs of authoritarian regimes, which must be presumed to pursue geopolitical ambitions beyond their overt investment objectives. Authoritarian regimes are, moreover, particularly prone to abrupt and unanticipated changes in policies and behaviour, and their SWFs are not necessarily constrained by any declared investment policies or purpose. In order to acquire a broad constellation of critical banks across the eurozone, thereby jeopardising European democracy and rule of law, China, Abu Dhabi or Saudi Arabia would have to commit less than half of their total SWF assets to achieve such sweeping dominance. This should not only raise alarm bells but also serve as a clarion call to timely action.

In terms of suggestions for further economic policy research, we see the potential for further insights in an expanded scope of study beyond the eurozone countries – for example, to the entire EU. A particular problem in extending our methodology to the eight EU countries outside the eurozone is that the ECB does not identify significant banks in these other countries. We also believe that European banking regulation should be further strengthened for critical banks.

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