This chapter deals with private equity and venture capital industries around the globe. The first venture capital company in the world was established in the United States in the mid-1940s. In some European countries, private equity industries came into existence in the early 1980s, in other European countries private equity industries were non-existent until the end of the 1990s. In recent years, private equity industries in several Asian countries have gained momentum.

The first part of this chapter describes recent developments in terms of fundraising and private equity investments in European and non-European countries. The second part discusses the tax and legal environments of capital providers, high-technology firms and private equity companies that help in explaining and understanding differences in private equity industries across countries.

Recent developments

The size of the private equity industries varies substantially across countries and over time. In the following, I discuss first the size of the private equity industries in 2003, and then the intensity of the upswing that took place at the end of the 1990s.

Size of the industries in 2003

Table 2.1 gives the amounts of new funds that private equity companies have raised for their private equity investments from capital providers, such as banks, insurance companies and pension funds. Because the countries under consideration differ substantially in size, I have scaled new funds raised by the countries’ gross domestic product (GDP). In the
United States, new funds raised for private equity investments accounted for more than 23 per mille of GDP, followed by the United Kingdom and Sweden, whose new funds raised accounted, however, for only about 9 and 8 per mille of GDP in 2003. In many European countries, such as Austria, Belgium and Germany, new funds raised accounted for even less than 1 per mille of GDP in 2003. Thus, in terms of fundraising for private equity investments, the private equity industry in the United States is by far the largest industry in the world.

From an economic point of view, private equity investments are more informative than new funds raised for private equity investments, since the latter do not necessarily result in investments in the respective year. Therefore, Table 2.2 gives the amounts that private equity companies invested in portfolio firms for the European, and selected Asian countries for the years 1991 to 2003. For the United States, the table reports the amounts that venture capital companies invested in portfolio firms, excluding investments in firms’ later stages of development. Because of the different definitions, US investments as per mille of GDP were substantially lower compared to new funds raised for private equity investments.

According to the data presented in Panel (a) in Table 2.2, the private equity industries in the United Kingdom, Finland and Sweden are substantially larger than in other European countries. Private equity industries in other European countries are negligible given the size of these countries.

Comparing new funds raised and private equity investments indicates that some countries, such as the United Kingdom, were more successful in raising new funds than in investing private equity. One reason for this might be that the United Kingdom is a financial centre that generally attracts substantial amounts of foreign capital. The language, the market-based financial system and its integration in the world’s financial markets may explain these amounts of foreign capital. Another reason might be that regulation of private equity funds, and investment incentives, such as capital gains taxes, are more favourable in the United Kingdom than in other countries. I will come back to this below.

Some of the Asian countries were rather successful in realizing large amounts of private equity investments, as Panel(b) in Table 2.2 indicates. In 2003, private equity investments in Bangladesh accounted for more than 8 per mille of GDP. In other countries, such as Singapore and Korea, private equity investments accounted for 6 and 4.7 per mille of GDP, respectively. In Australia, private equity investments accounted for almost 6 per cent of GDP.