



SOVEREIGN WEALTH FUNDS: THREAT OR SALVATION?

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INTRODUCTION

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2. SWF Scoreboard
3. The Santiago Principles
4. Host Country Responses
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SOVEREIGN WEALTH FUNDS and the INTERNATIONAL FINANCIAL SYSTEM

SWFs and the IFS

- SWFs are **pools** of government-controlled assets—often including international assets.
- SWFs are **diverse** in their origins, objectives, and investment strategies.
- Five years ago, no one knew what a SWF was—the **descriptive term** had just been coined.
- Countries with such funds joined an **exclusive club** to which they had not applied for membership.

SWFs and the IFS

Because of their diversity, it can be misleading to generalize about the role of SWFs.

1. They are **governmental** vehicles and therefore **political**.
2. They are part of saving and investment processes, **transferring wealth** year-to-year or generation-to-generation.
3. Their **financial results** are most important to their **home** countries.

SWFs and the IFS

SWFs are symptomatic of two tensions:

1. Dramatic **redistribution** of growth and potential wealth
2. Much of the newer wealth is controlled by **governments.**

SWFs give rise to five broad concerns:

1. **Mismanagement** of investments and corruption
2. Pursuit of noneconomic or **economic-power** objectives
3. Financial **protectionism**
4. Financial market **instability**
5. **Conflicts** of interest

SWFs and the IFS

- These tensions and concerns are **shared** by many other government investment vehicles: foreign exchange reserves, government-controlled financial or non-financial institutions, and pension funds.
- Including pension funds, SWFs are small, about **\$9 trillion** in total assets and **\$4 trillion** in cross-border assets, compared with global totals of about **\$250 and \$100 trillion**.
- However, nonpension SWFs **sextupled** in size from 2002 to 2007, before setbacks in 2008–09, and they are back in the news.

SWFs and the IFS

Country	Fund name	Total assets (US\$ billion)	Foreign assets
UAE (Abu Dhabi)	Abu Dhabi Investment Authority	620	620
Norway	Government Pension Fund-Global	432	432
Japan	Government Pension Investment Fund (P)	1,264	260
Singapore	Government of Singapore Investment Corporation	248	248
Kuwait	Kuwait Investment Authority	203	203
Hong Kong	Exchange Fund	205	174
Netherlands	Stichting Pensioenfondsen ABP (P)	254	125
China	China Investment Corporation	298	98
Russia	Reserve Fund	95	95
Russia	National Welfare Fund	90	90
Subtotal		3,709	2,345
Totals			
Nonpension SWFs		3,500	3,000
Pension SWFs		5,700	1,200
All SWFs		9,200	4,200

SWFs and the IFS

- Since 2007, **SWFs have matured** under the glare of international attention.
- The **rules of the game** surrounding their activities have been codified in the **Santiago Principles**.
- SWFs now can expect to be held to **high standards** of **accountability and transparency**, at home as well as abroad.
- Owners of SWFs expect a degree of **reciprocal responsibility** from the countries in which they invest.

SWF SCOREBOARD

SWF SCOREBOARD

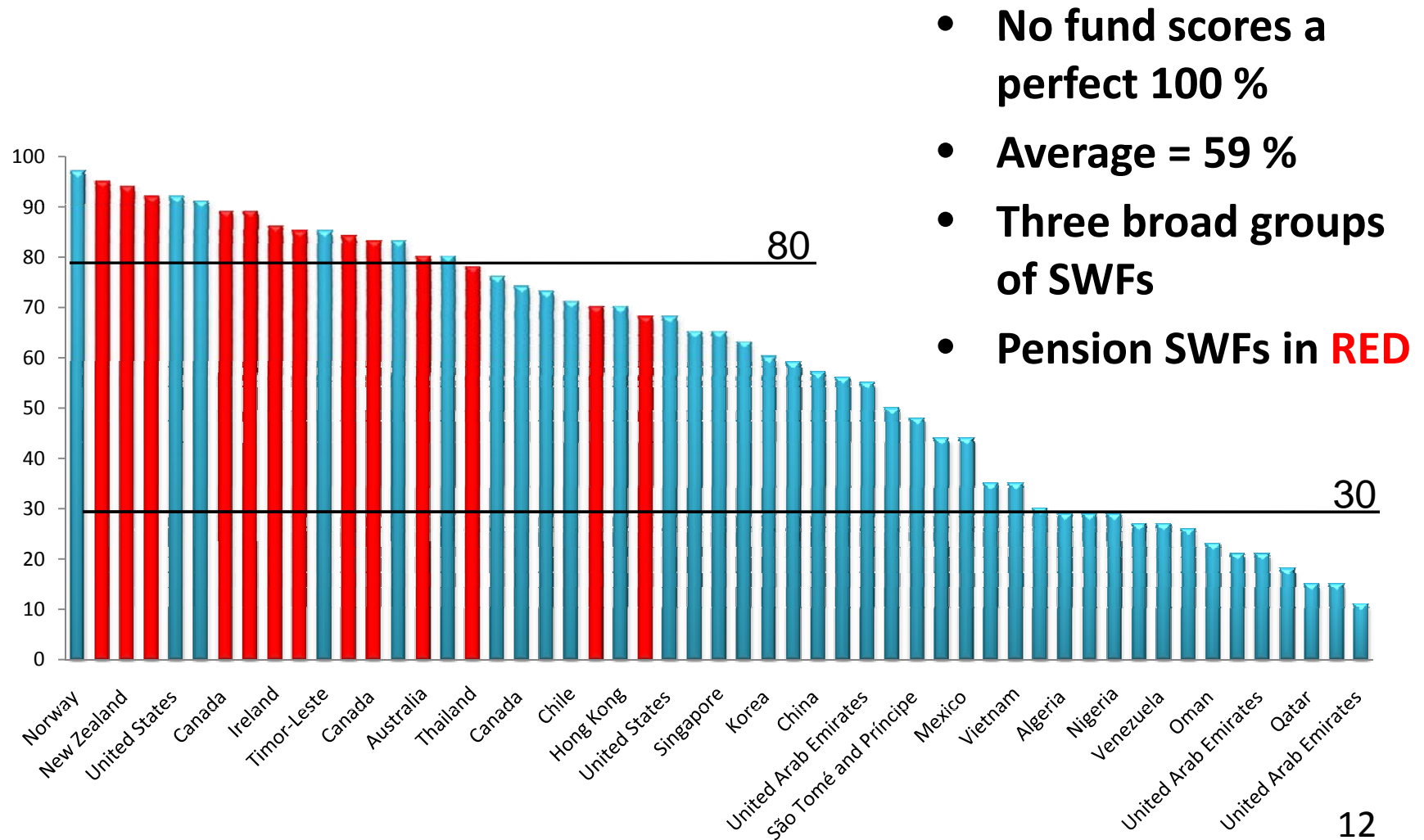
In 2007, I developed a **scoreboard** for SWFs.

The scoreboard focuses on their **structure, governance, accountability and transparency**, and **behavior**.

The 2009 edition includes **33 elements** for **53 funds** of **37 countries**.

- Based on systematic, regularly available, public information
- At least one fund “scores” on each element

SWF SCOREBOARD



SWF SCOREBOARD

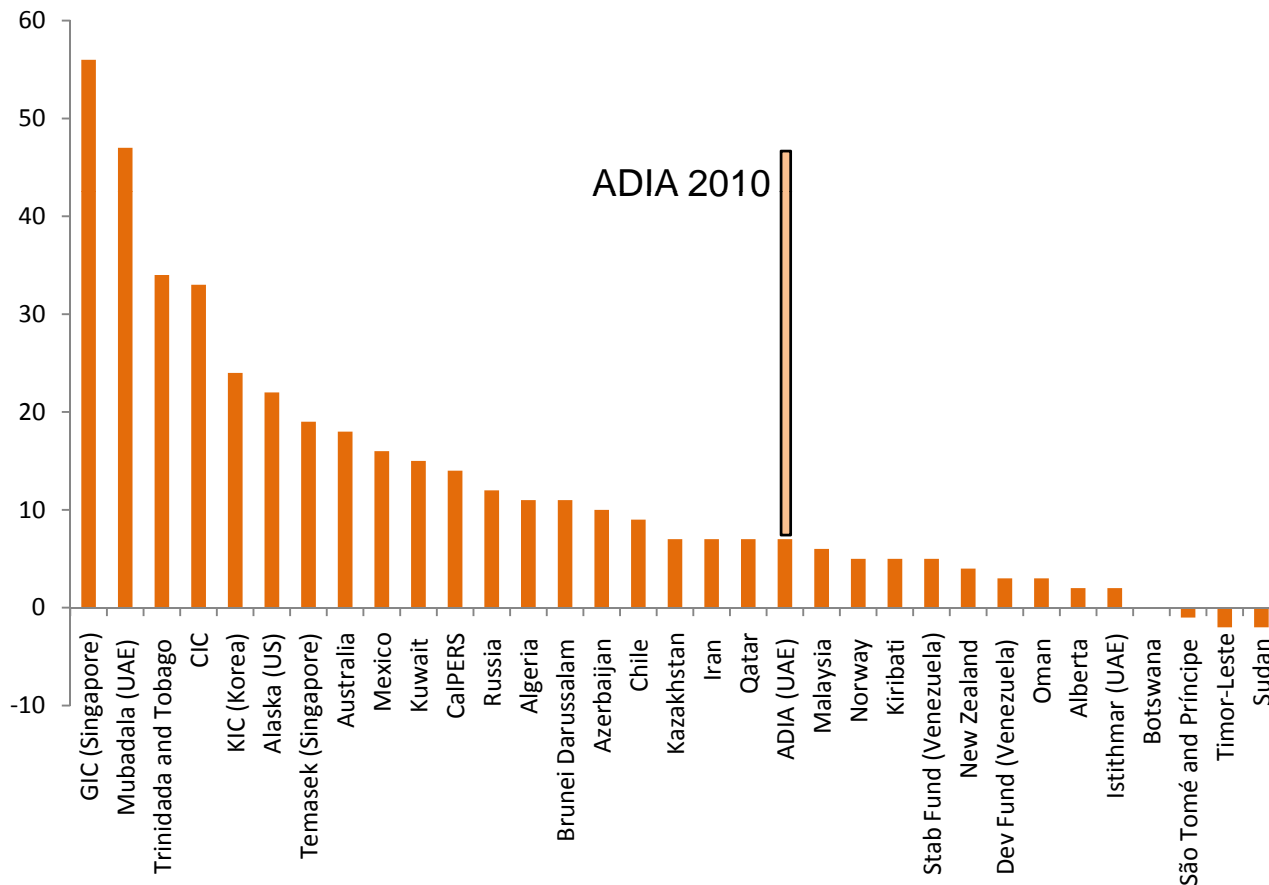
Comparison	Number	Mean score
Pension	13	84
Nonpension	40	50
Nonpension SWFS		
OECD	13	78
Non-OECD	31	43
Non-OECD		
Middle East	11	31
Non-Middle East	24	51
Non-Middle East		
Asian	10	57
Non-Asian	14	47

- **Significant differences** between average scores of SWFs in different categories
- **Exception:** non-OECD and non-Middle East funds
- However, **large dispersion** of scores within each group

* significant difference at 5%

** significant difference at 1%

SWF SCOREBOARD



Comparison with
2007 Scoreboard

Average increase:

12 % points

Significant increases
for

**GIC, Mubadala,
Trinidad and
Tobago, CIC, KIC,
Alaska & ADIA
(2010)**

SANTIAGO PRINCIPLES

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The **International Working Group** (IWG) of SWFs published their **Generally Accepted Principles and Practices** (GAPP or “Santiago Principles”) for SWFs in October 2008.

- A good piece of work—**IMF** deserves credit for facilitation role.
- The Santiago Principles have some **positive features** that were incorporated in the 2009 Scoreboard.
- Almost **all the large SWFs** participated.
- Contains **24 principles** with several sub-principles for a total of **30**.
- **Only 20 have operational content** that can be verified ex ante.

SANTIAGO PRINCIPLES

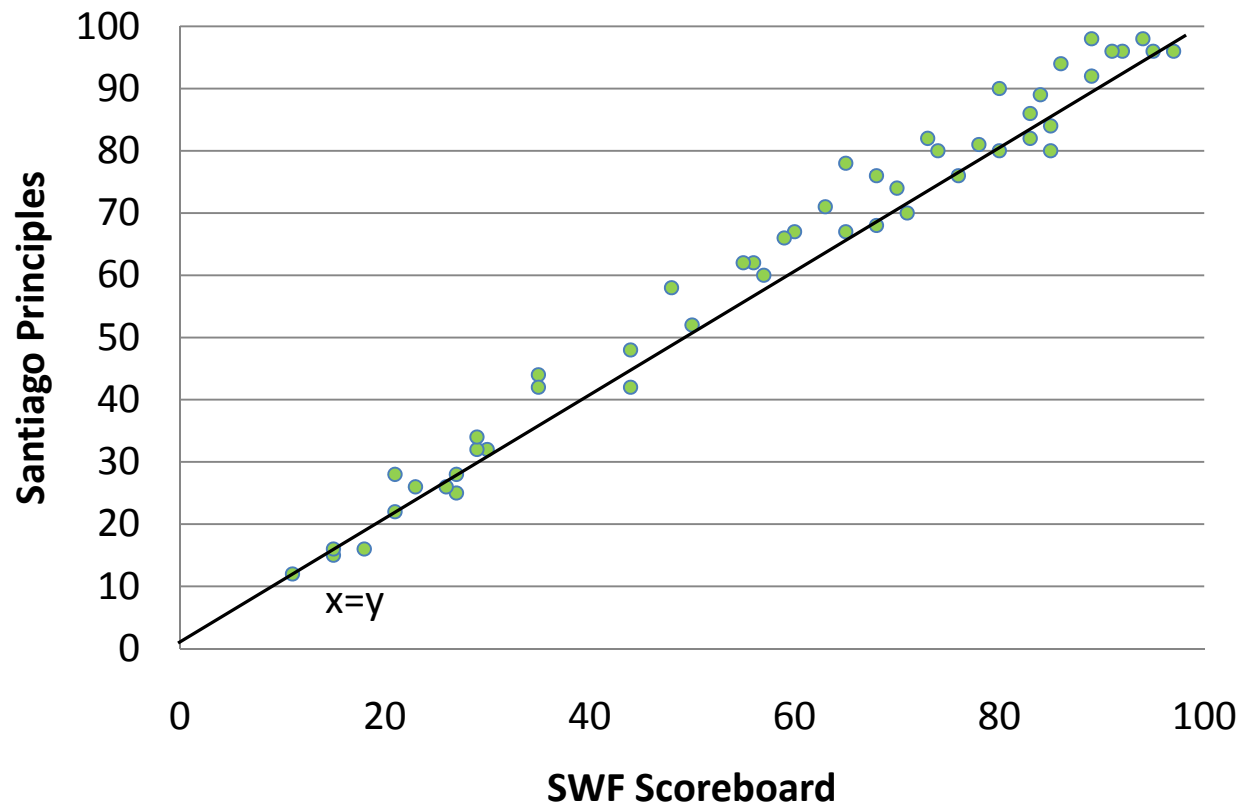
The Santiago Principles alone would receive a score of **76**.

- This implies that full performance would put an SWF near the top of the **middle group** on the SWF Scoreboard.
- The biggest weaknesses are with respect to **accountability** and associated **transparency**.

25 of the **33** SWF Scoreboard elements overlap with the **20** Santiago Principles elements.

- How do the **53** SWFs do on the **intersection** of the GAPP with the 2009 SWF Scoreboard?

SANTIAGO PRINCIPLES



SWFs score
**somewhat
higher** on the
Santiago
Principles
Average increase
is only **3 % pts**
**Room for
improvement**

	Number	Mean Score
IFSWFs	23	63
Non-IFSWFs	21	42

** significant difference at 1%

HOST COUNTRY RESPONSES

HOST COUNTRY REPOSSESSES

- Countries with SWFs and the IWG and IFSWF have asked for a **reciprocal response** from host countries.
- Many countries with SWFs are also **hosts** to SWF investments.
- One might think that this would lead to greater **tolerance** of SWF investments.
- The **perception** in many countries with SWFs is that this has not been the case.
- Resentment at what appears to be a **double standard**.

HOST COUNTRY REPOSSESSES

In parallel with the IWG effort, OECD members considered whether SWFs should be subject to a **special investment regime**.

GOOD NEWS: Existing OECD investment codes were judged to be sufficient.

BAD NEWS: Nothing was done to promote or maintain open investment policies.

HOST COUNTRY REPOSSESSES

What might have been done?

1. **Extend coverage** of codes to non-members **beyond best efforts.**
2. Establish a **standstill** on new restrictions.
3. Establish a **review process**, including non-members, for cases in which OECD members have restricted investments.

HOST COUNTRY REPOSSESSES

What has been the **actual response**?

- Prominent recent cases of **rejected investments**: Canada, Japan, New Zealand.
- Several OECD countries **tightened regimes** for foreign investments: Australia, Canada, France, Germany, Italy, and the United States.
- At a minimum, **transactions costs** associated with foreign investments, in particular by governments, have been raised.

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

1. SWFs are **here to stay.**
2. Distrust of funds has been **substantially reduced** by the Santiago Principles.
3. One risk is **regulatory and institutional arbitrage.**
4. A second risk is a further increase in **financial protectionism.**

RECOMMENDATIONS

1. Upgrade the **Santiago Principles**.
2. Increase **reciprocal responsibility** of host countries.
3. Improve **data** collection and related **disclosures**.
4. Long-run goal: **comprehensive framework** covering government investments.