Assessing and Addressing Threats to the US from Sovereign Wealth Funds: Case Studies on the Russian, Chinese, and Saudi Arabian Funds

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Assessing and Addressing Threats to the US from Sovereign Wealth Funds:
Case Studies on the Russian, Chinese, and Saudi Arabian Funds

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Abstract

The way that countries engage in conflict with each other has dramatically changed over the past decade. Countries are more frequently clashing on the economic front than in violent direct conflict. The United States’ weakened position in the global economy after the 2008 financial crisis places the country at a disadvantage in this new era of hybrid warfare. Sovereign wealth funds (SWFs), which are created to achieve both the political and economic goals, are becoming a prominent player in the international arena. This thesis assesses the risk SWFs pose to the US by examining the Russian, Chinese, and Saudi Arabian SWFs.

Past examinations of SWFs before the 2008 financial crisis determined SWFs did not act geopolitical. However, the three case studies demonstrate that some SWFs have been increasingly pursuing both global economic and political objectives because they lack independence from government. Moreover, each SWF poses a different level to the US depending on whether the home country is an ally or adversary. Additionally, regulations of SWFs are inadequate to address the growing threat to the US; international law lacks an enforcement mechanism and domestic regulation depends on the president for action. These findings imply that while SWFs can benefit the US economy by providing capital to US companies, the US needs more effective regulation to address the risks they pose to US national and economic security. This thesis recommends amendments to domestic and international regulation in order to mitigate the risks that SWFs pose without creating additional barriers to foreign investment in the US.
Chapter 1: Introduction

“Should we be concerned that the governments of Russia and China control billions of dollars in assets and invest directly in US institutions and companies?”
- Senator Joe Biden, Senate Foreign Relations Committee Hearing on Sovereign Wealth Funds, 2008.

1.1 Introduction

Foreign direct investment (FDI) in the United States (US) caused major national concern during the 1980s. Japanese companies purchased prominent US assets, like the Rockefeller Center and Universal Studios, in a buying spree. Some worried Japan would acquire critical US assets, challenging the US’s global economic dominance.\(^1\) Japan’s business ties came under scrutiny for a geopolitical reason as well; the Japanese machine company, Toshiba, sold “militarily sensitive technology” that made submarines quieter to the Soviet Union in the midst of the Cold War.\(^2\) In response to the sale, members of the House of Representatives held a press conference on the steps of the Capitol, where they smashed a Toshiba radio with a sledgehammer, symbolizing disdain for the company.\(^3\) The Japanese government responded quickly to US outrage by condemning Toshiba and vowing to tighten export controls. Toshiba sent an apology letter to Congress and two top company officials resigned. Japan could not afford to provoke US protectionist policies because the US was Japan’s most important foreign market. American fears of an


economic challenge from Japan never materialized. Following the fall of the Soviet Union in the early 1990s, the US sustained hegemonic power in the global economy.

Demonstrated by the election of Donald Trump in 2016 and his administration’s subsequent protectionist economic policies, the US has renewed concerns regarding FDI and its dominance in the global economy. After the 2008 financial crisis, the international political economy appears to be transitioning power away from US influence. The rising economies of developing countries with vast natural resources, especially oil, or massive commodity markets, produced current account surpluses in those countries. The US sharply contrasts with these states as it sustains its large current account deficit through the privileged position of the US dollar (USD) in the global economic system as the dominant reserve currency.4 The weakened state of the USD and the US economy after the 2008 crisis further emphasized the difference between the two. Emerging markets increasingly channel their current account surpluses into sovereign wealth funds (SWFs): state-owned investment vehicles that look to invest at home and abroad. Investment from SWFs in the US triggers similar challenges to the US’s hegemonic power in the global economy and concerns of geopolitically motivated investments as the Japanese FDI crisis in the 1980s.

Similar to policymakers’ worries in 1980, the accelerated growth in SWF investment power represents a shift in economic power from the West to the East. But the threat of SWF investment in the US presents a different level of risk to the US than private foreign investment from Japan did in the 1980s. While both obtain access to US

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markets through FDI, they diverge because governments own SWFs. The rise of these state-owned enterprises (SOEs) threatens the consensus on neoliberal principles in the global economy, like the importance of the private sector as an engine for growth. Furthermore, the increased incidence of economic and political hybrid warfare creates an additional threat to the US if foreign governments use SWFs to achieve geopolitical goals.

Solutions employed during the Japan FDI crisis are not compatible with the current international system. The US is in a weaker position in the international system than before the 2008 crisis. Emerging markets are beginning to look to invest closer to home and are less dependent on the US market. Protectionist policies under the Trump Administration aim to fight back against the shift in economic power away from the US by attempting to reduce its current account deficit. But by enacting these policies, the US might be causing itself more harm. Herein lies the Catch-22 of SWF regulation. By not regulating them enough, the US leaves itself vulnerable to the economic and national security threats of the funds. However, if the US regulates SWFs too much, it becomes cut off from an enormous source of capital it benefits from. Finding a balance between the two extremes requires assessing the risk SWFs pose to US economic and national security and crafting measured responses.

1.2 Motivation

Research on SWFs determined they were not a pressing geopolitical threat to Western nations. After their role providing capital to insolvent US and Western financial institutions during the global financial crisis, the West considered SWFs stabilizing
forces in the global economy. However, most of this research was conducted immediately after the crisis, and since then, the international landscape has changed. National security threats to the US have dramatically shifted. Countries are less likely to break out into violent direct combat with one another. Rather cyber-attacks, economic leverage, and the accumulation of power are now the prominent forms of engaging in global conflict. Terrorism no longer poses the greatest threat to the US; stories of Russia meddling in the 2016 US elections, a trade war with China, and the murder of journalist Jamal Khashoggi in the Saudi Arabian embassy constitutes the salient national security threats. SWFs, which are created at the intersection of the political and economic goals of a country, are growing in strength and playing a role in the changing national and economic security threats. A reevaluation of SWFs is necessary due to the transformed international environment and the rise of hybrid warfare.

1.3 Background

Definition of Sovereign Wealth Funds

A simple definition of sovereign wealth funds is that they are investment funds owned by governments. Definitions of SWFs are so broad and flexible that it is hard to pinpoint one universal definition that fits all SWFs. The US Treasury Department defines a SWF as “a government investment vehicle which is funded by foreign reserve assets, and which manages those assets separately from the official reserves of the monetary authorities (the central bank and reserve-related functions of a finance ministry or
national treasury office).” SWFs are also more straightforwardly defined as “government-controlled pools of assets designed to engage primarily in foreign portfolio investment.”

SWFs can take several different forms, such as stabilization funds, savings funds, reserve investment corporations, pension reserve funds, and development funds. There are typically five main features of sovereign wealth funds: independence from government, high exposure to foreign currency, no explicit liabilities, tolerance of highly risky behavior, and a long-term investment period. Investment from state-owned vehicles is much more likely to come from developing countries. The charts below demonstrate that while SWFs are spread throughout the world, SWF assets under management are concentrated in emerging markets such as Asia and the Middle East.

5 S., Sovereign Wealth Funds, 15.
8 S., Sovereign Wealth Funds, 20.
Regional Distribution of SWFs

- Asia: 19%
- Middle East: 21%
- Europe: 13%
- North America: 15%
- Africa: 14%
- Australia & the Pacific: 7%
- Latin America: 11%

Data Source: The Sovereign Wealth Fund Institute

Regional Distribution of SWF Assets Under Management

- Asia: 44%
- Middle East: 34%
- Europe: 15%
- North America: 4%
- Africa: 1%
- Latin America: 0%
- Australia & the Pacific: 2%

Data Source: The Sovereign Wealth Fund Institute
Because SWFs assets under management are overwhelmingly concentrated in Asia and the Middle East, the interdependence of the US economy and the Middle East and Pacific Rim regions are compounded by these funds. SWF assets have grown rapidly over the last few decades due to the increase in commodity prices and trade surpluses. Countries capitalize their SWFs from balance of payments surpluses, foreign currency operations, privatization proceeds, fiscal surpluses, and receipts from commodity exports. They diverge from the historical investments of sovereign wealth that were in low-risk assets such as US treasuries. As a relatively newly popular financial innovation, SWFs largely go unnoticed to the general public.

**Function**

Kuwait founded the first SWF in 1953 in order to invest oil revenue surpluses. Economies dependent on natural resources, primarily oil, originally used SWFs as a stabilization mechanism. Investing wealth from natural resources protected national economies from external shocks, such as windfall oil prices. Non-commodity SWFs, like that of China, obtain funding through trade surpluses from positive net exports. Holding government reserves is costly because of the difference in what reserves yield

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10 Bruce-Clark and Monk, 66.
11 Ander and Teplý, 17.
and the interest cost on domestic debt.\textsuperscript{14} SWFs allow countries to transform sovereign wealth into financial assets.\textsuperscript{15} Reserves held in financial assets can still be mobilized quickly to defend, engage, or stabilize domestic policies or institutions in case of government deficits or external shocks.\textsuperscript{16} Natural resources are not infinite. Eventually, those resources will become depleted and economies dependent on those resources will be at risk. Investing abroad provides countries with an avenue to accumulate a rainy day fund for when those resources are depleted. It also helps countries develop or diversify their economies by acquiring new technology and jobs through their investments. In summary, SWFs are utilized as a safeguard in the event of global market conditions that would threaten home countries’ economies.\textsuperscript{17}

### 1.4 Structure of the Study

This thesis assesses the risk that SWFs pose to the US by examining the Russian, Chinese, and Saudi Arabian SWFs and makes policy recommendations to address those risks. First, in Chapter 2, the national and economic security threat of SWFs will be appraised as well as the probability of the realization of those threats. Current regulation of SWFs will also be analyzed in Chapter 2. In Chapter 3, the Russian SWFs and the threats they pose to the US will be examined. The Russian funds’ structure, transparency, compliance with rules, geopolitical actions, and investment in a US transportation firm (Hyperloop) will be discussed. Next, in Chapter 4, a case study of the Chinese SWF will

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\textsuperscript{15} Clark, Monk, and Dixon, 16.

\textsuperscript{16} Clark, Monk, and Dixon.

\textsuperscript{17} Clark, Monk, and Dixon.
demonstrate different threats that SWFs can pose. The background of the fund, transparency and compliance with rules, role in the 2008 financial crisis, geopolitical actions, and US investments provide evidence of these threats. The third case study in Chapter 5 will focus on the Saudi Arabian SWF’s newly revised mandate and its implications for the US. Finally, in Chapter 6, policy recommendations of how to most effectively mitigate the demonstrated threats will be presented. The commonalities throughout the case studies will be identified and addressed through modified domestic and international regulation.
Chapter 2: Threat Analysis of Sovereign Wealth Funds

2.1 Introduction

The potential threat that sovereign wealth funds pose came to global attention in 2007 despite the existence of SWFs since 1953. Heightened scrutiny occurred partly because of the creation of funds in Russia and China, two traditionally geopolitical US rivals. Additionally, investments by SWFs into US financial institutions during the 2008 financial crisis brought attention to their potential economic destabilizing effects. During the 2008 presidential election, Barack Obama voiced his concern over SWFs stating, “I am concerned if these … sovereign wealth funds are motivated by more than just market considerations, and that’s obviously a possibility.”18 The emergence of SWFs into the national political debate in the US signaled public anxiety over the funds.

The literature on SWFs identifies two types of threats SWFs pose to host countries: economic and national security threats. Experts trace economic threats to the amount of assets SWFs control and their potential destabilizing effects. Some contributors to the literature on SWFs reject this threat because by investing in the US, SWFs tie their success to the economic prosperity and political stability of the country. Yet, host countries, especially the US, also worry that the SWFs could become vehicles for the advancement of home country political agendas.19 SWFs’ tendency to perform worse than comparable private investors is pointed to as evidence of political influence

and poor governance.\textsuperscript{20} Furthermore, most of the literature acknowledges their potential to act strategically as well as destabilize the global economic system.

Two perceptions of SWFs are common within the global community. The first regards sovereign wealth funds as “saviors” during hard economic times, using their actions during the 2008 financial crisis as evidence.\textsuperscript{21} For example, some in the European Union have embraced SWFs and their flows of capital into the region.\textsuperscript{22} The other perception views SWFs as the “new barbarians at the gate.”\textsuperscript{23} SWFs as a threat to security has been pervasive in the US. Between 2007 and 2008 international guidelines for the operation of SWFs, called the Santiago Principles, were created. During the negotiations of the Santiago Principles, many US officials voiced concerns about SWFs. In his 2008 threat assessment, the US director of National Intelligence J. Michael McConnell stated, “[There are] concerns about the financial capabilities of Russia, China, and OPEC countries and the potential use of their market access to exert financial leverage to gain political ends.”\textsuperscript{24} The public ownership of SWFs increases both the worry from host countries and the necessity for greater accountability than private financial institutions.\textsuperscript{25} Concern from the federal government also stems from SWFs’ status as an unfamiliar

\begin{itemize}
  \item Cummings et al., 3.
  \item Mark Thatcher, \textit{National Policies Towards Sovereign Wealth Funds in Europe: A Comparison of France, Germany and Italy}, policy brief, Kuwait Programme on Development, Governance and Globalisation in the Gulf States, London School of Economics, 2013.
  \item Das et al., 61.
\end{itemize}
A few US states adopted stabilization funds (Alaska, Texas, North Dakota, Alabama, Colorado and Wyoming) but there is no US SWF. The 2008 Senate hearings on SWFs conclude that while SWFs can provide vast economic benefits to the US, they also pose a sizable threat to the stability of the US economy.

This chapter aims to assess the threats that SWFs currently pose to the US. First, it will explore SWFs in international relations theory. Second, this chapter will assess the economic threat from SWFs by discussing the shift in economic power that SWFs represent, SWFs’ potential to be destabilizing, and risks emerging from the size of SWFs and their lack of transparency. Third, the national security threats of SWFs, geopolitical use and targeting strategic sectors will be analyzed. Then current domestic and international regulations will be evaluated. Finally, the probability of the realization of the threats examined will be considered.

2.2 SWFs in International Relations Theory

In the classical realist theory of power in international relations states pursue policies that maximize their power in all arenas, including the economy.\(^\text{27}\) Waltz notes that the international system is anarchic, and states seek to maximize their power to protect their security in such a system.\(^\text{28}\) States increase their power relative to others either externally or internally. Externally, states strengthen alliances or weaken others.\(^\text{29}\)


\(^{27}\) Manda Shemirani, Sovereign Wealth Funds and International Political Economy (London: Routledge, 2016).


\(^{29}\) Waltz, 53.
SWFs externally increase the power of home countries through SWFs by forming alliances with other SWFs and home countries using SWFs to increase their influence in those countries. Alliances between SWFs also increase the size and power of both members of the partnership. SWFs contribute primarily to internal maximization of power through increasing the stability and performance of the home economy. A SWF allows the home country to invest more domestically and ensure future domestic economic stability. Globalization allows SWFs to increase their home country’s power by acquiring resources outside of its borders. When SWFs acquire portions of industries or economic sectors, host countries lose part of their power to the home country of the SWF. Because some SWFs manage more assets than others and some states do not have an SWF, some states are able to obtain more economic resources than others. As a result, prominent home countries increase their power in the international system through SWF investment.

The second theory characterizes SWFs as capitalist economic agents. Within this theory, SWFs pursue commercial objectives and investment in the US because of the opportunity to achieve a higher yield. SWFs act as entrepreneurs through their use of global opportunities to reap a profit. According to this theory, SWFs do not act geopolitically or politically. Consequently, SWFs pose a primarily economic threat if they rapidly remove their capital from the US during financial distress due to the low yield of those investments.

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31 Shemirani, 23.
32 Shemirani, 23.
Lastly, SWFs are theorized as a way of compensating society for structural deficiencies, acting as a mechanism for redistribution.\textsuperscript{33} This theory is primarily inward faced, as it describes a domestically politically motivated actor. Therefore, the domestic compensation theory for SWFs can explain the political motivations behind SWFs. Home governments can use SWF funds to give constituencies handouts, enact social programs, or balance fiscal deficits in order to ensure support for the current government.\textsuperscript{34} Each classification of SWF motivations illustrates different threats of the funds. Variation in the type and degree of threat that each SWF presents to the US emphasizes the need to examine each fund individually to determine the threat that SWF investments pose.

2.3 Economic Threats

A Shift in Economic Power

The vast amount of assets that SWFs control represents a shift in economic and financial power away from the West.\textsuperscript{35} The emergence of a Chinese SWF, in particular, spurred worry from Western countries about the continued pervasiveness of neoliberal ideas in the global economy.\textsuperscript{36} China, as a large player in the global economy, adopting a state-owned investment vehicle to make investments and spread its influence abroad challenges the validity of private markets as the driver of economic growth.

The US economic ideology is built on the idea that the economy works best in the absence of government control. SWFs can undermine the Western market structure as

\textsuperscript{33} Shemirani, 23.
\textsuperscript{34} Shemirani, 23.
\textsuperscript{35} Truman, 2.
\textsuperscript{36} Truman.
well as the global consensus on the benefits of free markets. SWFs, as government-controlled investment bodies, challenge open-market principles when they take partial ownership of private companies in the US. Increased participation of public entities in global private markets questions the continued dominance of free private-market ideals. With a decrease in free market enthusiasm, a reversal of privatization could be triggered.

Additionally, SWFs are symbolic of the ongoing trade imbalances in the global economy. SWFs are managed by countries with large current account surpluses. The US, which retains a large current account deficit, demonstrates the problem that host countries typically have with trade imbalances; they cannot afford to be too suspicious of SWFs because they need capital. Shifts in the capital flow that SWFs partake in is contrary to the previous norm that investment flows from the developed world to the developing world. Money now flows from Asia and the Middle East to the US and Europe via SWF investment. The optics of relying on foreign government-controlled funds are not good for a supposed hegemon.

U.S. policymakers also worry that the accumulation of foreign reserves will become a goal for countries who wish to use those reserves for SWF investment. SWFs provide the potential for countries to move investment away from US treasuries. Foreign investment by finance ministries and central banks was typically constricted to currency

reserves in US treasury bills and other risk-free bonds. Countries that possess SWFs increase their investment options. SWFs follow different investment strategies than central banks typically do, and the shift in foreign exchange reserves to SWFs could impact the stability of global capital flows. Increasing SWF activity could threaten the privileged economic position of the US.

Additionally, SWFs are increasingly investing in emerging markets that have higher yields. In the long-term, a move away from investments in US government-backed assets and the dollar could weaken. While this threat to the privileged economic position of the US is long-term and only theorized, the threat is large enough to provide worry to the US. A study conducted by Beck and Fidora found that a reduction in demand for US bonds caused by a reallocation of excess reserves out of US assets would trigger a net capital outflow of around US $500 billion. A shift in capital flow of that size away from the US could substantially threaten US economic power and stability.

Western countries’ ability to promote democracy fading with the relative decrease in the global economic power of countries promoting those values also caused apprehension in embracing SWFs. Most of the countries with the largest amount of SWF assets are not democracies, like China and the United Arab Emirates. International investment by these countries increases the potential for penetration of nondemocratic

43 Bhagwati.
44 Teslik.
45 Das et al., 535.
46 Truman.
ideas by providing an alternative development path.\textsuperscript{47} Through this process, a shift in economic power away from the West threatens the pervasiveness of their ideas in the international system.

Destabilization

The threat of freely moving international capital can be destabilizing for the US economy.\textsuperscript{48} When large amounts of capital enter a country from abroad, it can cause current account distortions for the host country. Furthermore, if that capital is rapidly removed from the country, it causes financial instability and currency devaluation in the host country. SWFs, as large asset holders, can pose this destabilization threat if they remove their investments quickly or make short-term investments. SWFs can also cause volatility in the market by simply reinforcing herd behavior by rumored transactions that affect the valuations of companies.\textsuperscript{49}

But SWFs have longer investment horizons than private investors. The funds have several motivations to stay with their strategic asset allocations despite short-term volatility. It is difficult for SWFs to liquidate their investments within short-term horizons because their investments are concentrated in illiquid assets such as private equity, real estate, and infrastructure.\textsuperscript{50} The longevity of SWF investment can be a force of stability within the global markets. But due to their lack of transparency and disclosure

\begin{itemize}
\item \textsuperscript{47} Daniel W. Drezner, \textit{The Foreign Policy Implications of Sovereign Wealth Funds}. Prepared Testimony for the Senate Foreign Relations Committee, June 11, 2008.
\item \textsuperscript{48} Das et al., 61
\item \textsuperscript{49} Das et al., 62.
\end{itemize}
of investments, mere rumors of shifts in SWF investments have the potential to be destabilizing to the global economic system.\textsuperscript{51}

Because of the long horizons, SWFs can abandon or chose not to invest when its investment is most critical.\textsuperscript{52} Instead of providing stability, SWFs could aggravate downward trending financial cycles.\textsuperscript{53} SWFs played a large role in the 2008 financial crisis, rescuing failing US financial institutions such as Merrill Lynch, Citigroup, and Morgan Stanley.\textsuperscript{54} Thus SWFs actions during recessions have the potential to stabilize failing firms. Host countries’ reactions to the investments and stock market prices of those companies were positive after the economic recovery.\textsuperscript{55} But if the SWFs had instead announced that they were divesting from those financial institutions, it would have caused greater instability in the markets.\textsuperscript{56} Additionally, in 2008, SWFs turned down requests from Bear Stearns and Wachovia Bank for critical investments.\textsuperscript{57} While SWFs were hailed as the “Saviors of Wall Street” by the \textit{Wall Street Journal} after the financial crisis, SWF investments in US and European financial institutions did not completely save those institutions from incurring great losses.\textsuperscript{58} SWFs also incurred great short-term losses from their investments in 2008 due to the riskiness and volatility of US financial institutions. SWFs cannot be relied on to provide stability in the event of financial crises.

\textsuperscript{51} Kimmitt.
\textsuperscript{53} Cohen, 718.
\textsuperscript{54} Ander and Teplý, 14.
\textsuperscript{55} Truman, 50.
\textsuperscript{56} Truman, 50.
\textsuperscript{57} Cohen, 718.
\textsuperscript{58} Truman, 48.
Riskier investments are becoming more common among funds which could potentially destabilize international markets.\(^5^9\) SWFs initially favored safer investments such as sovereign bonds, but since moved to riskier investments to achieve higher yields.\(^6^0\) Riskier investments include investing in equity markets and illiquid assets such as real estate.\(^6^1\) Close to half of SWF aggregate assets are now held in risky assets.\(^6^2\) Since the 2008 financial crisis, SWFs focused their assets in the financial sector.\(^6^3\) SWFs investing in the financial sector during the crisis was extremely risky. The continued stock market decline of some financial institutions after 2008 negatively affected SWFs stakes.\(^6^4\) Furthermore, politically motivated investments could increase risky behavior of SWFs and distortion of asset prices.\(^6^5\) Due to the great size of SWFs, their increased risk-taking behavior could destabilize the economic system because these investments have a greater probability of negative returns.

**Size of the Funds**

The rapid accumulation of assets by SWFs in aggregate is the source of much political anxiety and concern regarding security threats in the US.\(^6^6\) SWFs in aggregate hold US $7.6 trillion in assets.\(^6^7\) They play a small role in the global economy when

\(^5^9\) Kleinman.
\(^6^1\) McVea and Charalambu, 67.
\(^6^2\) Beck and Fidora, 350.
\(^6^3\) Beck and Fidora.
\(^6^4\) Beck and Fidora.
\(^6^5\) Beck and Fidora, 358.
\(^6^6\) S., *Sovereign Wealth Funds*, 4.
compared to pension funds and endowments which are worth around US $41.3 trillion.\textsuperscript{68} But SWFs are large players in the economy when compared to hedge funds. SWFs hold more assets than hedge funds, which managed US $2.9 trillion in 2018.\textsuperscript{69} In the 2008 financial crisis, culpability for the economic downturn was partly given to hedge funds.\textsuperscript{70} SWFs now hold much more assets than hedge funds did in 2008 and their potential for global economic destabilization is recognized. Aggregate SWF assets are also extremely concentrated in a few firms. Hedge fund assets are spread throughout more than 7000 firms, whereas there are only around 80 SWFs.\textsuperscript{71} One destructive SWF, consequently, can have a greater negative impact on the global economy than one destructive hedge fund.

Wealth from SWFs is also concentrated in authoritarian regimes in the Middle East, Russia, and China. SWFs located in authoritarian regimes are less likely to have adequate independence from government. Furthermore, SWFs like China’s that receive funding from excess foreign reserves have could grow enormously in size based solely on the decision of the national government.\textsuperscript{72} The growth potential of SWF assets increases the future impact that SWFs could have on the global economy. These areas of the world often experience political instability or policies that are unfriendly to Western interests.\textsuperscript{73} Because the concentration of most SWF wealth is held in these authoritarian countries,

\textsuperscript{69} Lavelle, 185.
\textsuperscript{71} Anderson, 6.
\textsuperscript{72} Beck and Fidora, 351.
\textsuperscript{73} Hemphill, 555.
SWFs provide a greater threat to the US than if SWF wealth was concentrated in the stable democratic West.

Because SWFs assets are large enough to move a country’s finances, balance of payments, and balance sheets, the form that SWFs take to fit within a domestic structure matters.\textsuperscript{74} As demonstrated in 2008, SWFs can provide liquidity and support domestic fiscal and monetary policy, if coordinated correctly.\textsuperscript{75} But the size of assets can also negatively affect macroeconomic policy if the SWF’s relationship with the host government is not properly managed.\textsuperscript{76} Consequently, when a SWF’s transparency is low its threat level increases.

**Transparency**

Lack of transparency among most SWFs provides an additional threat to the US economy.\textsuperscript{77} Any investment relies on trust between the two parties involved in the transaction. Trust is in part dependent on information and evidence.\textsuperscript{78} When transparency is low, it is harder for host countries to place trust in SWFs.\textsuperscript{79} SWFs with high transparency, like Norway’s fund, maintain a positive image among host countries that allow it access to more markets while still returning a profit.\textsuperscript{80} Limited transparency in other SWFs, consequently, is not essential to the commercial viability of SWFs. Host

\begin{itemize}
\item \textsuperscript{74} Das et al., 61.
\item \textsuperscript{75} Das et al.
\item \textsuperscript{76} Das et al.
\item \textsuperscript{77} Kimmitt.
\item \textsuperscript{79} Clark and Dixon.
\item \textsuperscript{80} S., *Sovereign Wealth Funds*, 17.
\end{itemize}
countries can perceive any SWF with a lower degree of transparency than Norway as a security threat.

A lack of transparency in the investment objectives of SWFs can introduce instability and volatility into the markets.\textsuperscript{81} It becomes difficult to predict when SWFs invest in companies and when they are likely to divest. Inability to track investment patterns of SWFs leaves companies at a disadvantage.\textsuperscript{82} SWFs can threaten to pull out of investments to leverage their position.\textsuperscript{83} Moreover, since little is known about SWF strategy, mere rumors of investment or divestment can cause market reactions.\textsuperscript{84}

Despite requirements for disclosure of policy objectives in international regulation of SWFs, most SWFs do not disclose their objectives.\textsuperscript{85} As mentioned before, most of the largest SWFs come from non-democratic, authoritarian regimes. Host countries have the perception that these countries tend to be less transparent and less accountable.\textsuperscript{86} Different countries’ governments constrain the investment activity of their SWFs differently depending on the fund’s degree of independence from the government.\textsuperscript{87} As these countries do not operate within capitalist principles, investment decisions are more vulnerable to geopolitical and political goals of the government.\textsuperscript{88} Lack of disclosure by the government on policy objectives makes it difficult to determine if the investments are politically motivated.\textsuperscript{89} When political and geopolitical objectives

\textsuperscript{81} Kimmit.
\textsuperscript{82} Kimmit.
\textsuperscript{83} Kimmit.
\textsuperscript{84} Knill, Lee, and Mauck.
\textsuperscript{86} S., \textit{Sovereign Wealth Funds}, 52.
\textsuperscript{87} Wright and Amess, 240.
\textsuperscript{88} Lavelle, pp. 185.
\textsuperscript{89} Wright and Amess, 240.
influence investment decisions, the risk is higher as investments are not made on commercial merits. Riskier investments increase the threat SWFs pose to the stability of the economy. Lack of transparency can generate a greater perception of economic threat from host countries.

While many experts on SWFs deny the risk that the funds pose to host countries and defend their ability to act as a stabilizing force in the global economy. But the lack of transparency makes politicians and the public reluctant to trust them. When SWFs do not release information on their strategies and behavior, assessments of how funds might react to portfolio losses are difficult. Lack of transparency continues to be an issue in assessing the real risk that SWFs pose to the US and the global economy.

2.4 National Security Threat

Geopolitical Use

SWFs gave rise to anxiety over “state capitalism.” State capitalism here refers to “strategic acquisition in the pursuit of national objectives.” The issue of SWFs as a government-owned entity is that “…distinguishing the political state from its financial vehicles is artificial at best and not a true reflection of the realm in which the 21st century sovereign operates.” Governments are bodies with political and geopolitical goals. SWFs are tools sovereigns can use to achieve that goal. A SWF deployed to serve the

90 Truman, 47.
91 Truman, 47.
92 Anderson, 6.
93 Bassan, 332.
political goals of a foreign nation can be a national security threat for the host country of
the investment.

Most literature cites economic considerations as the cause for the creation of
SWFs in countries. But political fads and fashions also play a role.94 Investigations
completed by both the IMF and the World Bank are inconclusive about the success of
SWFs in helping countries wealthy with natural resources manage the resource curse.95
The resource curse refers to the phenomenon where “countries rich in natural resources,
particularly minerals and fuels, perform less well economically than countries with fewer
natural resources.”96 Countries adopt SWFs to prevent the negative effects of the
resource curse because of SWFs’ theorized ability to smooth shocks from volatile
commodity prices. But because there is no assumed effectiveness of SWFs in preventing
the negative effects of the resource curse there must be an alternate explanation for the
rapid growth of SWFs. An explanation proposed is that countries attempt to emulate
solutions, such as creating SWFs, used by others in order to signal their modernity or
legitimacy in the global economy.97 The title of the “new power brokers of the global
economy” given to SWFs by McKinsey & Company increases the geopolitical motive of
countries, especially oil-producing countries, to establish SWFs for more international
political clout.98

94 Jeffrey M. Chwieroth, “Fashions and Fads in Finance: The Political Foundations of Sovereign Wealth
95 Chwieroth, 754.
96 Syed Mansoob Murshed, The Resource Curse (Newcastle upon Tyne: Agenda Publishing Limited,
2018), 1.
97 Chweiroth, 755.
December 2007.
At the emergence of SWFs in the 1990s and early 2000s, SWFs almost exclusively existed in the Middle East. In the late 2000s, funds in Russia and China emerged posing a different threat to the US. Moreover, different states have different relationships with each other. The nationalism of the SWF evokes a different level of threat depending on whether the home country is an ally or an adversary to the host country.\textsuperscript{99} For example, investment in a US company by the Norwegian SWF will not provoke geopolitical concerns like an investment by the Chinese SWF would. Furthermore, according to international theory, democratic countries are less likely to engage in violent conflict with one another.\textsuperscript{100} SWFs with democratic governments are perceived to pose less of a threat to host countries. Because SWFs typically come from non-democratic states, it increases the perceived threat level of SWFs in aggregate.\textsuperscript{101} It is difficult for suspicions of geopolitical or political motives to be disproved when transparency is not adequate, as is typical for SWFs in non-democratic nations.\textsuperscript{102}

Political authorities face domestic pressure to use the vast wealth of the funds to promote the domestic economy and other domestic social objectives.\textsuperscript{103} Some SWFs were established only to be squandered due to short-term political pressures, as exemplified by Venezuela’s drain of its SWF, Fondo de Estabilización Macroeconómica (FEM), to fund social programs.\textsuperscript{104} One identified reason that some funds obtain lower return is

\begin{flushleft}
\textsuperscript{99} Lavelle, 185.
\textsuperscript{101} Lavelle, 188.
\textsuperscript{102} Lavelle, 189.
\textsuperscript{103} Truman, 36.
\end{flushleft}
connected to the degree of independence that funds have from the home government. SWFs with a lower degree of independence tend to have lower returns due to the involvement of politicians.105

SWFs also provide an opportunity for corruption. The fund can be used to make investments that benefit an individual rather than the entire country. White elephant projects in developing countries are also a corruption temptation evident through SWFs.106 Often the literature on state-owned enterprises attributes the inefficiency of state-owned enterprises to political motives of politicians. Shleifer and Vishny argue that “… public enterprises are highly inefficient, and their inefficiency is the result of political pressures from the politicians who control them.”107 While they were not referring directly to sovereign wealth funds, SWFs are publically owned and their argument is reaffirmed by SWF’s low-performance record.

The biggest national security threat emerges when SWF investment leads to active control of private firms by foreign governments.108 Anything beyond a passive investment, such as obtaining a controlling share of a company or seeking board seats, increases host country concerns over SWF investment.109 While SWFs do not often take controlling stakes in companies they invest in, evidence indicates SWFs partake in the shaping of corporate policy and target industries for political reasons.110 SWFs can

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105 Truman, 39.
106 Truman, 38.
108 Kimmitt.
109 Kimmitt.
disrupt host country public policy through interventions in the market.\textsuperscript{111} By applying political pressure on the US through SWF investment, foreign governments can change the US political landscape. As mentioned before, the US Director of National Intelligence stated in 2008 Congressional Testimony that “Concerns about the financial capabilities of Russia, China, and OPEC countries and the potential use of their market access to exert financial leverage to achieve political ends represents a major national security issue.” Investment in companies lends SWFs and their home countries power at the expense of the host country.

In the end, SWFs are government-controlled entities and governments have political objectives.\textsuperscript{112} Former US Treasury Secretary Lawrence Summers summarized the threat when he stated, “The logic of the capitalist system depends on shareholders causing companies to act so as to maximize the value of their shares. It is far from obvious that this will over time be the only motivation of governments as shareholders.”\textsuperscript{113} SWFs are created to achieve both the financial and political goals of a country.\textsuperscript{114} Governments adopt SWFs to protect their economies from shocks that cause political consequences and to maintain political stability when resource revenues or foreign exchange reserves are no longer sufficient to fund the government. As a result, SWFs sit at the intersection of the financial and political objectives of a country.\textsuperscript{115} The goals that a fund pursues in its investments are wholly dependent on the home

\textsuperscript{111} Bassan, 58.
\textsuperscript{112} Truman, 43.
\textsuperscript{113} Cohen, 719.
\textsuperscript{115} Drezner.
government’s objectives. The great perceived threat of SWFs is that they are controlled by national entities with political and geopolitical goals, contrasting with private investors that typically only have commercial goals. For example, state-owned energy companies claim to follow purely commercial objectives, but there are instances where states use or threaten to use their control of the energy supply against political rivals.

If SWFs are used to fulfill a political goal rather than a commercial goal, they can destabilize the host economy or be used by the home country as a geopolitical tool. But even if SWFs are used for strictly commercial reasons, they still represent a political purpose. If SWFs strengthen the economy of its home country, it increases the power of the state relative to others by increasing its position in the international system. In this form of non-military internal balancing, states employ their SWFs to increase their influence and power in other states without military interaction. SWFs could evolve into new arms of foreign policy for countries. Because SWFs are concentrated in undemocratic nations and some of the largest SWFs are owned by US rivals, strengthening of home countries through SWFs is a geopolitical threat to the US.

Additionally, the fear of geopolitical actions by SWFs can provoke protectionist policies from Western countries. While there are more efficient and effective ways of conducting political or economic espionage than though SWF investment, once a country establishes a fund the risk it there. But some investments of SWFs indicate direct geopolitical motives more than others. For example, in 1995 Singapore’s SWF invested

116 Anderson, 6.
117 Lenihan, 246.
118 Lenihan, 247.
119 Cohen, 713.
120 Truman, 44.
in the Myanmar Fund in a political move to open channels to Burma.\textsuperscript{121} In 2010, SWFs in Saudi Arabia, Qatar, and Israel jointly invested in emerging markets signaling Saudi Arabia and Qatar’s willingness to cooperate with Israel.\textsuperscript{122}

**Investment in Strategic Sectors**

The threat of SWF investment in strategic sectors derives from the opportunity of a nation to use their fund to acquire strategic corporate or public assets. Strategic sectors can be defined as the financial, energy, information technology, telecommunications, and transportation sectors of a national economy.\textsuperscript{123} Home countries can then use ownership of strategic companies as a geopolitical weapon against the home country as these sectors are essential to the national security of the host country.\textsuperscript{124} Christopher Cox, former Chairman of the Securities and Exchange Commission (SEC) stated in a speech before the SEC that SWFs can obtain an information advantage through inside information and have potential leverage and market distortion power from the information advantage.\textsuperscript{125} Potential influence over governments lends legitimacy to national security concerns.

SWFs have more resources available to gather information about a company, such as government intelligence or security services which gives SWFs an advantage over commercial investors.\textsuperscript{126} Theoretically, a government could use the information obtained by SWF investment in a company to increase the performance of a state-owned enterprise.

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\textsuperscript{122} Wang, 436
\textsuperscript{123} Hemphill, pp. 555.
\textsuperscript{124} Hemphill, pp. 555.
\textsuperscript{125} Christopher Cox, "The Rise of Sovereign Business" (speech, Speech before the SEC, Washington D.C.).
\textsuperscript{126} Kimmitt.
in the same industry. SWFs externally strengthening power through strategic investments that lead to technology transfers means the US loses its competitive advantage in that industry. Investment in strategic sectors, like energy, secure resources necessary for national economic development.

Then-presidential candidate Barack Obama’s concern about SWFs stemmed from the influence that the funds could have on the boards of US financial institutions. He stated, “If they are buying big chunks of financial institutions and their board(s) of directors influence how credit flows in this country and they may be swayed by political considerations or foreign policy considerations, I think that is ... a concern.” Concerns about foreign investment in strategic sectors comes from the potential for states to degrade the investment, siphon resources, or steal sensitive technology. SWFs with a controlling share in a company leaves that company vulnerable to sabotage. The threat of sabotage risks the viability of a country’s productive capacity when these investments are large and in strategically important sectors. The direct national security threat emerges from the defense sector as a strategic sector. Investment in the defense industry is one major indicator of geopolitical motives because it does not indicate domestic compensation or risk-return optimization. Non-financial motives behind investments in the defense sector could grant a home government access to sensitive military technology and intelligence.

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127 Teslik.
128 Wang, 436.
129 Wang, 436.
130 Lenihan, 237.
131 Lavelle, 185.
132 Shermirani, 32.
133 Wang, 436.
Another indicator of investment in strategic sectors to achieve geopolitical goals is an investment in those sectors during market downturns. Any investment in a not commercially-sound sector indicates a political or geopolitical motive in the investment. For example, investments by SWFs into US financial institutions during the 2008 financial crisis represented a geopolitical motive because it highlighted the US’s vulnerability and appearance to depend on foreign funds. Most SWFs incurred a loss from these investments, calling into question the motives behind them. The financial sector of the US is extremely important to US national security as the US depends on its privileged global financial position to enforce its foreign policy.

2.7 Regulation of SWFs

The severity of the threat that SWFs pose to the United States depends on the ability of international and domestic regulatory bodies to monitor SWF activity. National security threats of SWFs are typically handled by domestic regulators, while issues of economic stability, both domestically and internationally, are under the purview of the IMF and international regulation.

Domestic Regulations

Federal regulations in the US are not specifically designed to address SWFs, but rather all foreign investment. Regulation of foreign investment in the US began with the

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134 Shemirani, 25
135 S., Sovereign Wealth Funds, 22.
136 Das et al., 226.
137 Eichengreen.
138 Das et al., 62.
Trading with the Enemy Act in 1917 on the eve of the US’s entry into WWI.\(^{139}\) The act allowed the president to veto or oversee any trade between the US and its adversaries.\(^{140}\) The Investment Company Act of 1940, enacted to promote confidence in the sector and protect the public’s interest, regulates mutual funds and closed-end funds.\(^{141}\) Both of these early regulations on trade with other foreign entities influenced and applies to regulation on SWFs.

In the US, SWFs are subject to the same regulatory requirements as private pools of capital.\(^{142}\) According to the Securities Exchange Act of 1934, SWFs must disclose purchases of equity stakes 5% or greater in publically traded companies.\(^{143}\) But SWFs are not subject to the more intense disclosure requirements of investment companies.\(^{144}\) A threshold for disclosure and less intense disclosure requirements than other financial institutions allow loopholes in US regulation of SWFs. It also lowers required SWF transparency, increasing threat salience.

SWFs are primarily regulated by the Committee on Foreign Investment in the United States (CFIUS). The main purpose of CFIUS is to balance the principle of open investment in the US with the need to protect national security.\(^{145}\) The committee only concerns itself with investments that are related to national security. Except for two heavily publicized investigations, CFIUS reviews most investments within the 30-day

\(^{139}\) Lavelle, 197.
\(^{140}\) Lavelle, 197.
\(^{141}\) Clark and Dixon.
\(^{143}\) Epstein and Rose, 117.
\(^{144}\) Epstein and Rose, 117.
\(^{145}\) Kimmitt.
investigation window and without controversy.\textsuperscript{146} The committee, in its original mandate, does not investigate purchases of stakes less than 10\%.\textsuperscript{147} CFIUS oversight effectiveness is limited because of the constraints allowing it to only consider national security threats of investments and lack of precedent for action. Market integrity issues and disclosures of SWFs are regulated by the US Securities and Exchange Commission (SEC).\textsuperscript{148} Due to the low degree of transparency, it is difficult for the SEC to enforce securities regulations.\textsuperscript{149} Both CFIUS and the SEC are limited in their ability to meaningfully monitor and enforce financial regulation.

In 2007 Congress passed a new CFIUS law that increased scrutiny in transactions with ties to foreign governments. The Foreign Investment and National Security Act (FINSA) allows the president to review and reject potential SWF investment in US companies that threaten national security. FINSA amended the Defense Production Act of 1950 and granted the power to the president to judge investments pending CFIUS review.\textsuperscript{150} CFIUS can enter negotiations with the parties involved or put restrictions on the transaction.\textsuperscript{151} But the caveat to the provision is the voluntary nature of SWF’s requirement to file a notice of transaction with CFIUS.\textsuperscript{152} Moreover, CFIUS can only recommend to the president to order divestment; the power is completely at the discretion of the president.\textsuperscript{153} After Congress passed FINSA, some members expressed concern that

\begin{thebibliography}{9}
\bibitem{Kimmitt} Kimmitt.
\bibitem{Das} Das et al., 62.
\bibitem{Lavelle} Lavelle, 198.
\bibitem{Anderson} Lavelle, 198.
\bibitem{Lavelle} Lavelle, 198.
\bibitem{Anderson} Lavelle, 198.
\end{thebibliography}
the law allowed loopholes for some foreign investment bodies like SWFs. The deficiency of CFIUS to comprehensively review investment by SWFs was a by-product of grouping SWF investment with all other foreign investment.

In August 2018, President Trump signed into law the Foreign Investment Risk Review Act of 2018 (FIRRMA). FIRRMA launches pilot programs to enforce parts of the legislation that did not become effective directly after the law passed. CFIUS review of foreign investment expanded under the law to include minority investments in critical technologies, excluding passive investments. FIRRMA provides the US some protection from SWFs making targeted, minority investments in order to obtain access to US technology. But this law aimed to strengthen President Trump’s authority in reviewing foreign investments, not to expand the evaluation process of investments that could impact national security. Additionally, the new regulation fails to separate SWF investment or investment from public entities from private foreign investment, allowing SWFs the ability to continue avoiding informed review.

Political contributions from foreign entities are banned in Article I of the US Constitution. *Citizens United v. Federal Elections Committee (FEC)* increased the ability of corporations to contribute to political action committees (Super PACs) by abolishing contribution limits. Indirectly, the ruling opened a loophole for foreign holders of a

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corporation to participate in US politics. SWFs, as shareholders of US companies, allow foreign governments to contribute through US companies in an unlimited amount due to the loophole.\footnote{157} For this reason, SWFs could target politically active firms in order to participate in the US political process and shape US public policy.\footnote{158} The effectiveness of regulators like CFIUS and the SEC are undermined by this development as it is harder to combat all national security threats emerging from SWF investment.

\textbf{International Regulations}

The principal regulator of SWFs is the IMF through the Santiago Principles. Other international regulations of SWFs include market regulators’ activity harmonization by the International Organization of Securities Commission.\footnote{159} SWFs are also subject to regulations defined in regional trade agreements (RTAs). But RTA regulations are applied indirectly to SWFs. The Santiago Principles is the only international regulation that was created for and applied exclusively to SWFs.

The IMF created the International Working Group (IWG) to legitimize sovereign wealth funds as responsible institutional investors as well as influential actors in the international currency markets.\footnote{160} The IMF believed that an open dialogue between home and host countries could mitigate policy concerns.\footnote{161} Representatives from the various funds came together to establish an agreement of best practices to regulate themselves.\footnote{162}

\footnote{157}Calluzzo, Dong, and Godsell, 223.  
\footnote{158}Calluzzo, Dong, and Godsell, 239.  
\footnote{159}Das et al., 62.  
\footnote{160}Ander.  
\footnote{161}Das et al., 60.  
\footnote{162}Ander, 18.
The IWG presented the agreement for 24 Generally Accepted Principles and Practices, called the Santiago Principles, to the IMF in October 2008. No other framework for the regulation or oversight of SWFs existed before the principles. Some of the guidelines of the Santiago Principles are based loosely on the *OECD Guidelines on Corporate Governance of State-Owned Enterprises*. These guidelines promoted the operative independence of state-owned enterprises from the government. After the Santiago Principles were created, the IWG transformed into the International Forum of Sovereign Wealth Funds (IFSWF). The IFSWF helps members implement the Santiago Principles and enhance the investment capabilities of SWFs. As a voluntary organization, not all SWFs are members of the IFSWF and SWFs are not required to comply with the Santiago Principles as a requirement for membership.

The Santiago Principles are split into three areas. First, they address the SWF legal framework, objectives, and coordination with macroeconomic policies. The first and second principles set the guideline that policy goals of SWFs should be clearly defined to prevent political interference. The next three principles outline the processes to increase macroeconomic coordination with host governments. Transparency is the mechanism that achieves the coordination of macroeconomic policy in the agreement.

The next section pertains to the institutional framework and governance structure of SWFs and establishes guidelines for good corporate governance. But disclosure of

163 Das et al., 60.
164 Das et al.
165 Das et al., 68.
167 Das et al., 65.
168 Das et al.
169 Das et al., 68.
financial information of SWFs is only provided to the regulator and the host country and is not available to the public.\textsuperscript{170} Some financial information like audited financial statements, the size of assets, use of derivatives, and leverage is not required to be disclosed.\textsuperscript{171} There is also not a requirement to publically publish annual reports conducted by the fund. Additionally, while the independence of funds from the government is promoted by the principles, loopholes exist in legal differences regarding the government’s relationship to the fund.\textsuperscript{172}

Lastly, the investment and risk-management frameworks are established in the principles. Principle 18 asserts that SWFs should establish and publish investment objectives and risk tolerance.\textsuperscript{173} The necessity of SWFs to be governed by economic and financial objectives is addressed in Principle 19. Including this principle is meant to quell host country fears of the political and geopolitical motives of SWFs. Disclosure of voting and ownership rights of SWFs is also recommended in this section. Lastly, the enforcement mechanisms of the principles are described as self-assessment and third-party verification.\textsuperscript{174} However, third-party verification is rarely implemented because the IMF has a limited role in the enforcement of the Santiago Principles.

The IFSWF accomplished a relative increase in transparency among funds. But the body is constrained to the extent that it can enforce transparency agreements.\textsuperscript{175} Many SWFs do not adhere to all of the transparency guidelines.\textsuperscript{176} Voluntary organizations, like

\begin{addendum}
\item Das et al.
\item Das et al., 69.
\item Das et al., 68.
\item Das et al., 70.
\item Das et al.
\item Clark and Dixon, 154.
\item Clark and Dixon.
\end{addendum}
the IFSWF, cannot force funds to comply with the Santiago Principles. The Santiago 
Principles are “enforced” by the IFSWF, which is made up of SWF countries. Global law 
is referred to as informal soft law because enforcement is difficult due to the absence of a 
global government. The Santiago Principles suffers from being global law without a state 
to enforce it. This puts SWFs in the position of both player and referee.\textsuperscript{177} Consequently, 
the Santiago Principles have a higher level of compliance among funds coming from 
liberal democracies.\textsuperscript{178} Countries with more power in the international system are also 
more equipped to regulate SWFs when only international soft law exists. While the US 
has the ability to sufficiently monitor and regulate SWF investments, not all countries, 
especially developing countries, have such an ability.\textsuperscript{179} The Santiago Principles’ 
weakness lies in the “should” nature of the principles rather than “must”.\textsuperscript{180} As a result, 
SWFs vary in their compliance with international regulatory guidelines.

### 2.6 Probability of the Realization of Threats

#### Game Theory

In game theory, the behavior is dependent on what one actor thinks another actor 
will do.\textsuperscript{181} Because of this phenomenon, actors act strategically. Game theory suggests 
the self-interested motivations of an actor results in less efficient outcomes than if they 
acted contrary to their rational self-interests through cooperation.\textsuperscript{182} When actors make

\begin{itemize}
  \item \textsuperscript{177} Truman, 53.
  \item \textsuperscript{178} Clark and Dixon, 154.
  \item \textsuperscript{179} Truman, 46.
  \item \textsuperscript{181} McVea and Charalambu, 65.
  \item \textsuperscript{182} McVea and Charalambu.
\end{itemize}
deals that achieve the most efficient outcome, it is wholly dependent on trust if there is no regulatory mechanism.\textsuperscript{183} Game theory, in the case of SWFs, is based on the voluntary nature of the Santiago Principles as the regulatory mechanism. The application of game theory to SWFs finds that the host country depends on the goodwill of the SWF.\textsuperscript{184} Game theory analysis of SWFs concludes that host-countries relying on international ‘soft’ regulation, like the Santiago Principles, is “strategically unwise.”\textsuperscript{185} The nature of SWF regulation causes the realization of national and economic security threats more likely.

\textbf{Propensity of Shareholder Activism}

A study conducted by Ghahramani examined the propensity of SWFs to engage in shareholder activism and how activism affects corporate governance. It found that SWFs engaged in more activism when their portfolios consisted of a higher concentration of equities and when they had a lower degree of independence from government.\textsuperscript{186} Use of external managers lowered propensity for SWFs to engage in shareholder activism.\textsuperscript{187} The probability that SWFs will try to influence the management of a company is dependent on each individual SWFs portfolio and governance structure.\textsuperscript{188} Consequently, each SWF must be examined individually in order to assess the threat of SWFs influencing a company through purchases of stock with special attention given to the SWF’s degree of independence from government.

\textsuperscript{183} McVea and Charalambu, 66.
\textsuperscript{184} McVea and Charalambu, 67.
\textsuperscript{185} McVea and Charalambu, 73.
\textsuperscript{187} Ghahramani, 59.
\textsuperscript{188} Ghahramani.
Unfounded Concerns

After the large role that SWFs played in providing much-needed liquidity to Western financial institutions during the 2008 crisis, a multitude of literature on SWFs found their threat to be at best, minor. 189 SWF investments in aggregate were not found to cause market volatility or distortions.190 The literature on SWFs after the crisis concluded that they were innocent contributors to the global economic system. Most scholars concluded that SWFs only had the potential to be an economic or national security threat to the US but did not act in a threatening manner.

The danger of reducing the threat of SWFs because of the lack of realization of the threats and ignoring their potential is that even if they do not act politically or destabilizing today does not mean that they cannot act in such a way tomorrow.191 Dangers of SWFs cannot be ruled out regardless of their actions in the past or present. Future distortions of economic markets or national security threats remain regardless. Furthermore, the capacity of SWFs to have an impact is increasing as funds accumulate more assets and more countries adopt funds.192 The landscape of intentional relations is also changing as incentives for war are decreasing and countries are competing more on economic issues.193 SWFs could play a large role in interstate competition as they increase economic interaction between states and represent a great deal of economic power. The lack of threatening action in the past does not guarantee safety in the future as

189 Lenihan, 228.
190 Lenihan.
191 Lenihan.
192 Lenihan.
193 Lenihan.
SWFs continue to increase their power. Consequently, the 2008 consensus that SWFs are not geopolitically motivated actors does not necessarily hold true in 2019.

2.7 Conclusion

The threat that SWFs pose to the US is unique. Governance and portfolio structure of SWFs are diverse enough to produce a different threat to every host country.\textsuperscript{194} SWFs, then, pose a different threat to the US than they do the European Union. And the Norwegian SWF poses a different level of threat to the US than the Russian SWF does. While international regulation can provide guidelines for the oversight of SWFs, it is important that the US also maintains domestic regulation that can address the US’s relationship with each specific home country.

One of the major dangers of SWFs is that their assumed threats could lead to a rise in financial protectionism in host countries.\textsuperscript{195} The threat of SWFs can initiate a new wave of protectionist policies that the current international system is already leaning towards. Financial protectionism in the US through excessive regulation of SWFs could diminish opportunities for capital inflows. But, inadequate international regulation of SWFs leaves host countries vulnerable to geopolitically motivated investments and their detrimental effects on national and economic security. Domestic regulation regarding the national security threat offers the US a thin layer of protection, but holes still exist in regulation that can be exploited. CFIUS and other regulators are almost powerless unless the president believes an investment to be against US interests. But international

\textsuperscript{194} Lavelle, 187.
\textsuperscript{195} Truman, 46.
regulation and protection against economic threats are even more insufficient. Soft regulatory approaches lack enforcement mechanisms to punish SWFs if they do not adhere to the Santiago Principles. Transparency requirements in both domestic and international regulation are weak. The weak regulation of SWFs makes potential threats more concerning and probable.

The inflow of capital into a country by a SWF followed by a rapid exit of capital could contribute to market volatility.\textsuperscript{196} The US is particularly vulnerable to consequences from shifts in capital by SWFs.\textsuperscript{197} During the 2008 financial crisis, the flow of capital to US treasuries greatly increased demand for US-dollar assets.\textsuperscript{198} But losses incurred on credit and equity instruments, as well as increasing government debt, could lead to an increased risk premium on US assets.\textsuperscript{199} The increased riskiness of US assets could cause an economically destabilizing mass exit of capital from SWFs investment in the US as many countries begin to diversify their foreign exchange reserves. While SWFs do not currently have enough economic weight in the global financial system to cause a dollar crash in the US, they are on a path to acquire even more assets and can also trigger herd behavior in other financial institutions.

SWFs have a clear potential to alter the behavior of other states.\textsuperscript{200} There are several avenues that home countries can take to utilize their SWF as a tool to achieve their geopolitical goals. The most direct way is through leveraging their investment in US companies to gain influence in the US. Investment in another country can bolster the

\textsuperscript{196} Beck and Fidora, 358.
\textsuperscript{197} Das et al., 195.
\textsuperscript{198} Das et al.
\textsuperscript{199} Das et al.
\textsuperscript{200} Lavelle, 203.
home country’s soft power strength. Cooperation and partnerships with other SWFs can also enhance the home country’s international influence and award the home country a soft power advantage over the US.

But what is not clear is the specific mechanism through which SWFs could alter other state’s decisions. A lack of transparency is partly responsible for the opaqueness of this ability. The majority of constraints on SWFs acting geopolitically are domestic such as competing bureaucratic interests, profit requirements, and the goals of individual leaders. National security threats of SWFs are, for the most part, potential threats. While game theory dictates that it would be unwise to ignore these threats, it is not proper to categorize all SWFs as threats to national or economic security. Rather, each SWF must be examined and its home country’s relationship with the US must be considered in order to make that determination.

201 Lavelle, 203.
Chapter 3: Case Study 1 – The Russian Sovereign Wealth Funds

3.1: Introduction

Russia’s SWFs pose a national security threat to the United States. Russia has geopolitical motives in its management of SWFs that stem from its difficult relationship with the United States. This chapter provides an assessment of the risks that the Russian SWFs pose to the US. Examining how these funds are structured and their past actions will provide the justification for amending how the US might regulate SWFs more effectively.

Most of the assessments regarding the threat that SWFs pose to the US’s national and economic security occurred in 2008 when the Santiago Principles were negotiated. The Russian established a stabilization fund in 2004, but the Russia SWF that is able to make significant foreign direct investments and is most active in global politics was not established until 2007. Consequently, the Russian SWFs were rarely included in these assessments. Furthermore, at the time of the assessments, most of the SWF related threats to US national security arose from the Middle East and threat assessments focused on the Middle Eastern SWFs. Following Russia’s 2014 annexation of Crimea and meddling in the 2016 US election, the threat perception shifted to Russia. In response to both of these actions, the US placed sanctions on Russia and restricted the Russian SWFs’ access to US markets. While there are sanctions and domestic constraints on the Russian SWFs, low transparency and the absence of independence from government increases the use of the SWFs to achieve geopolitical goals that are against US interests.

In order to assess the degree of risk and ways to mitigate it, this chapter will first describe the structure of Russia’s SWFs, examining their establishment, underlying
ideology, goals, degree of independence from government, and the domestic politics affecting the SWFs. Secondly, this chapter will discuss the funds’ transparency, accountability, and compliance with the Santiago Principles. Then it will analyze the geopolitical actions of the SWFs by reviewing the effects of the sanctions and the SWFs’ international partnerships. Next, the roles of unitary actors in Russia will be considered. Finally, the Russian SWF investment in a US company, Hyperloop, will be examined in order to illustrate the insufficiency of current SWF regulations in preventing investment in a strategic sector.

3.2: Structure of the Funds

Establishment

Russia adopted a stabilization fund in 2004 in an effort to balance the federal budget. Budget problems arose from volatile oil prices and inflation became a concern. The Russian Stabilization Fund (RSF) could be used to cover federal deficits when oil prices decreased below a baseline, but when prices rose above, the fund could be used for other purposes.²⁰² The International Monetary Fund (IMF) played an important role in the establishment of the RSF. Russia was heavily encouraged by the IMF to establish a stabilization fund after the Russian debt default of 1998. It recommended a stabilization fund because of the theorized effectiveness of stabilization funds in helping countries manage the symptoms of the resource curse. The IMF was not the only international institution who urged Russia to establish a fund. After the 1998 debt crisis in Russia,

²⁰² Sergei Dobroshyshevsky. *Russian Sovereign Wealth Funds, Sovereign Wealth Funds: Challenges for the Caspian Countries* (Revenue Watch Institute, 2011).
many international financial institutions (IFIs), such as the World Bank, recommended the establishment of a stabilization fund.\textsuperscript{203} Russia ultimately used the funds amassed in the RSF to pay back its foreign debts.

In 2008, the RSF was split into two different SWFs, the National Welfare Fund (NWF) and the Reserve Fund (RF).\textsuperscript{204} The main purpose of the NWF is to act as a classical SWF, which aims to diversify investments domestically and internationally in order to support pension savings and increase investment performance. The RF is intended as a fund to balance the budget. In 2011, the Russian Direct Investment Fund (RDIF) was established. Endorsed by President Putin, the RDIF was created primarily to support Russian companies by making equity investments.\textsuperscript{205} Only 20\% of its funds can be deployed outside of Russia, but the RDIF must secure a co-investment in order to directly invest in Russia. A CEO leads the fund and equity professionals manage the fund. One of the main differences of the RDIF, as compared to the NWF or RF, is that it is a subsidiary of Vnesheconombank (VEB), which is a government-owned development bank. Another difference is that the majority of RDIF investments are made in domestic projects. Russian SWFs are subject to extensive qualifications for potential investments including strict a credit rating threshold and distribution requirements. Restrictions placed on the investment directorate of the funds create difficulties in pursuing non-profitable investments.


\textsuperscript{204} Dobroychevsky, 132.

**Underlying Ideology**

Russia’s adoption of a stabilization fund was not precipitated by a change in ideas in Russia, but rather due to a case of normative and coercive institutional mimicking. The majority of Russian economists are skeptical of monetarist and neoliberal economic policies of which SWFs are a combination of. But volatile oil prices and inflation had led to a weaker Russian economy. SWFs in countries like Kuwait and Norway were designed to help protect their economies from the symptoms of the resource curse like high inflation and resource windfalls.  

Coupled with pressure from the IMF, Russia adopted a stabilization fund.

Dabrowska and Zweynert identify the problem with the establishment of SWFs in Russia; it did not represent an establishment of monetarist and neoliberal principles in the Russian economy. The original intent of the RSF, and SWFs in general, is to cultivate macroeconomic stability by controlling inflation and preventing the volatile nature of oil prices from affecting the economy by accruing the surplus money and storing it in a reserve. But factions within Russian politics perceived it as an opportunity to return to the practice of transferring resource revenues to other sectors of the economy, acting as a mechanism for redistribution. The Soviet Union had policies of using resource rents from oil and gas production to diversify the economy in the 1960s. By adjusting the

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207 Dabrowska, 518.
208 Dabrowska, 519.
209 Dabrowska, 537.
210 Dabrowska, 519.
mandate of typical stabilization funds, the Russian government used the RSF and subsequent SWFs to return the Russian economy to Soviet principles.\footnote{Dabrowska, 537.} Russia took the idea of the institution and transformed it to achieve different outcomes without adopting the ideas that SWFs were created upon. For example, IMF proposals for a Russian stabilization fund omitted the use of such a fund for domestic investments, but the RSF implemented invested predominantly in Russia. The consequence of the failure to adopt these ideas is that Russia can morph the institution to achieve whatever objectives the government deems necessary, regardless of whether it fits within the norm or explicit purpose of the institution.

Goals

When Russia established the RSF in 2004, there was no clear legal structure as to how the funds were to be spent. Assets above RUB 500 billion could be used for ‘other’ purposes, and there was no clear definition as to what those other purposes were.\footnote{Dabrowska, 528.} The general asset allocation of the NWF and RF when the RSF split in 2008 was in the purchase of foreign securities, deposits in banks, corporate debt securities, corporate equities, and investment fund shares.\footnote{Wisniewski, 576.} The Russian Finance Ministry also restricted the countries from which the funds could purchase debt securities to Austria, Belgium, Canada, Denmark, Finland, France, Germany, Luxembourg, the Netherlands, Spain, Sweden, the United Kingdom, and the US because of their high credit ratings.\footnote{Wisniewski, 576.}
However, the main function of the funds is to support Russian pensions. During the 2008 global financial crisis, the NWF transferred US $17 billion of assets to VEB to lend to domestic banks and businesses.\textsuperscript{215} The goals of the RDIF are different than the other funds because they aim to bring investments to Russia through foreign investments and talent and technology acquisition.\textsuperscript{216}

In general, it is difficult to assess the non-financial goals of the NWF and the RF because of their limited transparency.\textsuperscript{217} But even though their non-financial goals are not disclosed, some can be gleaned by analyzing actions of the fund and the context of those actions. For example, recently the NWF and RF have been observed pursuing non-financial goals. They aided the Russian economy by providing funds to the government after the economy was strained by international sanctions.\textsuperscript{218} These sanctions were put into place in 2013 as a result of Russia’s annexation of Crimea. Then in 2014, the downward trend in oil prices also put the Russian economy in a weak position. Both of these factors necessitated the use of Russia’s SWFs to advance the domestic political goals of the Russian government.

The Russian SWFs prove to be an important political tool in encouraging domestic support for the Putin regime. Despite heavy US sanctions, the Russian government was able to cushion the economy by funding government deficits through the RF.\textsuperscript{219} The military and infrastructure sectors of the government used the SWFs to

\textsuperscript{215} Manda Shemirani, “Austerity, Abundance, and the Investor States: The Political Economy of Sovereign Wealth Funds” (PhD diss., Old Dominion University, 2010).
\textsuperscript{216} Wisniewski, 586.
\textsuperscript{217} Wisniewski, 584.
\textsuperscript{218} Wisniewski, 573.
finance the increase in their spending. These actions have were against the advice of finance and economic development ministers.\(^{220}\) By utilizing the RF to ease the effects of the economic downturn, the Putin Administration maintained high public support for the military intervention in Ukraine. By January of 2018, the Russian government depleted the RF because of its excessive use to fund budget deficits. Even though the RF was implemented to fund government deficits during times of economic downturns or energy price drops, it also served a political purpose. Public support for any leader of a country is strongly related to the state of the economy. By blunting the effects of the economic downturn, the RF provided a political service for the Putin Administration.

Degree of Independence

According to the IFSWF in the Santiago Principles self-assessment of the RDIF, the fund does have a sufficient degree of independence from the government. The RDIF claims to be compliant with Principle 9, which states that: “The operational management of the SWF should implement the SWF’s strategies in an independent manner and in accordance with clearly defined responsibilities.”\(^{221}\) It is commonplace for SWFs to be accountable to a government body such as the Minister of Finance, an elected official, or the Parliament.\(^{222}\) The Russian SWFs are not subject to oversight from the Russian Parliament. Officially, the RDIF has full independence as long as it operates within the rules that the government mandated in the establishment of the SWF. In practice, though,

\(^{220}\) Samuel A. Greene, "The End of Ambiguity in Russia," *Current History* 114, no. 774 (October 1, 2014).
the fund does run with significant input from the government. The CEO of the RDIF and President Putin have regular meetings to discuss the fund’s investments and the strategy of the fund. Only some of these meetings are on the record. Moreover, President Putin created the fund and the objectives of the fund and, as a result, he has some degree of control over the actions of the RDIF. Chris Weafer, a senior partner at the Moscow-based investment advisory firm Macro Advisory, described the RDIF as a political body, noting its strong ties with the Kremlin.\textsuperscript{223} The government will often set an economic goal, and the RDIF will seek partnerships and investments that will help achieve that goal.\textsuperscript{224}

Both the NWF and RF are assets that contribute to revenues available to fund the federal budget. In the establishment of the SWFs, the government set broad limits to limit the allocation of the funds. It has allowed the government to take control of the SWFs when needed. The legislative bodies in Russia do not have control over the direction of the funds’ investments.\textsuperscript{225} However, the Central Bank of the Russian Federation and the Ministry of Finance are involved in the management of the funds. The Ministry of Finance maintains full management control over the NWF and the RF. Neither of these SWFs can operate independently because an agency of the government is in control.\textsuperscript{226} Russian SWFs do not operate in a way that is independent of the government. Separation from the government is necessary for SWFs to be perceived as investment bodies that are primarily concerned with maximizing returns, rather than state-owned enterprises that act

\textsuperscript{224} Banco, 5.
\textsuperscript{225} Drobyshevsky, 139.
\textsuperscript{226} Choon-Yim Sam, "Understanding the Relationship Between the Government and Sovereign Wealth Funds: The Case of Singapore," \textit{New Zealand Journal of Asian Studies} 14, no. 2 (December 2012).
in the economic or political interest of home countries. Without independence of
government, host countries perceive SWFs as serving a geopolitical purpose.

**Domestic Politics**

The NWF has been the subject of an internal power struggle in Russia with many
domestic groups fighting to use the SWFs for their own purposes.\(^{227}\) The Ministry of
Finance is on one side and President Putin’s cabinet is on the other, in terms of how the
funds should be used.\(^{228}\) As a result, the SWFs do not have a clear outline or agenda.
Russia’s SWFs have been subject to domestic disputes, which constrain their ability to
invest abroad. The SWFs are commonly used domestically for political purposes. The
division of the RSF into the NWF and the RF was caused by the two competing factions
in Russia. The Putin Administration wanted to use the RSF to pay for domestic projects
while the Ministry Department wanted to keep it as strictly a sterilization mechanism.\(^{229}\)
A sterilization mechanism takes excess money out of the economy to prevent inflation.\(^{230}\)
When the amount of sterilized money equals the excess resource rent revenues, then the
macroeconomic indicators of the country remain stable because the mechanism smooths
external shocks.\(^{231}\) The split allowed the government to pursue domestic industrial policy
using the RF while the NWF could continue the sterilization function. However, in 2013,
the majority of the NWF was used domestically.\(^{232}\)

\(^{227}\) Shemirani, 196.
\(^{228}\) Shemirani, 217.
\(^{229}\) Dabrowska, 535.
\(^{230}\) Vladimir Gel’man and O. Marganiia, *Resource Curse and Post-Soviet Eurasia: Oil, Gas, and
\(^{231}\) Gel’man and Marganiia, 82.
\(^{232}\) Dabrowska, 535.
Prior to the establishment of SWFs, Russian state-owned enterprises were described as inefficient because of their political use and use to influence decisions regarding the domestic budget.\textsuperscript{233} The recent management of the SWFs reinforced the Russian government’s inability to separate political goals and economic institutions. Russia financed its deficits over the years by using RF assets. It allowed the Putin Administration to maintain popularity; by financing deficits using the RF, the government has avoided increasing taxes or increasing the national debt. Both of these alternatives would have caused adverse effects on the Putin Administration’s popularity. Moreover, some assets from the NWF were redistributed through VEB in the form of domestic loans.\textsuperscript{234}

The domestic competition for the use of the SWFs demonstrates the barriers in using them to make foreign investments. Public pressure on the Putin Administration to use the SWFs to temper fiscal shortfalls also restricts their use. If it is difficult to make foreign investments, then Russia has less opportunity to use the SWFs for geopolitical purposes. But the low transparency of these funds leaves the public or other government officials blind as to where these funds are headed and constraining pressure cannot be put on the government to use the SWFs domestically.

3.3: Transparency & Compliance with Rules

Linaburg-Maduell Transparency Index

\textsuperscript{233} Sam, 93.
\textsuperscript{234} Shemirani, 223.
The Linaburg-Maduell Transparency Index is a measure of SWF transparency developed by the Sovereign Wealth Fund Institute in 2008. SWFs are evaluated on ten principles, and the fulfillment of a principle adds one point to their score. The Sovereign Wealth Fund Institute recommends a minimum score of 8 out of 10 for adequate transparency. According to the Linaburg-Maduell Transparency Index, the NWF and the RF score 5 out of 10 points for transparency. Both funds officially agree to comply with the Santiago Principles, including the principles on transparency, although in practice they do not completely adhere to them. The RDIF has a transparency rating of 7 out of 10 according to the Linaburg-Maduell Transparency Index. In the 2008 release of the index, Russia ranked 40th out of 56 of all SWFs ranked. It is on the low end of transparency ratings and, therefore, the Russian SWFs are not relatively transparent. For reference, the graph below compares the ranking of the RDIF’s transparency score on the Linaburg-Maduell Transparency Index with other prominent SWFs:

235 Wisniewski, 584.
Truman Scoreboard

According to the Truman Scoreboard, which is a more comprehensive way to measure transparency and accountability of SWFs, the NWF and the RF scored 53 out of
100 in 2012.\textsuperscript{237} While this was a 15 percentage point increase since 2007, it was below the mean of all SWFs which is 54.\textsuperscript{238} Russia had recently established the RDIF and the scoreboard could not rank the fund yet. In 2016, the NWF and the RF scored a 49.\textsuperscript{239} The RDIF scored a 36. The NWF and RF’s score decreased by 5 points from 2012 to 2016. Between 2012 and 2016 SWFs, in general, became more accountable and transparent as the average score increased to 62. Russia’s SWFs were a deviation from the trend. The RDIF scored very low on the scoreboard. It had the 7\textsuperscript{th} lowest score out of all 60 SWFs ranked. Russia is one of the largest holders of SWFs assets, which causes their low rate of accountability, transparency, and diversion from the trend concerning and increases the threat level of the Russian SWFs.

**Overall Transparency and Accountability**

To put these numbers into context, Russia ranks 138\textsuperscript{th} out of 176 countries on the Corruption Perceptions Index in 2018 with a score of 28 out of 100. The corruption index ranks countries from least corrupt to most corrupt. Oman, which scores a 52 on the Truman Scoreboard, ranks 53\textsuperscript{th} on the Corruptions Perceptions Index.\textsuperscript{240} Iran, which scores a 48 on the Truman Scoreboard, is tied with Russia on the corruption perception index. As shown, the transparency rate of the fund has little correlation with the overall corruption level of the nation. For a nation that ranks far down in the corruption rankings,

\textsuperscript{238} Bagnall and Truman, 11.
it is discordant that Russia has an around average SWF transparency rating. However, the level of corruption in a country is relevant to the SWF’s ability to make investments based on their potential returns. Russia has been labeled as an ineffective operator of state-owned enterprises due to its failure to maximize the use of their assets. As a SWF is essentially a state-owned enterprise and because of the low degree of independence, corruption in the Russian government has the potential to influence the legitimate conduct of the Russian SWFs and decrease their profits.

The limited transparency of the Russian SWFs has concerned the IMF since the RSF’s establishment in 2004. Russia’s SWFs have around US $120 billion in assets under management, making its three SWFs combined one of the largest SWFs in the world. It is considered good practice to keep SWF interests, operations, and investment strategies somewhat secret as they could potentially have significant effects on the market. However, in comparison other countries with the same amount of assets, or even more, they can have higher transparency ratings without adverse effects on their returns. For example, Norway has a Truman Scoreboard ranking of 98 and also has US $990 billion in assets, making it the largest SWF.

Russia’s SWFs lack of a third-party audit system limits the ability to assess the political motives of the fund both domestically and internationally. The management mechanisms of the funds are not open to external oversight. The NWF has no official

241 Sam, 93.
242 Shemirani, 224.
245 SWFI.
246 Shemirani, 224.
247 Shemirani. 224.
information on the composition of its assets.\textsuperscript{248} There is also no disclosure of the performance of the investments to the public.\textsuperscript{249} The RF also has limited transparency. However, in January 2018 the RF depleted its assets and was reintegrated into the NWF which made the composition of its assets known. The RDIF also does not disclose the assets that are under its management. The Russian SWFs’ lack of transparency creates difficulty in assessing whether investments are geopolitically motivated and increase their degree of risk.

**Santiago Principles Compliance**

All of the Russian SWFs operate in an overall non-transparent way according to the IFSWF, despite being part of the creation of the Santiago Principles.\textsuperscript{250} The RDIF has extremely low compliance with the Santiago Principles, as demonstrated by its low score on the Truman Scoreboard. As Russia one of the largest SWFs and a country with traditionally geopolitical motives, this has an impact on how much and what type of regulation that the US pursues on SWFs.

The IFSWF is an institution that serves as a watchdog of SWF compliance with the Santiago Principles. The NWF and the RF are not members of the IFSWF; the RDIF became a member in 2012. The RDIF only scores 36\% in terms of compliance with all 33 of the Santiago Principles in 2015.\textsuperscript{251} The NWF and RF scored 49\% compliance with the

\textsuperscript{248} Shemirani, 198.  
\textsuperscript{249} Wisniewski, 579.  
\textsuperscript{250} Shemirani, 198.  
\textsuperscript{251} The Origin of Santiago Principles: Experiences from the Past; Guidance for the Future, publication (International Forum for Sovereign Wealth Funds (IFSWF), 2018).
Santiago Principles. The infancy of the RDIF also plays a role in general compliance with the Santiago Principles. Newer funds seem to follow a trend of non-compliance and then generally become more compliant as the funds age.

The IFSWF reports that the RDIF does not completely comply with the Santiago Principles. The IMF has lost its leverage over Russia. When the RSF was established in 2004, Russia was able to pay back debt it owed to the IMF in 2005. As a result, the IMF has fewer incentives to compel Russia’s SWFs to comply with the Santiago Principles. Russia submitted a principle by principle self-assessment of its compliance with the Santiago Principles to the IFSWF. It is hard to confirm the information Russia has provided in their self-assessment given the limited transparency of their SWFs. Additionally, the inherent bias in its self-assessment makes it difficult to determine whether Russia complies with the Santiago Principles to the extent that it claims.

The conclusion of all of these assessments of the Russian SWFs is that even though SWF governing bodies agree that Russia SWFs have low transparency, accountability, and compliance, the IMF does not have an enforcement mechanism to encourage Russia to remedy these shortfalls. The IMF acknowledges that Russia does not fully comply with the Santiago Principles, but cannot act to remedy Russia’s failure to comply. The RDIF is a member of the IFSWF, yet the IFSWF grades it at only 33% compliance with the Santiago Principles. The IFSWF also has no mechanisms to enforce the Santiago Principles on its member funds. Russian SWFs are becoming less transparent and less accountable because they are self-regulated. The absence of any of

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252 IFSWF, 47.
253 Bagnall and Truman, 1.
254 Dobroyshevsky, 131.
the current SWF governing bodies to address the failings of the Russian funds is concerning for nations in which these SWFs invest in.

3.4: Geopolitical Actions

Effect of Sanctions

The sanctions imposed on Russia due to the annexation of the Crimea negatively impacted the Russian economy. In 2014, President Obama identified the RDIF as a major source of Russian capital; hence, sanctioning it would have a major effect on the Russian economy. The RDIF represents a major source of power for Russia and a geopolitically important institution. Yet Russia’s depletion of the RF demonstrates that Russia is willing to endure economic hardship in order to achieve its geopolitical goals.

The Russian government used the RF to finance the large fiscal gap resulting from the sanctions. The depletion of the RF has not created pressure on the Russian government to stop military actions in order for the sanctions to be repealed. Instead, the government has called for it to be allowed to take on more debt, or to decrease spending everywhere except defense. Use of the SWFs to fund government deficits caused a decrease in the impact of US sanctions, making them a less useful tool in US foreign policy towards Russia. The sanctions’ high level of detrimental effects on the Russia SWFs demonstrates that Russia is not opposed to degrading the value of their SWFs in order to achieve their geopolitical goals. The Russian government uses SWF assets in order to achieve a geopolitical goal, but it causes negative returns.

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255 Banco, 4.
256 Greene, 256.
Additionally, the US sanctioned VEB, which is the bank that backs the RDIF. These sanctions make any investment in the US by the RDIF illegal according to the US Treasury Department. VEB’s status as the bank that backs the RDIF calls into question the neutrality of RDIF investments. The bank is a source of Russian soft power around the world, lending money to areas strategically important to Russia like Ukraine. Some of the largest US banks also have ties to VEB. It has also been connected to Russian intelligence and as a government-owned bank, has connections to Putin.\(^{257}\) The sanctions against VEB have spurred concerns about the RDIF and its motives. In 2016, the RDIF attempted to separate itself from the VEB in order to evade sanctions. President Putin signed legislation that moved the management of the RDIF to the Russian Federal Agency for State Property Management.\(^{258}\) However, this was mostly a surface-level separation as most of the RDIF’s assets remained under VEB’s control.\(^{259}\) The RDIF has been subject to political maneuvering in order to circumvent US sanctions.

**International Partnerships**

The RDIF pursues strategic SWF partnerships throughout the world in critical sectors. Forming international partnerships in order to attract investment in Russia is the main goal of the RDIF. Some of the locations in which Russia has pursued joint investment funds or platforms represent strategic advantages.\(^{260}\) It made a multi-billion


\(^{259}\) Banco, 7.

investment pledge with Gulf Coast Cooperation (GCC) sovereign wealth funds that include their energy sectors.\textsuperscript{261} Part of Russia’s strategy in these investments is to compete with and crowd-out Western energy companies.\textsuperscript{262} Through these investments, Russia expands its sphere of influence in the Middle East. It is a geopolitical strategy against the economic and security interests of the United States.

The UAE, Saudi Arabia, and other GCC SWFs made a US $20 billion pledge to fund infrastructure, energy, transportation, and military production in Russia through the RDIF.\textsuperscript{263} The deal aimed to strengthen their relations with Russia.\textsuperscript{264} The deal is part of increasing cooperation between Russia and OPEC countries, especially Saudi Arabia and the UAE.\textsuperscript{265} The RDIF and its CEO play an important role in the development of those relationships. An increase in cooperation between Russia and the Gulf States problem for the US. Russia’s pivot to the Middle East challenges the US sphere of influence in the Middle East.\textsuperscript{266} Gulf States’ SWF investments in Russia give the Kremlin the advantage over the US. Furthermore, the role that the RDIF CEO Dmitriev played in negotiating agreements with these Gulf SWFs and political leaders indicates an increasing diplomatic role of the RDIF.

\textsuperscript{261} Yury Barmin, "Russian Energy Policy in the Middle East," \textit{Insight Turkey} 19, no. 4 (2017).
\textsuperscript{262} Barmin, 133.
\textsuperscript{263} James M. Dorsey, "Sovereign Wealth Funds: Investment Vehicles or Political Operators," \textit{Huffington Post}, January 16, 2018, . https://www.huffpost.com/entry/sovereign-wealth-funds-investment-vehicles-or-political_b_5a5cd8c3e4b0a233482e0d92https://www.huffpost.com/entry/sovereign-wealth-funds-investment-vehicles-or-political_b_5a5cd8c3e4b0a233482e0d92.
\textsuperscript{264} Dorsey.
\textsuperscript{266} Mammadov and Karasik.
Russia’s alliances are with other SWFs in China, UAE, and Turkey. The Russia-Turkey joint investment fund was launched in April of 2018. Economic ties between Turkey and Russia are concerning to the US due to the risk that they pose to the North Atlantic Treaty Organization (NATO). In March 2018, the US defense agency released a worldwide threat assessment that deemed Russia’s government relations with Turkey and its military sales to Turkey to “illustrate Russia’s strategic objective to strengthen its ability to project power into the Mediterranean and along NATO’s southern flank, expand its influence in the region, and exacerbate existing friction in NATO.” The timing of the partnership provides evidence that the RDIF is complementing Russia’s foreign policy with its own investments. Russia including the use of the RDIF in its challenge to NATO demonstrates that Russia deploys its SWF in order to achieve the geopolitical goals of the state.

Other partnerships of the RDIF are with Kuwait, Japan, India, France, Bahrain, Italy, Saudi Arabia, Qatar, Brazil, Vietnam, and Armenia. The US does not have any mechanisms in which to regulate these partnerships and, additionally, the partnerships are not in violation of the Santiago Principles. However, these partnerships limit the US’s ability to regulate Russian SWFs because they cannot sanction other countries’ as well. In general, the broad scope of Russian economic influence throughout the world indirectly poses a threat to the US as they are competing for influence as well.

3.5: Role of Unitary Actors

The actions of three Russian actors have heightened suspicions that the SWFs have been or will be used for geopolitical purposes. The actions of the Russian SWFs and the motives behind those actions depend primarily on two individuals: Kirill Dmitriev, the CEO of the RDIF, and Vladimir Putin, Russia’s President. The departure of Alexei Kudrin from the Ministry Department also has consequences for the strategy of the Russian SWFs.

Kirill Dmitriev

As CEO of the RDIF, Kirill Dmitriev plays a large role in determining the fund’s investment strategy. Some of his actions, philosophies, and the motives behind his investment strategies are geopolitical. Dmitriev has strong academic ties to the US. He received his undergraduate degree from Stanford University and his MBA from Harvard Business School.268 He also worked for US financial services companies Goldman Sachs and McKinsey & Company. Whether it is because of his academic and professional ties to the US or Russia’s position as a global power, Dmitriev has been connected to the US in a couple of different ways. He often advocates for the use of economics to create political ties between countries. Dmitriev, when speaking to Western media outlets has outlined his philosophy that economic ties build strong political ties. He believes that the RDIF can be used to better facilitate cooperation between the US and Russia. In an interview with the American news outlet, CNBC, on May 23, 2018, Dmitriev stated: "We believe we are doing good for our countries, because we are building economic and

investment bridges that make our countries have good discussions and understand each other much better.\textsuperscript{269} He insinuates that economic investment forces countries to work together and have an open dialogue. The RDIF’s multitude of investment agreements with nations all over the world and Dmitriev’s interest in the US points to a diplomatic role for the RDIF. Russia’s desire to invest in the US in order to strengthen political ties through economic agreements demonstrates how SWFs are used to influence US foreign policy.

Dmitriev has been particularly harsh when discussing the impact of the US sanctions on the RDIF and the Russian economy. In the same interview with CNBC, he stated, "As a sovereign wealth fund, sanctioning us strongly would create a precedent for other sovereign wealth funds to really pull their money out of the US economy. We believe that, frankly, sanctions are just a ridiculous thing to begin with, and business is against sanctions. But regardless of that we'll continue to work with top investors all over the world.\textsuperscript{270}" Dmitriev issues two different threats to the US economy in this respect. He first states that putting sanctions on the Russian SWFs will cause other countries’ SWFs to move their money from the US. The US has become dependent on the capital that SWFs inject into the economy, especially after the 2008 financial crisis. The second threat he issues is that Russia will continue to move its money to other countries as the US continues restricting its access to markets.

Another example of Dmitriev’s geopolitical actions is his involvement in the Mueller Investigation into Russia’s meddling in the 2016 US Presidential Election.

Dmitriev was the Russian representative in the meeting with Trump advisor, Erik Prince. This meeting took place in Seychelles a couple of days before Trump’s presidential inauguration. The purpose of this meeting was to create a line of communication from Trump to Russia. While this meeting did not directly have anything explicitly to do with Russia’s SWFs, Dmitriev’s position as the CEO links the RDIF. Furthermore, Dmitriev’s role as CEO of RDIF has morphed into a more diplomatic role. It also establishes Dmitriev as a political actor working on behalf of President Putin. If Dmitriev is acting on the direction of Putin, then the independence of the RDIF is compromised. Putin’s motives are inherently political and geopolitical, further making Dmitriev’s motives broader than maximizing the returns of RDIF investments. SWFs can be used geopolitically when they are led by a geopolitical actor.

**Vladimir Putin**

Russian President Vladimir Putin turned SWFs into a political tool. His goal of restoring state power included restoring state control over the energy sector.\(^{271}\) At the beginning of the Putin Administration, the RSF was amassing large deposits because the price of oil was high. However, the RSF provided little opportunity for Putin to utilize the funds to benefit his own agenda. In 2008, Putin announced the split of the RSF into the NWF and the RF. The NWF allows Putin greater control over the direction of the investments. Most of these investments go to domestic programs such as pensions and other fiscal needs.\(^{272}\) The RF provided Putin with the means to increase fiscal spending

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\(^{272}\) Shemirani, 196.
even when the government faced decreasing revenues. By creating the RDIF, Putin was able to better control the direction of investments in Russia because he appoints the CEO of the RDIF and has regular meetings with the CEO.

Putin typically sees the funds as tools to use for a specific political endgame. In 2008, when speaking to the US Secretary of the Treasury under President Obama, Henry Paulson, Putin denied that Russia even had a SWF. He instead insisted that all Russia investment in the US was private. He stated: “Since we do not have a sovereign wealth fund yet, you are confusing us with someone else… but we are ready to do it, especially if you want us to.” Putin’s statement indicates that to him, SWFs can be employed in any way that the government deems expedient at the time. Moreover, he is willing to manipulate the purpose of the Russian SWFs in order to convince the US that it is not being used for a geopolitical purpose.

Another way that Putin has influence over the use of the funds is through VEB. Putin chaired the bank when he was Prime Minister and can still channel funds through it. Putin has been accused of using the NWF to help pay the foreign debts of his friends Igor Vyuzin and Sergei Bogdanchikov. While these claims are unconfirmed, it demonstrates that Putin has the potential to deploy these funds to further his own personal agenda.

Putin has increasingly been moving Russia in a more authoritarian direction. It is prudent, therefore, to analyze Putin’s motives when deciphering the actions of any

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274 Shemirani, 218.
275 Shemirani, 217.
276 Greene, 251.
extension of the state, including the SWFs. Power-maximization, both domestically and internationally, has been a goal of President Putin. Russia’s SWFs are a large source of power than he can tap into, as he has multiple ways of indirectly influencing the policies of the SWFs. Moreover, Putin has demonstrated his willingness to directly and publically use the SWFs for his own domestic and international goals. In sum, Putin can use Russia’s SWFs as tools to achieve his policy goals, which could prove to be a threat to US national and economic security.

Alexei Kudrin

Alexei Kudrin, Finance Minister of Russia from 2000-2011, is called the father of national wealth in Russia and played a large role in the establishment of SWFs in Russia. He was the main opposition of the Putin Administration’s desire to use the funds for domestic political reasons.277 He wanted the SWFs to be used strictly to promote long-term economic growth. He predominate argued for the use of the funds to invest outside of Russia because it better protected the country from shocks, like changes in the oil price.278 Kudrin’s decision on the most optimal use of the fund was based on which investment strategy would produce the greatest returns. His stance was not due to political expediency. He did promote using the funds domestically, if it was best for the overall economy, such as to create economic development and diversification. In 2009, Kudrin defended the injection of money from the NWF into the domestic stock market because he believed it would have a “healing effect” on the Russian economy.279

277 Shemirani, 217.
278 Dabrowska, 527.
279 Shemirani, 212.
Kudrin’s refusal to see the fund as a political tool makes his departure from the Finance Ministry significant. Kudrin resigned because the economic interests of Russia were degraded in favor of military interests. The SWFs, according to Kudrin, were used to cover deficits caused by Russian military intervention in Georgia and Ukraine and the US sanctions that resulted from those military campaigns. Kudrin was one of the most active players in promoting the SWFs as strictly investment vehicles used to maximize returns instead of political tools. His departure leaves the SWFs vulnerable for use as geopolitical weapons or any other political interests of the Kremlin. The departure of Kudrin also left the management of the SWFs open and Dmitriev was appointed as CEO of the RDIF in 2011. The SWFs are now led by Putin and Dmitriev who both have political interests.

3.6: Hyperloop Investment

An example of failed US regulation in regards to the Russia SWFs is the RDIF’s investment in the Hyperloop. Hyperloop is a California-based transportation firm that was initially created by Elon Musk. Hyperloop transports people and cargo at airplane speeds through “pressurized capsules floating on a frictionless magnetic cushion within the tubes.” The technology introduces silent, emission-free public transportation. It was originally a solo investment of the RDIF, but their second investment in the company became a joint investment by the RDIF and the Chinese SWF via their joint investment

280 Greene, 255.
fund. The investment was for an undisclosed amount.\textsuperscript{282} The RDIF released a report detailing their successful investments as a way to open Russia. That report states that the goal of their investment in Hyperloop was to bring the Hyperloop technology to Russia for Russian use.\textsuperscript{283}

Investments by the RDIF are illegal because of the US sanction of VEB, the bank that backs the RDIF. The RDIF was able to make two investments into the company after the 2014 sanctions against Russia. One of the investments was in April 2016, around the same time that the Russian government was interfering in US elections.\textsuperscript{284} The second investment was in October 2017, which was the joint investment with the CIC. Russia discovered that one way to circumvent US sanctions and regulations is to channel money through other SWFs. The US has no sanctions against China, so the investment was able to go through. However, recently US officials have become critical of the investment and the RDIF in general. Congress even considered new sanctions on Russia that directly targeted the RDIF.\textsuperscript{285}

The RDIF’s investment in Hyperloop demonstrates that the regulations the US has employed against Russia and all SWFs are not effective. Hyperloop can be considered a ‘critical asset’ as it encompasses both technology and infrastructure. The US

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Treasury Department has made specific regulatory precautions against such investments by foreign nations in critical assets. The RDIF’s continued investment in critical assets after both regulation and sanctions establishes the failure of current domestic regulation to check SWFs.

3.7: Conclusion

Three conclusions can be drawn from the study of Russia’s SWFs. The first is that Russia has the capacity, willingness, and precedent to use its SWFs for geopolitical purposes. Russian SWFs were established to further the political goals of the government, as the financial and non-financial goals of the funds are ambiguous. Additionally, their low degree of independence from the government increases their use to achieve political goals. The Russian SWFs do not reflect a shift to neoliberal principles and therefore the purpose of the SWFs are determined by the government. Individuals involved in the management of the SWFs, Kirill Dmitriev and President Putin, have geopolitical and political goals and the SWFs can be used as tools to achieve those goals.

The second conclusion is that Russian SWFs are expanding Russia’s international power and influence. Dmitriev and the RDIF play a diplomatic role in promoting the goals and interests of Russia. Increasing relationships between the RDIF and OPEC SWFs supplies Russia with an advantage over the US in cultivating influence in the Middle East. According to RDIF CEO Dmitriev, the recent agreement with OPEC to decrease oil production resulted in a US $65 billion increase in revenue for Russia.286

Assets of the Russian SWFs are expected to rise along from the increase in revenue, but the numbers have yet to be released to determine how much it will affect the SWFs. With an increase in assets, the Russian SWFs will expand in power and influence. If sanctions are removed, the price of oil continues to rise, and the domestic use of SWF assets stop, there is a greater opportunity for Russia to use the funds to achieve geopolitical motives.

Lastly, current US domestic regulation does not effectively prevent restricted investment nor do international institutions have mechanisms to enforce the rules of SWFs. US regulation of SWFs and US sanctions on the RDIF did not prevent RDIF investment in Hyperloop. Hyperloop is part of both the technology and infrastructure sectors, which are strategic sectors of the US, making the investment despite sanctions more concerning. The lack of transparency and compliance that the Russian SWFs exhibits make it difficult to know where they are investing and how much they are investing. Both factors are important to know in order to accurately identify when an investment is working against the national or economic security of the US. The IMF and the IFSWF are not equipped to enforce transparency and accountability rules. The US is without a way of enforcing those rules as well, other than simply cutting off US markets to SWFs.

The US and international regulations of the Russian SWFs are not enough. The challenges to reforming current regulation, when keeping the analysis of the Russian SWFs in mind, is finding a proper enforcement mechanism. Current regulations of SWFs internationally are through the IMF. The IMF has no way of incentivizing Russia to comply with the Santiago Principles other than through peer pressure from other SWFs. Due to the vast number of partnerships that the RDIF has with other nations’ SWFs,
Russia is not likely to receive any pressure from IFSWF countries. Furthermore, many nations will push back if Russia is punished because they are linked to the success of the RDIF. Host countries, such as the US, must find alternate ways of encouraging the Russian SWFs to comply with the Santiago Principles.
Chapter 4: Case Study 2 - The Chinese Sovereign Wealth Fund

4.1: Introduction

As of 2019, China’s SWF manages the second largest amount of total assets of any SWF. China established its fund in 2007 due to its large foreign reserve holdings. The quick accumulation of assets and worldwide investments by the fund created worry about national security, economic sovereignty, and political independence in investment host countries. Additionally, the Chinese SWF has a low degree of independence from the Chinese government. The government’s traditional use of investment and economic power to increase foreign influence are a cause for concern, especially in the US. Any investment that the fund makes, domestically or internationally, coincides with the interests of the Chinese government either implicitly or explicitly. China’s twofold purpose of its SWF, to increase profits and global influence, leads to both an opportunity for US companies to obtain long-term investments but also carries with it a geopolitical threat to the US.

In order to assess the degree of risk and ways to mitigate it, this chapter will first describe the structure of the Chinese SWF including its establishment, goals, degree of independence from government, and the domestic politics behind the fund. Secondly, it will discuss the fund’s transparency, accountability, and compliance with the Santiago Principles. Next, the role of China’s SWF during the 2008 financial crisis in the US will be examined. Then it will analyze the geopolitical actions of the SWF, both actual and

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potential. Finally, the Chinese SWF’s investment in US companies and the effect of the negative US perception of investment from China will be examined.

4.2: Background on the Fund

Structure of the Fund

China has three SWFs, China-SAFE, China-NCSSF, and the China Investment Corporation (CIC). This chapter will focus on the CIC because the CIC is the most important Chinese SWF for US economic and national security and is the fund that China acknowledges as its official SWF. The CIC was established in 2007 and holds US $941.4 billion in assets under management as of April 2019 making it the second largest SWF in the world with over 10% of total assets in SWFs worldwide. Trade surpluses capitalize the fund rather than resource rents from commodities like oil. Since the CIC’s funding comes from foreign currency reserves rather than state revenues from natural resource exports, the Chinese government can choose how much money it wants to channel into the fund. Countries, like Russia, whose funds rely on revenue from natural resource exports cannot choose to increase SWF assets. Commodity SWFs are vulnerable to natural resource markets to determine the assets that they manage. As of September 2018, China has US $3.11 trillion in foreign reserves which the CIC could

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291 Blanchard, 158.
potentially tap into. The accumulation of assets in the fund, therefore, depends on maintaining a fixed exchange rate.\textsuperscript{292} China did not use equity to establish the CIC. As a result, if the Chinese financial sector or global equities decline, it could threaten the CIC’s financial stability. Funding for the CIC, then, represents the overall health of the Chinese economy.\textsuperscript{293} The development of the CIC evolved through the overseas expansion of Chinese corporations. Establishing a SWF enhanced financial returns of foreign exchanges and stabilized the economy in the face of recessions.\textsuperscript{294} The overall structure of the CIC promotes economic stability.

The CIC is wholly state-owned.\textsuperscript{295} Three institutions of the Chinese government retain control over the CIC: the Chinese State Council, the People’s Bank of China (PBoC), and the Ministry of Finance (MOF).\textsuperscript{296} The CIC is a subsidiary of the MOF. Officially, an 11-person board of directors is in charge of CIC activities. An executive committee made up of seven people controls day-to-day operations.\textsuperscript{297} The CIC also has a chief executive officer, chief operating officer, and chief risk officer.\textsuperscript{298} A CIC subsidiary, CIC International, manages the overseas investment portfolio.

\textsuperscript{296} Blanchard, 158.
\textsuperscript{298} Martin, 3.
The CIC operates within strict acceptable risks and industrial targets.\textsuperscript{299} A balance between equities, fixed income, and alternate assets in its portfolio gave the fund an appearance of commonality. Choosing to make lower risk and low-profile investments, the fund avoids any notable failed investments.\textsuperscript{300} For example, after the fund initially incurred negative returns from investments in Morgan Stanley and Blackstone Group during the 2008 financial crisis, it refrained from investing in other US financial institutions in order to limit losses. Morgan Stanley eventually recovered from the financial crisis, but the initial losses from the investment caused substantial domestic criticism. Since the short-term losses incurred from those investments, the CIC made an effort to diversify away from US financial institutions. By avoiding large or risky investments, the CIC increases its domestic popularity and independence. As a result, the CIC tends to take a cautious approach to their investment choices outside of China. But the CIC’s investments tend to be in strategic sectors of the global economy, which grabs the attention of the international community. Those sectors typically have the most secure positive levels of returns, making those investments complementary to the CIC’s strict investment profit targets.

Establishment & Goals

There were several reasons China established an SWF. The first was to increase the diversification of the Chinese economy.\textsuperscript{301} Prior to the founding of the CIC, the vast

\textsuperscript{299} Balding and Chastagner, 364.
\textsuperscript{300} Balding and Chastagner, 351.
\textsuperscript{301} Blanchard, pp. 158.
majority of foreign currency reserve assets were held in US government securities.\textsuperscript{302} Chinese officials expressed that a desire to increase returns on foreign investments motivated the creation of an SWF at the time of its announcement.\textsuperscript{303} It was also speculated that China aimed to create an SWF to reduce inflationary pressures on the Chinese economy.\textsuperscript{304}

When the CIC was first adopted, the PBoC and the MOF competed over control of the CIC. As a result, in the infancy of the CIC, most investments were directed toward the domestic banking sector.\textsuperscript{305} Another purpose of the establishment of the CIC was for debt financing and it operates as a leveraged investment fund.\textsuperscript{306} The CIC was created to promote economic stability within China as well as profit from its investments. If the CIC does not provide that stability, then it does not serve the purpose for which it was established.

The establishment of the CIC in China also represents a geopolitical purpose. Establishing a SWF fits into China’s overall effort in its “going global” campaign. Not only does the CIC allow the Chinese government to participate in the global economy through FDI, but the CIC can also indirectly help Chinese firms and SOEs expand externally. At a CIC summit in 2011, the president of the CIC at the time, Gao Xiqing, stated, “When China makes overseas investments, it aims to make profits and build

\textsuperscript{302} Blanchard, pp.159.  
\textsuperscript{304} Lum, pp. 74.  
\textsuperscript{305} Lavelle.  
\textsuperscript{306} Balding and Chastagner, 360.
influence.” The CIC has both commercial and geopolitical purposes when making overseas investments. China aims to increase its worldwide influence by providing investment from the CIC. Potential investments, therefore, are evaluated on their ability to spread China’s influence throughout the globe, as well as their ability to produce a profit.

The explicit investment goals of the CIC are, at best, opaque which makes statements like Xiqing’s an important insight. The CIC’s website mission statement contains ambiguous and broad terms to describe the decision-making process of the CIC in choosing investments. Top CIC management repeatedly states that the main goal of the fund is to maximize the return on investment by making investment decisions that are commercially motivated rather than political. China promotes the fund in the aftermath of the 2008 financial crisis as a tool to create stability in the global market. Consequently, the goals of the CIC are twofold: the advancement of the domestic economy and the elevation of Chinese influence throughout the global economy and in international politics. These two goals, however, are often in conflict with one another.

One of the goals of the CIC is bolstering the domestic economy. The CIC’s ownership of Central Huijin Investment Limited, an investment fund created by the central bank, helps achieve that goal through its investments in the Chinese financial sector. Investments are evaluated based on their potential to bring economic growth to the Chinese economy as well. The fund tends to stay away from financial losses and

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308 Martin, 2.
309 Blanchard, 163.
political entanglements in order to build credibility and avoid domestic politics. But the CIC has little involvement with domestic investments as it concentrates on international investment and the Central Huijin Investment Company manages domestic assets.

The goals of the CIC concern the US, as the creation of the fund signals China’s desire to transition away from purchasing US government securities to other forms of investment. China’s investment diversification could be destabilizing for the US economy. It also aims to make the RMB a prominent currency of trade, threatening the dollar’s current dominance. Chinese foreign reserve diversification also means shifting its investment focus from US financial institutions to other strategic sectors of the economy such as energy, infrastructure, and raw materials that are often concentrated in developing nations.

The goals and establishment of the CIC indicate a fund that aims to minimize losses by making financially sound investments. But the CIC’s goals also allude to achieving China’s political goals, such as economic stability and national security, through the use of the fund. Statements by the leadership also indicate a geopolitical goal that aligns with the Chinese government’s “going global” campaign. The fund’s general opaqueness in its specific investment goals is also a cause for concern, as its

310 Balding and Chastagner, 350.
311 Martin, 4.
investment strategy can be changed to benefit the changing goals of the Chinese government.

Degree of Independence

The creation of the CIC involved a complicated swap transaction with the central bank in order to emphasize the CIC’s independence from SAFE and the PBoC.\textsuperscript{314} Furthermore, the development of the SWF out of current account surpluses accumulated through a fixed exchange rate rather than resource rents lent additional distance from the government.\textsuperscript{315} But the CIC is not substantially independent from the Chinese government. The State Council is in control over the CIC and the fund must report all their activities to the State Council.\textsuperscript{316} Members of CIC’s board are, in reality, constantly in contact with leaders from the Chinese government.\textsuperscript{317} CIC’s low degree of independence caused the critical evaluation of the security threats of the fund by the US government.

But, the CIC has a small degree of autonomy in its actions because the fund became a stronger economic force than its regulating bodies like the PBoC and the MOF.\textsuperscript{318} The State Council, though, has direct control over the fund and therefore the CIC has a very low degree of independence overall. Appointment and removal of

\begin{footnotes}
\textsuperscript{314} Balding and Chastagner, 348.
\textsuperscript{315} Balding and Chastagner.
\textsuperscript{316} Martin, 4.
\textsuperscript{317} Jing Li, "Investment Terms and Level of Control of China’s Sovereign Wealth Fund in Its Portfolio Firms," in \textit{The Oxford Handbook of Sovereign Wealth Funds} (New York, NY: Oxford University Press, 2018).
\textsuperscript{318} Balding and Chastagner, 349.
\end{footnotes}
members in the CIC board are subject to approval by the State Council.\footnote{Li, 378.} Lack of freedom to choose staff shows a significant loss of independence from the Chinese government. Furthermore, there is a revolving door of staffing between the CIC and various positions in the Chinese government. For example, in April 2019 the CIC announced Peng Chun as the new chairman of the CIC. Peng is a career bureaucrat and worked for PBOC in the past.\footnote{Laura He and William Zheng, "Who Is the New Boss of China’s US$941 Billion Sovereign Wealth Fund?" \textit{South China Morning Post}, April 2, 2019, accessed April 7, 2019, https://www.scmp.com/business/china-business/article/3004356/who-new-boss-chinas-us941-billion-sovereign-wealth-fund.} \textit{The South China Morning Post} described Peng as “more of a political appointee” to the CIC. Moreover, the two previous CEOs of the CIC took jobs in the government when they left the CIC. Lou Jiwei left the fund in 2013 and became China’s Finance Minister.\footnote{He and Zheng.} Ding Xuedong left the fund in 2017 and became the Deputy Secretary General for the State Council.\footnote{He and Zheng.} The CIC’s staff are not far removed from the government and it compromises the CIC’s independence. As a result of the low degree of independence, the Chinese government retains the liberty to use the fund to achieve political or geopolitical goals.

The Chinese government’s strong control over the CIC represents the foreign involvement in domestic economies that host countries consider to be a threat to national security. The State Council controls the flow and creation of financial capital and it, therefore, gives the state direct control over where the SWF chooses to invest.\footnote{Xiaolei Sun et al., "Chinas Sovereign Wealth Fund Investments in Overseas Energy: The Energy Security Perspective," \textit{Energy Policy} 65 (February 2014): 654-661, doi:10.1016/j.enpol.2013.09.056.} Moreover, the tight entanglements between the government and the SWF mean that the
success of CIC investments improve the Chinese economy and support the rule of the Communist Party of China (CPC).\textsuperscript{324} The CPC’s vested interest in the success of the CIC results in a SWF that is controlled by political interests.

Domestic Politics

The CPC relies on the continued growth of the economy in order to sustain its control and the CIC plays a large role in that growth.\textsuperscript{325} As a result, the CIC is an important institution for the party. The CIC is in competition with the State Administration of Foreign Exchange (SAFE), which manages the foreign exchange reserve in China.\textsuperscript{326} SAFE has its own SWF arm with an extensive foreign investment portfolio that includes investments in Australian banks.\textsuperscript{327} SAFE and the CIC compete within each other in order to receive funds from the State Council based on their evaluated performances.\textsuperscript{328}

There is also lots of domestic attention given to the CIC. Investment decisions by the CIC are put under a magnifying glass by the Chinese government and the Chinese public. Neither of these groups tolerates losses by the fund. The Chinese media heavily criticized the CIC for the losses it incurred when it invested in the Blackstone Group in 2007.\textsuperscript{329} Pressure from the government and the public to make successful investments

\textsuperscript{324} Blanchard, 164.
\textsuperscript{325} Blanchard, 163.
\textsuperscript{326} Zhang, 100.
\textsuperscript{327} Henk Overbeek and Bastiaan van Apeldoorn, \textit{Neoliberalism in Crisis} (Hampshire, UK: Palgrave Macmillan, 2014).
\textsuperscript{328} Overbeek and van Apeldoorn, 155.
with positive returns blocks the CIC from making investments for reasons other than commercial merit. Domestic disagreement on the use of the investment fund led to mismanagement. In addition to the international opposition to the creation of the CIC, there was also domestic opposition. However, the CIC’s low level of transparency usually shields it from domestic criticism.

Chinese government ideology sometimes influences where the CIC chooses to invest. As a government-backed investment fund, the CIC serves as a proxy for the policy decisions of the Chinese government. Its role as a proxy is bolstered by its low degree of independence from the Chinese government. The CIC was considering investing in German-based Dresdner Bank, but ended up withdrawing because of “investment risk and political problems.” Political problems were caused by German Chancellor Angel Merkel’s visit to the Dalai Lama which is prohibited by Chinese government policy. Investment in the bank would have caused domestic problems for the CIC. In this case, the domestic political preference of the Chinese government influenced the investment decisions of the CIC.

4.3: Transparency and Compliance with Rules

Linaburg-Maduell Transparency Index

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330 Cai and Clatcher, 12.
Data Source: The Sovereign Wealth Fund Institute

The CIC scores 7 out of 10 on the Linaburg-Maduell Transparency Index.\textsuperscript{331} China is slightly above average compared to other SWFs in transparency. The average score on the Linaburg-Maduell Index is 6. For reference, Norway scores 10 on the index and is the next largest holder of assets. The CIC transparency trended upwards from its inception in 2007 to 2018. But in 2019, its transparency score was downgraded. From 2007-2007, the CIC’s score increased from 3 to 6. From 2009-2010, the CIC’s score increased from 6 to 7. From 2010-2014, the CIC’s score increased from 7 to 8. In 2019, the Linaburg-Maduell Index downgraded the CIC’s score back to 7.\textsuperscript{332} When the CIC was a relatively new SWF, the continually increasing transparency rating was promising for the future of the fund. But the decrease in the fund’s rating in 2019 is concerning for the


improvement of the fund as it ages; it indicates that the CIC’s practices changed and became less transparent from 2018-2019.

**Truman Scoreboard**

The CIC scored 70 out of 100 on the Truman Scoreboard in 2016. They rank 20th out of 60 nonpension SWFs on the scoreboard. China’s fund scores above the average score of 62 for that year. For context, the SWF with the most assets, Norway, scores a 96. The SWF next below China in assets, UAE, scores a 68. The CIC is scoring a little above average on the Truman scoreboard but can improve to Norway’s gold standard. However, the CIC’s score is increasing on par with the average total increase of SWFs. Its score increased to 70 in 2016 from 64 in 2012. As SWFs in aggregate are increasing their accountability and transparency, so is the CIC according to the Truman Scoreboard. But, the CIC’s status as the second largest SWF makes the difference between its score and Norway’s score notable. The large impact that the CIC has on the global economy calls for an increase in transparency and accountability as a consequence of its size and power.

**Overall Transparency and Accountability**

The CIC discloses its legal relationship to the Chinese government on its website and annual reports. But much is still unknown about the CIC’s operational relationship

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333 Stone and Truman, 8.  
334 Stone and Truman, 8.  
335 Stone and Truman, 11.  
336 Bagnall and Truman.
with the government, specifically the MOF and PBoC. Unlike Russia, China, for the most part, discloses the amount that it invests in companies.\footnote{Zhang, 116.} But it fails to disclose performance evaluations of its investments and information on its investment objectives.\footnote{Zhang.} Press releases announcing investments are often lagged, making it difficult to pinpoint investment timelines. Annual reports that the CIC publish are brief, incomprehensive, and delayed which limits their contribution to transparency.\footnote{Zhang, 117.} Investments made by the CIC are announced by invested companies rather than the fund. But in 2010, the CIC sent the SEC a complete list of its US public equity portfolio. That same year it released its first annual report.

China’s transparency and accountability ratings are, overall, average. For a relatively new SWF and a traditionally secretive government, it exceeds Western expectations. Additionally, the CIC has greater transparency than China’s other investment arm SAFE.\footnote{Cheung, 137.} But the CIC’s status as the second largest SWF warrants a higher standard of transparency. The CIC put a cap on its transparency when the Chairman of the CIC stated in 2007 that management would not jeopardize the fund’s interest for the sake of transparency. It is, therefore, unlikely that the CIC will reach the transparency level of Norway’s SWF. Furthermore, after 2012, China stopped disclosing its large equity investments outside of China. Its international equity investments may now be done by a third party which makes it them harder to track.\footnote{Robert C. Pozen and Pablo Egana Del Sol, “Beware of Government-Sponsored Funds Pursuing Political Instead of Financial Gain.,” \textit{MarketWatch}, January 10, 2019, accessed January 30, 2019, https://www.marketwatch.com/story/beware-of-government-sponsored-funds-pursuing-political-instead-of-financial-gain-2019-01-10?ns=prod/accounts-mw.}
The inconsistency of conclusions between the Linaburg-Maduell Transparency Index and the Truman Scoreboard regarding the CIC’s growth of accountability and transparency makes it difficult to determine if the fund is making an effort to increase these qualities. But there are four things that can be concluded from evaluations of the CIC. First, the CIC does have room to grow in transparency and accountability according to Norway’s levels but seems unwilling. Second, the amount of assets that the CIC holds increases its responsibility to be more transparent and accountable. Third, China’s overall investment strategy is difficult to determine because of a lack of transparency in terms of which sectors the CIC aims to invest in. Lastly, the lower transparency score that the CIC received on the Linaburg-Maduell Transparency Index in 2019 is worrying for host countries as the CIC becomes more powerful.

Santiago Principles Compliance

The CIC is a founding member of the IFSWF and officially agrees to comply with the Santiago Principles. The CIC also helped draft the Santiago Principles. On its website, the CIC details its compliance with the principles but does not specifically note that they are a part of the IFSWF. The CIC’s information disclosure on its adherence to the Santiago Principles needs to be improved. One major principle that the CIC violates is independence from the government. As previously discussed, the CIC has an extremely low level of independence from the Chinese government. But, for an

343 Martin, 3.
344 Stone and Truman, 18.
345 Zhang, 114.
undemocratic nation, China’s SWF has a high degree of compliance with the Santiago Principles. China scores a 3.1 out of 10 on the democracy index according to the Economist’s Intelligence Unit’s Index of Democracy 2017 but had a 70% compliance rate with the Santiago Principles according to the IFSWF in 2010.\textsuperscript{346} From 2010 to 2013, however, the CIC decreased to 61% compliance with the Santiago Principles. Decreasing compliance with the principles causes worry for security and stability in potential host countries as the CIC increases their assets and influence.

4.4: Role in the 2008 Financial Crisis

At the onset of the 2008 financial crisis, the CIC invested in failing US financial institutions and was dubbed “The Wall Street Savior” by the Wall Street Journal.\textsuperscript{347} The CIC’s actions during the crisis diminished protectionist attitudes of the US and Europe towards the fund for a short period after. The CIC supplied much-needed injections of capital into many Western financial institutions. It became a stabilizing force in an extremely volatile financial system. At the beginning of the crisis in the US in late 2007, China purchased 9.9% of Morgan Stanley. For a newly established SWF, a US $5 billion investment was a substantial risk.\textsuperscript{348} Additionally, the CIC invested US $200 million in Visa and US $3 billion in the Blackstone Group at its initial public offering in 2007. China’s SWF was not the only SWF that invested in US financial institutions during the

\textsuperscript{346} Sven Behrendt, “Sovereign Wealth Funds and the Santiago Principles: Where Do They Stand?” Carnegie Middle East Center, no. 22 (2010).
\textsuperscript{347} Shih-Ping, 90.
financial crisis. Various Asian and Middle Eastern SWFs invested a total of US $200 billion by 2008. The CIC’s investment in Morgan Stanley and Blackstone ended poorly for the fund in the immediate aftermath as it incurred large short-term losses from the investments.\textsuperscript{349} But long-term, the CIC’s US $5.6 billion stake in Morgan Stanley ended up bringing in a substantial profit as shares rose 10% by 2019.\textsuperscript{350}

China recognizes the substantial role that it played during the crisis. The country credits itself with easing US economic failure and promotes its increased importance to the US economy as a result.\textsuperscript{351} The Chairman of the CIC claims that the CIC’s aim is to stabilize the economy because of its role during the crisis. China’s investment in US financial institutions during their time of need has not been overlooked by the US. The US turned to China as a stable investor in times of economic instability after the crisis. Protectionist attitudes towards the CIC diminished during the period following the crisis, making it easier for the CIC to invest in Western markets.\textsuperscript{352} Mostly due to the Trump Administration’s rhetoric toward China, the good opinion of Chinese investment has shifted since the end of the crisis.

The CIC’s actions during the 2008 financial crisis also have geopolitical consequences, whether they were intended or not. Massive investments into the financial sector during a time of global economic vulnerability provided China with increased power over financial resources, which in turn grants them influence in the US. With their

\textsuperscript{349} Balding and Chastagner, 349.
\textsuperscript{351} Yost.
increased control, China can influence the economy by promoting its ideological preferences and advancing its own economic policy.\(^{353}\) Regardless of whether China intended to have this effect when they made the investments, the geopolitical advantage remains.

### 4.5: Geopolitical Actions

The two most notable reasons why the CIC is seen as both a commercial and a political body is because of the fund’s lack of independence from the Chinese government and because the CIC invests most prominently in strategic sectors. Financial, energy, information technology, consumer discretionary, and consumer staples made up 70% of the CIC’s investment portfolio in mid-2013.\(^{354}\) China’s position as a strategic investor means that it pursues investments that will increase national security threats to host countries and further domestic political goals rather than just commercial profits. China uses its SWF as both a tool of soft power as well as a blunt economic weapon.\(^{355}\)

#### US Concerns

There is little direct evidence of China using the CIC for geopolitical reasons, but there still is a large potential for the geopolitical use of the fund. The US has three concerns regarding the CIC. First, the US is skeptical that the CIC’s investments are based on merit and projection of long-term profits and are not politically motivated.\(^{356}\)

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\(^{353}\) Blanchard, 164.  
\(^{354}\) Cieślik, 35.  
\(^{355}\) Blanchard, 156.  
\(^{356}\) Martin, 10.
The second concern is related to the CIC’s ‘passive’ investments.\textsuperscript{357} Long-term investments, like the ones CIC makes, create a dependence on Chinese investment. Greater dependence allows China a greater ability to disrupt the US economy. The third concern is due to the CIC concentrating its investments in what the US defines as ‘strategic’ sectors of the economy such as energy and technology. When the CIC was established, the ability of China to gain control over key industries or acquire user rights of natural resources concerned the US. But investment in US technology is now proving to pose a more pressing threat. The FBI identified Chinese economic espionage, such as stealing US technology, as a critical threat to economic and national security in 2018.\textsuperscript{358} China exploits American technology to develop its own economy, compromising the earned American advantage.\textsuperscript{359} Current backlash and investigations from the US regarding Chinese hacking and spying operations could cause China to look for more legitimate ways of obtaining American technology. Investing in American technology companies through the CIC presents China with an opportunity to access this technology. Strategic sectors, like technology, also tend to have the most stable rates of return and therefore geopolitical motives may not be all that causes the CIC to invest in those sectors. But the threat of technology theft from China is a major threat to the US and the CIC could be used as a vehicle for it.

\textbf{Constraints}

\textsuperscript{357} Martin, 10.
\textsuperscript{359} Volz and Viswanatha.
Asian SWFs typically have domestic constraints that make it difficult for them to be used as geopolitical tools. There are various interests that compete for sovereign wealth and as a result, it is difficult for the SWFs of these nations to have a single investment strategy.\textsuperscript{360} China’s SWFs are constrained by these pressures and cannot be easily deployed as a geopolitical strategy.\textsuperscript{361} The CIC, in particular, cannot access additional funds from the foreign exchange reserves if it is not profitable. But all governments have geopolitical motives and the CIC’s low degree of independence makes it more vulnerable to exploitation for geopolitical goals.

Furthermore, of the CIC’s US $914 billion dollars in assets, only US $196 billion are foreign assets. Most of the CIC’s investments are channeled toward domestic uses rather than investments abroad.\textsuperscript{362} Only 24\% of assets are deployed abroad, causing the fund’s monetary influence to diminish outside of China. Domestic assets also have higher rates of returns than foreign investments. Foreign assets have grown by 5\% to US $196 billion over the last three years, but domestic assets have doubled to US $614 billion.\textsuperscript{363} Because of China’s strict guidelines on maximizing returns, foreign assets are more likely to be traded for domestic assets. When fewer assets are internationally deployed, there are fewer opportunities to use the CIC to achieve geopolitical goals. But domestic investment also serves a political purpose. Investment by the CIC into the domestic economy strengthens China’s economy and consequently the CPC. While there may be

\textsuperscript{360} Lavelle, 190.  
\textsuperscript{361} Lavelle, 190.  
\textsuperscript{362} Stone and Truman, 3.  
\textsuperscript{363} Stone and Truman, 5.
certain restraints on the geopolitical use of the CIC, the low degree of independence guarantees its use as a political tool by the CPC.

**Diplomacy**

There are several potential uses of the CIC for the Chinese government that concern the US. The first is as a political bargaining chip in Chinese diplomacy. Because the CIC manages a large amount of assets, its investment potential raises China’s status and the power that China has in the international economic and political arena. As the main competitor of the United States for global influence, China’s economic power through the CIC poses a major threat to US foreign policy implementation.

China’s SWFs are a key aspect of modern-day Chinese diplomacy. Potential investment is a motivator, especially in developing countries, to acquiesce to China’s foreign policy or cultivate friendly relations with China. Chinese influence on US foreign policy due to the US debt that China owns, is seen as a vehicle of diplomacy by the international community due to the increased alignment of the two countries. The CIC’s investment in the Blackstone Group propelled its co-founder, Stephen Schwarzman, to a diplomatic role between the US and China. Schwarzman served as an informal economic advisor to President Trump. Chinese President Xi Jinping relied on Schwarzman as an informal link to the Trump Administration.

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364 Shih-Ping, 87.
365 Yost.
consistent message to President Trump at the beginning of the administration was to keep the importance of the China-US economic relationship in mind.\textsuperscript{368} The CIC’s investment in Blackstone succeeded in encouraging the US to remain friendly to Chinese economic interests for a short period of time. Despite his fiery campaign statements against the US economic relationship with China, directly after his inauguration in 2017 Trump adopted a warmer diplomatic relationship with China and President Xi.\textsuperscript{369}

But Schwarzman’s influence over Trump seems limited due to the escalating trade war that began between the US and China in 2018. The relationship between Trump and Xi flipped when the US implemented ‘global safeguard tariffs’ in February 2018 and tariffs specifically against Chinese products in March of 2018. Also in March of 2018, the CIC ended their 11-year investment in the Blackstone Group.\textsuperscript{370} The reason for the sale of the CIC’s stake in the firm was undisclosed, as well as the size of the stake.\textsuperscript{371} When Blackstone went public, the CIC purchased a 9.9% stake in the firm, a US $3 billion investment.

It is unclear whether China was sending a message to Trump and his allies by terminating its Blackstone investment, but it does indicate that China has the potential to use CIC investments to send political messages to the US government. However, since the CIC’s divestment of Blackstone, the fund has been quiet.\textsuperscript{372} The CIC could be taking

\textsuperscript{368} Kranish.
\textsuperscript{371} Stevenson.
\textsuperscript{372} Gopalan.
a cautious approach to their US investments because of difficult relations with the US or because it went without a chairman from February 2017 to Peng’s succession in March 2019.  

Influence on Portfolio Companies

Influence on portfolio companies is a major national and economic security threat that SWFs pose to the US. But this is not a geopolitical strategy that the CIC has deployed thus far. The CIC has a growing overseas investment portfolio of strategic minority stakes but does not actively take seats on boards of their investments. For example, the CIC declined taking seats on the boards of Morgan Stanley and the Blackstone Group, two US-based financial institutions, in 2007. Schwarzman, the CEO of Blackstone, described the deal with the CIC as “purely commercial.” The fund also refrained from taking controlling stakes in foreign companies, especially in the US. By taking minority stakes, China avoids suspicion from US politicians. The CIC makes a majority of its investment through a third party to limit direct interaction with companies. As passive investors, the CIC is motivated by long-term returns and small risk. Because of this goal, it tends to gravitate toward minority stake investments. Moreover, purchasing minority stakes does not require US government approval. Even though the CIC had the potential and opportunity to have influence over its portfolio

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373 Gopalan.
375 Martin, 8.
376 Blanchard, 168.
377 Yost.
378 Fei, Xu, and Ding, 47.
companies, it declined to do so for commercial reasons. But the opportunity is still available for China to take advantage of.

When German Chancellor Angela Merkel visited China in 2007, Chinese officials told her that the CIC had no intention of buying strategic stakes in big Western companies, infrastructure, overseas airlines, telecommunications, or oil companies.\textsuperscript{379}

While the CIC has not purchased majority stakes in these Western sectors, it has still invested in them, especially in infrastructure. Specifically, the CIC invested in water and airports in Britain, power providers in France, and toll roads in Australia.\textsuperscript{380} These investments are in accordance with the goals of the Belt and Road Initiative to connect China with both Western Europe and Australia.

Soft Power Capacity

The CIC’s opportunity to promote Chinese power has been primarily through soft power.\textsuperscript{381} The State Council can choose to use the fund to promote Chinese foreign policy goals. Because the fund can bestow substantial investments on companies and countries, it carries the ability to spread the CPC’s message, influence, and foreign policy goals throughout the world. Soft power remains a cornerstone of US foreign policy. Competition with China for influence in developing countries will become more difficult for the US because it does not have a fund of that size. For example, the CIC’s alignment with the goals of the Chinese government’s Belt Road Initiative allows China to use soft power through the CIC, a point which will be expanded on later in the chapter.

\textsuperscript{379} Lum.
\textsuperscript{380} Blanchard, 166.
\textsuperscript{381} Blanchard, 168.
The SWF can also obtain information about overseas economies and influence the economic policies of the host countries through their investments.\textsuperscript{382} The CIC has access to over a trillion US dollars. They could purchase top US companies and, consequently, wield significant power in the US economy.\textsuperscript{383} If the CIC decided to take board positions in the future, it could have access to sensitive technology. Soft power can also be used to pressure invested companies to promote China’s economic prospects and the financial status of other Chinese companies.\textsuperscript{384} Access to technology, especially relating to nuclear weapons, is a specific concern of the US regarding SWFs in general.

The CIC can also unintentionally wield soft power.\textsuperscript{385} Concerns over the CIC’s ability to harness soft power increased when it invested in major financial institutions at the onset of the financial crisis because it provided economic stability.\textsuperscript{386} It is unclear if the Chinese intended to influence the perception of China through their investments during the 2008 financial crisis. Furthermore, it is unknown if those investments helped the long-term perception of the CIC by providing market stability or hurt it by appearing as opportunistic. But, the CIC’s investments in Western financial institutions during the 2008 financial crisis improved public opinion of the fund throughout the world for a short period of time. They succeeded in rehabilitating the image of the CIC for at least a short time in the US and for a longer period in Western Europe.

\textbf{Strategic Sector Targeting}

\begin{itemize}
\item \textsuperscript{382} Shih-Ping, 88.
\item \textsuperscript{383} Lum.
\item \textsuperscript{384} Martin, 18.
\item \textsuperscript{385} Lum.
\item \textsuperscript{386} Lum.
\end{itemize}
The CIC’s investment choices have indicated its desire to target certain strategic sectors of the global economy such as natural resources, materials, energy, and financial services.\textsuperscript{387} China’s goal to achieve energy security is a huge driving force behind the CIC’s portfolio composition.\textsuperscript{388} The energy sector is the CIC’s second largest investment target, representing about 30\% of its investment portfolio in mid-2013.\textsuperscript{389} Annual reports from the CIC show that it increased investment in natural resources throughout the supply chain over the past couple of years.\textsuperscript{390} Shortages in energy are constraining China’s social and economic development. Energy investments help China pursue its “going global” strategy, but it also brings attention to China’s investments due to the energy sector’s status as a strategic sector. Energy is vitally important for a country as it impacts every citizen and the economy’s potential for growth. Countries fear that China’s investment in their domestic energy could make them a vehicle for China’s geopolitical goals.\textsuperscript{391} The CIC’s investment projects were almost exclusively related to energy from 2010-2012. After 2012, the CIC still invested heavily in the energy sector but diversified more into infrastructure and technology.

Furthermore, investment in energy is not completely commercially sound. Energy prices fluctuate often in global markets, making the profitability of these investments uncertain. As China invests more into energy, its economy is more influenced by international energy prices.\textsuperscript{392} The commercial vulnerability of energy investments

\textsuperscript{388} Sun, Li, Wang, and Clark, 657.
\textsuperscript{389} Cieślik, 35.
\textsuperscript{390} Blanchard, 162.
\textsuperscript{391} Sun, Li, Wang, and Clark, 655.
\textsuperscript{392} Sun, Li, Wang, and Clark, 659.
alludes to a political motive behind the CIC’s large quantity of energy investments. China’s interest in investing in energy is inherently geopolitical as it encompasses both energy security and China’s “going global” strategy. Furthermore, the CIC’s investment in energy is symbolic of China’s state power which aggravates the perception of the fund as a geopolitical actor and the use of the CIC as a tool for the CPC’s political ends.

The CIC’s investments also target both upstream and downstream utilities and the logistics sector. China’s main economic weaknesses lie in its need to access raw materials from other markets. Its investment choices indicate a political motive in assuring China’s access to natural resources that are essential to the continuance of China’s economic development. China often uses the CIC to exert influence in the developing world, and increasingly in Southern and Eastern Europe. The CIC’s emphasis on investing in energy and raw materials led to a new interest in investments in Mongolia, Brazil, Vietnam, South Africa, Kazakhstan, and Russia. Russia became a large target for CIC investment, both SWFs signed a Memorandum of Understanding to promote future cooperation on infrastructure projects in Russia. Increasing the number of natural resources that China can access increases economic stability and contributes to China’s national security. Investing in infrastructure provides China with more political clout and a strong relationship with the host country. The CIC’s shift in investment strategy demonstrates the increasing prevalence of political motives within the fund.

393 Li, 409.


395 Cieślik, 34.

396 Cieślik, 36.
The Belt and Road Initiative

In the CIC’s 2017 annual report, it stated that the CIC “aligned our investments and services with the Belt and Road initiative (BRI).” The BRI is aimed at increasing infrastructure, trade, and investment links between China and nations of Southeast Asia, the Gulf Countries, North Africa, and Europe. Chinese President Xi Jinping launched the initiative to increase China’s influence in those regions, especially in Southeast Asia. The CIC also is involved in the BRI because it is a shareholder of the Silk Road Fund. China’s Silk Road Fund is a state-owned investment fund established in 2014 and manages US $40 billion. The Silk Road Fund is not a SWF and its purpose is strictly for the implementation of BRI through funding for trade and economic cooperation and connectivity. The CIC owns a 15% share in the fund, greater entangling the BRI and the SWF.

Investments through this initiative represent mostly geopolitical goals, rather than financial goals. The initiative aims to increase China’s global political and economic power and influence by bolstering its role in the global trade network. BRI aims to make China a hub of finance and commerce. China’s motive behind the BRI and the CIC’s aligned strategy is a major geopolitical benefit of the SWF. Moreover, it also signals that China under Xi aims to increase its global influence using investment from

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398 Belt and Road Initiative Brief, issue brief, World Bank (2018).
399 Pozen.
401 Tweed.
402 Katsomitros.
China into these regions. Due to the lack of independence that the CIC has from the Xi Administration and the statement of alignment with BRI, it can be assumed that the CIC will be used as a tool to achieve the BRI’s geopolitical goals.

In March 2019, Vice Chairman of the CIC, Tu Guangshao, announced an additional connection between BRI and the CIC called the Belt and Road Cooperation Fund. He stated, “China Investment Corporation, the country’s sovereign wealth investment fund, is seeking global partners to jointly establish a special cross-border investment instrument which will further finance Belt and Road projects.”

China Daily, a daily newspaper owned by the CPC and published in English, notes that a cooperation fund prohibits host governments from imposing restrictions on any single member. A probable cause of the CIC’s search for partners is to avoid restrictions from host countries who fear the use of CIC within the BRI to increase economic power within the host country. A SWF cooperation fund with China was used by Russia to invest in the US, despite sanctions placed on the fund. The creation of the BRI Cooperation Fund indicates that China wants to ramp up BRI investments abroad and extend the CIC’s role in the BRI. Partnering with other countries for these investments externally strengthens China’s power at a time when the US’s economic relationship with its allies is weakening.

4.6: US Investments

Unocal

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American public distrust of Chinese state-owned enterprise investments is an enduring theme. In 2005, the China National Offshore Oil Corporation (CNOOC) attempted to acquire the Unocal Corporation, a US-based oil company, causing public outrage.\(^{404}\) While the CNOOC is not an SWF, it is a Chinese SOE like the CIC and reflects US public sentiment regarding investment from China. CNOOC reported its investment bid withdrawal because of resistance from US politicians who claimed the investment would be a risk to national security and fair trade.\(^{405}\) Unocal, headquartered in Los Angeles, had seismic technology which China could have used to develop its nuclear weapons research.\(^{406}\) But a spokesperson for Unocal stated that all work using seismic technology by the company was contracted to outside firms. Access to sensitive technology, according to Unocal, was not a potential consequence of CIC investment in this case.

Resistance from policymakers may have been driven by lobbying from American-owned Chevron Corporation. Chevron also made a bid for the company, but the CIC had made a higher bid for Unocal. Chevron hired lobbyists to influence public opinion and urge politicians to block the CNOOC bid. The threat, in this case, was the economic security of US companies when outbid by companies owned by the Chinese government. The case of the Unocal blocked investment demonstrates the negative public and government perception of investment from China in the US. Investments from the

\(^{404}\) Lavelle, 197.


CIC face additional barriers to accessing the US markets because of this negative perception. Increased critical attention on Chinese investment makes it harder for the CIC to invest in US companies.

Goldman Sachs Cooperation Fund

In November of 2017, Goldman Sachs announced a strategic relationship with the CIC in the form of a cooperation fund. The China-US Industrial Cooperation Partnership aimed to increase commercial links and market access between China and the US. The partnership between the CIC and Goldman Sachs fits within China’s stated goal of using overseas investments to build influence.407 In addition to the use of the cooperation fund to increase Chinese investment in the US, the partnership will host summits of business leaders, policy-makers, and investors from the two countries to “strengthen business and commercial ties between the two countries.”408 The CIC’s investment partnership with Goldman Sachs bolstered its access to, and therefore influence in, US markets.

Other Investments in the United States

Initial investments of the CIC in 2007 were exclusively in US financial institutions: Blackstone, Visa, and Morgan Stanley. Its investment in Visa resulted in positive returns, while its investments in Blackstone and Morgan Stanley initially resulted in negative returns. The CIC entered into a joint venture with US private equity firm, JC

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407 Blanchard, 165.
Flowers, to invest in US financial assets.\textsuperscript{409} Since the fund expanded, the CIC moved away from the US and into domestic investments and investments in other Asian countries as those investments yielded better returns.

In November of 2009, the CIC invested in the US energy sector with its investment AES Corporation which supplies wind generation. The CIC has invested around $14.4 billion in the US, excluding its investment in EIG Global Energy Partners LLC for an undisclosed amount.\textsuperscript{410} Its investment in Blackstone, as previously mentioned, brought it substantial short-term political influence in the Trump Administration through the CEO of Blackstone. The CIC appears to refrain from investing in the US military and defense technology to avoid American suspicion.\textsuperscript{411} Because the US government blocked numerous investments by Chinese companies, the CIC is very cautious about where it chooses to invest in the US. Investing large amounts in the US gives China substantial soft power within the US.

**Negative Perceptions of Chinese Investments in the US**

Economic protectionism aimed at China and the CIC is not limited to the Trump Administration. After China established the CIC, a report by Congress outlined potential policy responses to the creation of the fund. The report highlighted the protectionist tendencies of the US against investment from China.\textsuperscript{412} It also suggested that the US should reevaluate and reform domestic laws that define the sectors in which SWFs can

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\textsuperscript{409} Cai and Clacher, 12.
\textsuperscript{410} Li, 381.
\textsuperscript{411} Yost.
\textsuperscript{412} Cai and Clatcher, 12.
\end{flushright}
invest and how much they can invest in US companies. Hostile behavior towards the CIC from the beginning of its establishment caused the CIC to be cautious when deciding which investments it would make in the US and if it would invest at all.

During the Obama Administration in 2013, CIC Chairman Lou Jiwei stated at the 18th National Congress of the Communist Party of China that protectionism in Western countries was blocking the CIC’s ability to participate in the global economy. The CIC began to push back against such protectionism, declaring it would not invest anywhere not welcoming to its investment. Furthermore, the fund began to search for more investment opportunities in Asia instead of the West. Increased protectionism and barriers to investment in the US leads to decreased assets invested in the US which could become problematic in the future.

4.7: Conclusion

Perhaps the most concerning aspect of the CIC for the US is the implicit shift in economic power from the West to the East resulting from the immense amount of assets the CIC controls. Given the CIC’s unique amount of working capital, it has the ability to destabilize the US economy. Unlike the case of the Russian SWFs, the use of the CIC for geopolitical purposes is somewhat direct. Both the leadership of the CIC and statements of the CIC declare that the fund’s purpose is to spread Chinese influence throughout the world as well as turn a profit. Deploying the CIC’s vast assets around the

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413 Carr, 68.
414 Blanchard, 156.
415 Martin, 5.
world in geopolitically strategic areas allows China to encroach on Western power with its own economic soft power.

Thus far, it is unclear if the use of the CIC geopolitically directly causes harm to the US. Indirectly, the CIC diminishes the ability of the US to have a monopoly on soft power. But, directly, the CIC avoids investing in security sectors of the US economy, preferring to take minority stakes in less controversial sectors to limit attention from US politicians. Domestic politics and strict risk guidelines limit the fund’s capacity to invest internationally. Furthermore, the recent protectionist policies of the US contribute more to the CIC’s inability to invest in American companies. The United Kingdom welcomed investment from the CIC and received investments in transportation infrastructure and investment in the financial sector. By remaining hostile to investments from the CIC, the US risks investments going to other countries like the United Kingdom.

The transparency and accountability of the CIC is an issue, like the Russian SWFs. Decreasing transparency ratings make it harder for the US to track patterns of investments. But the size of the CIC compared to SWFs like Russia’s also increases the need for greater transparency and accountability. It also holds the fund to a higher standard comparable to Norway. Additionally, over the past few years, China seemed unwilling to increase the transparency of the fund to reach the level of the Norwegian fund. On paper, the CIC is generally compliant with the Santiago Principles except for independence from the government. Use of the fund by the Chinese government for political purposes, though, is directly contrary to the Santiago Principles’ guidelines. China’s status as a member of the IFSWF increases the difficulty of reprimanding the CIC for acting geopolitically or for its lack of independence from the Chinese
government. Current international regulation of SWFs is not sufficient to prevent SWFs, like the CIC, from acting politically or geographically.

It is important the fund remains regulated by an international body because it is used for geopolitical reasons and has a very low degree of independence from the Chinese government. But, the hostility from the Trump Administration prevents the CIC from the possibility of investing substantially in the US. Even though it is a competitive threat to the economic stability and soft power capability of the US, the CIC provides opportunities for investment in US infrastructure and energy. The political nature of the fund, although, means any investment in the US will serve a political purpose for the CPC as well as a commercial one. For this reason, the US and the world will need to keep a cautious eye on the China Investment Corporation.
Chapter 5: Case Study 3 – The Saudi Arabian Sovereign Wealth Fund

5.1 Introduction

The US’s political relationship with Saudi Arabia is entangled with its energy interests.\textsuperscript{416} The foundation of the relationship is based on Saudi Arabia providing the US with oil, and the US guaranteeing Saudi Arabia’s security.\textsuperscript{417} Protecting Saudi Arabia and American access to oil is a major element of US foreign policy.\textsuperscript{418} The economic partnership goes both ways; Saudi Arabia supplies the US with oil and the US supplies Saudi Arabia with arms. Since 1950, the US has sold US $90 billion in arms to Saudi Arabia.\textsuperscript{419} The US’s relationship with Saudi Arabia was put under pressure after 9/11. Saudi citizens constituted 15 out of 19 plane hijackers of the four commercial airlines used in the attacks on New York and Washington D.C. as well as the plane brought down in Pennsylvania. In 2016, Congress passed legislation allowing families of 9/11 victims to sue the Saudi government. The Saudi government threatened economic retaliation for the action.\textsuperscript{420} Despite those incidents, Saudi Arabia and the US maintained strong ties due to their mutual economic and national security reliance.

The strong US-Saudi economic ties extend to the kingdom’s newly established SWF. Most of the fund’s foreign investments are in the US, concentrated in the technology sector. But recent events altered US-Saudi friendly relations and impacted international perceptions of the Saudi SWF. Increased scrutiny of the country caused

\begin{itemize}
\item \textsuperscript{416} CFR.org Editors, \textit{U.S.-Saudi Arabia Relations}, issue brief (Council on Foreign Relations, 2018).
\item \textsuperscript{418} CFR.org Editors.
\item \textsuperscript{419} CFR.org Editors.
\item \textsuperscript{420} CFR.org Editors.
\end{itemize}
many to question the motives of the increasingly aggressive SWF and its chair, de facto leader of Saudi Arabia, Crowned Prince Mohammed bin Salman (MbS).

Over the last two years, Saudi Arabia controlled one of the most active SWF investment vehicles. Only officially launched in 2015, Saudi Arabia’s SWF is the sixth largest fund. The rapid accumulation of assets by the fund captured the attention of Silicon Valley, but also US security concerns. Saudi Arabia’s autocratic regime, heavy SWF investment in US strategic sectors, and shift away from US influence produce national and economic threats to the US. In order to assess the threat the Saudi SWF poses to the US, this chapter will first provide background on the fund. It will discuss the establishment of the SWF in Saudi Arabia, its goals and objectives, transparency, independence from the government, projections of future growth, and domestic constraints. Next, the geopolitical motives of the fund will be examined with an emphasis on how the fund fits within Saudi Arabia’s Vision 2030. Then this chapter will analyze the fund’s investments in the US. Finally, the effect of MbS’s involvement in the murder of Washington Post journalist Jamal Khashoggi on the Saudi Arabia SWF will be considered.

5.2 Background on the Fund

Establishment

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Saudi Arabia has an atypical SWF history. The kingdom did not designate an investment vehicle as its SWF until 2009. Before it had a SWF, the Saudi Arabian Monetary Agency (SAMA), the central bank, managed the country’s foreign assets. Until 2015, SAMA was responsible for managing the foreign reserves and accumulated wealth. The absence of a SWF was unusual for a member of the Gulf Cooperation Council (GCC). In 2007 over half of all SWF assets were held in the GCC countries of Kuwait, UAE, Saudi Arabia, Bahrain, Qatar, and Oman. The combination of rising populations and oil-dependent economies made GCC countries prime candidates to establish and benefit from SWFs. Saudi Arabia hesitated in establishing a SWF because of the negative outlook on SWFs by the US. SWFs were labeled as suspicious actors before the 2008 financial crisis, and Saudi investment in the US benefitted from not carrying the SWF label. Before Saudi Arabia launched its SWF, its foreign assets denominated in dollars supported the alliance with the US. Saudi-US relations caused the kingdom to hesitate in establishing a SWF, as previously investments into the US were made to enhance relations.

The current Saudi Arabian SWF, the Public Investment Fund (PIF), was established by a royal decree in 1971 as an arm of the Finance Ministry but did not serve the function of a SWF until 2009. The objective of the PIF pre-2009 was to invest in

425 Diwan, 346.
426 Diwan, 348.
domestic commercial projects and develop the domestic economy.\textsuperscript{428} The main function of the PIF was simply to give loans.\textsuperscript{429} In April 2008, Saudi Arabia disclosed its intention to establish a SWF.\textsuperscript{430} Also in 2008, the PIF was granted the ability to invest in foreign corporations.\textsuperscript{431} Saudi Arabia announced the creation of a SWF by the name of Sanabil al-Saudia in 2009.\textsuperscript{432} Sanabil operated as an arm of the PIF with starting capital of US $5 billion. The fund was small, indicating Saudi Arabia still wanted to keep a low-profile in its international investments.\textsuperscript{433}

Effective in 2015, oversight of the PIF was transferred from the Ministry of Finance to the Council of Economic and Development Affairs and began its official operation as a SWF.\textsuperscript{434} During the restructuring of the PIF, MbS was designated Chairman of the PIF. The goal in establishing the PIF as the official SWF was to create an investment body that could take on higher risks and initiate more economic diversification than the conservative SAMA.\textsuperscript{435} The shift in investment directive from SAMA to the PIF signaled that the Saudi Arabian government wanted to make riskier investments and play a larger role in initiating FDI.\textsuperscript{436} The pressure put on the

\textsuperscript{429} England and Kerr.
\textsuperscript{430} Diwan, 346.
\textsuperscript{431} Castelli and Scacciavillani, 39.
\textsuperscript{432} Castelli and Scacciavillani, 39.
\textsuperscript{434} Oxford Business Group.
\textsuperscript{435} Fei, Xu, and Ding.
government by its younger constituency to create more jobs and diversify away from oil also contributed to its more aggressive investment style.\textsuperscript{437}

Goals and Objectives

The goals and objectives of the Saudi fund differ from those of Russia or China’s funds because of the vital role oil revenue plays in Saudi Arabia. While the Russian economy is highly influenced by the energy sector, the Saudi economy is wholly dependent on it.\textsuperscript{438} The Saudi government is entirely funded by oil revenue, rather than income taxes.\textsuperscript{439} Investing those revenues is essential in preparing for the exhaustion of oil reserves.\textsuperscript{440} The PIF is responsible for the long-term prosperity of the Saudi economy beyond its oil-production years.

Saudi Arabia invested cautiously with its oil reserves in the past.\textsuperscript{441} Most of SAMA’s investments were made in low-yield bonds and primarily US Treasury bills.\textsuperscript{442} The objectives of Saudi investment in the past were to increase its good relations with the US and avoid suspicion in its investments.\textsuperscript{443} The newly restructured the PIF’s objectives are investing half its reserves abroad and half in strategic domestic projects, therefore, diversifying the Saudi economy away from oil.\textsuperscript{444}

\textsuperscript{437} Young.
\textsuperscript{438} Castelli and Scacciavillani 35.
\textsuperscript{439} Castelli and Scacciavillani 35.
\textsuperscript{440} Castelli and Scacciavillani.
\textsuperscript{441} Diwan, 346.
\textsuperscript{442} Diwan.
\textsuperscript{443} Diwan, 347.
\textsuperscript{444} Diwan.
Recently, the PIF made riskier investments and also took out loans in order to increase the fund’s holdings. Channeling money into the PIF became a goal of the Saudi government as part of its Vision 2030 campaign. The fund aims to complete a dozen large projects and create thousands of jobs, with the end objective of adding billions of dollars to the domestic economy. MbS restructuring the PIF into a more traditional SWF signaled Saudi Arabia’s openness to foreign investment from emerging markets as well. The primary goal of the PIF is to bring foreign capital, technology, and skills to Saudi Arabia. Saudi Arabia has a young population and is extremely dependent on oil revenues. The PIF is essential to bring jobs and diversification to Saudi Arabia to help prepare for the eventual exhaustion of oil reserves.

Transparency

Saudi Arabia established a SWF with the declared purpose of increasing transparency in its investments. Many experts predicted the creation of the SWF would increase transparency in Saudi Arabia and its foreign investments because of the shift from multiple private SWFs to one public one. Diwan argues Saudi Arabia’s announcement of a SWF indicated a desire to increase transparency and accountability. But Diwan’s prediction developed under the assumption that King Abdullah would be the

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445 Young.
446 Young.
447 England and Kerr.
449 England and Kerr.
450 Diwan, 347.
451 Diwan, 345.
452 Diwan, 347.
executive of the state and the fund. When the PIF officially launched, MbS wielded authority over the fund.

The actual implementation of the fund increased transparency very little, if at all. The SWFI gave the PIF a transparency rating of 7 and SAMA 4 on the Linaburg-Maduell Transparency Index. Both scores are low for a SWF of that size. The IMF reported that deciphering how borrowing and investment decisions are coordinated is difficult due to the ambiguity of the fund. How the PIF finances investments is unclear as well as to what extent current commitments have been funded. The lack of financing transparency is significant considering the questions surrounding how the PIF will finance the ambitious mandate of Vision 2030.

The Truman Scoreboard did not rank the PIF in 2016 because the fund was not established as a SWF until 2015. But Truman wanted to include the PIF on the scoreboard. There was no information at the time on the PIF, and thus would have received a 0. A year after the investment body became a SWF, the management of the fund had yet to publish any information about the fund. Moreover, after the PIF set up the website, management failed to publish quarterly data. Staffing and leadership changes are also difficult to track, making it hard to discern the changing investment strategy of

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453 Diwan.
456 Saudi Arabia: 2018 Article IV Consultation.
457 Saudi Arabia: 2018 Article IV Consultation.
458 Stone and Truman.
the PIF. Even though the PIF is a fairly new SWF, it is severely behind in terms of transparency. Three years of activity by the fund and the large amount of assets the fund manages warrants a huge increase in transparency. Lack of SWF transparency causes security concerns from host countries. Transparency is required by the Santiago Principles. Saudi Arabia participated in the creation of those guidelines as a permanent observer even though it did not have a SWF at the time. However, while the PIF is not an official member of the IFSWF, its participation in the formation of the Santiago Principles makes the fund responsible for following the guidelines.

Independence from Government

Saudi Arabia’s economy developed through state-controlled and government-driven growth. Even before the PIF was established, the management of sovereign wealth was directed by the state; SAMA was directed to invest oil revenues. SAMA by nature of also operating as the central bank had almost no independence from the Saudi government. Saudi Arabia is an absolute monarchy. As a result, all government institutions have very low independence from the monarch. Hence, the SWF can be used by the monarch to achieve his goals.

Because the PIF was established by a royal decree in 1971, it has a very low degree of independence from government. There is no separation from the state as the de

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460 England.
facto head of state, MbS, is also the chair of the SWF.\footnote{England.} MbS started a campaign to consolidate power in Saudi Arabia and controlling the PIF is a major tool he uses to control the economy.\footnote{Financial Times.} Control over the PIF also affords him significant international influence. After MbS announced his plan to privatize Saudi Aramco, bankers and stock exchange officials around the world aimed to court the Prince.\footnote{Financial Times.} A Saudi analyst described the fund as a “one man investment vehicle.”\footnote{England and Kerr.} MbS uses the PIF as his primary tool in implementing his personal, economic, and social goals for Saudi Arabia.\footnote{England and Kerr.} The Prince is attempting to shape the economic direction of Saudi Arabia through his control over the PIF. As a result, the PIF’s investment decisions are similar to the leadership style of MbS, unpredictable.\footnote{Rory Jones, "Expats Flee Saudi Arabia, Bemoan Crown Prince Control," \textit{The Wall Street Journal}, December 31, 2018, accessed March 20, 2019, https://www.wsj.com/articles/expats-flee-saudi-fund-bemoan-crown-prince-control-11546257600.}

Moreover, many Western managers of the fund abandoned their large salaries at the PIF due to MbS’s controlling grip on the fund. The British compliance manager, Swiss chief of public investments, and the Spanish private-equity associate all left their jobs after only a short period of time working at the PIF.\footnote{Jones.} Dutch Eric Ebermeyer served as head of strategy for only weeks before leaving the PIF because MbS controlled so much of the fund’s strategy.\footnote{Jones.} According to the \textit{Wall Street Journal}, people compare their experience working at the PIF to the movie “A Hologram for the King.” The metaphor compares the experience of the protagonist of the movie waiting to pitch a sale
of technology to the Saudi King, only to be rejected. Instead of being rejected by the Saudi King, investment pitches are rejected by the Saudi Prince. Strategy for PIF investment is top-down; it begins with MbS. Any independence of the PIF is superficial. The lacking fund independence increases the risk for the US in receiving investment from the PIF.

Projections of Future Growth

From 2014 to 2017 the PIF’s assets were depleted significantly. In order to keep money flowing into the fund, the Saudi government planned to sell government assets and privatize Saudi Aramco in an initial public offering. The IPO has not occurred yet, but the Saudi government is still determined to increase the holdings of the PIF. SAMA is set to relinquish some of its control of cash reserves to PIF. The goal is to increase the PIF’s assets under management to US $600 billion by 2020 and to US $2 trillion by 2030. By 2020 the IMF projects PIF assets will be 52% of GDP (SAR 1.5 trillion).

The rapid accumulation of assets by the fund since 2016 caused concerns that the fund was not properly conducting its due diligence. The Saudi government made it a

\[471\] Jones.
\[472\] Jones.
\[474\] Cumming, Filatotchev, Reinecke, and Wood.
\[476\] Seznec and Mosis, 37.
\[477\] Saudi Arabia: 2018 Article IV Consultation.
\[478\] England.
national economic priority to increase the assets of the fund. The rise in oil prices in 2018 increased foreign reserves and brought more funds to the PIF. The IMF notes that the increased role of the PIF and delays in privatization could crowd out the private sector due to the increase in the role of the government in the economy. Increased assets of the PIF also increases the Saudi monarchy’s increased economic power domestically and internationally.

**Domestic Constraints**

Saudi Arabia has significant domestic constraints on the use of its fund internationally. While Saudi Arabia is the largest oil exporter, it also has the highest population. Consequently, more money is needed to fund government budgets and less is left for international investments. Saudi Arabia’s reserves were low following the Gulf War of the 1990s and oil price volatility. In the face of dwindling foreign reserves following the drop in oil prices in 2015, Saudi Arabia endeavored to transfer more money from government assets into the PIF. The success of the Saudi economy and the assets the SWF holds are highly dependent on oil prices.

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479 Young.
480 *Saudi Arabia: 2018 Article IV Consultation.*
481 *Saudi Arabia: 2018 Article IV Consultation.*
482 Diwan, 350.
483 Diwan, 351.
484 Cumming, Filatotchev, Reinecke, and Wood, 9.
Debt is also a problem for the fund.\textsuperscript{485} The Saudi government suffers from large budget deficits.\textsuperscript{486} Saudi Arabia as a debtor nation is a constraint on its SWF.\textsuperscript{487} A lack of sufficient funding resulted in the PIF taking out a US $11 billion loan in 2018.\textsuperscript{488} The fund’s willingness to take on debt demonstrates that the Saudi government is facing legitimacy challenges domestically.\textsuperscript{489} The government is facing pressure to see more yields from the fund in order to secure against falling oil reserves.\textsuperscript{490} The need for economic diversification and domestic development limits the amount Saudi Arabia can invest outside of the country.\textsuperscript{491} Moreover, the use of leverage by the fund is concerning as no other SWF raises debt to fund its investments.\textsuperscript{492} The domestic constraints of the PIF contribute to the stability risks of the fund and its international investments. However, debt and government financing constraints have yet to restrict the PIF from investing in US companies.

5.3 Geopolitical Motives

Constraints

Saudi Arabia took a conservative approach to its investments in the past due to political considerations. Following the September 2001 terrorist attack on the US in

\begin{thebibliography}{99}

\bibitem{485} Young.
\bibitem{487} Diwan, 351.
\bibitem{488} Young.
\bibitem{489} Young.
\bibitem{490} Young.
\bibitem{491} Diwan, 351.
\end{thebibliography}
which 15 out of the 19 hijackers of the commercial airliners involved were Saudi citizens, some private Saudi investors saw their US accounts frozen.\textsuperscript{493} The concern over Saudi involvement in the US caused the kingdom to refrain from making risky or conspicuous investments in the US in the years following the attack. Saudi Arabia also did not want to draw attention to its growing foreign reserves during times of high oil prices because of fears of antagonizing anti-Saudi sentiment.\textsuperscript{494} The management of Saudi sovereign wealth also has historical ties with the US. The first governor of SAMA, George A. Blowers, was a US citizen.\textsuperscript{495} Consequently, geopolitical conditions previously restricted risky and conspicuous Saudi investment in the US.

Furthermore, Saudi Arabia is one of the largest holders of US debt.\textsuperscript{496} The majority of Saudi assets are held in dollar-denominated assets. Because of the high degree of investment in the US dollars, the Saudi economy is tied to the success of the US economy.\textsuperscript{497} The Saudi riyal is pegged to the US dollar, and consequently, the Saudi government must maintain enough foreign reserves to defend that peg.\textsuperscript{498} There are multiple incentives for Saudi Arabia to avoid decisions that could destabilize the dollar. Because of these considerations, it would be against Saudi self-interest to threaten the economic or national security of the US.

\textbf{Vision 2030}

\textsuperscript{493} Diwan, 352.  
\textsuperscript{494} Diwan.  
\textsuperscript{495} Bazoolandi.  
\textsuperscript{496} Diwan, 352.  
\textsuperscript{497} Diwan, 347.  
\textsuperscript{498} Diwan, 352.
The PIF engages in the internal accumulation of power as it aims to transform domestic economic development.\textsuperscript{499} Crown Prince Mohammed marked the PIF as the primary vehicle to achieve the goals of Saudi Arabia’s Vision 2030.\textsuperscript{500} Vision 2030 is a plan created under MbS to diversify the economy and create almost a half a million jobs.\textsuperscript{501} The plan is essential for the country given, by 2030, half of the Saudi population will be under the age of 25. Educating and placing that generation in jobs are the biggest challenges that the country faces. Saudi Arabia previously attempted diversification twice, but those attempts were unsuccessful.\textsuperscript{502} The Prince’s plan will include an increase in capital spending by the government.\textsuperscript{503} The plan designates the PIF as the main vehicle to diversify the Saudi Arabian economy and to amass economic power for the kingdom.\textsuperscript{504} The PIF’s central role in Vision 2030 rapidly promoted the fund from largely unacknowledged to “one of the world’s most powerful sovereign wealth funds.”\textsuperscript{505} The goal of Vision 2030 was to increase the PIF’s assets to US $2 trillion, which would make it the largest SWF in the world, by a large margin.\textsuperscript{506} With the cancellation of the Saudi Aramco IPO, it is unclear how the fund will grow its assets to that extent.

The direction Saudi Arabia went - increasing the power and wealth of the PIF, a state-owned enterprise, in order to jump-start the private sector - is inherently

\textsuperscript{500} Cornell.
\textsuperscript{501} Katsomitros.
\textsuperscript{502} Adel Abdel Ghafar, "A New Kingdom of Saud?" \textit{Bookings Institute}, February 14, 2018.
\textsuperscript{503} \textit{Saudi Arabia: 2018 Article IV Consultation}.
\textsuperscript{504} Cornell.
\textsuperscript{505} Raval, Massoudi, and Kerr.
\textsuperscript{506} Ghafar.
There is speculation that Vision 2030’s purpose is not just reform, but also to help MbS to accumulate power. The Prince’s ambitious political behavior within Saudi Arabia and internationally with the deployment of the PIF’s assets reinforces this idea. The speed at which MbS is attempting to make these reforms is concerning. Diversification of an oil-dependent economy is difficult and happens over a long period of time. The short timeline of the plan makes it unlikely that the reforms will succeed. The ambiguous motives behind the purpose of Vision 2030 and the PIF’s role in the plan could call into question the validity of the PIF’s international investments.

**Strategic Sectors**

Before the 2008 financial crisis, Western countries banned SWFs from investing in strategic sectors like ports, oil companies, and the defense industry. After the image of SWFs improved due to their actions during the crisis, those policies changed. In the Vision 2030 mandate for the PIF, the fund is specifically deployed to invest in international strategic assets. The PIF’s target of investment in strategic sectors is especially visible in the US because of heavy investment in the US technology sector.

Saudi interest in strategic sectors stems from its goal to grow and diversify its economy. Management of the PIF indicated its desire to invest in robotics and artificial

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508 Ghafer.

509 Ghafer.

510 Ghafer.


intelligence in the near future. These are two technological strategic sectors and could also be considered national defense-related sectors as well. So far, the PIF has poured billions of dollars into the US technology sector. Because of its heavy presence, the actions and success of the PIF will have implications for Silicon Valley.

Saudi Arabia’s investments in strategic sectors flip its relationship with the US. Oil monopolizes strategic sectors in Saudi Arabia. The US has been involved with the Saudi Arabian oil industry since 1933 when the Chevron won a contract to explore the area for sixty years. Now Saudi Arabia invests in two of the most vital sectors of the US economy: financial and technology. The shift in the power of investment does not bode well for US foreign policy and national security because of the importance of keeping Saudi Arabia within the US’s sphere of influence. If Saudi Arabia acquires the advantage in the US-Saudi economic relationship, the US will have fewer tools available to execute its foreign policy in the Middle East as well as secure its energy supply.

**International Influence**

MbS uses the PIF as a tool to accumulate and wield international influence. He claims there “will be no investment, movement or development in any region of the world without the vote of the Saudi sovereign wealth fund.” MbS’s goal of making the PIF one of the biggest SWFs in the world is self-motivated. As chair of the fund, the

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513 England.
514 CFR.org Editors.
more assets the PIF holds, the more power MbS wields. SWFs are also status symbols in the international system.\textsuperscript{516} They symbolize growth and progress for the home country. The absence of a Saudi Arabia SWF in the past limited its prestige in global investments. Launching a newly structured PIF in congruence with Vision 2030 elevated the status of the fund, Saudi Arabia, and MbS.

SWF investment allows Saudi Arabia additional political leverage.\textsuperscript{517} After the murder of US resident and \textit{Washington Post} journalist Jamal Khashoggi in 2018, Saudi business ties made it politically difficult for the US to impose sanctions on Saudi Arabia.\textsuperscript{518} While PIF investment in the US was not the only reason for the US not imposing sanctions, the increasing business ties the fund promotes between the two countries increased barriers. The PIF has, in some ways, increased Saudi Arabia’s access and relationship with US officials. Saudi Arabia made announcements of PIF investments in US companies during diplomatic events; its investment in Blackstone was announced during President Trump’s first state visit to Saudi Arabia. Its investment in Uber was planned during a barbecue in Riyadh that Uber policy head David Plouffe, a former White House official, attended.\textsuperscript{519}

The PIF has increased MbS’s business clout internationally. In 2016, MbS was unable to secure a meeting with Tesla’s CEO Elon Musk while he was touring the US.\textsuperscript{520} After the PIF heavily invested in Tesla, Musk claimed the PIF’s financial support would

\textsuperscript{516} Katsomitros.  
\textsuperscript{517} Katsomitros.  
\textsuperscript{518} Katsomitros.  
\textsuperscript{519} Jones.  
help him take the company private, signaling a rapid change in the power dynamic between the two.\textsuperscript{521} As the fund’s importance grew, so did MbS’s ability to influence international business decisions. The PIF both internally and externally increases Saudi Arabia’s power relative to others.

**Political Importance**

The PIF’s central role in Vision 2030 and its responsibility for diversifying the economy away from oil make controlling the fund a strategic necessity for MbS.\textsuperscript{522} Hard economic times led to the government’s loss of political power in the past. During the mid-1980s and 1990s, oil revenues could not keep up with the increasing Saudi population and it led to high unemployment and a declining GDP.\textsuperscript{523} The economic decline during that time provoked reformist and jihadist challenges to the government.\textsuperscript{524}

Furthermore, the PIF allows MbS almost complete control over the domestic economy and internally increases his power. Other firms that want to invest in Saudi Arabia will need to compete with the PIF’s dominance, crowding out potential private investments.\textsuperscript{525} Firms that receive investment from the PIF are favored by the state, and this funding increases MbS’s leverage over private companies in Saudi Arabia.\textsuperscript{526}

\textsuperscript{521} Jones.
\textsuperscript{523} Diwan, 351.
\textsuperscript{524} Diwan, 351.
\textsuperscript{525} Katsomitros.
\textsuperscript{526} Katsomitros.
But with the great political importance of the PIF for MbS, comes a great political risk. If the PIF does not bring significant diversification and create new private sectors jobs in the country, rising unemployment and increased pressure on the government for public sector jobs could result.\textsuperscript{527} Sustaining the current level of government spending has recently been more difficult in the face of decreasing oil prices and an increasing Saudi population.\textsuperscript{528} Putting so much emphasis on the PIF could result in public disdain for MbS if the project fails.\textsuperscript{529} The PIF’s ability to influence domestic politics and the strength of the Saudi government makes it a risk to the stability of the country. Saudi Arabian stability is essential and the failure of the fund could create instability in the Middle East. Whereas the continued success of the PIF increases the power of the autocratic MbS regime and creates different geopolitical issues for the US.

**Partnerships**

In October 2018, the PIF joined the Russia-China Investment Fund (RCIF).\textsuperscript{530} The joint SWF served as an “open cooperation platform” since its establishment in 2012.\textsuperscript{531} According to the RDIF website, the RCIF “aims to develop bilateral economic, trade, and investment relations between Russia and China.” The RDIF announced the PIF contributed US $500 million to become the Russian-Chinese-Saudi Investment Fund with

\textsuperscript{527} Ghafar.
\textsuperscript{528} Ghafar.
\textsuperscript{529} Ghafar.
a total of US 2.5 billion of capital. The announcement occurred while the Saudi Arabian government faced criticism and boycotts from countries around the world due to their involvement in the murder of journalist Jamal Khashoggi. Russian President, Vladimir Putin, said there was not enough information regarding the murder to justify cutting financial ties with Saudi Arabia.

Previously, the joint fund focused on investment in strategic sectors such as forestry, infrastructure, and finance. The alignment of these countries’ SWFs increases their economic and political clout. Dr. Theodore Karasik, a senior advisor at a geopolitical risk consultancy firm, emphasized a need to watch the joint partnership because of its interest in artificial intelligence and its application to security. All three countries have non-democratic governments and large state-owned sectors, which causes their strengthened economic partnership to provide a more powerful alternative to the US model of free markets. The RCIF symbolized the increasing partnership between China and Russia in the face of US hostility towards both countries. Joining the partnership signals Saudi Arabia’s alignment with the partnership aimed at reducing US power.

There is a clear geopolitical motive of Saudi Arabia joining the partnership. The alignment of these three nations’ SWFs is symbolic of the growing threat of SWFs to the US. All three are autocratic countries that have recently challenged the US’s power on the global stage. The external increasing of power among these countries seems to

532 Reuters.
534 Reuters.
535 Katsomitros.
directly correspond with their transition away from the US. A joining of these economic powerhouses is contrary to the interests of the US and its ability to have a dominant international influence.

5.4 US Investments

Technology

The PIF recently announced its decision to open an office in San Francisco in order to attract holdings in the technology sector. In 2016, the PIF invested US $3.5 billion in Uber, a stake with a valuation of US $62.5 billion. The investment mutually benefitted both parties. On the side of Saudi Arabia, the investment signaled its status as an innovative investor by investing in a popular technology company. For Uber, the PIF’s position as a long-term investor ensured the company’s access to capital. The PIF’s investment in Uber kicked off the fund’s spending spree after a relatively quiet history. It also signaled that the PIF would not be a passive investor. The CEO of the fund, Yasir Al-Rumayyan, joined Uber’s board after the investment. While it is not uncommon for large stake owners to take positions on company boards, it is significant when that stake owner is employed by a foreign government. Active SWF investors have greater influence in the US through their control of the direction of US companies. As a result,

537 de la Merced.
539 Financial Times.
Saudi Arabia’s active investment in Uber poses a greater potential threat to US national security.

The PIF invested US $2 billion in Tesla, obtaining a 4.9% stake in the company. The investment in such a high-profile and high-tech company increased scrutiny of the fund. Additional scrutiny of the fund resulted when the CEO of Tesla, Elon Musk, claimed the PIF would provide the funding needed to take the company private. That statement caused the SEC to sue Tesla for securities fraud. Public attention to the PIF increased after the scandal as well as decreased the value of Tesla shares. The PIF’s investment in Tesla once again drew attention when the PIF hedged exposure to its shares in January 2019. The hedge happened a day before Tesla announced it would be drawing down its employment. Tesla shares once again decreased after this development.

While it is not a US-based firm, Japan’s Softbank Vision Fund received over half of its investment from PIF. The Softbank Vision Fund channels most of its assets into US technology companies. The fund deploys its assets into robotics, artificial intelligence, e-commerce, ride-sharing, satellites, and future technology companies. These are critical and strategic sectors of the economy for defense. The PIF’s investment in this industry potentially gives it access to sensitive technology to national defense. Half of the

540 Raval, Massoudi, and Kerr.
541 Jones.
542 Jones.
545 Young.
546 Young.
Vision Fund’s assets come from the PIF and so it is likely that the PIF has control in how the funds are invested.

Lucid Motors, an electric car company based in Silicon Valley, raised US $1 billion in financing during September 2018.\textsuperscript{547} The lead investor of Lucid Motors during that time was PIF. Lucid Motors is one of Tesla’s biggest rivals in the electric car industry.\textsuperscript{548} The PIF also invested US $400 million in Magic Leap, Inc.\textsuperscript{549} Magic Leap is a US startup that creates 3D imagery and cinematic-reality technology.\textsuperscript{550} The deal between the country and the company came together in six days.\textsuperscript{551} The speed at which the deal was made attracted attention from financiers and entrepreneurs, and when Rumayyan went on a tour of California after, he was well sought after.\textsuperscript{552}

Because of the PIF’s heavy involvement in US technology companies, changes in the PIF’s investment strategy could damage this strategic industry.\textsuperscript{553} As shown by the Saudi hedge of Tesla, investment does not always create stable support for companies. The PIF is the largest single investor in Silicon Valley.\textsuperscript{554} All of its investments in high-tech bestowed the PIF significant power and influence in the sector. High-tech’s status as

\textsuperscript{547} de la Merced.
\textsuperscript{549} Jones.
\textsuperscript{551} Jones.
\textsuperscript{552} Jones.
\textsuperscript{553} Young.
\textsuperscript{554} Jones.
a strategic sector for both US national and economic security makes the PIF a threat to both due to its involvement in the sector.

Blackstone

The PIF invested US $20 billion in the Blackstone Group’s infrastructure fund.\textsuperscript{555} Blackstone’s infrastructure fund aims to upgrade US assets.\textsuperscript{556} The PIF serves as the anchor investment in the new fund.\textsuperscript{557} Infrastructure is considered a strategic sector and Saudi Arabia’s investment in US infrastructure could potentially be a threat to US national security. Blackstone’s CEO, Stephen Schwarzman, served as the head of Trump’s economic advisory group. The company has significant relationships with SWFs as it additionally received investments from the Chinese SWF. Schwarzman had been negotiating the deal with the Saudis for a while, but the investment was announced on the eve of President Trump's visit to Saudi Arabia in 2017.\textsuperscript{558} The timing of the announcement signals that Saudi Arabia aimed to curry favor with Trump, using the fund for a geopolitical motive. When President Trump visited Saudi Arabia dozens of US business leaders came with him, emphasizing the mix of geopolitics and economics between the US and Saudi Arabian governments.\textsuperscript{559}

Media Industry

\textsuperscript{555} England.
\textsuperscript{557} Financial Times.
\textsuperscript{558} Massoudi, Sender, and Kerr.
\textsuperscript{559} Massoudi, Sender, and Kerr.
The PIF invested US $200 million in Penske Media Group. The group owns US media publications Variety and Women’s Wear Daily. The fund was also in talks with Endeavor, a Hollywood talent agency. But that investment was later ended due to the murder of Washington Post reporter Jamal Khashoggi. The PIF’s interest in US media industry poses a threat to US security as media has significant impacts on public opinion. By wielding influence in this industry, the PIF has a direct channel to shape the views of the American public.

5.5 US Concerns

Corruption

SWF investments from Saudi Arabia concerns the US because of the nature of autocratic regimes. Corruption is often a rampant issue within autocratic regimes as well as human rights abuses. Autocratic ownership of a SWFs raises questions as to the public service of the fund. The PIF holds vast amounts of assets and it has the potential to perpetuate the autocratic regime. The state-owned investment vehicle lacks domestic competition. There are few barriers to prevent an absolute monarch from using a SWF to achieve political objectives. Critics of MbS’s use of the PIF, activists, academics, bloggers, and clerics, have been detained. Saudi Arabia’s history of human rights

560 Financial Times.
561 Financial Times.
563 Weiss and Wyk, 456.
564 Weiss and Wyk.
565 Weiss and Wyk.
566 England and Kerr.
violation makes it difficult for the US to defend its economic partnership with the country.567

MbS has almost complete control over Saudi Arabia and the PIF. Investments appear to be catered to the interests of the Prince, focusing on tech, tourism, and entertainment.568 Deals intended to curry favor with MbS tend to be carried out quickly and without proper due diligence.569 The Financial Times described PIF activity from 2016-2017 as “flashy.”570 In comparison, the Norwegian SWF took years to assemble a special team when it decided to move assets into the real estate sector in 2010.571 The Norwegian fund manages more assets and boasts several decades of SWF activity. A new SWF, like the PIF, making investments so quickly increases the riskiness of its investment activity.

Shift Away from the US

The emergence of a more active and riskier PIF could cause a movement away from Saudi Arabian trade with and investment in the US. The PIF’s financial power allows Saudi Arabia to decrease its dependence on the US and attract investment from other countries. In May 2017, the PIF created the Saudi Arabian Military Industries.572 Saudi Arabia is a large purchaser of US weapons and military equipment and the establishment of domestic weapons industry in Saudi Arabia is meant to decrease reliance

567 Gilsinan.
568 England.
569 England.
570 Financial Times.
571 England.
572 Oxford Business Group.
on foreign suppliers. The loss of demand from Saudi Arabia for military equipment could be damaging for the US defense industry. Saudi Arabia has also started looking for investment outside of the US, mostly in Asia. Asian countries are interested in investing in Saudi Arabia to shore up their supply of energy needed for their rapidly growing economies. The movement away from US economic influence is concerning for the US’s own energy security as well as political influence in Saudi Arabia.

Saudi Arabia, as an autocratic regime, challenges US capitalist ideals. The PIF is a state-owned institution and is becoming increasingly dominant in the Saudi economy. The dominance of the PIF appears to be crowding out the private sector. In 2017, the private sector only made up 48% of GDP due to stagnating growth, tariffs on foreign workers, and electricity price increases. In Saudi Arabia, the government drives economic activity and employment domestically. The more power the PIF accumulates for Saudi Arabia, the more US neoliberal ideas are challenged because the country becomes more economically powerful.

In November 2017, the Saudi government launched an “anti-corruption” campaign where hundreds of rich and powerful Saudis were held in the Riyadh Ritz Carlton hotel. A condition for their release was the transfer of cash and assets to the

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573 Oxford Business Group.
574 Paul.
575 Paul.
576 Weiss and Wyk, 456.
577 England and Kerr.
578 England and Kerr.
579 Young.
state. The assets would be managed by a state company and cash would be moved to the Treasury. During the incident, it was reported that Saudi Arabia would place some private companies under the custody of the PIF. The “anti-corruption” campaign appears to be a self-interested move by MbS to shift economic and financial power from the private sector to the public sector. The use of an autocratic regime to transfer private assets and cash to state-owned cash and assets is concerning for the US and the commitment to protecting systems of democratic capitalism and the right to property.

5.6 The Khashoggi Effect

PIF’s Connection

The role of the Saudi Arabian government in the disappearance and murder of Washington Post journalist and US resident, Jamal Khashoggi, had short-term consequences for the Saudi Arabian SWF. Negative international perception of the fund occurred because MbS chairs the fund and was suspected to have ordered the murder. The murder was predicted to have massive economic effects on Saudi Arabia. The planned annual conference held by the PIF, “Davos in the Desert,” for its investors and investees had a significantly decreased attendance after the scandal broke. Many businesses stayed away from the conference in the wake of the murder because of the reputation risk of appearing to support the Saudi government. Chief executives from

581 England and Kerr.
582 England and Kerr.
583 England.
584 England and Kerr.
585 England.
Blackstone, Schwarzman, Dimon, and Khosrowshahi all canceled their attendance at the conference.\textsuperscript{586}

US companies also felt the backlash from the Khashoggi murder. The PIF is the largest investor in Softbank’s Vision Fund. Shares of Softbank’s saw a dramatic drop during the height of the controversy and the Vision Fund’s heavy investment in US technology firms caused Silicon Valley to feel the effects.\textsuperscript{587} Khashoggi’s murder demonstrated an important concern regarding a state’s involvement in economics that is not directly related to SWFs. The Trump Administration refrained from directly putting blame on MbS for the murder of Khashoggi. Many people attributed his resistance to the massive Boeing arms sale brokered by the administration to the Saudis.\textsuperscript{588} The more the PIF invests in US companies, the more Saudi Arabia can leverage its economic importance in the US to prevent punishment for political actions.

\textbf{Implications}

The PIF lost investments during the backlash of the murder. US talent agency, Endeavor, returned the PIF’s US $400 million investment.\textsuperscript{589} It seemed difficult for the PIF to disassociate itself from the controversy at the time with MbS as the figurehead of


\textsuperscript{589} England.
Like in the aftermath of 9/11, businesses from Western countries became wary of investment from Saudi Arabia due to political and optic considerations. US attitude toward Saudi Arabia shifted after the Khashoggi incident. Senator Lindsey Graham directly implicated MbS as the initiator of the murder. But the executive branch seemed unmoved by the recent scandal as President Trump maintains a friendly relationship with MbS.

In March 2019, MbS hired a New York PR firm to repair the image of the PIF after the Khashoggi killing. The aim of hiring the PR firm is to emphasize the commercial objective of the fund and attempt to separate it from the politics of Saudi Arabia and MbS. But Saudi Arabia felt the effects directly after the Khashoggi backlash. FDI into Saudi Arabia declined from $7.45 billion in 2016 to $1.42 billion in 2017. Following the Khashoggi murder, many Western executives that worked for the PIF began leaving despite their high pay packages. Finding replacements for them was difficult due to the fund’s damaged reputation.

The short-term damaging effects of the Khashoggi murder on the PIF demonstrate how tightly politics and economics are entangled in Saudi Arabia. The actions of MbS not only affect the political reputation of his kingdom, but also the economy’s ability to diversify. But President Trump’s continued defense of MbS and denial of the controversy weakens the ability of the US to regulate against geopolitical threats from the Saudi

590 England and Kerr.
591 Gilsinan.
592 CFR.org Editors.
593 England.
594 England.
595 England and Kerr.
596 Jones.
SWF. US regulation delegates the power to block foreign investments that threaten national security to the president. Without the executive branch acknowledging human rights abuses and geopolitical motives, US national security is left vulnerable to SWFs controlled by autocrats.

Furthermore, the lack of definitive action by President Trump punishing Saudi Arabia for the murder may have allowed Saudi Arabia’s reputation to not suffer long-term consequences. Only six months after Khashoggi’s murder, Saudi Aramco raised US $12 billion from the debut sale of its international bonds.\textsuperscript{597} MbS plans to use the proceeds from the sale to invest further in technology through the PIF.\textsuperscript{598} About half of the sale went to US investors and a quarter of the sales went to European investors.\textsuperscript{599} Additionally, US investment banks Morgan Stanley and JP Morgan brokered the deal.\textsuperscript{600} Western participation in the sale signals that there will not be long-term damage to Saudi Arabia’s business reputation in the West. MbS and the PIF suffered short-term damage in the abandonment of the PIF annual conference, but will not likely see continued economic backlash.

5.7 Conclusion

\textsuperscript{598} Jones, Said, and Chilkoti.
The threat from the Saudi Arabian SWF is an explicit danger to US national and economic security. Whereas in the past SAMA took a conservative approach to foreign investments and tended to make those which enhanced Saudi Arabia’s alliance with the US, the current investment strategy of the PIF is much more aggressive. The growing role of the PIF in the economy internally increases the power of Saudi Arabia. It also reinforces the autocratic power of MbS. Despite the MbS’s vow curb corruption in Saudi Arabia, MbS appears to be increasing government corruption by seizing private assets to incorporate into the public coffers and ordering the murder of journalists. MbS directly controls almost all actions of the PIF, and the growing international and domestic power of the fund also increases his power. An empowered Saudi Prince is a threat to the US. The loss of power that results from a strong domestic leader in such a strategically important country decreases the effectiveness of the US’s Middle East and global foreign policy.

Not only is the aggression of the Saudi SWF a threat to the US’s national security, but it is also a threat to economic stability. The increasing economic ties between the two countries that the PIF promotes, ties the trajectory of the US economy to the Saudi economy.\textsuperscript{601} Military arms purchases from Saudi Arabia are important to the US economy, and recently Saudi Arabia has been increasingly purchasing weapons from Russia. A SWF that promotes a transition away from purchasing US arms could be damaging for the industry. Furthermore, the increasing ties between Russia and Saudi

Arabia that the PIF contributes to also threatens the US’s sphere of influence in the Middle East.

These arms purchases from Russia represent Saudi Arabia’s effort to increase security diversification, but also as a form of political leverage.\textsuperscript{602} The leverage appears successful as no sanctions were enacted on Saudi Arabia after the murder of journalist Jamal Khashoggi and six months later the large sale of Saudi Aramco bonds indicates there will be no major long-term economic damage. President Trump cited the large weapons sale to Saudi Arabia as his reason for not punishing the country. As the PIF makes more investments in the US, the economic advantage to not punish Saudi Arabia for human right violations and corruption increases. US regulation of SWFs for national security reasons is primarily at the discretion of the president and President Trump tends to prioritize short-term economic gains. PIF investments have been used to curry favor with President Trump and signals the fund’s importance in Saudi Arabian-US relations.

The PIF’s substantial investment in the US strategic technology sector is concerning. Not only would Saudi Arabia have access to sensitive information potentially relating to defense, but it is an important sector for the health of the US economy. The high-tech sector of the US economy makes up 10\% of employment and 18\% of output.\textsuperscript{603} The PIF’s investments tend to be large, risky, and quick. Consequently, the stability and validity of those investments are questionable. The threat that the PIF poses to strategic US sectors is compounded by the lack of transparency from the Saudi Arabia fund. Saudi

\textsuperscript{602} Young.
Arabia has more SWF investments in the US than Russia and China combined, causing even greater concern for the PIF’s lack of transparency.

While the PIF might be a new figure in the international system, its splashy investments and central role in Vision 2030 makes in an active and driving participant. The PIF’s fate is linked to the actions of MbS. While the Prince’s reputation incurred a temporary setback due to his involvement in the murder of Khashoggi, the Prince continues on his quest to consolidate power domestically and grow influence internationally. In order to do this, he will use his control over the PIF to achieve his goals. A SWF controlled by the whims of an autocratic leader in the Middle East is a pressing threat to US national and economic security.
Chapter 6: Policy Recommendations & Conclusions

6.1 Introduction

Contrary to the general consensus in 2008 that SWFs are not a geopolitical threat, evidence from Russia, China, and Saudi Arabia prove some are. Allowing investment from SWFs owned by adversary countries or countries with competing economic ideologies pose significant risks to national and economic security. Risks emerge from foreign countries engaging in US private markets and the US must equip itself to defend against them.\textsuperscript{604} Current US regulation and soft international law governing SWFs are insufficient to protect US interests. No two SWFs are the same in operation, governance, strategy, or structure. As a result, US evaluation of the threats of SWFs must allow for an individual approach to assessing the risk of each SWF.

Blocking all investment in the US from SWFs is not an option. Not all SWFs are bad actors that threaten the national or economic security of the US. The US should encourage investment from transparent and accountable SWFs, like Norway’s fund. Nor is every investment of the RDIF, CIC, or PIF geopolitically motivated. Sealing the US off from all SWF investment prevents the US from benefitting from the large amount of capital SWFs manage. Furthermore, heavily regulating SWFs can be viewed as a form of financial protectionism and could be retaliated against by banning FDI by US firms. The US needs a new approach to combat the threats SWFs pose to the US, but it needs one that does not impose excessive barriers to SWF investment in the US.

This chapter will first review the findings from the threat assessment of SWFs and the three case studies, discussing the commonalities among the case studies and describing the deficiency of SWF regulations. Next, it will address the findings of the study by making policy recommendations such as: creating a new CFIUS arm, publishing rankings and grades, and implementing a third-party international assessment of compliance with the Santiago Principles. Finally, this chapter will explain the conclusions of this study and its implications.

6.2 Findings

Commonalities

The three case studies of SWFs exhibited five commonalities. First, they act geopolitically against the US. US National security is threatened when countries use SWFs as geopolitical tools. Chapter 2 argued SWFs have high potential to be used as a tool to achieve geopolitical goals. Evidence of that assessment was presented in the examination of the Russian, Chinese, and Saudi Arabian SWFs. The Russian SWFs’ geopolitical threat to the US is quieted at present due to sanctions on RDIF that restrict investment in the US. But Russia’s external maximizing of power through international partnerships with SWFs, such as Turkey, indicates Russia uses their SWF indirectly to achieve geopolitical goals that are against US interests. China uses the CIC to help fund the BRI, which has an explicit geopolitical motive, and to bolster its soft power ability at the expense of US soft power. Saudi Arabia uses the PIF to curry favor with President Trump and increase MbS’s international influence. Russia, China, and Saudi Arabia all employ their SWFs as a tool of diplomacy. The US does not have such a tool and is put at
a disadvantage. All three provide a precedent for the geopolitical use of SWFs against the interests of the US.

Second, the RDIF, CIC, and PIF lack independence from government. The most cogent indicator that SWFs have the potential to be used as geopolitical weapons is the funds’ lack of independence. All three SWF case studies demonstrated that a lack of independence from the government causes the fund to be manipulated to achieve the goals of the government or leader. The Santiago Principles recommend that SWFs have legal independence from home countries, but in practice, SWFs in autocratic countries have very little independence. The three autocrats examined in the case studies, Putin, Xi, and MbS, all have significant control over the strategy of their respective SWFs. When the SWF is not far removed from government control, it is likely that the fund will be used to achieve geopolitical objectives.

Third, SWFs in Russia, China, and Saudi Arabia all express a strong desire to invest in US companies, especially in the technology and financial sectors. The RDIF worked to overcome sanctions in order to pursue investment in Hyperloop. Since 2008, the CIC invests heavily in US financial institutions. Silicon Valley’s largest single investor is the PIF. Favorable public opinion, consequently, is important for these SWFs to have access to US markets. Additionally, the companies that SWFs want to invest in are part of strategic sectors. The concentration of SWF investment in strategic sectors perpetuates the threat of economic destabilization and technology transfers that could be harmful to US national security.

Fourth, all three SWFs, the RDIF, the CIC, and the PIF, struggle with public image issues that sometimes inhibit their ability to invest in the US. The RDIF is
sanctioned because of Russia’s meddling in the 2016 election and annexation of Crimea and the fund is considered suspicious by the US. The CIC’s negative public image issues derive from a general distrust of Chinese investment in the US, as demonstrated by CNOOC’s failed investment in Unocal. While the murder of Saudi journalist Khashoggi did not ultimately damage Saudi Arabia’s business ties with the West, it did cause a public backlash for the PIF and the termination of its investment in Endeavor. The CEOs of the RDIF and CIC have repeatedly assured the Western media that their investments are not politically motivated. The PIF hired a PR firm in response to the Khashoggi murder to rebuild its public image. SWFs care about their public image because a negative one restricts their ability to invest abroad.

Lastly, the case studies proved that SWFs have the ability to internally and externally increase the power of home countries, sometimes at the expense of the US. Russia’s RF financed government deficits to maintain the popularity of the Putin Administration and it reduced the effects of US sanctions meant to punish the government’s aggression abroad. The CIC’s many investments in US financial institutions affords them influence in the US. The PIF’s investments in domestic military arms production and large investments in Silicon Valley negatively affect the US’s ability to have influence in or punish Saudi Arabia. The increase in the potential to wield soft power through investments threatens the US’s effective use of its own soft power. China’s use of its SWF as part of its “going global” campaign that leverages economic
heft to increase its global influence attempts to compete with the US’s global influence.\footnote{Minxin Pei, "China in Xi’s “New Era”: A Play for Global Leadership," \textit{Journal of Democracy}, no. 2 (2018): 38-51.}

Partnerships between SFWs are a way of externally accumulating power to challenge the economic power and ideological dominance of the US. This phenomenon is especially apparent in the creation of the Russia-China-Saudi Cooperation Fund. China and Russia’s use of cooperation funds limit the ability of the US to impose broad regulation on funds it deems unfriendly to US interests. The RDIF’s partnerships with OPEC SWFs threatens the US sphere of influence in the Middle East as well as the US’s energy security. Both the ability to internally and externally increase power for SWF home countries reduces US power in the global arena.

\textbf{Insufficient Regulation}

All three case studies demonstrate that current international and domestic regulation of SWFs is insufficient to guard against economic and national security threats. The Santiago Principles guides SWFs to avoid the main problems of SWFs that lead to threats of national and economic security: lack independence and transparency. But, in all three case studies, SWFs exhibit a lack of independence and transparency. The Santiago Principles lack an enforcement mechanism which permits SWFs to behave in the way they chose without major consequences. It allows autocratic leaders in Russia, China, and Saudi Arabia to operate partially geopolitically motivated SWFs. Publically
posted self-evaluations permit SWFs to provide evidence that they are legally compliant to the Santiago Principles when they are not in practice.

Domestic regulation of SWFs fails to produce proper awareness of the threats of SWFs. Grouping SWFs investments with private foreign investments under broad domestic regulation is insufficient. Public entities and private entities have different investment goals. Public investment vehicles are much more vulnerable to exploitation for geopolitical purposes than private investment vehicles are. The US’s relationship with the home country matters more in assessing the risk of investment from SWFs than private foreign investment. Moreover, SWFs are a unique and relatively new financial innovation and grouping them with all other foreign investors decreases understanding and awareness of the different threats they pose. Failure to understand or be aware of the Russia-China joint investment fund’s relationship to VEB allowed the RDIF to invest in the US despite sanctions on VEB.

Enforcement of domestic regulation is dependent on the president making the decision to block investments from SWFs that threaten national security. Dependence on the executive also causes the relationship of the executive with foreign countries and fund officials to affect the president’s decision. This was demonstrated by both the CIC’s and PIF’s investments in Blackstone, whose CEO was a Trump economic advisor. This encourages the use of SWFs as a tool to earn favor with the administration and to serve a geopolitical purpose. Saudi Arabia’s use of PIF investment to curry favor with President Trump contributed to his failure to discipline Saudi Arabia for Khashoggi’s murder. President Trump is highly motivated by short-term economic gains, and SWF investment
can be used to influence US foreign policy. Without a second SWF watchdog, the US regulation of SWFs is entirely left up to the president to enforce.

6.3 Policy Recommendations

A New CFIUS Arm

An amendment to the CFIUS mandate establishing a new board that specifically investigates investment from SWFs would address some of the threats of SWFs. Regulation that provides oversight for private foreign companies wishing to invest in the US is currently the same as regulation for public foreign companies. Private and public companies are guided by different motivations and governance, and as a result their investment outcomes and risk are different. Consideration of whether the home government of a SWF is “hostile” to the US or does not align with US interests is important when evaluating a potential SWF investment. A specialized body to review investments from SWFs would be more equipped to assess the unique risk that they pose.

A second amendment to CFIUS that informs both the president and the House and Senate Foreign Relations Committee of CFIUS’s findings in assessing SWF investments increases vigilance of the SWF threats. Current domestic regulation of SWFs only permits the president to receive information about CFIUS’s findings and only the president can make the decision to block investment from a foreign entity. Expanding the scope of awareness to the legislative branch increases the probability that investments that threaten US security will be addressed. A new SWF CFIUS arm aims to increase awareness of SWFs and their potential threats. SWFs in an era of hybrid warfare are a
new challenge and government acknowledgment of their threats are few after initial

Published Rankings and Grades

The public image of SWFs has an effect on their access to US markets. A US
regulatory body like CFIUS should publically publish rankings and grades for SWFs,
evaluating their transparency, independence, and compliance with the Santiago
Principles. The rankings should aim to have similar effects as the World Bank’s Ease of
Doing Business Index; a SWF’s ranking should indicate how favorably the US views
investment from that SWF. It would provide both a resource for companies accepting or
courting investment from SWFs. Additionally, it would create an incentive for home
countries to improve their adherence to the Santiago Principles and not to pursue
geopolitical goals using SWFs. Indicators of when SWF investment in the US might be
motivated by geopolitical motives are:

- Investment by US (economic and political) adversaries
- Investment from funds with a low degree of independence
- Investment by autocratic countries
- Investment in strategic sectors
- Investments in non-commercially sound sectors
- Active investments rather than passive investments
- Investments when the timing lines up with political events
- Investments in companies that have ties to the US government
Rankings quantify the risks from these qualities and raise awareness of potential geopolitically motivated SWFs.

The most applicable and feasible enforcement mechanism for international regulation of SWFs in the US is to increase indicators for host countries when SWFs are not adhering to the Santiago Principles. According to a study completed at the University of Pennsylvania Law School, states respond to public rankings and adjust policies and regulations to receive more favorable rankings. Publicly publishing rankings that can help the US determine whether a country is acting geopolitically or adversely to national or economic security could help domestically enforce the Santiago Principles. Moreover, it would also enforce regulation without discouraging investment in the US by creating more barriers to investment.

Allowing the market to punish and reward SWFs based on their compliance with regulation would prevent the US from appearing hostile to SWF investment and losing out on potential sources of capital. SWFs want to invest in the US, especially in the high-tech and financial sectors. SWFs are also concerned about their public image due to a bad public image’s ability to diminish investment opportunities. If the US publically graded SWFs, it would incentivize SWFs with bad grades to reform in order to invest in the US without suspicion or rejection from the president.

Some ranking systems of SWFs exist. The Truman Scoreboard ranks SWFs based on their compliance with the Santiago Principles. But the scoreboard is published by the Peterson Institute of International Economics, not a domestic or international regulatory

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body. As a result, the rankings are not as effective at influencing the behavior of SWFs, nor are they tailored to the threat each fund poses specifically to the US. The Truman Scoreboard was conceived by an individual SWF scholar, Edwin Truman, not the overall Peterson Institute of International Economics. While the scoreboard is a good start to ranking SWFs, it is not sufficient. Rankings of SWFs by private institutions can be effective, but they need to be widespread and comprehensive enough. If a large nonprofit were to rank SWFs it would have similar usefulness as the US government ranking SWFs.

For example, the Linaburg-Maduell Transparency Index, which is published by the Sovereign Wealth Fund Institute, influenced the CEO of the CIC. He pledged to reach the same ranking on the index as the Norwegian fund on the television show “60 Minutes” in 2008. Additionally, the transparency of SWFs in aggregate has been steadily increasing. Public rankings of SWFs result in comparison to the Norwegian fund, which is the gold standard of compliance with the Santiago Principles. Publicly published rankings on Santiago Principles compliance sends a more effective message to SWFs that their investments need to be commercially motivated.

Third-Party International Evaluation

The IMF needs to be more involved in the running of the IFSWF. Allowing SWFs to police themselves is not sufficient to prevent SWFs from acting geopolitically. SWFs are an effective tool in accomplishing the geopolitical goals of the home country quietly.

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Without a proper governing body, home countries have few external barriers in using SWFs to accomplish non-commercial goals. A way to incentivize compliance with the Santiago Principles is to publish evaluations completed by the IMF, rather than self-evaluations.

Currently, the IFSWF publishes self-evaluations of SWFs’ compliance with the Santiago Principles. All three countries, Russia, China, and Saudi Arabia declare their fund is in line with the transparency and independence guidelines through self-evaluations. In practice, they do not adhere to those guidelines. Mandating third-party assessments of adherence to those guidelines as a prerequisite to IFSWF membership would increase incentives to follow those guidelines. Moreover, failing to become a member of the IFSWF would be a signal to host countries that a SWF is not governed by the Santiago Principles. Third-party evaluations will be more accurate and less dependent on the interpretation of the home country.

Inability of Policy to Address Soft Power Concerns

There is no single policy fix to address the threat to US hegemony. The threat results from the increase in soft power projection that SWFs cultivate, especially in countries that promote economic ideologies contrary to that of the US. A shift in economic power from the West to the East is possibly the greatest threat that SWFs pose to the US. Confronting the emerging threat requires major structural political and economic changes. One of these changes include less isolationism. Isolationist foreign policy contributes to the reduction of US soft power and created a vacuum for countries like China to fill the void in structuring the global economy. The US also needs
awareness of its domestic economic ailments that increase the threat of SWFs: macroeconomic imbalances and failure to diversify energy supply. Solutions to those problems, such as energy independence and achieving positive net exports, are difficult to implement and happen over a long period of time. But awareness of the shift in power away from the US advanced by SWFs is the first step in addressing the challenges.

6.4 Conclusions

Contrary to previous assessments of SWFs prior to the 2008 financial crisis, SWFs do pose a geopolitical threat to the US. Evidence of leveraging of SWF investment to increase international influence is found in Russia, China, and Saudi Arabia. In light of these findings, the US approach to addressing the threat of SWFs needs adjustment.

However, even if regulation was strengthened, the use of SWFs for geopolitical motives would not be completely eliminated. Even if the independence and transparency of SWFs are increased, autocrats in home countries will still want to use SWF as a tool of foreign policy. SWFs will continue to pose threats the US simply due to their mere existence in different countries and regimes. The goal of future US investigations into SWFs should be to increase awareness of the geopolitical motives of individual SWFs. A higher level of awareness allows the US to more effectively regulate SWFs when they pose a threat to national or economic security without hampering the benefits they could bring to the US economy. Future research into the effect that SWFs have on the US should also focus on the effects they have on democracy promotion and US soft power.

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Unlike the threats from Japanese FDI in 1980, the threats of SWFs are unlikely to dissipate quickly. As the demand for oil and other natural resources increase and large current account surpluses persist, SWFs will continue to grow in size and pervasiveness. Additionally, economics and finance will play an increasing role in foreign relations, amplified by the growing importance of SWFs. As the rise of sovereign wealth funds advances the shift in economic and political power from the West to the East, it is imperative that the United States understand the effects they have on its ability to operate as a hegemon in the international political economy.
Appendix: List of Acronyms

BRI: Belt and Road Initiative
CFIUS: The Committee on Foreign Investment in the United States
CIC: Chinese Investment Corporation
CNOOC: China National Offshore Oil Corporation
CPC: Communist Party of China
FEC: Federal Elections Committee
FEM: Fondo de Estabilizacion Macroeconomic (Venezuela)
FINSA: Foreign Investment and National Security Act of 2018
FIRRMA: Foreign Investment Risk Review Modernization Act
GCC: Gulf Cooperation Council
GDP: Gross Domestic Product
IFI: International Financial Institution
IFSWF: International Forum of Sovereign Wealth Funds
IMF: International Monetary Fund
IPO: Initial Public Offering
IWG: International Working Group of Sovereign Wealth Funds
MbS: Crowned Prince Mohammed bin Salman of Saudi Arabia
MOF: Ministry of Finance
NATO: North Atlantic Treaty Organization
NWF: National Wealth Fund (Russia)
OECD: Organization for Economic Cooperation and Development
OPEC: Organization of the Petroleum Exporting Countries
PAC: Political Action Committee
PBoC: People’s Bank of China
PIF: Public Investment Fund (Saudi Arabia)
RF: Reserve Fund (Russia)
RCIF: Russia-China Investment Fund
RDIF: Russian Direct Investment Fund
RMB: Renminbi
RUB: Russian Ruble
RSF: Russian Stabilization Fund
RTA: Regional Trade Agreement
SAFE: State Administration of Foreign Exchange (China)
SAMA: Saudi Arabian Monetary Agency
SAR: Saudi Arabian Riyal
SEC: US Securities and Exchange Commission
SOE: State-Owned Enterprise
SWF: Sovereign Wealth Fund
UAE: United Arab Emirates
UN: United Nations
US: United States
USD: United States Dollar
VEB: Vnesheconombank
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The Sovereign Wealth Fund Institute (SWFI). List of Sovereign Wealth Funds By Region. Raw data.


