Sovereign Wealth Funds: Singapore, United Arab Emirates, and Norway

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Abstract
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Document Type
Thesis

Degree Name
M.S. in International Studies

Department
International Studies
St. John Fisher College

**Sovereign Wealth Funds: Singapore, United Arab Emirates, and Norway**

A Master's Thesis submitted to

The Faculty of the Master of Science in International Studies Program

In Candidacy for the Degree of

Master of Science in International Studies

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December 13, 2007
Abstract

The past decade has seen a rise in sovereign wealth funds. Many of the dealings of sovereign wealth funds remain shrouded in secrecy, leading to suspicions about their motives. This secrecy is at odds with standards applied in global financial markets where the large majority of players have very detailed and exhaustive disclosure requirements. Given that many sovereign wealth funds have reached a size where they have become potential market movers, there is a case for making them liable to the same requirements. This paper undertakes an examination of sovereign wealth funds. Specifically, the paper will examine the rise of the sovereign wealth funds in the countries of Singapore, Norway, and United Arab Emirates. The focus of this paper will be to analyze the rapid growth of sovereign wealth funds in these three countries and determine if global protectionism is as warranted as it appears to be.
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1. Introduction

Sovereign wealth funds (SWF) are broadly defined financial entities that have the ability to manage the national savings of a country.\(^1\) Having been in known existence since 1956 with the Revenue Equalization Fund of the Republic of Kiribati, SWFs have recently captured the attention of financial authorities around the world.\(^2\) The reason these funds captured such a great deal of attention is three-fold: (1). There has been a considerable escalation in the number of sovereign wealth funds held by emerging market countries (EMC) such as: Russia, Trinidad and Tobago and Latin America.\(^3\) (2). As a result of the growth and exponential purchase potential of these funds, there has also been a particularly rapid pace of commodity and asset accumulation from EMCs. (3). The sheer size and scope of some of these wealth based funds is on par with the largest developed countries pension plans and central bank reserves. This magnitude of size is creating uncertainty with what many of the EMC’s will be doing with these enormous amounts of money they now have at their disposal.

In the global equity marketplace of the 21\(^{st}\) century, sovereign wealth funds that invest currency reserves in foreign assets control an estimate $2.5 trillion dollars

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according to Bloomberg estimates.\textsuperscript{4} This number is of course a conservative estimate.

There are sovereign wealth funds out there that have not been deemed sovereign wealth funds yet, and there would therefore be no way to attach a dollar amount to their value. There are also sovereign wealth funds in countries such as UAE for example that have a real dollar value attached to them. There is no transparent information being shared with the rest of the world about those funds, so there is no way to know the actual value of the fund yet.

By conservative estimates however, this dollar amount of $1.9 trillion currently represents more than the entire world hedge fund value of 1.25 Trillion.\textsuperscript{5} Assuming all factors that led to the current value of sovereign wealth funds remains the same, this dollar amount places EMC’s with sovereign wealth funds in the very viable position of being able to control the world’s wealth with an estimated $7.9 Trillion dollars over the next five years.\textsuperscript{6}

This paper will conduct an analysis of sovereign wealth funds. The analysis will look at sovereign wealth fund growth and management in the areas of problems that exist from them. The problem areas that will be discussed are: transparency, reciprocity, political leverage, economic leverage, and finally, government corruption and mismanagement.


From there, the paper will look specifically at the sovereign wealth funds held by the countries of: Singapore, United Arab Emirates, and Norway. In looking at these three countries, a comparative analysis will be conducted by revisiting the three big problem areas of sovereign wealth fund management. The three problem areas to be focused on will be: political and economic leverage, transparency and reciprocity. The goal of the paper is to determine if sovereign wealth fund growth around the world has created a real need for global financial protectionism.

1.1 Sovereign Wealth Funds: What Are They?

If you pick up a business journal or any financial newspaper today, it is highly unlikely you will not come across at least one article discussing how some country somewhere in the world has used or is using a sovereign wealth fund. The article will probably go into great detail about how a country is either purchasing property, high end real estate, or even a bank or airport in either their own home country or, in a foreign nation.

The explosion of sovereign wealth funds in countries around the world today is dominating the media and creating a small panic in political and economic circles.\(^7\) It appears that with this phenomenon, sovereign wealth funds came out of nowhere. Many countries around the world all of a sudden have amassed great deals of money, and are

looking for things to buy with it. While sovereign wealth funds are not new, the big
question about sovereign wealth funds that is being asked is, “What exactly are they?”

There is not one single universal definition of a sovereign wealth fund. Countries
that have these wealth based funds get them from various sources. Sovereign wealth
funds however, are typically funded by a country’s foreign exchange assets and act as
investment portal for the country. The actual idea of a sovereign wealth fund has been
around since the late 1950’s. The Revenue Equalization Fund of Kiribati was created in
1957 by the Kiribati people of the Tarawa and Christmas South Pacific Islands as a
sovereign fund financed by the regions phosphate earnings. Today, the Kiribati people
still have the fund and it is an important part of the government’s assets. In fact,
according to IMF estimates, the fund currently has a value of $554 million as of January
2006.

The more well known Kuwait Fund for Arab Economic Development followed in
notoriety in 1961. This fund acted as an institution for coordinating Kuwaiti
developmental aid to the Kuwaiti and other people of need in the region by the
government. The fund basically served the purpose of a loan to those that needed it for
technical assistance on economic and infrastructural development projects.

SWFs are financial vehicles owned by a country that are comprised of financial
assets such as: gold, property, oil, stocks, bonds, or other types of financial vehicles.

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8 Simon Johnson, “The Rise of Sovereign Wealth Funds: We Don’t Know Much about These State Owned
10 Ibid
These instruments hold, manage, and administer public funds that are invested into a wide range of liquid assets.\textsuperscript{12}

The countries in possession of these funds do not hold the wealth funds and allow them to accrue value the way an individual would hold onto a publicly traded stock or government bond. Nor do the countries in possession of these funds attempt to influence foreign exchange rates the way countries such as the United States would influence foreign exchange rates by buying or selling of treasury bills. Instead, countries with SWFs allow those funds to act as investment portals. These investment portals are oftentimes used to capture majority stakes in multinational corporations or other liquid assets around the world.\textsuperscript{13}

Part of the explanation addressing why there is not a universal definition ascribed to sovereign wealth funds is because the landscape is steadily changing with the capability and potential of these funds. Also, within each county around the world that own these funds as illustrated in Appendix 1, there are more differences between the countries sovereign wealth fund management than there are similarities. For example, in many of the OPEC countries where upwards of 45% of the world’s crude oil is produced, there are often balance of payment surplus’s created as a result of oil revenues.\textsuperscript{14} These surpluses in the balance of payments create an influx of money coming in to the country to do with as they please.

\textsuperscript{12} Simon Johnson, "The Rise of Sovereign Wealth Funds: We Don’t Know Much About These State Owned Players." Finance and Development, September 2007, 44(3) pp 1 - 2
\textsuperscript{13} Ibid
In UAE, to better bring this example into context. This region of the world is exceptionally oil rich.\textsuperscript{15} Before the discovery of oil in this region, what is now known as UAE was once a region of the world where the rich and poor fought heat, disease, and famine just to make a living.\textsuperscript{16} Less than half a half a century later, UAE became a region producing 2 million barrels of oil per day, and exporting that oil around the world to oil dependent countries. The oil and gas exports discovered and exploited in this region of the world have allowed UAE Federation to maintain a foreign exchange surplus year after year since the 1960’s.\textsuperscript{17}

In the non-OPEC countries, sovereign wealth fund creation and management is oftentimes a result of an economic crisis that has been recently remedied. The sovereign wealth funds that are created are done so to generate a currency stabilizer for that country to prevent whatever economic crisis that happened before, from happening again. The funds in the Asian markets are clear evidence of this.\textsuperscript{18}

Alternatively, if the county is looking to transfer wealth across generations, the fund that is set up will not be as aggressive in its investments as a stabilizer fund. The fund will however look to investments that have long term strength. The wealth fund in Norway was set up for just this purpose.\textsuperscript{19}

\textsuperscript{15} See: http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field(DOCID+ae0033) Accessed on 20 October 2007
\textsuperscript{16} Ibid
\textsuperscript{17} See: http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field(DOCID+ae0033) Accessed on 20 October 2007
There is also the possibility that the fund set up by the country was put into place to capture a combination of both stabilizing and generational wealth elements. This position is not common but does happen. It was believed for example, that the Russians set up their stabilization fund with the purpose of being a generational wealth creator during times of Russian market favoritism and a stabilizer fund for the country during times of global shifts in export pricing that went against the Russian economy.  

As the economy slowly in transition from a socialist economy to a market economy, the Russian Federation fund was set up in theory by the Russian government to offset excessive liquidity, reduce inflationary pressure and insulate the economy from the constant volatility of raw material export earnings. While simultaneously, the fund would transfer moneys into a high interest savings account for saving when market conditions favored Russian exports to be a generational wealth creator.  

What has happened in Russia instead is the Russian Ruble has remained an undervalued currency for approximately 10 years now, and the gap that was supposed to closing between the rich and poor has never been as wide as it is now.

What compounded the issue for Russia is the Russian state energy giant Gazprom. This company has been using the Russian reserves to monopolistically buy energy


20 Michael Bernstam and Alvin Rabushka, “Free and Not So Free To Charge: The Pendulum of Russia’s i


22 Ibid pp 60 - 75
networks throughout Eastern Europe and Germany. Acting as interim company leader and still Russian President, Vladimir Putin is eagerly attempting to show Europe and the world that regardless of how good or bad things are in Russia, the country will always be a "very strong economic force."  

There is finally the budget reserve sovereign wealth fund. This wealth fund is associated with country revenues during years or periods of surplus. This type of fund is also a stabilization fund much the same way as the funds in Asia. What is unique about this fund however is that it is usually created to stabilize spending during periods of recession? Any other time, the fund does not really serve a purpose.

With a country’s sovereign wealth fund creation and management, prevention of future economic crisis through some variation of a stabilization fund is a predominant theme. For example, as the paper will discuss in greater detail later, countries such as Singapore, created and use their SWFs as a means of stabilization against future economic bubbles that partly caused the global economic crisis of the 1990’s and devastated the Asian economy.

Not all Asian countries fall into the same circumstance as that of Singapore by being an export dependent nation. Resultantly, the stabilizer fund mechanism created in

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23 "Gazprom, Russia’s Energetic Enigma," The Economist. [Online].
26 Ibid.
this country acts a hard currency savings in the country's foreign exchange reserve to protect it against falls in income for commodity exports that are exposed to swings or shifts in global pricing for goods and services.28

From just these examples, there is an evident picture that sovereign wealth fund management and creation is really dependent on the country that has it and what is happening in that country. With the varying uses and sources of sovereign wealth funds, developing one definition for these multiple purposes becomes a challenge.

1.2 Sovereign Wealth Funds and Foreign Exchange Reserves

The International Monetary Fund’s Balance of Payments (BOP) Manual defines international reserve assets as “those external assets that are readily available to be controlled by the monetary authorities of a sovereign nation for direct financing of payment imbalances, for indirectly regulating the magnitude of such imbalances through intervention in exchange markets to affect the currency exchange rate, and for other purposes.”29 Foreign exchange reserves (FOREX) for countries around the world, act in short as Martin Feldstein describes, “as a ‘self-protection mechanism through increased liquidity.’”30

FOREX reserves are the assets denominated in foreign currency, plus some other commodity such as gold that is held by a central bank, sometimes for the purposes of

28 Ibid  p. 758
intervening in the exchange market to influence the exchange rate. Countries with higher net levels of liquid foreign assets are better able to withstand panics in financial markets and sudden reversals of capital flow. These reserve funds usually include foreign currencies especially US dollars and other assets denominated in foreign currencies, gold, and a small amount of special drawing rights (SDR) that most countries throughout the world have set up to act as a contingency plan through the IMF to purchase foreign currency when needed.

Key issues in determining whether SWF assets can be considered as official reserve assets include their liquidity and marketability as well as whether there is some legal or administrative guidance that would preclude the assets from being readily available to the monetary authorities to meet a balance of payments need. In some cases, SWF assets may be invested in liquid and marketable instruments, and the monetary authorities retain a clear legal right to call upon those assets to meet a balance of payments need. These SWF assets are likely to be classified as official commodity reserves. In many other cases, SWF assets may be invested in less liquid instruments

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32 Ibid pg. 538
and the monetary authorities may not have a clear legal right to call upon them. These SWF assets would not be classified as official non-commodity reserves.\textsuperscript{35}

1.3 Commodity and Non Commodity Reserves

Exchange assets that are held separately from a country’s foreign exchange reserves fund the SWF investment vehicle for the country.\textsuperscript{36} These funds have the special purpose of generating higher returns than those created by foreign exchange reserves. SWFs are created when governments have a budgetary surplus and little or no international debt.\textsuperscript{37}

Once a country creates a sovereign based wealth fund, there are generally one of two models followed in wealth fund implementation. In model one, the SWF is a commodity fund premised on stabilization and national wealth over a predetermined period of time.\textsuperscript{38} In model two, the SWF is a non-commodity based fund where the premise of fund management is on the increasing of inter-generational equity as well as the transformation of present day revenue streams for an emerging market conditions. Beginning with model one, a commodity - based sovereign wealth fund is established through commodity exports that are either owned or taxed by the government. This gives the fund an asset liability structure. By being an asset liability structure, the commodity funds can maintain such purposes as: fiscal stabilization of revenues, inter-generational

\textsuperscript{35} Ibid
\textsuperscript{38} Ibid
saving, or balance of payments sterilization.\textsuperscript{39} Commodity funds derive their origin from foreign currency accruing directly to the government. The foreign currency is not converted to domestic currency to be used by the country. Nor does this currency need to be sterilized through the issuance of domestic debt to avoid unwanted inflationary pressure on the local economy.\textsuperscript{40}

Non-commodity sovereign wealth funds on the other hand, tend to be equity focused funds where the premise and purpose of the fund is on buying strategic stakes in select companies.\textsuperscript{41} Non-commodity funds are typically established through asset transfers from official foreign exchange reserves.\textsuperscript{42} Market estimates currently attribute approximately two-thirds of the worlds SWF assets to commodity funds and the remaining one-third to non-commodity funds. Large BOP surpluses enable non-commodity exporters to transfer excess foreign exchange reserves to stand-alone investment funds to be managed for higher returns.\textsuperscript{43}

Non-commodity Sovereign Wealth Fund assets, on the other hand, are also often derived from exchange rate intervention measures by a country where much of the money is withdrawn from open market operations or sterilized.\textsuperscript{44} Large BOP surpluses enable

\textsuperscript{39} Ibid
\textsuperscript{42} Ibid
\textsuperscript{43} Ibid see: http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000215270.pdf
exporters to transfer exchange reserves to stand alone investment accounts that are managed for higher returns. These funds' net return then depends on the difference between the yield they earn on their investments and the yield they pay on their sterilization debt. In the end, these funds may be thought of more as "borrowed funds" instead of traditional "wealth."

1.4 Excess Reserves: Benefits and Costs

The Greenspan – Guidotti rule dictates that a country should keep its reserves large enough only to survive for one year without having to obtain a loan from another country. EMC’s around the world have done everything except follow this rule. In East Asia for example after the Asian crisis of both the 1980’s and late 1990’s, countries such as: Korea, Japan, China, Philippine, Malaysia, and Indonesia have all doubled, and in some cases tripled their foreign exchange reserve requirements. Central and Latin America are other examples. In the countries of Brazil, Peru and Columbia for example, all of these countries in the past year have all doubled the sizes of their reserves to the point that these reserves now surpass that of the United States.

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Increasingly, the need to obtain and hold excess reserves by some countries has become more and more important. The need for excess reserves being held by countries has also increasingly found itself at the center of a number of issues in monetary economics.\textsuperscript{49} For most countries for example, reserve accumulation is part of a sensible strategy to reduce external vulnerability, improve creditworthiness or the maintenance of low interest rates.\textsuperscript{50} In other countries, the need for excess reserves is tied to the benefits arising from the possible impact of changing exchange rates, and the need to borrow in local currency to offset higher reserves. \textsuperscript{51}

2. The Issues

Sovereign wealth fund growth is the inevitable result of globalization and third world development.\textsuperscript{52} Countries that were once impoverished now have the ability to influence and impact the global economy.\textsuperscript{53} Countries that were already rich are becoming richer. What should be viewed as a positive force for countries taking themselves out of poverty around the world is actually viewed as a threat.\textsuperscript{54} Sovereign wealth funds generally reflect the availability of excess government revenues and

\begin{footnotesize}
\begin{enumerate}
\item Ibid
\item Ibid See: David J. Jonsson," Sovereign Wealth Funds: A Potential Tool for Asymmetric Warfare,"
\end{enumerate}
\end{footnotesize}
reserves in the relevant countries and those countries perceived need to manage funds with a view towards meeting a liquidity need.

Meeting specific future needs is not wrong. In fact, this type of governmental behavior can be called planning for a future that is uncertain and unpredictable. In Alaska for example this very type of planning is occurring. The exclave of the United States recently added $525 billion dollars to its Alaskan Permanent fund.\(^\text{55}\)

Although Alaska is not a country the way Singapore or Russia is, the logic behind planning is the same. Because the oil reserves here are high in demand from markets around the world, the Alaskan has realized that the oil supply they have is far from infinite.\(^\text{56}\) In fact, according to recent reports, the oil supply in Alaska is dwindling to depletion rapidly.\(^\text{57}\) The governmental response has been the creation of a sovereign wealth fund.\(^\text{58}\)

Contrasting Alaska, there is the government of Libya. This country also recently joined the ranks of countries throughout the world with its surplus reserves and cash rich $40 Billion dollar Libyan Investment Authority Fund (LIA).\(^\text{59}\) In April 2004, President George Bush agreed to lift almost all of the trade embargos against the country. The lifting of the trade embargo was a negotiations tradeoff behind the Libyan government’s

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\(^{56}\) Ibid


\(^{58}\) Ibid

\(^{59}\) See: http://web.edsproxy.azproxy.apollolibrary.com/bsi/pdf/?id=3&gid=17&sid=e8021355-9ee1-4ee7-836e-b02947aad528%40sessionmgr8 Accessed 22 October 2007
willingness to eliminate all elements of its chemical and nuclear weapons programs and accept international inspections to ensure adherence and compliance to the Nuclear Nonproliferation Treaty.⁶⁰

Now that the trade embargo is lifted, it appears Libya is taking steps to position themselves globally as an economic power player. The government is shifting its $40 Billion fund by investing the monies in international markets.⁶¹

The planning by countries with sovereign wealth funds is happening consistently. The state of Alaska is looking at the possibility of a future without oil. The country of Libya is looking at positioning. The motivations may be different, but the planning is the same.

2.1 Global Reciprocity

A country’s reciprocity determines what type of global neighbor that country is going to be with neighboring countries and the countries it comes into contact and relations with.⁶² A country’s global reciprocity is a response to a country’s actions or sometime inactions to a situation either created by them, or a situation needing a response to by them in the eyes of a neighboring country or the rest of the world.⁶³ As Keohane suggests, global reciprocity is merely a condition theoretically invoked as an appropriate

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⁶³ Ibid
standard of behavior between sovereign nations.\textsuperscript{64} That standard of behavior is a gauge by which all the political actors are judged.

Sovereign wealth management in international economics has a similar idea. The long standing view and tradition in economics is that people are inherently self interested. In most economic accounts of individual, group and country behavior, the vast forces of greed are put at the center of the explanation of why people do the things they do. In almost all economic models, actors are portrayed as endlessly self interested with a guile that can almost always include: lying, cheating, stealing, keeping secrets and doing whatever I needed to do to make sure I ended up in a better position than you.\textsuperscript{65}

With the rise of sovereign wealth management by emerging market countries, the reciprocity argument comes into play. The perception of what is the other person doing, and how this is going to affect me, is also occurring. When country A examines country B’s sovereign wealth fund for example, the assumption is that country B will be taking the proceeds from their sovereign wealth fund and using the moneys toward their own best interest. This perception is acutely apparent in developed countries such as the United States, EU and Germany\textsuperscript{66} Throughout the developed world, the perception of sovereign wealth management is one fuelled by fear and mistrust of what these countries with massive amounts of money are going to do with this money, and how is what these countries are doing affecting us.

\textsuperscript{64} Ibid  See: Robert O Keohane, "Reciprocity in International Relations," International Organization pg. 20
The unfortunate thing is that the natural fear that someone is “outdoing you,” is being perpetuated with sovereign wealth funds. The media in the US, EU, Germany and throughout the world have grabbed a hold of the sovereign wealth fund story and are running with it. Headlines in major US newspapers and political and economic websites for example are now capturing the attention and imagination of people with such fearful and thought provoking headline titles as: “SWF - The New Bogeymen of Financial Capitalism.” 67 The stories behind the headlines compel a McCarthy like fear that the world is being run amuck; because the superpowers that once controlled the rules, no longer have that ability.

The idea of reciprocity with SWF management looks to the ability of foreign governments to purchase stakes in American, European or any company or country outside the country of origin of the sovereign wealth fund holder. Before that purchase is made, the country possessing the asset to be purchased should be made acutely aware of what is about to happen. Once that purchase has been made, the country purchasing the asset shows a consistent willingness to share information with regards to its purchase intentions.

Rediker and Crebo-Redicker argue that SWF reciprocity is not as big a concern as it is being made into. 68 They believe that countries around the world should have

equal opportunity to be able to purchase whatever is for sale because the world’s goods will ultimately need to be recirculated anyway.\textsuperscript{69}

There is a flaw in this argument that negates the motives of a country using their sovereign wealth fund to purchase stakes in a foreign country. For example, suppose a major firm were controlled by the sovereign wealth fund of a geopolitically important ally, and this firm seemed headed for a collapse. “Would a European or American government give in to pressure to override ‘state aid’ prohibitions and bail out the failing firm?”

2.2 Transparency

At the heart of all financial transactions lies the question of trust and confidence. Economists from Adam Smith to Paul Samuleson have all emphasized the importance of confidence and trust in their economic writing to be the cornerstone of all economic transactions. Whether to explain the wealth of nations or explaining the modern theory of production, trust lies at the core of how and why financial decisions are made. With sovereign wealth funds, trust through transparency is fuelling the next level of concern. The issue of trust through transparency with sovereign wealth funds is premised around the financial size of these funds and what governments plan to do with them. In Table I in the appendix, it is shown that countries such as Saudi Arabia, Iran, and Kuwait have SWFs totaling in the billions of dollars. This type of money gives a country a great deal of liquidity to purchase whatever is for sale.

\textsuperscript{69} Ibid see p. 4
Edwin Truman of the Peterson Institute suggests, “In practice, transparency for sovereign wealth funds should involve at least annual reports and preferably quarterly reports.” “It would be desirable to have substantial quantitative disclosure about investment strategies, outcomes, and the nature and location of actual investments.”

What it all comes down to is trust. There are laws in place that protect investors from fraudulent investment schemes. However, when a country is making large purchases in another nation, and no one knows what that country’s intentions are, there is a cloud of suspicion raised.

2.3 Political Leverage

The political leverage seen from Sovereign Wealth Funds falls into several categories. Chief among those concerns is what is referred to as the “hidden agenda factor.” As Mukherjee writes, “the assets of sovereign wealth funds will be managed to pursue political prerogatives such as leverage over neighboring countries.” The type of leverage he is referring to can be seen in the example of recent UAE’s investments in the real estate businesses in America. The type of investments UAE has is in key locations such as: Park Avenue and Times Square in New York City. “Is there a hidden agenda with these investments?” There can not be a definitive answer given to that question.

72 Ibid
The point is well recognized that a country has the right to do with their money what they chose. However, as Jeff Werbalowsky noted during the Reuters Finance Summit in New York in 2007, countries should be limited in what they can buy because we do not always know what their intentions are. If country refuses to tell what their intentions are, that casts a cloud of doubt on whatever their intentions are.

Another example of the hidden agenda political leverage was recently experienced in Thailand in 2006. Temasek holdings purchased a 49% stake in the Shin Corporation of Thailand. Once the purchase was complete, Temasek holdings of Singapore was in control of Shin Corporation of Thailand, a government run media center.

The language of the Thailand legal system that allowed the purchase was ultimately rewritten to void the sale by the Thai Government. Singapore’s Temasek was not allowed to keep controlling shares of the company. The backlash however of Temasek’s actions creates the concern that these types of actions are not happening in isolation.

The next area where sovereign wealth management’s political leverage has an impact is in the concept of countries being able to buy what they want and exercise control in that country. The control would be illustrated through the practice of cross border investing.

What a country does within its borders is one thing, when that country goes outside its borders and attempts to do thing some where else; a different subject matter is

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broached. Edwin Truman of the Peterson Institute for International Economics argues for example, that once the country leaves it borders with its investments, confidentiality and the capacity to make strategic investment decisions without the involvement of the country that is being invested in, must be done in a cooperative fashion or the entire process will not work.\textsuperscript{75}

Cross border investing is a byproduct of international trade and is not a new subject.\textsuperscript{76} I look at cross border investing with sovereign wealth funds as a paradox because there is not anything illegal about investing in another country. However, with sovereign wealth funds cross border investing takes on the meaning of property being purchased in another country with the intention of having an agenda. A perfect example of this occurred recently in Germany Russia was using its new growth stabilization fund to buy up pipelines in Germany.

These pipelines being purchased as it turned out was part of the German energy infrastructures.\textsuperscript{77} What the Russians through Gazprom were looking to accomplish is positioning themselves through their Sovereign wealth funds to the energy source of the EU by ultimately partnering with Hungary.\textsuperscript{78}

If the Russians were successful, according to Chancellor Angela Merkel of the Christian Democratic Union, Europe would be squeezed for political gain.\textsuperscript{79} The

\textsuperscript{75} See: http://www.petersoninstitute.org/publications/ph/ph07-6.pdf
\textsuperscript{77} Ibid
Accessed 1 November 2007
Germans through Chancellor Merkel in fact, have raised the greatest concerns about sovereign investors from both China and Russia. The German fear was triggered by pending privatizations and the growing stakes accumulated in German banks. Merkel has argued” "One cannot simply react as if these are completely normal funds of privately pooled capital."

2.4 Economic Leverage

Very closely related to the political leverage are the economic leveraging factors. With economic leveraging, several doors are opened that once opened, cannot be closed. This negative impact can occur in five ways: First is the risk that governments will mismanage their international investments to their own economic and financial detriment and with negative consequences for the global economic and financial systems. Second is the risk that governments will manage those investments in pursuit of political or economic power objectives for example, promoting state-owned or state-controlled national champions to global champions.

Third is the risk of an outbreak of financial protectionism in host countries, in anticipation of the pursuit of political or economic objectives by the owners of the investments or in response to the actual actions of those governments. Fourth is the risk that in their management of their international assets, governments will contribute to market turmoil and uncertainty. Finally is the risk of conflicts of interest for government

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80 Ibid
owners of the international assets and the domestic or foreign institutional or individual
managers of those assets with an associated potential for corruption.

The G7 countries recently met again in October 2007. Part of the purpose of this
meeting was to further discuss the rise of sovereign wealth funds. Of the countries
represented in the G7, the United States has perhaps the most extensive existing FDI
review process. Its Committee on Foreign Investments in the United States (CFIUS-
currently being revised) gained public attention following CNOOC’s attempt to purchase
Unocal and Dubai Ports World attempt to purchase US ports from P&O and HSBC Bank.

2.5 Mismanagement and Corruption

In addition to the question of SWF size and the various types of leveraging is yet
one more crucial concern. At the heart of SWF management, is the bigger question of
corruption and mismanagement. Maximizing the value of shareholdings will not only be
the objective of governments, but of shareholders as well. Possible alternative motives
may involve privileged access to home markets or aspirations to achieve political
influence or gaining access to technology.

Government mismanagement and corruption would be subsets of the issues of
transparency and reciprocity, but big enough to be a category to themselves. Because
there is no disclosure, governments can use creative accounting practices to come up with
dollar amounts they are about the value of their sovereign wealth funds. More than this,
until recently, EMC’s and other developing countries have reported reserve holdings and
the country purchasing with their sovereign wealth fund.
Several countries, Ecuador and Nigeria, have established sovereign wealth funds only to squander and liquidate the funds as a response to political pressures that are at best short-term and at worst, corrupt. The corruption question also comes into play with the country of Libya that was recently freed from the constraints of a trade embargo in 2006.\footnote{See: http://www.whitehouse.gov/news/releases/2004/02/20040211-5.html, Accessed 10 October 2007} The country now has a $40 Billion sovereign wealth that is bringing excess capital to the country.\footnote{See: http://web.ebscohost.com.ezproxy.apollolibrary.com/bsi/pdf?vid=4&hid=104&sid=6fb21b80-ddf8-4d52-8c5f-6dbd9ad94c4d%40sessionmgr7, Accessed 10 October 2007} The launch of the SWF in Libya will most likely deliver the country substantial gains and short term growth. However, because the market in Libya remains a closed market to the rest of the international community and the country have a bad reputation already in the international community as being a destination country for sexual exploitation for people from Sub Sahara Africa and Asia.\footnote{See: https://www.cia.gov/library/publications/the-world-factbook/geos/ly.html#Issues, Accessed 10 October 2007} The likelihood is that Libya will continue to do business the way they have been.

The countries being examined in this paper fortunately do not face the questions of corruption or mismanagement with their sovereign wealth funds. The topic had to be mentioned only because it is significant part of the sovereign wealth fund problem. This next section of the paper will look at how these problems are connected to the sovereign wealth funds in the countries of Singapore, Norway and UAE.

3. Singapore

The island state of Singapore is a small densely populated island strategically located between Malaysia and Indonesia. As an island nation, it enjoys one of the world’s
most open, trade oriented economies in Asia and is considered today one of the world’s most second most competitive economies.\textsuperscript{84}

Since the independence of Singapore and official separation from Malaysia, the country has always been an export dependent economy. Being dependent on so many other economies around the world for their own survival, took its toll during the late 1980’s and 1990’s during the global recession, and again in 2003 with the global outbreak of S.A.R.S.\textsuperscript{85}

Singapore’s economy has recovered rapidly due to a favorable external environment, supportive macroeconomic policies, and continued structural reforms. After the Asian financial crisis in the (MAS) Monetary Authority of Singapore set up a series of political and economic initiatives focused on positioning the country to be at the center of the center of the Asian economy.\textsuperscript{86} The two sovereign wealth sovereign the country has helped paved the way to these initiatives.

3.1 Temasek and the Government of Singapore Investment Corporation

Singapore has two foreign direct investment vehicles: the Government of Singapore Investment Corporation (GIC) and Temasek Holdings. GIC was created in


\textsuperscript{85} See: http://www.cdc.gov/MMWR/preview/mmwrhtml/mm5218a1.htm

1981 to manage Singapore’s foreign reserves. While being one of the two foreign direct investment vehicles for the country, GIC is primarily focused on investments revolving around: equities, fixed income investments, money markets and real estate.

In fact, half of GICs investments are in equities, 30% in bonds and the rest in property, private equity, hedge funds and commodities. The investments of GIC are split between US, Europe and Japan. The investment portfolio of GIC is managed by its three subsidiaries: GIC Asset Management, GIC Real Estate and GIC Special Investments. With a staff strength of over 900 people and GIC manages well over $100 billion dollars worth of investment dollars. As an investment house, GIC has been barred from investing locally in Singapore. There are fears that its huge size would distort local financial markets. But its foreign activity has stirred much less controversy than its counterpart Temasek Holdings, which has encountered a nationalist backlash in other Asian countries. Since GICs founding in 1981, this Singapore fund has only once released information about its public accounts. That disclosure was done to the Wall Street Journal.

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90 Ibid
Temasek on the other hand, is characterized as an Asia investment house only, but the organization is centrally headquartered in Singapore. In addition to being focused on real estate, Temasek is also focused on telecommunications and media, transportation, engineering and technology. With a multinational staff of more than 300 people, it manages a portfolio of over $160 billion, or more than US$100 billion. The investments are focused primarily in Asia. It is an active shareholder and investor in diverse industry sectors such as banking & financial services, real estate, transportation & logistics, infrastructure.

Temasek has taken a much more activist approach, similar to a private-equity fund, by buying big stakes in foreign companies and seeking some say or total control in management. This approach has created a great deal of criticism for Temasek and has raised its profile and made it a target of political opposition. For example, in 2006 Temasek aggressively acquired the Shin Corporation in Thailand by purchasing a 49% stake in the company. Not too long after the Shin Corporation take over, Temasek also attempted to take over a cell phone company in Indonesia.

3.2 Transparency
The problem that exists with the Singapore sovereign wealth fund is transparency. Both GIC and Temasek invest the country’s foreign reserves in local and international investments. Temasek has assumed the role of being the aggressive investment vehicle

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94 Ibid
for Singapore with its recent bids for P & O in the United States and, obtaining in a stake in O A O Mobile Bank in Russia earlier in 2007. 97 Also, with the purchasing of a majority stake in the Shin Corporation of Thailand. In 2006 98

The Government of Singapore Investment Corporation (GIC) on the other hand has long maintained a low-key presence in global financial and property markets in spite of being one of the world's three top sovereign wealth funds. 99 Those who leak or publish unauthorized information are threatened with punishment, including imprisonment, under the Official Secrets Act. This rule is even applied to foreign institutions.100

4. United Arab Emirates

Arab Emirates is located on the cusp of the Arabian Peninsula bordered by the Arabian Gulf to the north, Oman and the Gulf of Oman to the east, and Saudi Arabia to the south. 101 This strategic position is of great benefit to the UAE, making the country a high-income crucial center for trade and the second largest Arab economy in the world. 102 Since gaining independence in 1971 from the United Kingdom, United Arab

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98 See:
102 Ibid
Emirates has developed a dynamic economy, with one of the highest per capita incomes in the world.\textsuperscript{103}

After independence, six states merged to form the UAE: These six federated states were: Abu Dhabi, 'Ajman, Al-Fujayrah, Al-Shariqah, Dubay, and Um al-Qaywayn. The state of Ra's al-Khaymah joined the union in 1972 making what is now known as the seven-state UAE Federation.\textsuperscript{104}

4.1 Istithmar, Mubadal Development and Abu Dhabi Investment Company

In the UAE, there are three sovereign wealth fund management firms: (ADIC) Abu Dhabi Investment Company, Istithmar, and Mubadal Development Company. Of the three, ADIC is the government-owned investment bank that has up until recently catered exclusively to government institutions. Abu Dhabi also is the largest government investment authority in the world\textsuperscript{105} A.D.I.C. was established on February 24, 1977 as the first U.A.E. investment company in the capital.\textsuperscript{106} ADIC is a public limited company that specializes in providing investment and corporate finance in addition to advisory services. Jointly owned by Abu Dhabi Investment Council and the (NBAD) National Bank of Abu Dhabi, ADIC’s principal business activities consist of: Investment and

\textsuperscript{104} Ibid:
\textsuperscript{106} Ibid
merchant banking, Loan syndication, foreign exchange, money market dealings, trade
finance, asset management, securities and commodity trading, and brokerage services.  

Istithmar is the Arabic translation for the word investment. This company is a
Dubai investment holding company for both foreign and local investors. Istithmar is
an investment house based in the United Arab Emirates with an international portfolio
that touches the Middle East, Asia, North America, and Europe. Launched in 2003
with an initial investment capital of USD1.8 billion, Istithmar was created to centralize
investments made by the Dubai Ports, Customs and Free Zone Corporation, Nakheel,
Dubai Metals and Mining, and Tejari.

Mubadal Development Company is a direct investment service that is involved
in various sectors including: energy, power, education, healthcare, real estate, basin
industries and services. The Mubadala Development Company (Mubadala) is the
investment and development arm of the government of Abu Dhabi. Chaired by crown
prince of the UAE and involved in the commercial and industrial sectors. Mubadala was
established in October 2002 as a Public Joint Stock Company through Emiri Decree
Number 12 of 2002, issued by His Highness the Crown Prince of Abu Dhabi. Collectively, these three investment houses often partner with the countries of Bahrain,
Kuwait, Oman, Qatar, and Saudi Arabia. Between the eight investment houses, there is a

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108 Ibid
109 Ibid
111 Ibid
112 Ibid
foreign asset control in the middle-east totaling $1.6 trillion dollars. Making the gulf an economic powerhouse to be contended with.\textsuperscript{114}

4.2 UAE and Sovereign Wealth Funds

Through the three investment houses in UAE, there is a substantial amount of property throughout the UAE and the world owned by the UAE. Table IV in the appendix lists companies and property owned by UAE that stems from companies to property on Park Avenue in New York City. The current world value of the SWFs in UAE is estimated to be $ 875 Billion.\textsuperscript{115}

Additionally, UAE is an aggressive sovereign wealth fund investor. Just recently, Citi -Group announced it had reached an agreement to sell Equity Units, with mandatory conversion into common shares, in a private placement to the Abu Dhabi Investment Authority (ADIA)\textsuperscript{116} in the amount of $7.5 billion. Before this, the GCC countries were investing heavily in the expansion of their industrial manufacturing sectors.\textsuperscript{117} The GCC countries consist of the Gulf Coast Country 8: Bahrain, Oman, Kuwait, Qatar, Saudi Arabia, North Africa and United Arab Emirates. The current total value of all non-oil and gas industrial projects in GCC was estimated to exceed US$115 billion between the countries.

Mubadala as an investment house has a diversified portfolio, which includes large-scale industry ventures in energy, the heavy industries, telecommunications, infrastructure and aerospace in the MENA region. Mubadala also has growing international investments in Switzerland, Italy, Nigeria and the Netherlands.\textsuperscript{118} The final investment house has been equally busy. In October 2007, Istithmar chief executive officer David Jackson stated the company will be spending $100 million for the opening of new Barneys of New York Stores.\textsuperscript{119} Istithmar recently purchased the Barney’s retail outlet in New York for $942.3 million, and is now expanding the stores throughout the US and Europe. Earlier in September 2007, Istithmar announced it would develop a 76-hectare 50-room residence and spa retreat site at Muyuni Beach, Zanzibar for the price tag of 150 million.\textsuperscript{120}

4.3 Transparency

The United Arab Emirates set up a federal wealth funds to manage assets of the federal government of the world’s sixth-largest oil exporter, "The body is responsible for investing funds set for investment on behalf of the federal government. The transparency question in UAE is one of the bigger problems of UAE sovereign wealth fund management. The problem does not stem so much from the purchases being made as

\textsuperscript{118} Ibid
much as it does why. Professor Lawrence H. Summers from Harvard, summed it up this way, "SWFs should make investment decisions for financial, not strategic reasons.\textsuperscript{121}

It appears that UAE is purchasing such things as property on Park Avenue and businesses in specialty markets not because it is strategically to their advantage to do so. It appears that they are making these purchases just because they have the money to do so. For example, there were questions revolving around Dubai Ports World 2005 attempt to take over American sea ports with the purchase of P & O.\textsuperscript{122}

After the final bid was accepted by UAE, questions immediately arose as to what the intentions of the UAE were. "Did they want to strategically position themselves in the United States so that it would be easier to attack the country?" "Were they looking to purchase significant property in the US to leverage them to being an economic powerhouse in the U.S?" No one really knew. White House spokesman Scott McClellan said the move was solely P & O's decision and had nothing to do with UAE.\textsuperscript{123} Other countries such as Singapore were also bidding for the purchase and did not follow through." The White House later released a white paper fact sheet debunking the rumors and implications of the sale.\textsuperscript{124}

The purchase of P & O prompted a Senate GOP hearing where Congress assembled the Committee on Foreign Investment in the United States to inquiry on the

legality of the sale. Congress's intention was to block the sale. Before this could be done however, DP World in March 2006 issued a press release indicating that they would prefer to continue their relationship with the United States rather than fighting over a sea port. UAE backed out of the deal.

If the purchase of P & O was strategic on the part of UAE, Shiek Al Maktoum would not have so willingly backed away from the purchase in an effort to maintain diplomatic relations with the United States. Because diplomatic relations were ultimately more important to Shiek Al Maktoum, the question now becomes, "what were his intentions to begin with?" Or, "Was he simply buying something that was for sale?"

Other examples from UAE demonstrate the same ambiguity. Is the UAE looking at financial purchases based on strategy or good will? Just recently, the Abu Dhabi Investment Authority began the process of investing $7.5 billion in Citigroup. This investment was designed for the bank to be able to offset losses from mortgages and other investments that are keeping the bank from reaching its financial targets for 2007. The cash from the sovereign investment fund of the Gulf Arab state, which has benefited from this year's surge in oil prices, will be convertible into no more than 4.9 percent of Citigroup Inc.'s equity. Citigroup characterized the investment as passive and said the fund will not be able to name any board members to the bank.

125 See: http://www.nti.org/e_research/e3_75.html Accessed 30 October 2007
129 Ibid.
4.4 Reciprocity

Up until recently, there was not any reciprocity from UAE. A purchase would be made with UAE’s sovereign wealth fund and the rest of the world would not know anything about it until it was later disclosed that the UAE was behind the purchase.

4.5 SWF Leverage, Religion and Interest

Political and economic leverage in UAE with sovereign wealth funds takes on a different dynamic than it would in Singapore or Norway. The leverage that comes from UAE comes from the religion. Religion is completely entrenched in the way business is done in UAE. Religion is so entrenched in UAE that it dictates how business is done. For example, following the law of Islam, money has no other value other than being a medium of exchange.  

Where money would be a means to an end in the United States or the EU, in the UAE, money’s significance only serves the purpose of what it was intended for.

This distinction may seem like an apple to apples comparison, but the significance is real. For example, A Muslim is not allowed to benefit from making money from money. The way a bank would charge interest on money as a result of a loan for example. Making money from money is forbidden in Islamic law.  

This tenet of Islamic law comes into play with the business UAE is conducting around the world today and the way Muslims conduct business through their sovereign wealth funds. The tenet follows three principles: tawhid (unity) Khilafah (vicegerency)

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and adālah (justice). These tenets frame the Muslim strategy to life and business. When the Muslim enters into a business contract, there are things that can and not be done. For the purposes being looked at in this paper, I will only look at one of these things. One of the tenets that must be followed by a Muslim in order to conduct business according to Islamic law is that a business relationship cannot be created where riba or interest is involved.

For the Muslim, the Qur’an has a rule regarding concept of money and usury (riba). This rule has actually caused considerable angst for Muslims for centuries. Though some Islamic thinkers argue about what the Qur’an means by usury, it has been generally interpreted as prohibiting interest-charging.

Fundamental to establishment of the ‘Islamic kingdom of God on Earth’. The rules lie in the principles of Islam's shariah law, taken from the Qur’an and the Sunnah, (the way) referring to the way in which the prophet Muhammad lived his life. This means that earning interest (riba) is not allowed in business relationships. To comply with these rules, interest is not paid on Islamic savings or current accounts or applied to Islamic mortgages. Certain types of insurance is prohibited by law and money can not be earned from money

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134 Ibid
The relevance of this to the UAE sovereign wealth funds is seen in how members of the UAE conduct business. Islamic based SWFs are created and operated on the basis of being compliant with Shariah (Islamic) Law.

Shariah compliance requires the development of Islamic finance to be orderly and compliant with the Islamic injunctions.\textsuperscript{137} An investment fund for example, can be structured based on the Mudaraba (customer) contract under which an investor provides capital to another person/body (akin to a fund manager - mudarib), who uses their expertise to devise a suitable investment strategy.\textsuperscript{138} Any profits generated by the joint enterprise are divided between the mudarib and the rabb al-mal (owner) in accordance with a predetermined formula.

If any financial losses occur, these will be borne by the investor to a maximum of his capital investment. Conversely, the mudarib's loses are limited to that of his time and efforts if the venture is not profitable.\textsuperscript{139}

In non Islamic lay terms, the relationship described above looks this way: a customer requires a loan. The Shariah compliant financial product provider purchases commodities from a supplier including the title but not the delivery of the product and then sells immediately to the customer at cost plus profit.


\textsuperscript{138} ibid

This allows the customer to defer payment either over a set period or until a specified future date. The customer takes title but not the delivery. The customer, using the Shariah compliant financial product provider as its agent, then immediately sells the commodities to a purchaser at a price, equivalent to the cost to the Shariah compliant financial product provider, to a purchaser. The Shariah Compliant financial product provider; who acts as an agent but does not charge money from the customer for acting as agent.

All this is done on spot, that is, it is done almost instantaneously to avoid the risk of either a rise or fall in the commodity price. The proceeds equivalent to cost is credited in the customer’s account allows for subsequent use. The profit on sale of the commodity by the Shariah Compliant financial product provider to the customer is what the Shariah Compliant financial product provider makes from the deal.

It is impossible to exaggerate the dangers inherent in Shariah-Compliant SWFs. On the face of it, we are dealing merely with "interest free" financial instruments. For the investment funds, there is a requirement that they have a Shariah Board which is involved with all aspects of a proposed transaction so that it would issue a formal fatwa endorsing it as fully Shariah compliant. The expansion of Shariah-Compliant SWFs will require ultimately change the Securities Laws to make in order to make them consistent with Shariah law.
5. Norway

Norway is another country heavily dependent on its oil reserves, and taking advantage of the oil reserve surplus in its sovereign wealth fund. Norway's economy is characterized by substantial oil and natural gas revenues. As a country, Norway is the third largest net oil exporter in the world, and the recent period of high oil prices have made for government budget and current account surpluses and rising disposable income. Oil in Norway has always been their principle export.

Norway has come a long way with the country's oil production and sovereign wealth fund. When Norway began pumping oil in the 1970s, the economy overheated, inflation set in, the currency exchange rate tanked, and when oil prices collapsed in 1986, the contractions in the Norwegian economy were painful. Once the economy was past this, Norwegian politicians recognized the danger of oil addiction. They passed legislation requiring that almost all the revenues from the government-owned oil company, Statoil, be placed in an investment fund "to ensure that oil and gas receipts will also benefit future generations." Originally called the Petroleum Fund, the name was changed in 2005 to the Government Pension Fund to make the point that the money was not to be touched.

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142 See: http://www.amb-norvege.mg/ingenglish/economy/pensionfund.htm Accessed 5 November 2007
5.1 The Norwegian State Petroleum Fund

The Norwegian State Petroleum fund was founded in 1990. Its creation was made necessary by the aging population of the country and a decline in petroleum volumes. Acting simultaneously as a savings and stabilization fund, the state petroleum fund is designed to provide long term budgetary stability.\textsuperscript{144}

There is no definite rule or formula in Norway for determining contributions to the fund and each contribution is separately approved by the country’s parliament. The government through the Ministry of Finance determines the general guidelines for investing the funds resources and for establishing the funds portfolio perspective. The fund’s assets consist of foreign financial assets (state bonds, and securities of companies not associated with oil).\textsuperscript{145}

The seventeen years of fund operations in Norway has proven to be exceptionally successful for the country. The country’s balanced budgets made possible by the fund have helped smooth fluctuations in aggregate demand and inflationary pressures in the country have been kept very low.

5.2 Transparency

The government pension fund has had great success since it was created in 1996 and is today one of the largest sovereign funds in the world.\textsuperscript{146} The fund is only invested into low-risk non-strategic assets, and the investments aim to follow environmental

\textsuperscript{144} Ibid
\textsuperscript{145} See: http://www.amb-norvege.mg/inenglish/economy/pensionfund.htm Accessed 5 November 2007
\textsuperscript{146} See: http://www.cnbc.com/id/21982957/for/cnbc Accessed 5 November 2007
and human-rights standards.\textsuperscript{147} The Governance of the Norwegian SWF is divided between the Ministry of Finance who is also responsible for the management of the Fund and the Norwegian Bank.\textsuperscript{148}

According to the Norges Bank Prime minister, the purpose of Norway’s SWF is only to emphasize an accounting technique.\textsuperscript{149} The purpose of the fund is to provide an instrument for better, long-term budget disciplining with governmental financial surpluses. If resources were not allocated to the Petroleum Fund, a sound economic policy would have resulted in roughly the same macroeconomic developments and accumulation of Norges Bank’s international reserves equivalent to what is now being transferred to the Petroleum Fund.

The keyword for the Norway’s governance of the SWF is transparency. Norway’s Government Pension Fund – Global is a tool to manage Norway’s petroleum wealth wisely and avoid the resource curse that engulfs most developing countries that are rich with resource.\textsuperscript{150} The PFG in Norway acts as a fiscal policy tool to support a long term management of petroleum revenues. Unlike the stabilization strategy used in Singapore, the investment of sovereign fund, the investment of funds in Norway is done so to

\textsuperscript{147} Ibid
\textsuperscript{149} See: \url{http://www.norges-bank.no/Pages/Article_17823.aspx} Accessed 5 November 2007
\textsuperscript{150} See: \url{http://www.wider.unu.edu/research/pr9899d2/pr9899d2s.htm} Accessed 5 November 2007
support diversification, financial returns and shielding the non-oil economy from transitory and volatile revenues.\textsuperscript{151}

When the Government Petroleum Fund was established in 1990, it was important to determine how much oil revenues were immediately consumed in the domestic economy. It was also deemed inappropriate to keep capital in the Petroleum Fund if the government had to borrow to finance its expenditure. It was thus decided that the annual allocation to the Petroleum Fund should be equivalent to the difference between total government oil and gas revenues and the government budget deficit, excluding oil and gas revenues. No allocations were made between 1990, when the Fund was established, and 1994, because the budget deficit exceeded oil and gas revenues in this period.

The operation of the Norwegian Pension Fund-Global (NPFG, formerly known as the Norwegian Petroleum Fund) can be considered as best practice for a resource-related fund, because it forms part of a coherent fiscal policy strategy. The strategy has two central pillars: first, it aims at smoothing public spending over time and decoupling it from volatile oil revenue. Secondly, it seeks to replace oil wealth with financial assets, which are expected to grow in value over time. The hope behind this is to be able to deal with the expected increase in public spending associated with an aging population.\textsuperscript{152}

Importantly, Norway’s fiscal policy drives the operation of NPFG rather than vice versa. NPFG accumulates all oil revenue and returns on financial investments, and it makes transfers to the budget only to the extent necessary to finance the non-oil deficit.

\textsuperscript{152} See: http://www.norges-bank.no/Pages/Article_13861.aspx Accessed 5 November 2007
which is determined by annual, medium-term, and long-term fiscal policy objectives. NPFG is thus characterized as a financing fund; stabilization and sustainability objectives are achieved by fiscal policy, not by NPFG.\textsuperscript{153}

In Norway, transparency is emphasized as a key tool in building trust, both domestically and internationally. The management of the fund is premised around this concept. Transparency creates political support and reduces the risk of bad governance.

5.3 Reciprocity
Norway again sets the standard by which other countries are judged with its sovereign wealth fund supports the ongoing work with the IMF and the OECD in studying the effects of SWF.\textsuperscript{154} This support is demonstrated by the publishing of annual reports and the publication of it.\textsuperscript{155} The ethical guidelines of the PFG do not represent political or economic interference with the fund. Norway’s guidelines are transparent and predictable and based on the UN Global Compact.

6. Conclusion

From this paper, sovereign wealth funds have been introduced from three different points of view. The countries discussed are among the biggest sovereign wealth fund holding countries holding 2 trillion or more dollars. From these three countries, I have looked at what would be the problem areas with SWF management. One of the

\textsuperscript{154} See: http://www.regjeringen.no/upload/FIN/Statens\%20pensjonsfond/Background\%20Norway\%60s\%20position\%20on\%20SWF.pdf Accessed 5 November 2007
\textsuperscript{155} Ibid
countries, Singapore, has transparency issues with both GIC and Temasek. Neither investment house will make available any financial statements reporting investment house performance.

This issue of transparency makes one question what the true intentions of Singapore are. It is easy to speculate for example that the take over of Shin Corporation by Temasek was politically or economically motivated. Perhaps, by taking over a government run media center, Singapore would have some impact on the media in Thailand. In the alternative, perhaps taking over the company in Thailand, Singapore had motives of ultimately taking control of all the businesses in Thailand, and the Shin Corporation was just the first.

In all honesty, it is most likely that Temasek’s motives were neither of these. Unfortunately, because the investment houses in Singapore do not share information, we will never know.

Comparing Singapore with UAE, there is this issue and others. In UAE, there are three investment houses. Each one with its’ own enormous purchasing power. The leverage from UAE comes from their religious practices. Currently, of the countries in the world with sovereign wealth funds, UAE is one of the countries in a very good position because they are reaping in the financial benefits of the oil price spikes.

Having the money puts UAE in a position where company’s and governments want to do business with them. The Muslim religion however, dictates that business with the UAE and any other Muslim practicing country be done a very specific way. That very specific way just so happens to contradict the way the western world does business.
This contradiction works out to be leverage. Because UAE has the money that would be needed for large capital transactions, many western world businesses are willing to meet UAE on its’ terms just so that business can be transacted. In fact, because the Muslim world is so economically advantageous to the West, Islamic values are currently being embraced in the business world because there is money to be made.  

In addition to the leverage issue UAE also does not report the investment activity of the three investment houses. There is information shared on the websites of the companies. There is no way to verify that what is on the company websites is true. This transparency parallels the issues in Singapore.

What is worst in the case of UAE however is that the leverage they are using intentionally or unintentionally is creating a dichotomy for the western world? On the one hand, the western word does not know if they can trust the Muslims. Because the Muslims do not share information, it becomes easier not to trust them. If the west does not at least pretend to trust the Muslims, the west will not get any of the Muslim oil money.

These two countries would have painted a terrible picture for sovereign wealth fund management, had it not been for the country of Norway and the Norwegian State Petroleum fund. The keywords to the Norway sovereign wealth fund are trust and confidence based on transparency.

Transparency is emphasized as a key tool in building trust, both domestically and internationally. Domestically, transparency helps to build public support and trust in the management of Norway's sovereign wealth. Internationally, transparency positions Norway in such a way, that Norway gets to dictate to the world, "This is how we should be seen." Instead of the rest of the world saying, "This is how we choose to see you."

Global financial protectionism was an underlying theme of this paper." Is it warranted for sovereign wealth funds?" I do not think so. Sovereign wealth funds are just another means to an end. If protectionist policies were put into place to protect a country from a non reciprocal, non transparent nation, those protectionist policies could ultimately impact the balance of trade.

The current practice behind the management of a country's sovereign wealth fund does need to be better gauged by the IMF or the World Bank and a best practices approach could be modeled for the rest of the world to use a goal to be reached.
## Appendix 1: Sovereign Wealth Fund Ownership

<table>
<thead>
<tr>
<th>Country</th>
<th>Fund Name</th>
<th>Assets Managed</th>
<th>Inception Year</th>
<th>Source of Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alaska</td>
<td>Perm Fund</td>
<td>35</td>
<td>1976</td>
<td>Non – Commodity</td>
</tr>
<tr>
<td>Australia</td>
<td>Australia Government Future Fund (AGFF)</td>
<td>50</td>
<td>2004</td>
<td>Non-Commodity</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>State Oil Fund</td>
<td>1,000</td>
<td>1999</td>
<td>Oil</td>
</tr>
<tr>
<td>Botswana</td>
<td>Pula Fund</td>
<td>4,700</td>
<td>1966</td>
<td>Diamonds</td>
</tr>
<tr>
<td>Brunei</td>
<td>Brunei Investment Agency (BIA)</td>
<td>30,000</td>
<td>1983</td>
<td>Oil</td>
</tr>
<tr>
<td>Canada</td>
<td>Alberta Heritage</td>
<td>9,800</td>
<td>1976</td>
<td>Oil Trust Fund</td>
</tr>
<tr>
<td>Chile</td>
<td>Copper Stabilization Fund</td>
<td>3,900</td>
<td>1985</td>
<td>Copper</td>
</tr>
<tr>
<td>China</td>
<td>China Investment Company Ltd.</td>
<td>100</td>
<td>2003</td>
<td>Non-Commodity</td>
</tr>
<tr>
<td>China</td>
<td>Central Hujin Investment Corporation</td>
<td>100</td>
<td>2003</td>
<td>Non – Commodity</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>Hong Kong Monetary Authority Investment Portfolio (HKMA)</td>
<td>100,000</td>
<td>1998</td>
<td>Non-Commodity</td>
</tr>
<tr>
<td>Iran</td>
<td>Foreign Exchange Reserve Fund</td>
<td>8,000</td>
<td>1999</td>
<td>Oil</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>National Fund</td>
<td>5,200</td>
<td>2000</td>
<td>Oil, gas, metals</td>
</tr>
<tr>
<td>Kiribati</td>
<td>Revenue Equalisation Fund</td>
<td>400</td>
<td>1956</td>
<td>Phosphates</td>
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<td>Kuwait</td>
<td>Kuwait Investment Authority (KIA)</td>
<td>65,000</td>
<td>1957</td>
<td>Oil</td>
</tr>
<tr>
<td>Libya</td>
<td>Libyan Investment Authority</td>
<td>40</td>
<td>NA</td>
<td>Oil</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Khazanah Nasional BHD</td>
<td>15,800</td>
<td>1993</td>
<td>Non- Commodity</td>
</tr>
<tr>
<td>Norway</td>
<td>Government Petroleum Pension Fund (GPFG)</td>
<td>170,000</td>
<td>1990</td>
<td>Oil</td>
</tr>
<tr>
<td>Oman</td>
<td>State General Reserve Fund</td>
<td>8.2</td>
<td>1980</td>
<td>Oil and gas</td>
</tr>
<tr>
<td>Country</td>
<td>Fund Name</td>
<td>Assets Managed</td>
<td>Inception Year</td>
<td>Source of Funds</td>
</tr>
<tr>
<td>------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>----------------</td>
<td>----------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Qatar</td>
<td>Qatar Investment Authority (QIA)</td>
<td>40</td>
<td>2000</td>
<td>Oil</td>
</tr>
<tr>
<td>Russia</td>
<td>Stabilization Fund of the Russian Federation (SFRF)</td>
<td>27,700</td>
<td>2003</td>
<td>Oil</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Various Funds</td>
<td>300</td>
<td>NA</td>
<td>Oil</td>
</tr>
<tr>
<td>Singapore</td>
<td>Government of Singapore Investment Authority – ( GIC)</td>
<td>108</td>
<td>1974</td>
<td>Non-Commodity</td>
</tr>
<tr>
<td>Singapore</td>
<td>Temasek Holdings</td>
<td>330</td>
<td>1981</td>
<td>Non-Commodity</td>
</tr>
<tr>
<td>South Korea</td>
<td>Korea IA</td>
<td>20</td>
<td>2006</td>
<td>Oil</td>
</tr>
<tr>
<td>Taiwan</td>
<td>National Stabilization Fund</td>
<td>15,800</td>
<td>Unknown</td>
<td>Non – Commodity</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>Revenue Stabilization Fund</td>
<td>460</td>
<td>2000</td>
<td>Gas</td>
</tr>
<tr>
<td>Uganda</td>
<td>Poverty Action Fund</td>
<td>350</td>
<td>1998</td>
<td>Aid</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>Abu Dhabi Investment Authority (ADIA)</td>
<td>$250,000</td>
<td>Unknown</td>
<td>Oil</td>
</tr>
<tr>
<td>United States of America</td>
<td>Permanent Reserve Fund</td>
<td>29,800</td>
<td>1976</td>
<td>Oil</td>
</tr>
<tr>
<td>Venezuela</td>
<td>FIEM</td>
<td>714</td>
<td>1998</td>
<td>Oil</td>
</tr>
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</table>

Source: Morgan Stanley and International Monetary Fund
September 2007 (Estimated Assets (US Millions)
## Appendix 2 Sovereign Wealth Fund Holdings by Temasek Corporation

<table>
<thead>
<tr>
<th>Temasek Holdings Corporation Holdings by Country</th>
<th>Percentage Owned</th>
<th>Company</th>
<th>Convertible Bonds</th>
<th>Date of Purchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>5</td>
<td>Bank Of China</td>
<td>Undisclosed</td>
<td>January 2006</td>
</tr>
<tr>
<td>China</td>
<td>5</td>
<td>Dongfeng Motor Group</td>
<td>Undisclosed</td>
<td>December 2005</td>
</tr>
<tr>
<td>Taiwan</td>
<td>Unknown</td>
<td>Sun Financial Holdings</td>
<td>$400 Million</td>
<td>March 2006</td>
</tr>
<tr>
<td>Thailand</td>
<td>49.6</td>
<td>Shin Corporation</td>
<td>Undisclosed</td>
<td>January 2006</td>
</tr>
<tr>
<td>Thailand</td>
<td>6</td>
<td>Bumrungrad Hospital Public Company</td>
<td>Undisclosed</td>
<td>January 2006</td>
</tr>
<tr>
<td>India / United Kingdom</td>
<td>2</td>
<td>The Medreich Group</td>
<td>Undisclosed</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>Japan</td>
<td>1</td>
<td>i- Logistics</td>
<td>Undisclosed</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>Russia</td>
<td>5</td>
<td>Russia New Growth Fund</td>
<td>Joint investor with the United States</td>
<td>November 2005</td>
</tr>
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</table>

### Appendix 3 UAE Purchases By Date

<table>
<thead>
<tr>
<th>Country</th>
<th>Sovereign Wealth Fund Purchase</th>
<th>Location of Company</th>
<th>Transaction Value</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Istithmar</td>
<td>Barney's of New York</td>
<td>United States</td>
<td>$942.3 Million</td>
<td>August 2007</td>
</tr>
<tr>
<td>Istithmar</td>
<td>Tender Loving Care</td>
<td>United States</td>
<td>Undisclosed</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>Istithmar</td>
<td>Inchcape Shipping Services</td>
<td>United Kingdom</td>
<td>Undisclosed</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>Istithmar</td>
<td>230 Park Avenue</td>
<td>United States</td>
<td>$705,000,000</td>
<td>November 2005</td>
</tr>
<tr>
<td>Istithmar</td>
<td>280 Park Avenue</td>
<td>United States</td>
<td>1,200,000,000</td>
<td>June 2006</td>
</tr>
<tr>
<td>Istithmar</td>
<td>5 Times Square (Knickerbockers)</td>
<td>United States</td>
<td>$300,000,000</td>
<td>June 2006</td>
</tr>
<tr>
<td>Istithmar</td>
<td>Lehman's</td>
<td>United States</td>
<td>$300,000,000</td>
<td>Undisclosed</td>
</tr>
</tbody>
</table>

Source: [http://www.istithmar.ae/insvt_project_short.php](http://www.istithmar.ae/insvt_project_short.php)
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