



The Political Economics of Sovereign Wealth Fund
Investment



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Introduction

Increasingly over the last 30 years have sovereign wealth fund investments gained traction as a viable means by which states can put excess revenue to work, providing the prospect for improved returns when compared to more conventional state investment options such as gold or foreign currency reserves.

The growth of the SWF market has been remarkable, rising from an overall investment value of 6.215 trillion USD at the end of 2012 to 7.372 trillion USD by July 2016. The 1.157 trillion dollar growth through the post-recessive market is truly impressive, standing in stark contrast to the declining price of gold over the same period of time. It was through the 2008-2009 global economic crisis that SWF investment truly proved its worth as a platform for investment, keeping several vulnerable primary commodity exporting states afloat while others struggled to maintain solvency.

Not only did these funds prove invaluable in the economic stabilisation of even the most vulnerable states through a prolonged and severe market slump, but that of some state's socio-political integrity too. The connection between the obvious economic and less obvious political characteristics of SWF investment began, then, to present itself in a tangible and very real way. It quickly became a contentious topic with the realm of international political economics as it challenged the status-quo which had dominated the global geopolitical balance of power brought about over the course of the industrial revolution, oil boom and rise of the global market. This investigation will seek to answer a question that has become common place in the study of global SWFs, but remains contended and inconclusive. How do SWF investments influence global and/or domestic politics?

The connection between the investment and divestment actions of SWFs, their asset allocation strategies and their effects on domestic and international politics is a relatively unpopular concept in the study of international relations. Given the original, purely economic function of these investments, it is not entirely surprising that the overwhelming majority of materials available focus almost entirely on that aspect. However, some of the world's leading research institutions and industry experts have published papers targeted at the analysis of sovereign wealth fund's roles in international political economics, and it is from these resources that this report will draw the base of its information.

Through the examination of resources published by renowned sources such as the Organisation for Economic Cooperation and Development (OECD), the Sovereign Wealth Fund Institute (SWFI), the International Working Group on Sovereign Wealth Funds (IWG-SWF), the International Forum on Sovereign Wealth Funds (IFSWF) and various academic journal articles, this report aims to fundamentally establish an irrefutable link between the asset allocation of sovereign wealth funds, and the positive and negative impacts on politics at both domestic and international levels in the investor and recipient states.

The scene is set by identifying International Political Economics theory as the theoretical basis for the investigation, with particular attention paid to the designation of specific IPE theories to each case. Preliminary research has allowed the paper to identify four IPE theories most relevant to the research, those being Economic Liberalism, Mercantilism, Economic Constructivism and Economic Structuralism. The analysis of the theories will be followed by a discussion in which each case will be assigned a theoretical perspective that will be used as the basis for the case analysis.

Next, the paper will discuss the Generally Accepted Principles and Practices for sovereign wealth fund investment. This is essential in the understanding of the relationship between SWF investment and political discourse.

A short background of political distrust for SWF investment is then given, discussing the process of dubious SWF investment practices (particularly before the establishment of the IMF's Santiago Principles) which lead to the general Western contempt for SWF investments around 2007-2008.

The final step before the case-by-case study begins is to identify a method by which the investigation will categorically identify the presence and extent of political repercussions arising from SWF investment both qualitatively and quantitatively. Having completed the due diligence required to fully and scientifically analyse the subject, the case study analysis can begin.

This paper will use three key examples to illustrate the possible positive and negative effects of sovereign wealth fund investment on domestic and international politics. The first case investigates the circumstances under which Chilean domestic politics were heavily influenced both directly and indirectly using its Social and Economic Stabilization Fund (formerly the Copper Stabilization Fund) to stabilise its economy, and the Pension Reserve

Fund to supplement loss of citizen's income during the 2008-2009 global recession. The second case will examine the international political repercussions of the China Investment Corporation in the context of accusations arising from blatantly politicised investment behaviours, accusations of its use to execute geostrategic goals on behalf of the state and the wave of economic protectionism in the West that followed suit.

The final case study focuses on the Doha-based Qatar investment Authority. The case offers valuable insight into the way in which the Generally Accepted Principles and Practices (GAPPs) play a role in the analysis of sovereign wealth fund behaviour in cases where signatory states fail to comply with the regulations. It also provides evidence that SWF investments can be used to manipulate global politics through third party financing of armed conflict as well as the role of SWFs in regional political power dynamics.

Finally, a conclusion will be presented which will offer evidence derived from each of the cases to prove or disprove the hypothesis that sovereign wealth fund investment has the ability to influence domestic and international politics.

I. International Political Economics Theory: Setting the Perspective

This investigation will use IPE theory as a tool for setting the perspective of the investigation into the relationship between sovereign wealth fund investment and political discourse. IPE theory attempts to explain international relations using economic interconnectedness as the driving force behind international politics and economics. Globalization is a major part of IPE theory and is used extensively within the theoretical breakdown.

Robert Gilpin explains that IPE theory uses points from Liberal, Marxist and Nationalist perspectives on international relations to gain a well-rounded understanding of the subject matter¹. The primary focus of this theory is to highlight the relationship between international economics and international politics as collective primary forces for decision making in international relations.

The main inference of the theory dictates that the international market is the main driver of the entire system of international relations and that political change is often

¹ Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987).

symptomatic of global market activities². This theory, while still relatively new and rapidly developing, has been tested over recent decades and proven its substance. As such it is useful in explaining decisions made surrounding SWF investment and economic protectionism.

The theory can be used in this case to gain a basic understanding of the relationship between politics and economics within global international relations and specifically to gain a preliminary understanding of the way in which global markets project influence over international politics. Of course, SWF investments form part of the global market and are some of the largest and most powerful singular independent entities within the entire market economy. As such, any information gained on the relationship between the market economy and international politics is, for the most part, transferrable to that of SWF investment and international politics.

This study will use IPE theory to guide its perspective and use the main assumptions of political and economic interconnectedness to dictate the standpoint of the study from start to finish. As such, the global market is assumed to be self-serving in nature in so much as each actor seeks primarily to achieve their own political and economic objectives above those of any other. The actions of different states may positively or negatively influence those of others, and may even influence states unequally, but as long as a state achieves its own political or economic objective, that state is neither opposed to nor driven by the relative gains of others.

Within the greater category of IPE theory, there are multiple theories which offer direct assumptions regarding the nature of political economics. This study will discuss four of those theories in order to select an appropriate theoretical perspective for each of the three case studies.

² Gilpin, *The Political Economy of International Relations*.

Liberal IPE Theory

One of the main theoretical subdivisions of International Political Economic theory is the liberal school of thought. The theory arose as an offshoot of the political and philosophical theory of liberalism and is considered a traditional approach to international political economics having arisen during the formulation of IPE theory as it is known today during the 1970s³. Liberal theories share the basic assumption that people (and therefore states) are naturally inclined to cooperate with one another in relationships beneficial to both or all parties involved. Liberal (sometimes referred to as pluralist) theory regards the nature of international relations and of the state itself to be rational, positing that free trade brings peace and stability⁴.

When applied to the realm of global economics, liberal theory exhibits itself most profoundly in the practice of a global free trade economics. That is to say that there is a directly correlative relationship between free trade and the accumulation of wealth among states. According to Dr. Peter Hough, associate professor of international politics at London's Middlesex University, this concept derives directly from the father of liberalism himself, Adam Smith⁵. In a 1901 edited publication of Smith's political and economic literature, an excerpt from Smith's 1776 *The Wealth of Nations* illustrates the concept of the "invisible hand." In it, Smith explains that in a free market economy there has a natural proclivity to work together through the division of labour to achieve optimal efficiency and maximise revenue⁶. While Smith acknowledges that this behaviour may spring from somewhat selfish motivations, he posits that trading in a free market economy generates greater revenue for all and is therefore ultimately beneficial not only to the buyer and seller but to the market itself⁷.

One of the most pertinent aspects of Smith's liberal theory of international political economics is the concept of the 'invisible hand.' This analogy likens the forces of the global free market economy to that of an invisible hand which moves individual actors to behave in a way that will generate the greatest returns which is to cooperate⁸. The theory advocates for

³ Peter Hough, "International Political Economy I: Theory & History," in *World politics: international relations and globalisation in the 21st Century*, ed. Pearson Longman, (London: Middlesex University, 2010), 320-359.

⁴ Ronen Palan, "New Trends in Global Political Economy," in *Global Political Economy: Contemporary Theories*, ed. Ronen Palan, (Abingdon: Routledge, 2000), 1-19.

⁵ Hough, "International Political Economy I: Theory & History," 320-359.

⁶ Adam Smith, "The Wealth of Nations," in *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Edwin A. Seligman, (London: J. M. Dent, 1901), 117-118.

⁷ Smith, "the Wealth of Nations," 1-19

⁸ Hough, "International Political Economy I: Theory & History," 320-359.

the separation of state and market, going on to describe the tendency of governmental over-regulation and disruption of true market freedom stemming from protectionism.

Another critical postulation that liberal economic theory presents is that trade results in peace. The approach follows that in a capitalist free market economy with investment entities looking for stability and predictability as essentials for perceived economic security, a state that acts peacefully offers a safer and more attractive environment for investment on all scales⁹. This means that if states were driven by the desire to grow their own economy and to retain or attract investment then they would logically be driven to behave peacefully. Hence the concept that greater freedom of markets leads to more peaceful international relations globally.

When liberal economic theory is applied to the topic of complex international investment models such as sovereign wealth fund investments, one might expect certain characteristics to be found. Firstly, according to the theory of the 'invisible hand' both investor and investee enterprises would be guided in their actions by a set of norms deemed acceptable to the global market in order to maximise investment potential. One would therefore expect that states that choose to invest in sovereign wealth funds would be largely capitalist free market states heavily involved in global trade and transnational commercial activities themselves before committing capital on the scale of billions of US dollars to international investments. The states and enterprises in which these SWFs invest should be similar in nature if not more so in order to attract international investment.

Secondly, if liberal economic theory holds true then one would also expect for there to be a high level of cooperation among the international SWF investor states so as to maximise profitability in sectors of weakness through targeted investment in stronger foreign industries within that sector. In fact, this is one of the primary incentives for SWF investment, known in the industry as diversification.

Furthermore, liberal economic theory emphasises that in order for a truly free market to be achieved and embraced, there must be a separation of government and market. This point is rather complex with regards to SWF investments due to the fact that these funds draw capital exclusively from government funding and aim absolutely to serve that government. Moreover, the fact is that SWF investments are set up by the investor state government from

⁹ Erik Gartzke, "The Capitalist Peace," *American Journal of Political Science* 51, no. 1, (2007): 169-171.

assigning directives and restraints to actually employing fund managers makes the total separation of fund and state all but impossible. That being said, The ‘Santiago Principles’ do support maximum separation of state government and the sovereign wealth funds in which they invest through the use of independent fund managers, regular external auditing and strict regulatory restrictions which prevent government interference. This point will be made clear by this paper in the analysis of the ‘Santiago Principles’ in the following chapter.

Economic Nationalism Theory

Like liberal economic theory, economic nationalism (also known as mercantilism or economic realism) is a derivative of the political and philosophical theory of realism sharing its defining perspectives on the nature of statehood and world order within global international relations. The theory embraces the link between politics and economic order, a sentiment expressed in no uncertain terms by E.H. Carr when he wrote “the science of economics presupposes a given political order, and cannot be profitably studied in isolation from politics.”¹⁰

Economic nationalism theory gets its name from the hypothesis that national government regulation and oversight on domestic and international economic matters contributes to stability, success and ultimately greater economic and political gains¹¹. The theory depends on this assumption and advocated for greater state control over international economic activities. Most importantly, it emphasizes that the state is the highest level of authority in international relations, and therefore has authority over all affairs of the state, including economic activities.

One of the principal objectives of the state under economic nationalism is to become industrialized to as high a level as possible. This stems from the belief that industry grows independence and self-sustainability which plays into the nationalist tenet that states are inherently self-interested and therefore must be independent and autonomous¹². In addition, and perhaps most importantly, nationalists believe that strength of industry directly relates to strength of military and military power which is an integral part of nationalist statehood.

¹⁰ Edward H. Carr, *The Twenty Years' Crisis, 1919-1939*, (London: Macmillan, 1951), 117.

¹¹ William C. Wohlforth, “Realism,” in *The Oxford Handbook of International Relations*, ed. Christian Reus Smith and Duncan Snidal (Oxford: Oxford University Press, 2008), 131-155.

¹² Robert Gilpin, *The Political Economy of International Relations*, 31-34.

The concept of power dynamics is arguably the foremost idea outlined within nationalist economic theory as a whole. The whole idea of nationalism is centered on the belief that, with individual states acting as completely self-interested entities, state power and the dynamics of state power relative to other states is the driving force behind all political, economic and social activities undertaken by the state. Nationalists rely on the concept of relative power to base their argument in real world application, using this idea to explicate the behavior of heavily militarized states¹³.

In an economic application, nationalism theory seeks to explain global trade and financial interaction as a means by which to expand power relative to other states, including the states with whom these transactions are made. The global balance of power drives states to consider every international economic interaction as an opportunity to become more economically secure than the next state which in turn allows for the ability to project influence over other states (such as those indebted to the acting state) and thus fund a stronger military. With greater economic independence while retaining the dependence of other states on one's own economy, nationalist economics can greatly impact the balance of power in favor of one state over others.

To further apply nationalist theory to international economics, one may consider the implications of state-control in the sector. As mentioned earlier in this chapter, nationalist theory emphasizes the controlling role of the government in the economic sector, particularly concerning trade and commerce conducted with other states. The theory realizes that if all states were solely self-serving, then the state government must also have power over the economy and its dealings on the global market in order to ensure that such dealings were being used to pursue the interests of the state¹⁴.

When directly applied to the topic of sovereign wealth fund investments, the theory of nationalism in international economics seems at first to hold some degree of validity. The funds are financed entirely by state capital, and serve to generate profit and economic resilience to the owner state. This is an inarguable point in favor of the presence of a fundamentally nationalist characteristic in all sovereign wealth funds. Furthermore, if not slightly less definitive, the point that SWF investments do indeed use capital drawn primarily or entirely from the sale of manufactured goods or commodities. This continues to

¹³ Gilpin, *The Political Economy of International Relations*, 31-34.

¹⁴ Robert O. Keohane, "The Old IPE and the New," in *International Political Economy: Debating the Past Present and Future*, ed. Nicola Phillips and Catherine Weaver (Abingdon: Routledge, 2011), 35-45.

substantiate the nationalist idea that industrialization is key to the independence and power of a state, specifically economic power in this case.

Lastly, there is the matter of the “Santiago Principles.’ While some may contend that the International Monetary Fund’s Generally Accepted Principles and Practices (GAPP) are the so called ‘final nail I the coffin’ for nationalist theory in SWF investment, the truth could not be further from the truth. In fact, the GAPPs would indeed prove the absence of solely state centric motivations behind SWF investment if they were authoritative and governable over all states engaged in the investment class, but this is not the case. In reality, neither the GAPPs nor any intergovernmental authority has the right or ability to enforce mandatory obedience of the principles without that state’s voluntary recognition and ratification¹⁵. And so all SWFs, whether belonging to states who have chosen to abide by the principles or states who have not, have chosen to do so of their own free will and therefore presumably for the overall wellbeing of their nation’s economy.

There is, however, a stumbling block in the applicability of nationalist economic theory to SWF investment. Unambiguously, the ‘Santiago Principles’ state that there should be a separation of SWF and state, meaning that aside from its role in setting up the SWF in the first place, national government should have as little influence over the SWF as possible¹⁶. Unless there are other, relatively more economically or politically beneficial objectives achievable by the signing of the GAPPs, this point directly contradicts the basis of economic nationalism in sovereign wealth fund investment.

Structuralism in IPE

The theory of Structuralism in international political economics arose from the desire to identify and to qualify the causes behind worldwide financial inequality and state poverty in a bipolar global market economy. The theory was developed in the 1950s from the work of members of the Economic Commission of Latin America (ECLAC), many of whom being lower to middle income states with the inherent social and economic challenges associated with debt and economic stagnation¹⁷. The term was originally used to explain some of the

¹⁵ International Forum on Sovereign Wealth Funds, *Sovereign Wealth Funds Generally Accepted Principles and Practices: “Santiago Principles”* (Santiago: International Working Group on Sovereign Wealth Funds, 2008).

¹⁶ International Forum on Sovereign Wealth Funds, *Sovereign Wealth Funds Generally Accepted Principles and Practices*.

¹⁷ Fabricio Missio, Frederico G. Jayme JR., and Jose L. Oreiro, “The Structuralist Tradition in Economics: Methodological and Macroeconomics Aspects,” *Revista de Economia Politica* 35, no. 2 (2015): 247-266.

most significant contributing factors leading to damaging inflation rates in Latin America at the time. It is generally agreed that structuralism as an applicable theory of international political economics was first seen in the manifesto of economist Raul Prebisch in 1949, and was later used as reference material during the work of the ECLAC before gaining academic distinction¹⁸.

Structuralism, like Marxism, is a class based theory and is in fact rooted in the class based system of Marxism. The difference between the two is in the scale and in the presumption of causal roles within inter-state relations. Where Marxism seeks to explain divisions in class and social structuring, structuralism is not limited to this scope and seeks rather to explain the way in which social classes are influenced by economic structures with social classes referring to that of states¹⁹. In other words, economic structuralism focuses on the effect of the structures of international relations on the economic standing and income profile of states in order to identify the causes of global income inequality and perpetual debt.

Economic structuralism offers a holistic approach to the analysis of international relations. Unlike many other approaches, this theory believes that the actions of a state cannot be considered singularly of its own convictions, but rather a result of the totality of its own structures in conjunction with the effects of the collective interdependent international system as a whole²⁰. To put it simply, structuralism believes that state markets operate in an interconnected web of political, social and economic structures including its own internal structures, which all influence the behaviour of that state and collectively influence that of other states.

Ultimately, the idea of structuralism was designed to explain the mechanisms in play within the global economic system which lead to economic inequality and disproportionate levels of development among states. In doing so, some structuralist economists have found that the current global price mechanism in economics is ultimately failing developing and underdeveloped states. Dutt and Ros find that this mechanism fails to promote steady growth

¹⁸ Stephanie Blackenburg, Jose G. Palma and Fiona Tregenna, "Structuralism," *The New Palgrave Dictionary of Economic*, ed. Steven N. Durlauf and Lawrence E. Blume (New York: Palgrave Macmillan, 2008).

¹⁹ Lance Taylor, *Reconstructing Macroeconomics: Structuralist Proposals and Critiques of the Mainstream* (Cambridge: Harvard University Press, 2004)

²⁰ William A. Jackson, "Social Structure in Economic Theory," *Journal of Economic Issues* 37, no.3 (2003): 727-746.

or induce equilibrium in the flow of capital among and within the world's economies²¹. In this case, the price mechanism is seen to comprise of a combination of political and economic structures (such as the IMF, World Bank, World Trade Organisation etc.) which have the combined effect of perpetuating underdevelopment through indebtedness, trade regulation favourable to developed economies and political interference such as austerity measures forced on developing economies.

A further point of deviation in structuralist theory from orthodox IPE theories is in its scope and scale. Structuralism sees global economic interactions as an unavoidably interconnected network of historical, current and possible future transactions. In the theory's structure with a global core and periphery of economic activity, the balance of economic benefits is in a constantly shifting but intentionally maintained state of non-equilibrium²². Importantly, though, with the recognition of these points it becomes possible for historically disadvantaged states (such as the Latin American pioneers of structuralist theory) to act in opposition of the status quo and improve their economic condition.

In order to analyse the usefulness of structuralist economic theory to the study of sovereign wealth fund investment, one must first conceptually apply the theory to the topic. If SWFs conformed completely to structuralist principles then the one would expect some critical factors to be evident. Firstly, in accordance with structuralist tenets, the investment category must be seen as an international economic structure in itself, interconnected with and interactive with other structures and entities around the world. As such, SWF investments and the economic network within which they operate must be seen to perpetuate the current global economic disequilibria, or at the very least, to be disproportionately advantageous for wealthy developed states compared to developing state investors. Furthermore, as an economic structure in itself, SWF investments should fail to deliver economic growth and to balance income distribution amongst developing states.

²¹ Amitava Dutt and Jaime Ross, ed., *Development Economics and Structuralist Macroeconomics: Essays in Honor of Lance Taylor* (Cheltenham: Edward Elgar Publishing, 2003), 55.

²² Dutt and Ross, *Development Economics and Structuralist Macroeconomics: Essays in Honor of Lance Taylor*, 55.

Constructivism in International Political Economics

The theory of constructivism is one of the newer notions to have emerged in the field of international political economics, sometimes referred to as 'global political economics' by newer texts to reflect the globalised nature of international relations today. Originally coined by IR theorist Nicholas Greenwood Onuf in 1989, the theory challenges the so called 'traditional' approaches to international political economics; liberal and realist in particular²³.

The constructivist argument at its most basic level posits that the actions of an individual are influenced by a set of combined ideas held by other groups and individuals which collectively form the identity of the individual²⁴. In the international political economic application of the theory, the individual would become the state and the collective would refer to other states and non-state actors within the realm of international relations.

The constructivist theory in IPE is partially derived from essentially Marxist social ideological roots in that it identifies social influences as the primary realm of international relations. This however is where it deviates from the traditional theory of Marxism, where its causal relationship is directed from the social level towards an effect on the state, as opposed to a state's effect on social classes. In this regard, the constructivist school of thought makes four key assumptions about this relationship. Firstly, that the identities and norms of all actors in international relations are socially constructed by themselves, their peers and other IR actors. Secondly, that the ideas and the values of a state are just as substantive a driving force behind the actions of that state as its security or its economy. Third, conflict and cooperation are essentially the consequence of the identity of a states beliefs and values in action. Finally, the identity and actions of a state may change over time with a change in its values and its convictions²⁵. This change may take place in the form of a reactionary evolution in response to changing global political or economic climates such as the emergence of globalisation, or as a result of local political or economic processes such as a change in state government.

²³ Nicholas G. Onuf, *World of Our Making: Rules and Rule in Social Theory and International Relations* (Columbia: University of South Carolina Press, 1989).

²⁴ Lukas La Riviere, "Towards a Constructivist International Political Economy of Climate Change," in *Issues in Political Economy* 23, no. 1 (2014): 90-101.

²⁵ David N. Balaam and Bradford Dillman, "Alternative Perspectives on International Political Economy," in *Introduction to International Political Economy: International Edition*, ed. David N. Balaam et al. (Boston: Longman, 2011), 113-114

Another aspect of the constructivist idea is the postulation that identity can be contextual. Andre Broome finds that the identity of a state may be subject to change within differing contextual settings, albeit to a certain extent²⁶. Broome states that one may consider the aspects composing the identity of a state as being contextually dominant. This means that an actor might perceive its own identity slightly differently under differing circumstances, and may therefore seek to achieve different goals as these circumstances evolve. It also allows for variability in identity with changing levels of analysis, meaning that an actor's identity may vary from domestic, international, regional and global levels of analysis. These are particularly useful characteristics in determining the accuracy of the theory and in its theoretical application to real world scenarios.

The considerable variability of the theory's contexts and scales makes it widely applicable to a variety of actors in international political economics; however, it is also the source of debate over its accuracy in determining and forecasting future behaviours. This is especially true for contemporary constructivists who have attempted to address inaccuracies within the theory's applicability by adding additional non-material or qualitative categories of analysis such as temporality being historical or contemporary, cultural factors influencing decision making, 'emotional' forces and even the concept of 'linked ecologies.'²⁷ That being said, the broadening of constructivist ideas as a developing contemporary theory has been well received among scholars as it has allowed for a deepening of constructivist research agendas.

Overall, the constructivist basis for analysis has proven useful and, while there have been some arguably immaterial deviations from the original concept; it has shown its ability to embrace change for self-improvement which is critical in this age.

In the context of this study, the theory must be applied specifically to sovereign wealth fund investment. To start with, it would be expected that a fund conforming to constructivist behaviour would fundamentally follow the path of its owner state. This is an assumption made due to the fact that sovereign wealth funds function primarily to serve its owner state. The fund would be expected to behave in a largely predictable manner due to the limited scope and variability of its political economic engagements. Unlike a state, a sovereign wealth fund is not considered a political actor and should, at least in theory, not be

²⁶ Andre Broome, "Constructivism in International Political Economy," in *Global Political Economy: Contemporary Theories Second Edition*, ed. Ronen Palan (Abingdon: Routledge, 2013), 193-204.

²⁷ Broome, "Constructivism in International Political Economy," 202.

used as political tool. Here, however, is where deviations may be found. States and funds compliant with the ‘Santiago Principles’ would be expected to behave more predictably than those who do not recognise the GAPPs.

Unlike traditional positivist theories, the theory of constructivism has no statements of certainty as to the behaviours of international actors across the board. As such, the determination of applicability of constructivist theory in sovereign wealth fund investment would have to take place on a case by case basis. It would, however, be a safe assumption to make that SWFs who do not abide by the GAPPs would be more likely to adopt aggressive, manipulative or otherwise belligerent practices from their owner states.

Discussion of Theories

Within the field of international economic theories, the four selected for analysis in this study were chosen based on several criteria. Each of the theories offers valuable insight into the specific field of sovereign wealth fund investment, some more so than others. Furthermore, each of the theories allows for influence of domestic and international political discourse on international economics and therefore by extension its effect on sovereign wealth fund investment. In order to determine which theory offers the most productive insight for the study, one must first analyse their relevance to each of the chosen SWFs on a case-by-case basis.

The first and seemingly most obvious example to analyse should be application of structuralist theory to the Chilean case, given the similar economic situation and region of Chile to that of the pioneering Latin American states of the theory. In this regard, one of the foremost factors to consider is that sovereign wealth funds have become a popular tool among developing states for economic stabilisation through income diversification and for economic, industrial and infrastructural development initiatives. Considering the fact that the theory of structuralism was developed by (and in the context of) a region where we now see several sovereign wealth fund investments including Chile, it is not difficult to determine relevance. Furthermore, the nature of a sovereign wealth fund in itself is an example of the interconnected network of global economic structures, conforming to the structuralist precept. These funds are subsidised by state economic bodies, managed by international investment corporations which are governed by the regulations of their home states, audited by multinational corporations and invest in a multitude of international enterprises, corporations,

other states etc. As such, the concept of globally interconnected economic structures is indeed personified by the example of a sovereign wealth fund.

According to structuralist teachings, the globally interconnected network of economic structures promotes the maintenance of economic dis-equilibrium in favour of developed and wealthy states to the disadvantage of developing or underdeveloped states. This would appear not to be the case with the popularity of SWF investments among lower income states and the ability for these states to achieve economic stability which is, in fact, relatively more beneficial to developing states than developed states. In addition, the ability to employ foreign fund management firms allows developing states to take advantage of 'western' fund managers thereby diminishing the developed state advantage. Adding to the divergence from structuralist theory is the fact that a number of sovereign wealth funds have, in fact, proven successful in promoting meaningful stability in developing investor states including Chile. As such, structuralism does not seem a fitting theoretical basis on which to base the Case study.

A more fitting theoretical framework for the investigation may be that of economic liberalism. One reason for this is that the theory accounts not only for successful and advantageous investment in developing states, but for the political motivations and repercussions of international investment as well. Liberal economic thought, having been based in political theory, is an effective tool for the analysis of positive investment politics and, while it may also make extrapolations of global cooperation for collective benefit, it allows for a directed investigation of political cooperation in achieving economic benefit. As such, the Chilean case will be approached using a combination of liberal economic theory and structuralism in order to investigate the dynamics of domestic politics in relation to sovereign wealth fund investment.

The case of China's CIC presents somewhat of a more challenging example for the study. Taking into account the state's communist political agenda, one may not expect it to buy in to the global free market economy to the point of becoming a global leader in international trade. The capitalist market economy and communist political rule of modern day China has allowed it to generate the highest non-commodity revenue of any state on

earth, made even more powerful with the inclusion of a relatively strong commodity market and highly industrialised society compared to other states²⁸.

Immediately, one can eliminate the use of liberal economic theory in the investigation simply because Chinese politics and economics have rarely, if ever, shown signs of liberal behaviour. There is little evidence to suggest that the state or its sovereign wealth funds have exhibited a natural proclivity for cooperative economics as dictated by the theory of the invisible hand discussed earlier. Nor have there been studies showing the devotion to ethical investment practices and, in fact, preliminary investigation on the topic would suggest that the opposite is true and will be further discussed in the specific case study to follow.

Constructivist economic theory, too, seems less than valuable to the investigation of this case. The four pillars of constructivist economics essentially focus on the idea that the economic actions of a state are defined by the fulfilment of its identity as judged by itself and its peers. With controversially differing political and economic identities in the state of China, it is difficult to postulate that the activities of the Chinese sovereign wealth funds is dictated by its perceived identity.

Structuralist economic theory initially appears somewhat more fitting to this case. The theory is centred on a class based society as seen most similarly in Marxist politics, but also to a large extent in Chinese communism. Additionally, China boasts one of the world's largest and most powerful economies with income generated from both commodity and non-commodity sources, including massive amounts of heavy industry. Structuralist economic theory seeks to explain the financial imbalance skewed in favour of developed states through the unequal benefit of international financial institutions. In this case, the Chinese sovereign wealth funds may be seen as part of the network of financial institutions which the theory believes contribute to the perpetuation of income inequality in middle and lower income states. With preliminary investigation suggesting that the CIC and its smaller compatriot sovereign funds may, in fact, act in aggressive economic activities outside of the acceptable range by the GAPPs, this case may benefit from the use of Structuralist economic perspective in achieving accurate results.

²⁸ "Country Comparison: Exports," cia.gov, accessed August 01, 2017.
<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2078rank.html>.

Most befitting of Chinese economic activities would logically be that of mercantilist economic theory (also known as economic nationalism). The theory accounts for the economic aggression of Chinese markets in the pursuit of relative gains. As the investigation will reveal, the CIC and its partner SWFs would initially appear to behave in accordance with the theoretical tenets. China is highly industrialised, allowing for competitiveness in global trade through almost unmatched cost competitiveness in the manufacturing sector. The creation of financially powerful SWFs can be interpreted as an extension of the concept, allowing for the use of its non-commodity income to attain assets across the globe for further economic expansion and the ability to project geostrategic influence. It is for these reasons that economic nationalist theory has been selected as the primary theoretical basis for the Chinese case study in this paper.

The remaining case, Qatar, is far more straight-forward in the identification of appropriate theoretical application for this study, primarily due to its history of mostly uniform political and investment practices. Additionally, its unwillingness to waiver to international pressure to increase its SWF transparency in accordance with the Generally Accepted Principles and Practices suggest that they benefit from activities outside of or directly opposing the guidelines of the GAPPs. With the state's unwillingness to comply with GAPP regulation, current and historical political crises over relations with Iran and radical Islamists and its economic aggression in SWF investment, the case fits most appropriately with the theory of economic Mercantilism.

II. The 'Santiago Principles'

In October 2008 the International Monetary Fund (IMF) and the International Working Group on Sovereign Wealth Funds (IWG-SWF) published a report outlining a list of 24 'Generally Accepted Principles and Practices' (GAPPs) intended to set standards by which investments in SWFs should be made and managed²⁹. At the time, the IWG-SWF represented the collective effort of some of the world's largest and most powerful sovereign wealth funds as well as input from some of the world's leading authorities in the field. These principal funds became the first signatories to the GAPPs.

²⁹ International Forum on Sovereign Wealth Funds, "Generally Accepted Principles and Practices: "Santiago Principles," ifswf.org, 2008/accessed July 21, 2017.
http://www.ifswf.org/sites/default/files/santiagoprinciples_0_0.pdf.

The principles can essentially be divided into three key topics which each highlight a different area of SWF investment. Firstly, the ‘Santiago Principles’ offer a set of principles suggested for the coordination of legal frameworks, macroeconomic policies and objectives of sovereign wealth fund investment. Definitively separate from these, several of the principles regard SWF governance structures and institutional legal frameworks. Finally, the remaining set of principles concern the actual investment activities and risk management profiles³⁰. The GAPPs follow a general legal narrative derived from common financial and economic best practices generally (by not always formally) agreed upon by investor states and investment institutions. The focus is primarily on transparency and accountability determined by the GAPPs, monitored by external auditing regimes and enforceable by law.

The ‘Santiago Principles’ serve to guide international sovereign wealth fund investment to facilitate global economic market stability and to protect states in which SWFs invest by focusing compliance on complete disclosure and strict regulation. Additionally, the principles encourage SWF investments to foster open and stable market climates by reducing protectionist pressure from investor state governments³¹. It is for these reasons that the International Working Group on Sovereign Wealth Funds advocates for the separation between state and fund, so as to prevent state government from implementing protectionist policy regulations over SWF investments to protect or promote their own markets thereby closing such markets off to foreign investment.

Despite what seems to be a positive step towards responsible investment, the topic of GAPP compliance has become one of contention. Being that no economic institute has the power to impose enforceable rules on a state without signed consent, the ‘Santiago Principles’ are entirely voluntary and have no power over states who choose not to recognise the GAPPs. That being said, many SWF investor states have chosen to sign their respective funds on to the GAPPs. There are, on the other hand, states that outwardly refuse to sign on to the GAPPs and others that choose not to abide by the guidelines for best practice offered despite having signed on. More often than not, these states’ SWFs choose not to participate for the reason that they do not abide by the GAPPs at least to a degree. Additionally, the transparency demanded by the principles is often seen as a threat to the sovereignty of the

³⁰ Chilean Ministry of Finance, “What are the Santiago Principles?” www.hacienda.cl, accessed July 12, 2017, <http://www.hacienda.cl/english/sovereign-wealth-funds/frequently-asked-questions/what-are-the-santiago-principles.html>.

³¹ Sven Behrendt, *Sovereign Wealth Funds and the Santiago Principles: Where do They Stand?* (Beirut: Carnegie Endowment Middle East Centre, 2010), 2-16.

state and its right to self-determination in international investment, notwithstanding the fact that the sovereign wealth fund is not technically an extension of government but rather an extension of state capital which ultimately belongs to the citizens of the home state³².

The importance of transparency in SWF investment is emphasised in the GAPPs because it is seen as a key pillar for responsible and ethical investment practices. Transparency is fundamental in the establishment of accountability in the fund and helps to legitimise its decisions and actions not only to the citizens to whom it belongs but to the global economic community at large. For this reason, the Sovereign Wealth Fund Institute uses an SWF's degree of transparency as an indication of GAPP compliance and by association, a function of good economic governance. The SWFI uses the Linaburg-Maduell Transparency Index to quantify a sovereign wealth fund's transparency on a scale of 1 to 10³³. This method of indexing SWF transparency was developed at the SWFI by Carl Linaburg and Michael Maduell in 2008 and has since become the standard measure of transparency for all SWF investment reports worldwide. The Index uses a simple positive point allocation for meeting each of a set of ten basic principles of transparency, with the minimum score to be considered adequately transparent being 8/10³⁴.

This paper uses the GAPPs as a benchmark for best practice in sovereign wealth fund investment, analysing the way in which each case study behaves in alignment or contrary to its teachings. This will allow for a more holistic approach to the investigation of the effects of SWF investment on political discourse within investor states and between investor and investee states. The GAPPs bare particular relevance to the study of the CIC and QIA where the focus pertains specifically to the use of SWF investment in achieving political objectives, in addition to the notorious absence of political transparency in government identifiable in each of the states.

³² Behrendt, *Sovereign Wealth Funds and the Santiago Principles: Where do They Stand?* 2-16.

³³ "Sovereign Wealth Fund Rankings," [swfinstitute.org](http://www.swfinstitute.org), accessed July 06, 2017.

<http://www.swfinstitute.org/sovereign-wealth-fund-rankings/>.

³⁴ "Sovereign Wealth Fund Rankings," [swfinstitute.org](http://www.swfinstitute.org).

III. Sovereign Wealth Funds and Political Distrust: The Rise of Protectionism

Until the creation of the Generally Accepted Principles and Practices (GAPPs), sovereign wealth funds were seen largely as a threat to sovereignty, national security and the global open market as a whole. This view was most prominent around 2007-2008 among ‘Western’ states who had historically held the minority share of total assets under sovereign wealth fund management, vastly outweighed by the billions of dollars in assets controlled by the oil exporting Arab states³⁵.

This was the period in which the credibility of sovereign wealth fund investment was most challenged, spurred on by a wave of investments and attempted investments to move ‘Western’ assets into Arab hands. There was a real perception of threat towards Western state’s national security, nowhere more so than in the USA whose media and political leadership did little to relieve these concerns.

In a testimony given at the U.S. – China Economic and Security Review Commission, senior research fellow Alan Tonelson representing the USBIC/EF (United States Business and Industry Council / Educational Foundation) presented in no uncertain terms the threat perceived by the over 1,500 USBIC member companies for foreign (mainly Russian and Arab) sovereign wealth fund’s ability to project political influence through large scale investment³⁶. Tonelson uses emotive language in his testimony, comparing sovereign wealth fund supporters to “teenagers who have begun to start driving under the influence, and brag that they’re still alive,” and goes on to recommend that “government must provide the adult supervision.³⁷” Unfortunately, emotive rhetoric such as this is a common tool used by SWF critics, intended to undermine the highly complex issues surrounding SWF investment for a (self-admitted) lack of comprehensive understanding or assumption thereof in those to whom the statement is directed.

Tonelson, despite the more emotive than informative style of his testimony, does raise some pertinent issues surrounding the threat that SWF investment may pose to a recipient state’s national security and its sovereignty. One example he uses is a proposed scenario in

³⁵ Benjamin J. Cohen, “Sovereign wealth funds and national security: the Great Tradeoff,” *International Affairs* 85, no. 4, (2009): 713–731. doi:10.1111/j.1468-2346.2009.00824.x.

³⁶ Alan Tonelson, *Sovereign Wealth Funds Adversely Impact National Security*, Testimony to U.S. – China Economic and Security Review Commission, (Washington D.C.: United States Government Publishing Office 2008). https://www.uscc.gov/sites/default/files/08_02_07_tonelson_statement.pdf

³⁷ Tonelson, *Sovereign Wealth Funds Adversely Impact National Security*.

which he hypothesises that a large scale Chinese investment into strategic U.S. sectors may alter U.S foreign policy on Taiwanese independence to become more favourable towards the Chinese argument in order to preserve its investments as a host state³⁸. In the same year, Law360 (a popular and by all accounts reliable public source) reported that US concerns included the possibility that ‘rival’ states may seek to obtain ownership of strategic U.S. assets for the purposes of corporate, military or scientific espionage in order to identify or create flaws in the host state’s national security, corporate governance or even political operations³⁹.

At the time, the intricacies of sovereign wealth fund investment and its relationship to political discourse were far less studied, having truly only become a thoroughly detailed science in the years following the global economic recession. In 2007 and early 2008, a ‘fear of the unknown’ was still a major factor in the realm of SWF investment due to the recognition of the financial and implicit political influence granted this investment by virtue of their sheer monetary size. Concerns over the political and geo-strategic capabilities of the funds were echoed in seminal articles at the time by professors Ronald Gilson and Curtis Milhaupt⁴⁰ as well as Sven Behrendt’s article on global politics surrounding Arab SWFs.⁴¹

Gilson and Milhaupt draw attention to metaphors made by SWF critics who use ‘colourful’ language to disguise real contemporary issues in SWF investment intensions. They state outright that there is inevitably a link between SWF investments and political discourse using a quote from seminal international political economic author Keynes in their opening remarks. The article goes on to an in depth analysis of current (at the time) concerns and flaws within the architecture on this investment category, and relate the behaviour of SWF investment to new Mercantilism in the modern financial sphere. The authors characterise sovereign wealth fund investments as being “neo-Mercantile” in their behaviour, using “company-level” practices in order to generate “country-level” economic and political benefits⁴². The article concludes by highlighting the current (at the time) lack of regulation in

³⁸ Tonelson, *Sovereign Wealth Funds Adversely Impact National Security*.

³⁹ Peter Heyward, “Are Sovereign Wealth Funds a Threat?” law360.com, 2008, accessed November 5, 2016. <https://www.law360.com/articles/51669/are-sovereign-wealth-funds-a-threat>.

⁴⁰ Ronald J. Gilson and Curtis J. Milhaupt, “Sovereign Wealth Funds and Corporate Governance: A Minimalist Response to the New Mercantilism,” *Stanford Law Review* 60, no. 5 (2008): 1345–1370.

⁴¹ Sven Behrendt, “When Money Talks: Arab Sovereign Wealth Funds in the Global Public Policy Discourse,” *Carnegie Papers* 12, (2008), accessed October 29, 2016.

http://carnegieendowment.org/files/arab_sovereign_wealth_funds.pdf.

⁴² Gilson and Milhaupt, “Sovereign Wealth Funds and Corporate

SWF investment, suggesting that this is in-fact the real root of popular concerns and negative sentiment towards the investments⁴³.

Behrendt addresses similar sentiments, but rather than applying the theory of neo-Mercantilism to the problem, he hypothesises that it is not the size of sovereign wealth funds that are of concern, but their sudden rise to prominence⁴⁴. This is an important point to make as it is so rarely recognised that so much of the distrust for SWF investments and their motives is founded not in their past actions or in cases which have proven them to be hostile towards the west, but from the simple fact that they were a largely unknown entity in the world of international investment. The article shows how states began to institute economically protective policies to regulate incoming SWF investment despite the plans by the IMF and International Working Group on Sovereign Wealth Funds to create a similar body of regulations (which would become the GAPP/Santiago Principles). This trend then lead to concerns over financial protectionism which goes against the fundamental principles of a global open market and free trade economy for which many of the guilty states themselves had advocated for so many decades⁴⁵.

While both of these articles date back to 2008, they offer essential insight into the causes of increased economic protectionist policies at the time. This concept is key in understanding the extent of the link between sovereign wealth fund investment and political discourse. It illustrates how negative sentiment arose among ‘Western’ states as a result of suspicion towards the motivation behind ‘poorer’ state’s investments into their economies as it challenged the existing power dynamics of the global market at the time.

Governance: A Minimalist Response to the New Mercantilism,” 1345-1370.

⁴³ Gilson and Milhaupt, “Sovereign Wealth Funds and Corporate

Governance: A Minimalist Response to the New Mercantilism,” 1345-1370.

⁴⁴ Behrendt, “When Money Talks: Arab Sovereign Wealth Funds in the Global Public Policy Discourse.”

⁴⁵ Behrendt, “When Money Talks: Arab Sovereign Wealth Funds in the Global Public Policy Discourse.”

IV. Identifying Political Influence in Sovereign Wealth Fund Asset Allocation

International economics was forever changed in the early 1950s with the conceptual shift from individual security selection to Markowitz's Modern Portfolio Theory (MPT) which introduced the notion of asset allocation for maximised financial returns as a function of investment risk⁴⁶. Modern day investment still uses largely the same method of asset allocation, albeit refined and updated versions derived from MPT and the contemporary global investment culture of today.

In the late 20th century, David Swensen formulated the Yale Model of investment, advocating investment in alternative asset classes such as hedge funds, endowments, managed futures and credit derivatives⁴⁷. The resulting rise of the alternative investment class and risk-adjusted investment strategies on the global open market made sovereign fund investment a viable and attractive alternative to 'traditional' investment classes such as foreign currency reserves or gold.

It is for this reason that the number of sovereign wealth fund investments has grown from just 23 in January 2000 to 78 active funds by December 2016⁴⁸. There has been a wave of negative sentiment and distrust towards SWF investments during the 21st century, and particularly prior to the 2008-2009 global economic recession. It is from the arguments driven by these negative sentiments that one can decipher a common pattern of political concern surrounding SWF investments.

The CATO Institute's Daniel J. Ikenson investigates some of these concerns in his article (written at a time when concerns were peaking) titled *Nothing to Fear but Fear Mongers Themselves: A Look at the Sovereign Wealth Fund Debate*⁴⁹. Ikenson highlights concerns and quotes statements of some SWF sceptics from the New York Times to Leo Gerrard (Boss - United Steelworks), to Democratic Party representative Paul Kanjorski whose concerns all revolve around IPE issues of sovereign wealth fund investments and their

⁴⁶ Jeremy Brown, "The Political and Economic Implications of Sovereign Wealth Fund Investment Decisions," *Chazen Web Journal of International Business*, (2009), Accessed August 15, 2016. <https://www0.gsb.columbia.edu/mygsb/faculty/research/pubfiles/3226/The%20Political%20and%20Economic%20Implications%20of%20Sovereign%20Wealth%20Fund%20Investment%20Decisions.pdf>.

⁴⁷ Sovereign Wealth Fund Institute, "David F. Swensen," [swfinstitute.org](http://www.swfinstitute.org), accessed January 17, 2017. <http://www.swfinstitute.org/public-investor-100-2016/david-f-swensen/>.

⁴⁸ Swfinstitute.org, "Sovereign Wealth Fund Rankings."

⁴⁹ Daniel J. Ikenson, "Nothing to Fear but Fear Mongers Themselves: A Look at the Sovereign Wealth Fund Debate," *Free Trade Bulletin* 33 (2008), accessed 12 October, 2016. <https://www.cato.org/publications/free-trade-bulletin/nothing-fear-fearmongers-themselves-look-sovereign-wealth-fund-debate>.

impact on the USA and on the ‘global West’ as a whole. Some of these concerns revolve around the assumption that SWF investments from states such as China, Russia and the Middle East derive excess revenue through economically dubious practices such as currency manipulation⁵⁰. Furthermore, ‘foreign’ SWF investments are accused of undercutting Western businesses in order to devalue the economic entities to the point where the hostile SWFs can then purchase them at a fraction of the price while simultaneously hijacking their consumer base⁵¹.

By February 2008 the total sovereign wealth fund split of assets under management was heavily skewed towards states outside of the ‘global West.’ At the time, out of the total market size estimate of 2093 – 2968 billion USD, the ‘global west’ only claimed 490 billion USD. Of the remaining market share, Middle Eastern states claimed 909.5 – 1534.5 billion USD, Asian states claimed 606.5 – 836.5 billion USD, Russia claimed 125 billion USD and the cumulative value of assets under SWF management of the remaining developing states totalled 33.3 billion USD⁵².

Indeed, these statistics posed a concern for western states that feared the growing financial power of states deemed to be a threat, especially considering that Middle Eastern states held 43.45% - 51.7% of total SWF assets under management⁵³. Further exaggerating tensions was the case of the failed acquisition of several US ports by Middle Eastern logistical investment corporation, Dubai Ports World, less than 2 years prior.

In 2006, Dubai Ports (DP) World initiated a deal to attain controlling shares in the UK based company Peninsular and Oriental Steam Navigation Company (P&O) which was then contracted with the operation of several U.S. ports⁵⁴. According to Dixon, even though the United States Committee on Foreign Investment had authorised DP World’s acquisition of P&O and its contractual obligations, several members of the U.S. Congress brought up major

⁵⁰ Ikenson, “Nothing to Fear but Fear Mongers Themselves: A Look at the Sovereign Wealth Fund Debate.”

⁵¹ Peter Goodman and Louise Story, “Overseas Investors Buy Aggressively in U.S.,” *New York Times*, 2008, found in Daniel J. Ikenson, “Nothing to Fear but Fear Mongers Themselves: A Look at the Sovereign Wealth Fund Debate,” *Free Trade Bulletin* 33 (2008), accessed 12 October, 2016.

<https://www.cato.org/publications/free-trade-bulletin/nothing-fear-fearmongers-themselves-look-sovereign-wealth-fund-debate>.

⁵² Mark Alan and Jaime Caruana, “Sovereign Wealth Funds-A work Agenda,” *International Monetary Fund Review*, February 29, 2008, accessed October 10 2016.

<https://www.imf.org/external/np/pp/eng/2008/022908.pdf>.

⁵³ Alan and Caruana, “Sovereign Wealth Funds-A work Agenda.”

⁵⁴ Adam D. Dixon, “Enhancing the Transparency Dialogue in the “Santiago Principles” for Sovereign Wealth Funds,” *Seattle University Law Review* 37, no.581 (2014).

concerns for national security implicated by the deal. When the argument was made, P&O was a British owned and therefore foreign corporation and, like DP World, was based in a foreign but U.S. allied state. Nevertheless, the members of the U.S. Congress made clear their intentions to put forward a congressional bill to impede the action which would result in the Arab state's management of U.S. ports⁵⁵. In an announcement on the 11th of December 2006, DP World stated that it had concluded a transaction which saw 100% of the shares from the P&O Ports North America deal sold to a subsidiary of AIG Global Investment Group, thereby returning control of these ports to 'Western' hands⁵⁶.

Although DP World is not a sovereign wealth fund in form or function, it is a state-owned corporation which made investment in the same way as a SWF would, and as such has been used extensively throughout the industry as an example of geopolitics in state sponsored international investment. In this case, DP World appears to be the victim of a generalised view of Middle-Eastern hostility towards the U.S. as a result of the 'war on terror' and the emotive and sensational U.S. media and political coverage thereof.

These examples are mere glimpses into the way in which sovereign wealth fund investment and politics are constitutionally intertwined and allow for the determination of two main categories and two sub categories one can use in order to determine a pattern of SWF influence on domestic and international politics.

The two main categories refer to the scale of influence, being on either a domestic or an international level. The two sub categories refer to the direction of influence, the first being the influence of domestic or international politics on SWF investment and the second being the influence of SWF investment on domestic or international politics, or a causal vs. resultant influence. In order for a causal influence to be present, the case must possess evidence of political motivation for SWF investment in order to achieve political, social, economic or geostrategic goals of the fund's owner state.

The analysis will use this method in order to identify the political aspect of sovereign wealth fund investment. It will be applied to the two main case studies of the research resulting in a clear understanding of the way in which these cases display the subject matter.

⁵⁵ Dixon, "Enhancing the Transparency Dialogue in the "Santiago Principles" for Sovereign Wealth Funds."

⁵⁶ "DP World Enters into Agreement to Sell P&O's U.S. Marine Terminal Operations to AIG Global Investment Group," dpworld.com, accessed May 25, 2016. http://web.dpworld.com/wp-content/uploads/2014/01/11-December-2006-POPNA_PRESS_RELEASE.pdf.

V. Case Study: Chile 2006 - 2009

The global economic recession of 2008-2009 was one of the most favourable turning points in the history of SWF investment globally. During a time of massive commodity price and currency value fluctuation, stabilisation funds proved their worth all over the world, having been accredited as one of the leading factors in the retention of economic stability in several primary commodity economies. Chile's Social and Economic Stabilisation Fund (SESF) and Pension Reserve Fund (PRF) were not only one of the newest of such funds, but one of the most controversial in their conception.

According to the Central Intelligence Agency's World Factbook and the Sovereign Wealth Fund Institute, Chile initiated 2 SWF investments between 2006 and 2007, the larger of which being the Social and Economic Stabilisation Fund (SESF) with an initial investment of US\$2.58 billion (1.4% of GDP) and current value of US\$14.72 billion (5.9% of GDP⁵⁷)⁵⁸. During the early 2000s immediately prior to the global financial crisis, South American states began implementing counter-cyclical macroeconomic policies in an effort to counteract the negative effects of fluctuating primary commodity prices which made up the bulk of many of these states sources of revenue⁵⁹.

Having ascended to the presidency in 2006, President Michelle Bachelet took leadership over a state in financial, social and political turmoil. One of the first items to cross her desk would be the passing and adoption of the 'Fiscal Responsibility Law' (FRL) which would legislatively dictate that the new president would have to publicly present their fiscal policies within 90 days of taking office⁶⁰. Based on the FRL, Bachelet announced the initiation of the two new sovereign wealth funds, the Pension Reserve Fund (PRF) and the Social and Economic Stabilisation Fund (SESF) which would absorb and replace the unremarkably performing Copper Stabilisation Fund (CSF) created in the 1980s. The SESF and PRF differ from the CSF in that they are true sovereign wealth funds, offering the following benefits.

⁵⁷ "Chile GDP," tradingeconomics.com, accessed August 11, 2017. <https://tradingeconomics.com/chile/gdp>.

⁵⁸ "Social and Economic Stabilisation Fund," swfinstitute.org, accessed February 21, 2016. <http://www.swfinstitute.org/swfs/social-and-economic-stabilization-fund/>.

⁵⁹ Daniel Riera-Crichton, "A Key Benefit of Sovereign Wealth Funds," *World Economic Forum*, November 28, 2014, accessed August 8, 2016. <https://www.weforum.org/agenda/2014/11/a-key-benefit-of-sovereign-wealth-funds/>.

⁶⁰ Jorge C. Rodriguez, Carla R. Tokman and Alejandra C. Vega, *Structural Balance Policy in Chile* (Gobierno De Chile, 2007), accessed August 24, 2016. http://www.dipres.gob.cl/594/articles-22592_doc_pdf.pdf.

Each of the new funds operates under completely different legislative procedures which allow for far more structured financial investment, superior oversight, improved accountability and more stringent withdrawal regulations to avoid inappropriate expenditure. The funds are also managed independently of government to minimise the risk of inappropriate political influence or manipulation. Furthermore, the fund's investment approach allows for low risk investment to grow public pensions, while simultaneously engaging in higher level risk-adjusted investments in sectors outside of the copper industry enabling the state to engage in economic diversification without jeopardising the public pension. Another benefit which cannot be overstated is the ability to engage with international experts and other funds facing the same challenges in order to harness local expertise through international participation of International Forum on Sovereign Wealth Funds (IFSWF) which is exclusively open to SWF owner states and their representatives.

On the 29th of November 2006 President Michelle Bachelet, accompanied by finance minister Andres Velasco, announced her office's fiscal and macroeconomic policy including the allocation of surplus finances towards the two newly established sovereign wealth fund investments⁶¹. The financial restructuring, however, was not well received.

Between December 2006 and July 2008, public ratings polls showed a massive 22% decline in positive public sentiment towards the Bachelet administration's economic governance. Appendix A graphically represents that negative sentiment rose by 11% and neutrality by 19% over the same period⁶².

During that time, Bachelet and her administration also faced socio-political challenges surrounding endemic corruption on all levels of the government, extensive student protests over quality and accessibility of government subsidised education and intra-party divisions which ultimately lead to defection and a loss of majority representation in the state senate⁶³. The strife continued with crippling labour strikes and lengthy disputes over fair wage. Public criticism of massive budgetary allocations to the new SWFs were generally centred around the perception that SWF expenditure would be better utilised in addressing immediate socio-economic challenges such as poverty, income inequality and general ideas of more prudent

⁶¹ Rodriguez, Tokman and Vega, *Structural Balance Policy in Chile*.

⁶² Ricardo Gonzalez, "Estudio Nacional se Opinion Publica No. 70," *Centro de Estudios Publicos* (2013), accessed August 8, 2016.

https://www.cepchile.cl/cep/site/artic/20160304/asocfile/20160304100356/encuestaCEP_sep-oct2013.pdf.

⁶³ Kirsten Sehnbruch, "The Bachelet Bounce," *Berkley Review of Latin American Studies* (2009), accessed September 20, 2016. <http://clas.berkeley.edu/research/chile-bachelet-bounce-0>.

expenditure in the context of a developing economy⁶⁴. Despite negative popular sentiment towards its countercyclical fiscal policy during 2008 when copper prices spiked accounting for nearly 9% of total GDP, the Bachelet regime and Chile's central bank exhibited exemplary fiscal discipline in sticking to its financial policy⁶⁵.

In the same year as the start of the global recession and the same year in which public support for president Michelle Bachelet's economic management had declined to only 29% from 51% just 18 months, the capital was host to the IMF, IWGSwF and several of the most prominent sovereign wealth fund experts and economic instructions in the world. It was at this meeting that the GAPPs were first established, hence the name 'Santiago principles'⁶⁶.

The arrival and passing of the 2008-2009 global economic recession contributed greatly to the improvement of public sentiment towards the perceived value of sovereign wealth fund investment particularly in primary commodity exporting states. During that time, the Chilean government was able to draw from the Economic and Social Stabilisation Fund, investing it back into the state's usable budget to supplement its drastically stunted copper income thereby preserving its mining industry and having a stabilising effect on its local economy and its exchange rate⁶⁷. Bachelet's government also authorised the withdrawal of millions of dollars from the Pension Reserve Fund to stabilise income regression through government social grants and pension payments, buffering its citizens (the most economically vulnerable in particular) from the effects of the recession⁶⁸.

According to the CIA's World Factbook and the Sovereign Wealth Fund Institute, in addition to more recent research conducted by Privos Capital, the copper dependent Chilean economy fared exceptionally well through the global economic recession of 2008-2009

⁶⁴ University of Pennsylvania, "The Brave New World of Sovereign Wealth Funds," *Lauder Sovereign Wealth Fund Report 2010* (2010), accessed October 10, 2016.
http://d1c25a6gwz7q5e.cloudfront.net/papers/download/052810_Lauder_Sovereign_Wealth_Fund_report_2010.pdf.

⁶⁵ Cullen S. Hendrix, and Jesse M. Noland, *Confronting the Curse: The Economics and Geopolitics of Natural Resource Governance* (Washington D.C.: Peterson Institute for International Economics, 2014), 133.

⁶⁶ Angela Cummine, *Citizen's Wealth: Why (and How) Sovereign Funds Should be Managed By the People For the People* (London: Yale University Press, 2016), 2-3.

⁶⁷ Cummine, *Citizen's Wealth: Why (and How) Sovereign Funds Should be Managed By the People For the People*, 2-3.

⁶⁸ Cummine, *Citizen's Wealth: Why (and How) Sovereign Funds Should be Managed By the People For the People*, 2-3.

compared to other primary commodity reliant developing states⁶⁹. The successful economic management of the Chilean government through the recession was quickly recognised even during the event. Appendix A shows a spike in public sentiment towards the Bachelet administration's economic management of 26% in just over one year from October 2008 to November/December 2009⁷⁰. During 2008 Chile went from having an account surplus in excess of 6.07 billion USD to a deficit exceeding 1.37 billion USD, a factor which most likely contributed to the surge in negative sentiment towards the Bachelet administration's economic governance⁷¹.

Several of the prominent articles cited in this chapter credit the positive public sentiment towards the Bachelet administration to its policy of good economic governance through transparency and accountability, in addition to prudent withdrawal from its sovereign wealth funds and subsequent allocation of capital assets to threatened sectors both socially and economically. Bachelet was unable to run for a second term as the Chilean constitution prevents the service of consecutive terms. In 2010 President Bachelet became the Under-Secretary-General and Executive Director of UN Women until 2014 when she returned to run for a second (non-consecutive) term in the Chilean presidency, and won⁷².

The re-election of president Bachelet, as in any democratic election, is a direct and unequivocal link between public support and domestic political governance. By identifying this link in Chile in which SWF investment had an effect (first negatively and then positively) on public sentiment, that link can then be drawn between public sentiment, voter support, and domestic politics thus linking SWF investment to domestic politics via public sentiment and therefore voter support.

In terms of the designation of a link between the political aspects of the Chilean case of SWF investment, the main category of scale is clearly one of domestic influence. The absence of evidence pertaining to any kind of political motivation behind the Chilean SWF investment, but presence of evidence that the investment did in fact have an effect on domestic politics means that the subcategory for this investment would be a resultant one. As

⁶⁹ Central Intelligence Agency, *The World Factbook* (Washington D.C.: Potomac Books Incorporated, 2010), 132-135.

⁷⁰ Gonzalez, "Estudio Nacional se Opinion Publica No. 70," *Centro de Estudios Publicos*.

⁷¹ "Current Account Balance: Total Trade of Goods for Chile," fred.stlouisfed.org, accessed August 02, 2017. <https://fred.stlouisfed.org/series/BPBLTD01CLQ637N>.

⁷² "Michelle Bachelet: President, Chile 2006 – 2010 , 2014 – Present," [unfoundation.org](http://www.unfoundation.org), accessed September 9, 2016. <http://www.unfoundation.org/features/cwwl-bios/current-cwwl-members/Michelle-Bachelet.html>.

such, this case presents an example of a domestic resultant relationship between sovereign wealth fund investment and political discourse.

VI. Case Study: China Investment Corporation

The China Investment Corporation (CIC) is one of the largest and most powerful sovereign wealth funds in the world with an initial capital capacity of 200 billion USD (5.63% of GDP) growing to a present value of 813.8 billion USD (7.26% of GDP)⁷³.⁷⁴ The fund was initiated in 2007 drawing initial funds from a portion of the US\$ 1.4 trillion in foreign currency reserves. The CIC now derives its capital from excess' in foreign exchange on the international market, making it the largest non-commodity sovereign wealth fund on earth, with its present value exceeded only by the oil based Government Pension Fund Global of Norway⁷⁵.

The corporation's governance and operations are split between three subsidiaries. Created in 2011 China Investment Corporation International (CIC International) invests and manages the CIC's overseas investments in public and private equities, bonds, hedge funds, real-estate co-investment partnerships and minority shareholder investments⁷⁶. In 2015 the CIC initiated a second subsidiary, CIC Capital, to work alongside CIC International. CIC Capital specialises in direct investments in long term risk adjusted assets on an international scale, further refining the CIC's investment portfolio. These two subsidiaries invest and manage the majority of the CIC funds. The third subsidiary is Central Huijin Investment Ltd. (CHI) which handles the entire domestic investment portfolio of the China Investment Corporation⁷⁷.

The CIC Mandate does not specifically mention its position on political or geostrategic investment strategies or investment in strategic sectors of foreign or domestic entities with the intention of gaining privileged information not available to the public. In

⁷³ "China GDP," tradingeconomics.com, accessed 12 August, 2017. <https://tradingeconomics.com/china/gdp>

⁷⁴ "China Investment Corporation," swfinstitute.org, accessed January 24, 2017. <http://www.swfinstitute.org/swfs/china-investment-corporation/>.

⁷⁵ swfinstitute.org, "China Investment Corporation."

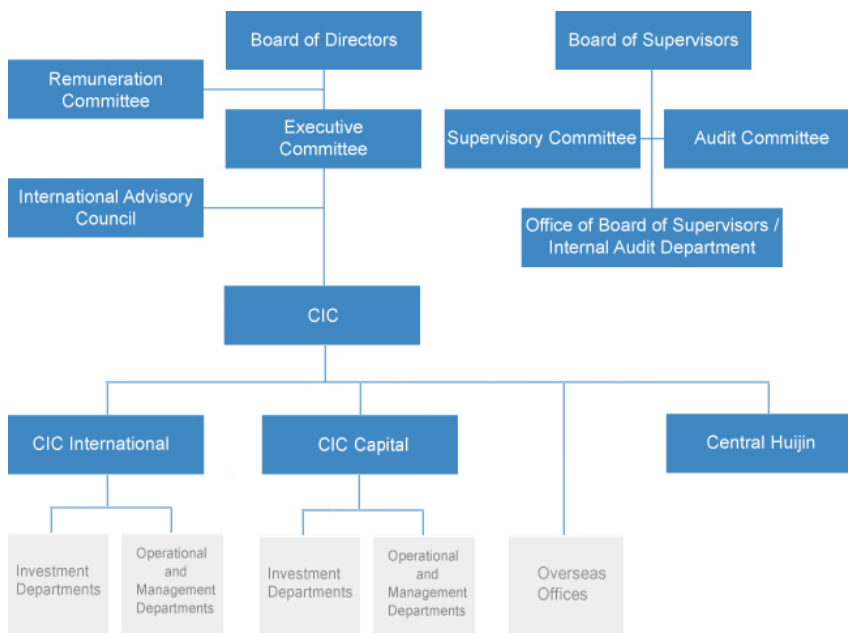
⁷⁶ "About CIC," china-inv.cn, accessed January 24, 2017. http://www.china-inv.cn/wps/portal/!ut/p/a1/jZLBcolwEIZfpR480iwBCR7TQAFbWqswCpdMsEGZwcCI48GnL9BeSd1TNvP9--_OLsrRHuVK3KqjuFaNEvWQ5w7_AAAdMtoUVxPQVqAt-_Gmtojff6YFsEsCBjbX6EP70LKChTd4BwHYxRN5L6JFIDBA5j-lhlig8ptcA_8yf9XoyBTCw0BbIKN-xmK8jJlDwpLedA6HU6WEUanbU9tcrqKew6k5Sy7VHGLfi-j4WI9k1_GNrKXoZNd_DQVUx7WefLQTR_IskQMpClwaC6swDZvY2Chslg3L_XYXZOmapUNQhtFuKKsZIBE9ECR64PcSRkC36hHQ7VLbZG_RntM03d8TWdzL1t_4X3Q2-wEPmZ-G/dl5/d5/L2dBISEvZ0FBIS9nQSEh/.

⁷⁷ China-inv.cn, "About CIC"

2008 the president of the CIC, Gao Xiping, stated publically that the CIC had no intention to gain representation on the boards of strategic corporations and that the CIC was mandated only to act as a passive role-player in its investments⁷⁸. By 2013 the CIC had gained chairs on no fewer than 4 boards of US corporations involved on varying degrees in sectors deemed to be strategic or sensitive.

Indeed the CIC has been involved in numerous deals which analysts and industry experts have deemed dubious or suspicious, most of which have been disputed by the CIC who maintain that the fund upholds a strict code of ethics in its investments and investment management. As such, the governance structures of the fund come into question. The question most often reverts to the issue of accountability in the planning, execution and management of the funds overseeing bodies. At first glance, however, these structures do appear up to the global sovereign wealth benchmark for corporate governance. Figure A shows the chain of governance within the CIC.

Figure A: China Investment Corporation Governance Structure⁷⁹



⁷⁸ Jacob N. Koch-Weser, and Owen D. Haacke, "China Investment Corporation: Recent Developments in Performance, Strategy, and Governance," *U.S.-China Economic and Security Review Commission 2013* (2013), 30.

⁷⁹ "Governance Structure," china-inc.cn, accessed January 24, 2017. http://www.china-inc.cn/wps/portal/!ut/p/a1/jzJbC4lwEIX_SnvwSLOEQPBiqwrY0lqlo3DJBbuUGQRGHA_--gL2SnRP2cz39r1kFmVoi7JaXsq9PJdNLauhzxzxCQ6YbA0LiL038Fzg8Ze1iN5t6IF0EsABwVq9Sf71LPBCQj8AgLgYlv819Ok8Boicx_QwUR5o9aE-_wjo9Ny5o-cP5tcAd_4_7fv0CmBgoTXKULZhsVhGKDWHhiW96Qx2h7KWRllfntrmdJbVDA7NUQIVzyDmfuSNp-VJdZ1YqUrJTnX91TCg7oiTWU4x2cq9eLLqjeY4Lw7Zy0yCUYCMnVBmW--vadO6ahUNRitFmGkt5KKN6IEj0wG0TR0C3aiOg2yVtyN6iPf4Mtb0mKr8WLV_x7-c_mvGf6A!!/dI5/d5/L2dBISevZ0FBIS9nQSEh/.

One of the primary points of debate within SWF investment is the presence of political bias in international investment or home bias in domestic investment. Home bias refers to the proclivity for the state to offer favourable investment terms for the investment of its own SWF in domestic assets. It is this home bias that has been a continuing criticism for the China Investment Corporation⁸⁰.

Of more concern to the international community (the USA in particular) are the international investment motives and strategies of the CIC. The first instance of blatant, purely political motive in China's sovereign wealth fund investment policy took place shortly after the inception of the China Investment Corporation. In 2008 evidence came to light that the CIC had made a deal with the government of Costa Rica that went entirely against the values and principles of responsible sovereign wealth fund investment practices. A somewhat secret Chinese investment agency called SAFE offered to buy 300 million USD worth of government bonds in the relatively poor South American state in return for the Costa Rican government severing ties with the disputed territory of Taiwan⁸¹.

The transaction (often referred to as a bribe) drew the international eye as worries mounted over the permeation of politically manipulative practices into the CIC. Both SAFE and the CIC drew funds from the same Chinese foreign exchange reserves (around 2 trillion USD worth at the time) and both were mandated to make investments strategically to promote the greater interests of the Chinese state. With its ability to make larger scale investments directly in foreign corporations, the CIC added a new dimension to the ability of the Chinese state to project its influence into the world's major financial, strategic, technology and military institutions. These concerns were multiplied when CIC president Gao Xiqing confirmed that CIC long term investments may have a political component but denied the use of CIC investment as a directly political tool, distancing himself from the actions of SAFE⁸².

⁸⁰ Christopher Balding, *Sovereign Wealth Funds: The New Intersection of Money and Politics* (Oxford: Oxford University Press, 2012).

⁸¹ U.S.-China Economic and Security Review Commission, *2008 Report to Congress of the U.S.-China Economic and Security Review Commission*, 110th Congress, 2nd Session (Washington D.C.: U.S. Government Printing Office, 2008).

⁸² U.S.-China Economic and Security Review Commission, *2008 Report to Congress of the U.S.-China Economic and Security Review Commission*.

It is not only the US that feels threatened by the increasing prominence of Chinese economic encroachment into the world's largest corporations throughout all sectors of the economy. The BBC World Service conducted public opinion surveys regarding sentiment towards Chinese growth in the top Chinese investment receiving states globally. Appendix B is a graphical representation of the findings compared to global Chinese investment between 2005 and 2013.

When analysing the graph, one can see an interesting pattern emerging. Appendix B shows that negative sentiment has risen in each of the sample states as the amount of Chinese investment has risen. Among the top states to receive Chinese investments, two (U.S.A. and Canada) show mostly negative public sentiment towards Chinese investment with more than 50% negativity.

Negative sentiment was largely believed to be the result of an increase in CIC strategic investments in major corporations around the world. The common practice, despite Gao Xiqing's 2008 statement to the contrary, appeared to be an initial capital investment to purchase large but minority shares in these corporations before placing representatives from either the CIC or Chinese government into high level positions with board membership. One such example is that of the major U.S. energy corporation AES. In December 2011, the CIC had purchased a 15% share of the corporation and gained the right to appoint a board member. The CIC appointed Zhang Guobao. Unlike previous appointments, Guobao was not part of the CIC, but rather a bureaucrat in the Chinese administration serving at the time as vice chairman of the Chinese National Development and Reform Commission⁸³.

Not only did this cast doubt on the true objectives of the CIC, but combined with the unashamedly political nature of the SAFE Corporation's conditional investment in Costa Rican government bonds, the entire nature of Chinese foreign direct investment came into question.

More recently, the China Investment Corporation has been embroiled in controversies regarding widespread corruption and misspending within its governing structures and its investment practices. According to the Financial Times, the CIC was accused by the National Audit Office (NAO) (The national independent auditing firm entrusted with the annual audit of the CIC) of incurring "unquantified losses" on international

⁸³ U.S.-China Economic and Security Review Commission, *2008 Report to Congress of the U.S.-China Economic and Security Review Commission*.

investments due to financial mismanagement in the 2013/2014 financial year⁸⁴. The following year, the CIC once more received a poor review from the NAO, once again accused of misappropriation of funds and use of CIC funds for personal expenditure⁸⁵.

Considering the fact that the CIC scores highly on the Linaburg-Maduell Transparency Index with a score of 8/10 in addition to the apparently well-structured design of audited fund governance, the findings of this case study are somewhat surprising⁸⁶. Since its initiation, the China Investment Corporation has been part of one suspicious transaction after another. The scale and frequency of these transactions has led to another, secondary effect brought on by the investment activity of the CIC.

As early as 2012, the CIC had started to notice the effects of Western state's diminishing willingness to conduct business with the state investor. CIC.UL chief Lou Jiwei speaking at the 2012 Communist Party Congress stated in an interview with Reuters that the CIC felt that there was a disproportionate level of scrutiny placed on the CIC and its subsidiaries as compared to other investors and that they had noticed increased concern in most Western states when major investments were made⁸⁷. By 2016, U.S. (and other Western states) investment and trade protectionism had hit an all-time high, according to Forbes' Asian investment expert Ellen Sheng⁸⁸. Sheng attributes this not only to the increase in China-U.S. investment from 11.7 billion U.S. Dollars in 2015 to 53.9 billion U.S. Dollars in 2016, many of which in 'sensitive' sectors raising concerns over national security, but to the historically political investment practices of the CIC and the Chinese state in general⁸⁹.

With a rise in CIC investment and historically politicised economic practices of the state, this case proves that SEF investment can have an impact on international political discourse both directly and indirectly, adding to the growing base of literature confirming the significance of politics in the investment practices of sovereign

⁸⁴ Jamlin Anderlini, "Chinese Fund CIC Under Fire Over Overseas Losses," *Financial Times*, June 18, 2014, <https://www.ft.com/content/9f5b10d2-f6eb-11e3-8ed6-00144feabdc0>.

⁸⁵ Patti Waldmeir and Gabriel Wildau, "China Graft Probe Uncovers Falsified Revenues at Large SOEs," *Financial Times*, June 29, 2015, <https://www.ft.com/content/91b7855c-1d85-11e5-ab0f-6bb9974f25d0>.

⁸⁶ swfinstitute.org, "China Investment Corporation."

⁸⁷ Nick Edwards, and Kang Xize, "China Wealth Fund Eyes Asia as Western Protectionism Rises," *Reuters*, November 12, 2012, [http://www.reuters.com/article/us-china-congress-cic-idUSBRE8AA01120121111?feedType=RSS&feedName=businessNews&utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+reuters%2FbusinessNews+\(Business+News\)](http://www.reuters.com/article/us-china-congress-cic-idUSBRE8AA01120121111?feedType=RSS&feedName=businessNews&utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+reuters%2FbusinessNews+(Business+News)).

⁸⁸ Ellen Sheng, "China Investment in the U.S. Hit an All-Time High in 2016, But Don't Expect the Same in 2017," *Forbes*, December 18, 2016, <https://www.forbes.com/sites/ellensheng/2016/12/18/chinese-investments-in-the-u-s-hit-an-all-time-high-in-2016-but-dont-expect-the-same-in-2017/#357369d45abe>.

⁸⁹ Sheng, "China Investment in the U.S. Hit an All-Time High in 2016, but Don't Expect the Same in 2017."

wealth funds globally. As IPE theory professes, there has always and will always be a link between international politics and economics, scarcely more so than foreign direct investment, particularly when the investor and investees are either states or state entities themselves.

VII. Case Study: Qatar Investment Authority

As of July 2017 the Qatar Investment Authority (QIA) is the 9th largest sovereign wealth fund in the world with total assets under management currently sitting at 335 billion UD dollars⁹⁰. Founded in 2005 by the state of Qatar, it is an oil and natural gas subsidised fund intended to strengthen the Qatari economy through asset diversification with large investments in real-estate, energy and some \$30 billion stocks worldwide. Other targeted investments include a 17% stake of the Volkswagen Group, 13% stake of Tiffany Co., 9% of Glencore, 6% of Barclays, 5% of Credit Suisse and 3.3% of Siemens⁹¹.

Before the establishment of the Qatar Investment Authority in 2005 and activation in early 2006, the government of Qatar utilised a small investment team within its Ministry of Finance to invest primary commodity budget surplus. The recognition of the need for risk reduction through asset diversification came in the form of the Emiri Decision No. 22, directly from the then Emir, Hamad bin Khalifa Al Thani⁹². The QIA took the place of the in-house investment team, offering a superior platform for investment on a larger scale and with a greater scope.

The QIA operates under a fairly standard organisational structure with a board of directors at its head, flanked by the investment committee and audit committee all reported to by the CEO, spreading down through the offices of the CFO and COO in addition to legal, investment, risk management and investment strategy departments. Subordinate offices below this third level of management largely run the day to day operations of the fund and all answer to their division line management offices⁹³.

⁹⁰ swfinstitute.org, "Sovereign Wealth Fund Rankings."

⁹¹ Khalid A. Alsweilem, Angela Cummine, Malan Rietveld and Katherine Tweedie, "A Comparative Study of Sovereign Wealth Fund Models: Sovereign Wealth Fund Profiles," (Joint Report, Belfer Centre for Science and International Study and Centre for International Development, Harvard Kennedy School, 2015) 63-71.

⁹² International Forum on Sovereign Wealth Funds, "Qatar Investment Authority," ifswf.org, accessed July 10, 2017, <http://www.ifswf.org/member-profiles/qatar-investment-authority>.

⁹³ Qatar Investment Authority, "QIA Organisation," qia.qa, accessed July 10, 2017, <http://www.qia.qa/About/OrganisationalStructure.aspx>.

At the head of the fund as chairman of the board of directors, H.H. Sheikh Abdullah bin Hamad bin Khalifa Al-Thani, who is the current deputy emir of Qatar. Also on the board are several ministers, including the minister of economy and trade, H.E. Sheikh Ahmed bin Mohammed Al-Thani as vice chairman. Executing the administration of orders handed down from the board of directors in its day to day application is the CEO, H.E. Sheikh Abdullah bin Saud Al-Thani, a member of the Supreme Council for Economic Affairs and Investment (SCEAI)⁹⁴.

The fund has a major role in the pursuit of the Qatar National Vision 2030, the state's national development plan launched by the General Secretariat for Development Planning in 2008⁹⁵. The QNV 2030 essentially focuses on sustainable development and the advancement of the state of Qatar to be tackled on four central pillars of social, human, environmental and economic development. The QIA plays a major role in the pursuit of sustainable economic development by enabling the state to diversify its economic risk profile beyond the dependence on oil and natural gas revenue. In fact, the QNV 2030 aims to shift the state's revenue base from primary commodity dependency to an investment based economy using its commodity trade revenue to subsidise its investments⁹⁶.

With all of the information above, the QIA seems to fulfil a very standard role shared by many sovereign wealth funds to diversify assets in order to increase economic resilience. In order to uncover its relevance to political discourse one must look closer at the fund itself.

Importantly, the QIA was one of the founding member funds of the GAPPs in 2008, and currently has its CEO, H.E. Sheikh Abdullah bin Saud Al-Thani, as a member of the board of the Sovereign Wealth Fund Institute. Despite this, though, the Qatar Investment Authority only scores a poor 5 points out of a possible 10 on the Linaburg-Maduell Transparency Index where the SWFI considers a minimum score of 8 points to be an acceptable level of sovereign wealth fund transparency⁹⁷. Furthermore, the QIA has consistently received poor independent audit scores for compliance to the GAPPs which, ironically, the fund had a hand in creating. In 2014, GAPP compliance auditor Geoeconomica

⁹⁴ Qatar Investment Authority, "The Corporate Structure of the Authority," [qia.qa](http://www.qia.qa), accessed July 10, 2017, <http://www.qia.qa/About/OurGovernance.aspx>.

⁹⁵ General Secretariat for Development Planning, *Qatar National Vision 2030* (Doha: Qatari Government's General Secretariat for Development Planning, 2008), 1-34. http://www.mdps.gov.qa/en/qnv/Documents/QNV2030_English_v2.pdf.

⁹⁶ General Secretariat for Development Planning, *Qatar National Vision 2030*, 1-34.

⁹⁷ Sovereign Wealth Fund Institute, "Qatar Investment Authority," [swfinstitute.org](http://www.swfinstitute.org), accessed July 10, 2017, <https://www.swfinstitute.org/swfs/qatar-investment-authority/>.

released a report on the compliance ratings of 31 sovereign wealth funds from 25 states around the world. After the audit, each fund was assigned a letter based rating from A to D, with 4 funds not allocated a rating for lack of evidence. Funds which were found to be fully compliant were given an A rating, of which there were 9. B ratings were assigned to 9 funds which were found to be ‘broadly compliant and C ratings to 8 funds deemed ‘partially compliant.’ The only fund to receive the absolute lowest rating possible, a D for ‘non-compliant,’ was the Qatar Investment Authority⁹⁸.

Criticisms levelled against the QIA involved non-disclosure of true assets under management, not providing accurate annual investment reports to the public, unilateral decision making without consensus and a failure to publish or publicise an investment agenda or strategy⁹⁹. With Qatar seeking to become a global investment hub, the poor compliance score may have deeper meanings and consequences than anticipated.

In the first place, the GAPP’s were primarily established in the aim of addressing concerns that SWFs were becoming economically powerful enough entities to be able to influence political discourse and therefore could be used as a tool for political manipulation. That being said, without the pursuit of and dedication to achieving the highest possible degree of GAPP compliance, it undermines the principles as a whole. With some of the world’s most powerful SWFs such as the QIA actively choosing to defy the principles, the legitimacy of the whole initiative is called into question which may encourage other funds to follow their example. In fact, the choice to flout the GAPPs puts funds at a comparative advantage when compared to compliant funds as strict procedural and ethical boundaries can be avoided without disclosure or accountability. In the case of the QIA, with such a developed and well established fund, the negligence to comply with the GAPPs is entirely the result of a conscious decision to withhold information. This decision is surely a calculated one in which it was found that the benefits of non-disclosure outweigh the risk to its reputation and its legitimacy in its ignorance of the very principles it helped to create and which now hold other funds to a higher standard than its own. The implication, therefore, is

⁹⁸ Sven Behrendt, *Santiago Compliance Index 2014: Assessing the Governance Arrangements and Financial Disclosure of Global Sovereign Wealth Funds* (Geopolitica, 2014), 2.

http://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=9&cad=rja&uact=8&ved=0ahUKEwjtcjop_TVAhWdHsAKHZmiC_sQFghXMAg&url=http%3A%2F%2Fwww.geoconomica.com%2Findex.php%2Fanalyses.html%3Ffile%3Dtl_files%2Fgeoeconomica%2Freports%2FSCI%25202014%2520October%25202014_final.pdf&usg=AFQjCNHeBeOduvDstlphceUqZ_CS-rsZaA.

⁹⁹ Behrendt, *Santiago Compliance Index 2014: Assessing the Governance Arrangements and Financial Disclosure of Global Sovereign Wealth Funds*, 2-11.

that there are aspects of the fund which directly contradict the principles which would do more damage to the fund if exposed than the consequences of non-compliance with the GAPPs.

Despite the fact that the QIA was one of the co-founding funds of the Generally Accepted Principles and Practices, and continues to have representation on the board of the Sovereign Wealth Fund Institute, the fund's actions and objectives have been called into question on more than one occasion.

Since its establishment, the QIA has amassed a multi-billion dollar portfolio of foreign investments throughout the world in both developed and developing states. Many of its most capital intensive investments have been executed within EU member states such as Britain and France, with increasing frequency and magnitude over the past 5 years or so¹⁰⁰. Although difficult to criticise simply for the diversity of foreign investment, the mere fact that the QIA and therefore the state of Qatar is invested so deeply in the interconnected network of economic affairs in 'Western' states does most certainly afford it a considerable degree of 'soft power.' With several billion dollars of investment interest stemming from the state of Qatar, recipient states inevitably share vested interest in the preservation of political and economic ties or face divestment in economic entities on a scale large enough to impact on local economy and employment.

Possibly the most significant debates on Qatar have revolved around two major topics, the first being its relationship with the regional powerhouse and Shiite state of Iran, and the second being more recently publicised is its possible financial support of terrorist groups in the Middle East. In the first case, the political identity and shared dominant religion of the two states in a region plagued by religious conflict is a logical political alliance. Diplomatic relations are important to both states as they share an enormous natural gas field from which each state draws billions of dollars to fund other initiatives¹⁰¹. The revenue generated from the extraction and sale of natural gas from this deposit significantly supports the base of funds which the QIA uses to make its investments. With Iran's immense military capability, the tiny and militarily weak state of Qatar recognises the importance of maintaining amicable relations with its neighbouring giant.

¹⁰⁰ Birol Baskan, *Turkey and Qatar in the Tangled Geopolitics of the Middle East* (New York: Palgrave Macmillan, 2016), 49-50.

¹⁰¹ Mehran Kamrava, *Qatar: Small State, Big Politics* (New York: Cornell University Press, 2013).

More pertinent to the topic of this paper is the accusation levelled against Qatar by its fellow Gulf Cooperation Council (GCC) members that the state was using government funds to support terrorist factions in the region. The significance of the accusation is multiplied by its source, primarily being Saudi Arabia. Historically, the GCC acted as a stabilising force in the region, promoting dialogue and at least some degree of cooperation amongst its members. It was established in 1981 in response to security concerns arising from conflict over the establishment of the state of Israel, the Iran-Iraq war and the spread of ‘radical Islam’ supported by the state of Iran. According to the office of the secretary general of the GCC, it sought to establish coordination and cooperation between its 6 member-states selected on the basis of their similar political systems based on the values of Islam¹⁰². The signatories are held to an agreement of mutual defence which includes joint defence and joint command networks which allows all member states to act collectively against aggression. The GCC also includes agreements of political and economic cooperation amongst member states, forming an allied block of similar states for collective security. More recently, the GCC has developed early warning systems and ballistic missile programmes operating in a network throughout the territories of the member states¹⁰³. With the high level of interdependence among GCC states, particularly in the fields of economics, politics and defence, the small state of Qatar could be argued to have more to gain from its membership than some of its larger, more economically and militarily developed partner states.

As early as 2014, tensions started brewing between Qatar and its 5 fellow GCC member states over its commitment to the council and its cause, accusing the state of pursuing nonconformist foreign policy with Iran and supporting extremist groups such as the Muslim Brotherhood¹⁰⁴. In March 2014, Saudi Arabia, Bahrain and the UAE severed diplomatic ties with Qatar by withdrawing their respective ambassadors from Doha in protest of its role in the Arab Spring through the support of the Muslim Brotherhood which affected regime change in Egypt. Increasingly, the Qatari agenda seemed to shift to become more aligned with that of Iran. While Iran has never tried to conceal its support of numerous separatist organisations seeking to achieve regime change in the region, the state has had few

¹⁰² “About GCC,” gcc-sg.org, accessed August 6, 2017. <http://www.gcc-sg.org/en-us/AboutGCC/Pages/StartingPointsAndGoals.aspx>.

¹⁰³ “Gulf Cooperation Council (GCC),” globalsecurity.org, accessed August 6, 2017. <http://www.globalsecurity.org/military/world/gulf/gcc.htm>.

¹⁰⁴ Sharam Akbarzadeh, “Iran and the Gulf Cooperation Council Sheikhdoms,” in *The Small Gulf States: Foreign and Security Policies Before and After the Arab Spring*, ed. Khalid S. Almezaini and Jean-Mark Rickli (London: Routledge, 2017), 89-100.

allies in doing so. By harbouring a growingly close political relationship with Iran, Qatar had positioned itself in conflict with its GCC mandate and turned to support the very factions of radical Islam for which it had initially sought security from by entering into the GCC in 1981¹⁰⁵. In a kind of political hedging, Qatar had been found in support of both the GCC and Iran, becoming increasingly involved with the strategic agenda of both, but not fully committed to either. By the end of 2014 Qatar had reached an agreement with the GCC and political ties resumed, if not tenuously¹⁰⁶.

Most recently, in mid-2017, the GCC once again severed ties with the state of Qatar in a Saudi-lead effort after evidence emerged of continuing support of terrorist organisations such as Al-Qaeda. Having developed only a few months prior to the writing of this paper, academic and government sources on the topic are limited to the media, however, when analysing such articles it is apparent that some members the GCC have now bolstered their stance on what they view as the Qatar problem. According to the Atlantic Council, Saudi Arabia, the UAE and Bahrain have closed their borders and air space to, withdrawn their ambassadors from, and suspended economic dealings with the state of Qatar¹⁰⁷. Among the reasons stated by Saudi Arabia for the action against Qatar is the Qatari backing of the Houthi separatist movement in Yemen who seek to overthrow the current Sunni regime. Further allegations extend to its support of armed groups in Libya and Syria both of which seeking control of their respective states. Qatar has also harboured individuals seen as enemies of its GCC states, such as the leader of the spiritual Muslim Brotherhood Sheikh Yusef al-Qaradawi and members of Hamas¹⁰⁸.

Importantly, most of these accusations including those of the 2014 GCC crisis have involved Qatar's economic backing of separatist groups attempting to take power through armed conflict. On July 15th 2017, the UAE's ambassador to Washington stated that the Qatar Investment Authority has been used to fund terrorism in the Middle East and North Africa¹⁰⁹. According to Ambassador Yousef Al Otaiba, the QIA uses profit generated through large scale investments such as those in Europe and the U.S.A. to finance groups such as Hamas,

¹⁰⁵ Yoel Guzansky, "Strategic Hedging by Non-Great Powers in the Persian Gulf," in *Great Powers and Geopolitics: International Affairs in a Rebalancing World*, ed. Aharon Klieman (Cham: Springer, 2015), 235-242.

¹⁰⁶ Akbarzadeh, "Iran and the Gulf Cooperation Council Sheikdoms," 89-100.

¹⁰⁷ Shahir Shahidsaless, "Saudi-Lead Blockade of Qatar Could Boost Iran," atlanticcouncil.org, accessed August 17, 2017. <http://www.atlanticcouncil.org/blogs/iraninsight/saudi-led-blockade-of-qatar-could-boost-iran-2>.

¹⁰⁸ Shahidsaless, "Saudi-Lead Blockade of Qatar Could Boost Iran."

¹⁰⁹ Mike Phillips, "Ambassador to U.S. Links Qatari Real Estate Investment to Terrorism," forbes.com, accessed August 17, 2017. <https://www.forbes.com/sites/bisnow/2017/06/15/ambassador-to-u-s-links-qatari-real-estate-investment-to-terrorism/#ef24f9a74754>.

the Muslim Brotherhood and factions linked to Al-Qaeda in order to achieve regime change in line with Iranian objectives¹¹⁰. Essentially, this would mean that Qatar is using its sovereign wealth fund investments to launder monies to be given to armed groups circumventing direct payment through the state budget. While evidence of this was never presented during the 2014 GCC crisis, it would not be unreasonable to draw the same conclusion.

By using its sovereign wealth fund to finance armed rebellion seeking to affect political change, the QIA directly violates its agreement to the GAPPs. This would explain the lack of transparency and poor audit reports received throughout its existence. As such, this case offers unequivocal evidence that sovereign wealth fund investments can be, and are being, used to manipulate global politics. As with each of the cases in this study, the state (or political party in the Chilean case) has been able to implement political changes for its own gains by using SWF investment, albeit a lot more aggressively in the case of Qatar. Finally, being that the GCC-Qatar crisis is still underway at the time of this papers composition, one can assume that far more evidence will surface and become publically available as the crisis plays out and will then lead to far more concrete evidence and academic analysis on the topic. As of now, though, the evidence paints a rather incriminating picture of Qatar and of the QIA.

Conclusion

With sovereign wealth fund investment featuring prominently in global economics at present, it is important to consider the way in which it has affected the industry. The exponential growth in the number and value of SWF investments around the world has given rise to a wealth of information on topic across the disciplines of economics and politics alike. Among the range of sources are important selections that focus specifically on the relationship between the political and economic aspects of this investment class.

The fact that SWF investments are by nature state funded, state owned and mostly state operated institutions which specialise in financial investments across the full range of economic investment opportunities from hedge funds to state bonds, means that there is an inarguable political aspect to SWF investment. This report set out to prove the existence of

¹¹⁰ Philips, "Ambassador to U.S. Links Qatari Real Estate Investment to Terrorism."

that relationship and to investigate the extent to which the economic activities of sovereign wealth fund investment can have an effect on domestic and international politics.

The first step in this investigation was to set a perspective in the form of a theoretical framework that could be used as a viewpoint for the entire investigation. Considering the topic, the theory of International Political Economics was chosen as the primary theory for the research. Each case was then assigned a more specific theory within the greater realm of IPE theory in order to provide the most relevant theoretical perspective to use in each case.

A short history and an analysis of the ‘Santiago Principles’ was then discussed, which allowed for the research to be placed in the context of SWF political economics and the best practices for which each fund should strive to achieve.

In order to properly identify the political effects of the chosen sovereign wealth fund investments in each of the case study, a method of classification was established in the paragraph “Identifying Political Influence.” Through the process of the initial analysis of the subject material, it was noticed that there are only truly two categories each with two sub-categories distinguishable in cases related to the topic. The two main categories identified the scale on which SWF investment was able to influence political discourse, observable on either a domestic or an international scale. Each of these categories was able to be further defined by the direction of influence, that is to say, the observation of influence taking place either as a result of SWF investment itself or as a result of political action which then influences SWF investment.

Having established the basis and structure of the study, the three case studies were analysed in detail. An intensive analysis was conducted of the Chilean funds, the Social and Economic Stabilisation Fund and the Pension Reserve fund. By looking at the timeline of political events and public opinion of economic governance in Chile, the study revealed a pattern of highs and lows mirroring the economic performance relative to that of the global average. During the first two years of the Bachelet administration the Chilean government faced dwindling public support, mass protests and general public disapproval of the government as a whole. The slump in public support began around the same time as the Bachelet government announced its political and economic doctrine and plans directly after taking office. Part of that announcement was the initiation of the two SWFs which was not well received by local media who seemed to believe that the funds deposited into these funds should have been used to address poverty and infrastructural deficits. The tone quickly

changed, though, with the arrival of the global economic recession. The SWFs were used responsibly and effectively by the state of Chile to offset budget deficits brought on by the low price and demand for copper globally. The Pension Reserve Fund was used to supplement the income of those citizens negatively affected by the recession, which did a lot to restore faith in the government at the time. Public opinion soared as the copper exporting state, for the first time, fared exceptionally well through the recession as compared to other states around the world. Along with heightened public opinion of the state by its citizens, Chile also saw greater social stability than expected during a financial crisis. Notwithstanding the tensions which arose in the Chilean parliament and subsequent defection of party members over corruption and misappropriation issues, the activities of the two SWF investments and resulting public support was seen as a massive political victory for the Bachelet administration. It has also been credited with the considerably high level of public support which resulted in Bachelet's re-election in 2014.

This case study proved the hypothesis that SWF investment can influence politics on a domestic level, even in cases when there is no direct political intention to do so.

The second case study analysed the investment activities of the China Investment Corporation. Being one of the largest sovereign wealth funds on earth and boasting one of the most rapid growth rates of any SWF investment, this proved a to be a valuable case for the purposes of the investigation. Apart from the financial side of the CIC, it also belongs to China which operates under very different political circumstances to those of Chile. The different political backgrounds, purposes and investment strategies of the two cases allowed for a well-rounded and broadly representative study. This case found that there were most certainly political motives behind at least a portion of the investment activities undertaken by the CIC. The political motivation behind the investments executed by the CIC prove the relative impotence of the GAPPs at least for funds belonging to states with non-democratic and often fiercely geostrategically based political backgrounds.

Importantly, the investigation of the politics associated with the investment actions of the CIC brought to light a secondary effect possible in this class of investment. Having grown in size and number so rapidly and mainly among non-Western states, a wave of distrust and contempt towards SWF direct investments in Western states emerged. This can also be attributed to dubious investment behaviour on the part of funds such as the CIC which eroded trust in the purposes and intentions of these investments. The end result was the

implementation of economically proactivist policies and regulatory bodies within investment receiving states such as the U.S.

In addition to the rise of domestic economic protectionism among these states, the suspicion and perception of threat originating from SWF investments lead to calls for regulation and standards to which all SWFs should abide. With that, the IMF instituted the Generally Accepted Principles and Practices (GAPP or Santiago Principles). The GAPP's set standards to which all SWFs should abide, advocating transparency, responsible and ethical investment, and separation of politics and SWF investment. This was necessitated, of course, by the very activities undertaken by state investment institutions such as the CIC, which would transgress against the GAPPs. As such, the GAPPs are further proof of the political effects of SWF investment activities.

The third and final case study focused on the Qatar Investment Authority. The study focused on establishing a background for the case, identifying its relationship with the formation and implementation of the GAPPs, its turbulent relationship with the Gulf Cooperation Council and finally on its use of the fund to financially support armed conflict in the region for the purpose of affecting political change. The investigation found that the fund had been used by the state of Qatar to manipulate politics in the region by way of financial support of third parties in the form of armed factions. This case proves that SWF investments can be, and are being, used as a tool for the manipulation of politics in spite of the GAPPs and global and regional pressure.

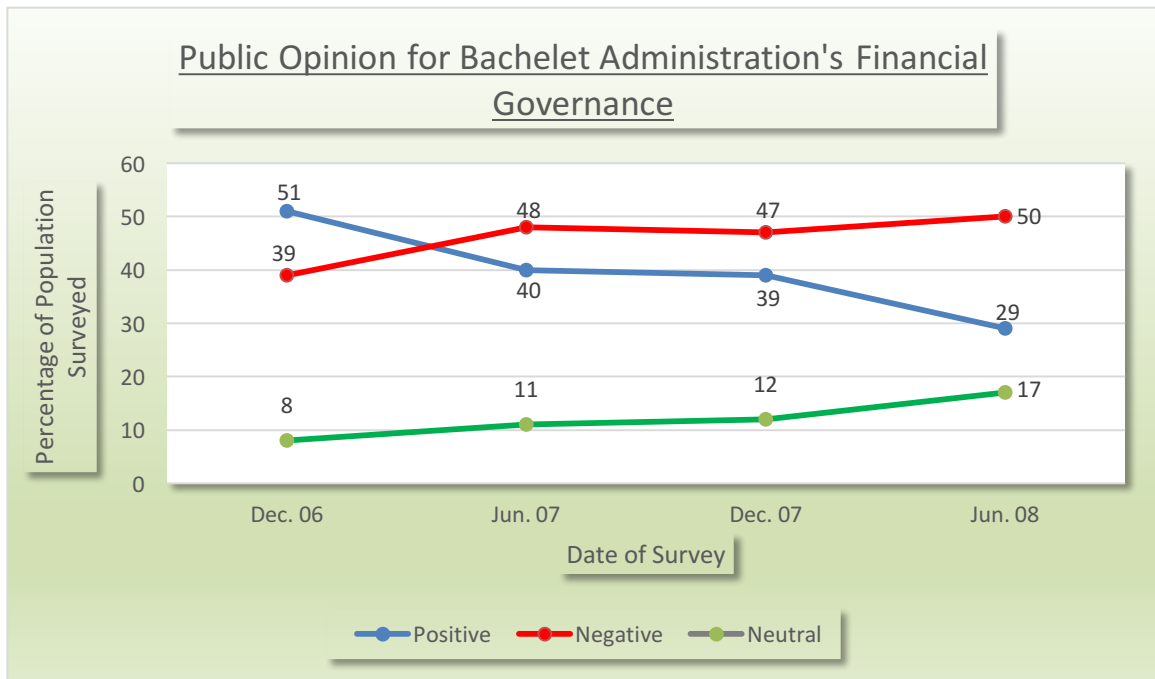
The Culmination of this investigation successfully answers the question pertaining to the existence and extent of politics in SWF investment. The findings state with certainty that there is a clear and inarguable political aspect in sovereign wealth fund investment, and that these effects can be deliberate or coincidental, domestic and/or international and can impact investor states, investee states and even states not directly involved in specific SWF investment activities through regulatory reactions to SWF investment activities.

Despite the success of this study, there are some limitations. Given the relatively small sample size, there is large degree of variability as the cases change. Furthermore, the relatively limited pool of academically acceptable resources compared to other topics, this study relies heavily on a fairly limited base of knowledge and sources of information. Having said that, the selection of these resources and cases is the result of deeply considered

intensive preliminary research and therefore should be presented to be reliable and scientifically viable.

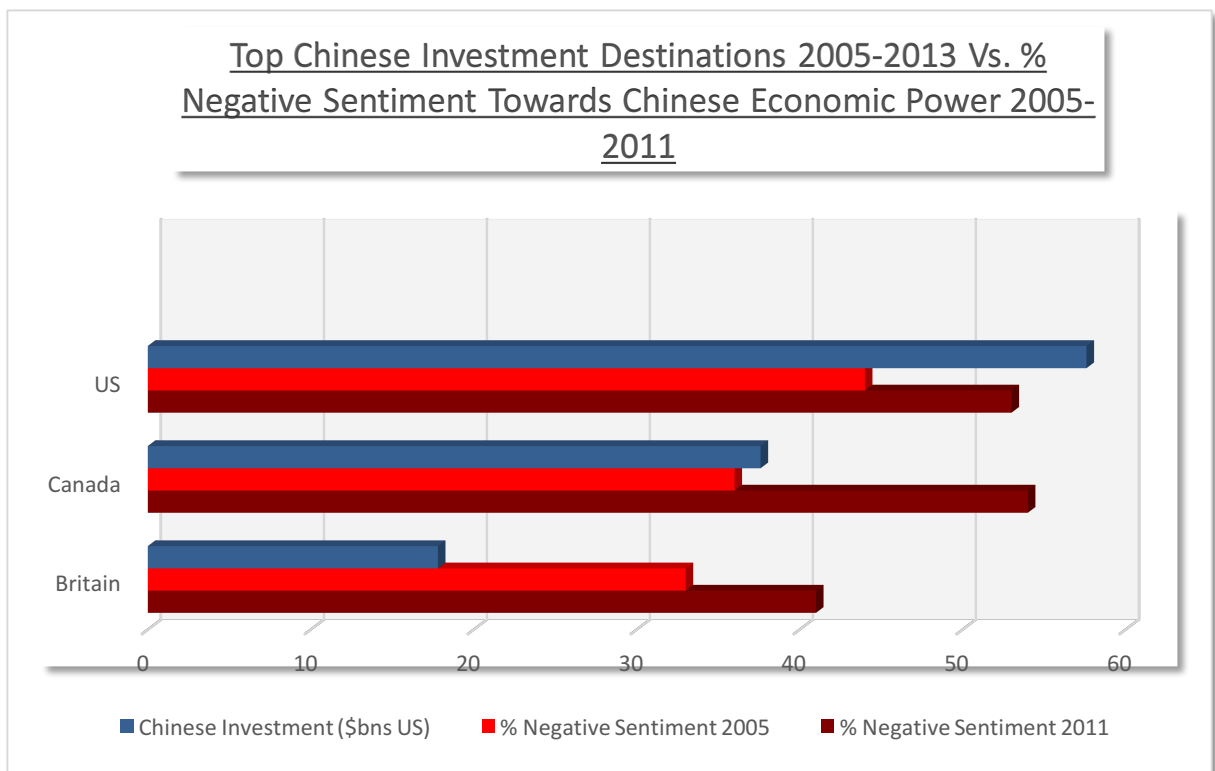
Appendix

Appendix A: Public Opinion of Economic Governance in Chile



(Gonzalez, R., (2013), "Estudio Nacional se Opinion Publica No. 70," Centro de Estudios Publicos, Sanriago, https://www.cepchile.cl/cep/site/artic/20160304/asocfile/20160304100356/encuestaCEP_sep-oct2013.pdf, accessed 18/08/2016.)

Appendix B: Graph Showing a Conglomeration of Sources on Chinese Foreign Investment Destinations and Negative Sentiment Toward Chinese Economic Power in Recipient States



(“Streaks of Red: Capital and Companies from China are Sidling into Europe,” The Economist, June 30, 2011, online article, <http://www.economist.com/node/18895430?zid=293&ah=e50f636873b42369614615ba3c16df4a>.)

(Richard Anderson, “What Does China Own in Britain?” British Broadcasting Corporation, October 14, 2013, online article, <http://www.bbc.com/news/uk-24473933>.)

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