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Maximizing Autonomy in the Shadow of Great Powers: The Political Economy of Sovereign Wealth Funds

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Maximizing Autonomy in the Shadow of Great Powers

The Political Economy of Sovereign Wealth Funds[1]

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Abstract:

Sovereign Wealth Funds have received a great deal of attention since they appeared as critical investors during the global financial crisis. Reactions have ranged from fears of state intervention and mercantilism to hopes that SWFs will emerge as model long-term investors that will take on risky investments in green technology and infrastructure that few private investors are willing to touch. In this paper we argue that both of these reactions overlook the fact that SWFs are deeply embedded in the political economy of their respective sponsor-countries. This paper focuses on four countries that sponsor some of the largest SWFs worldwide: Kuwait, Abu Dhabi, Singapore and China. Each of these countries has been governed for decades by elites whose grip on power has been tied to the economic fortune of their country and their ability to pacify, or at least balance against, foreign powers. We argue that for these four countries, both the motives for establishing SWFs and the strategies they employ can best be explained by an "autonomy-maximization" theory.

In a world where uncertainty—both economic and political—looms larger as a concern in the wake of the global financial crisis and political upheavals, such as the revolutions in Tunisia, Libya, and Egypt, elites use an increasingly diverse array of tools to protect their autonomy within the global system and hedge against unexpected turmoil. SWFs serve ruling elites by concentrating substantial resources, which can be used to pay-off domestic adversaries, to insure the economy against major downturns and thereby mitigate public discontent, to signal cooperation to major foreign powers, and to increase legitimacy in the global arena by presenting governance structures familiar to the West. We employ a comparative case study analysis to highlight the critical importance of these political economy dynamics in the establishment of SWFs, their governance structures, and their behavior in both normal times and during times of crisis.

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I.

II. INTRODUCTION

Sovereign wealth funds (SWFs) have drawn increased scrutiny in recent years due to high-profile acquisitions of equity stakes in western companies; however, most of these funds have quietly invested public wealth in diversified global portfolios for decades.

Lately, heightened concerns about national security interests have led to increased CFIUS filings and investigations[4], but the more common reaction to the expanded role of SWFs in the global financial system among the general public is a kind of collective unease. At the center of this unease is the opacity of SWFs' institutional structures, strategies, and goals: it is difficult to comfortably rely on partners whose motives are unclear.

Accordingly, much debate in academic circles has emerged over the motives of SWFs. From the alarmist camp, warnings have been sounded by some that SWFs portend the return of mercantilism to the global economy, while others have argued that they evidence the rise of a new form of socialism or imperialist-capitalism in emerging economies. This anxiety is fueled by the fact that many SWFs tend to come from countries that are non-democratic. On the other side, SWF apologists steadfastly maintain that these institutions are classic examples of rational market investors. We believe that these explanations are lacking, in no small part because they attempt to reduce SWFs to terms with which western audiences are familiar in order to elicit either protectionist or free market policy responses.

In contrast, we characterize SWFs as autonomy-maximizing institutions.[5] In each of the countries analyzed herein, SWFs are utilized by the ruling elite to secure their domestic political dominance against both internal and external threats. While in most instances, this interest is furthered by wealth-maximizing choices, SWFs are not wholly neutral market actors; nor, however, are they bent on imposing the sponsor-country's policies on the international system.

This article first summarizes and briefly explains the existing accounts of SWF motives along with the term "autonomy-maximizer," while showing that only the autonomy-maximizing story can fully explain SWF actions since their inception. Then, case studies of SWFs in Kuwait, Abu Dhabi, Singapore, and China are presented to ground the autonomy-maximization theory in reality. These case studies confirm that SWFs are used to maximize the autonomy of the sponsor-country, and that this objective is quite consistent with each country's behavior prior to the formation of any SWF as well. Finally, a theoretical argument is provided as to why SWFs are appropriate institutions for advancing this goal.

III. THEORY

SWFs have been defined as "government-owned and controlled (directly or indirectly) investment funds that have no outside beneficiaries or liabilities (beyond the government or the citizenry in abstract) and that invest their assets, either in the short or long term, according to the interests and objectives of the sovereign sponsor."[6] This definition is indicative in that it draws a clear connection between the actions of SWFs (investment) and the motives of the sovereign sponsor. SWFs have accumulated vast pools of capital, so identifying these interests and objectives is critical for other actors in the global economic governance system, who need to determine whether SWFs are reliable partners. Accurately identifying sovereign goals and objectives is, however, problematic: any self-reported disclosure must be viewed skeptically, the well-documented historical opacity of SWFs tends to frustrate independent investigation, and many investment decisions may be consistent with multiple characterizations of the underlying SWF motive.

Existing scholarly debate has attempted to explain SWF actions through several competing theoretical frameworks. Some have theorized that SWFs are rational market-actors who maximize financial returns, and thus reliable partners, while others argue that SWFs are exploitative institutions, and thus not to be trusted, because they are, alternatively, mercantilist, socialist-imperialist, or

capitalist-imperialist institutions. This is, however, a false dichotomy: it is possible to act in a manner that is neither financial-return-maximizing nor exploitative. Further, none of the existing characterizations can adequately explain the full range of observed SWF behavior. Based on detailed comparative analysis of the leading SWFs in the world and their role within the systems that sponsor them, we argue that SWFs are autonomy-maximizing institutions. Autonomy-maximization is consistent with the circumstances that led to the creation of SWFs in each of the case study countries, and can explain SWFs' historically passive external investment strategy, the politicized nature of their domestic investments, the use of SWF revenues to pacify domestic constituencies, their dollar recycling function, and the extraordinary investments made by SWFs during the recent financial crisis.

A brief explanation of each of the existing alternative theories is provided below, followed by an analysis of whether these theories can explain each of the behaviors listed above. Then, we provide an overview of our autonomy-maximizing theory, along with an analysis showing how it does explain each of the behaviors listed above.

A. Existing Alternative Explanations

There are three primary existing theories on SWF objectives and motivations. The first theory is that SWFs are mercantilist (or neo-mercantilist) institutions. The second theory is that SWFs act as capitalist-imperialist (or socialist-imperialist) institutions. SWF apologists, in contrast, argue that they are rational market-based investors. None of these theories explains the full breadth of SWF behavior; indeed some would predict behavior quite contrary to that actually observed over the last 20 years.

In the classic sense, mercantilism proceeds from an assumption that economic exchanges are a zero-sum gain, and that accumulation of capital marks the winner.[7] Professors Gilson and Milhaupt have characterized SWFs as neo-mercantilist institutions that use "company-level behavior" to maximize "country-level… economic, social, and political benefits."[8] According to this theory, SWF actions should be aimed at *country-level* maximization of these benefits. Gilson and Milhaupt present little concrete support for this characterization beyond a passing reference to the Chinese economy and an observation that SWFs constitute "state involvement in the economy." While Chinese trade policy may have mercantilist tendencies,[9] it does not necessarily prove that all SWFs (or even the CIC) act out of mercantilist impulses. The analysis below shows that a significant portion of SWFs' behavior is not explainable by country-level economic, social and political benefit maximization.

Post-mercantilist state involvement in the economy has been alternatively explained by Max Weber as imperialist-capitalism. Essentially, the argument is that higher profits are available outside of domestic markets, and that by capturing these profits through the use of imperialist force, states can boost the expansion of their domestic economies more rapidly than through pacifist "free-trade" capitalism alone.[10] Heike Schweitzer explains that if SWFs are indeed imperialist-capitalist institutions, they should be trying to exploit the capitalist system for their own economic and political benefit.[11] Upon inspection, however, it is apparent that SWFs are neither "turning the tables" of imperialist force against western economies nor engaging in imperialist behavior in developing states; further, the imperialist-capitalist theory does not explain several key categories of SWFs' historical actions.

The final existing theory on SWFs is that they are pure market-based rational investors. This is uniformly the motivation declared by SWFs themselves,[12] is echoed by numerous commentators,[13] and is presented by Epstein and Rose as a prudent default assumption due to the lack of contradictory evidence.[14] Under this theory, SWFs should act to maximize the financial gains accruing to the SWF—similarly to how a "normal" investor would structure its behavior. While the wealth-maximizing explanation explains certain SWF actions, it cannot explain others without assuming that SWFs are occasionally completely irrational or that they represent "dumb money" in the marketplace.

We believe that any theory on SWF motivation should be able to explain five particular courses of action that SWFs have undertaken in the past. The following table presents a summary of our analysis,

which is detailed below.

	Mercantilism	Imperialist-Capitalism	Market Investor
Passive outward investment	X	X	ü
Extraordinary outward investments	X	X	X
Dollar recycling	X	ü	X
Revenues used to pacify domestic constituencies	X	X	X
Politicized domestic investment	X	X	X

One of the trademarks of SWF behavior over the past thirty years has been passive foreign direct investment.[15] Certainly, SWFs have sought influence on the boards of some of their investment targets, but in the large majority of cases, SWF wealth is employed passively. This is not consistent with the pursuit of a mercantilist agenda. Passive investments in western corporations allocate capital to corporations that maximize wealth at the firm-level; mercantilist SWFs would need to either successfully influence corporate boards to act in ways that benefit the sponsor-country at the expense of other investors (for which there is no evidence to date, and which is unlikely to occur in the future given strong penalties levied against directors who violate the duty of loyalty) or purchase large stakes in companies such that company-level wealth maximization results in de facto country-level wealth maximization. Mercantilism, therefore, does not explain why SWFs predominantly invest passively. Imperialist-capitalism, too, fails to provide an explanation for SWFs' historical passive investment strategy. Passive investment strategies simply do not fit with an "exploitative" agenda, nor do they serve to bend host-country industrial policy to benefit the SWF sponsor-country. The market-investor theory does explain SWFs' passive investment strategy, as the cost advantages of a passive strategy are well-documented.

SWFs investments in western financial institutions during the recent financial crisis were heavily publicized and caused great concern in many circles.[16] None of the existing theories, however, offer an adequate explanation for why SWFs made these investments. Almost uniformly, the investments included passivity clauses, specifying that the investments created "no special rights of ownership," "no role in the management of the company," "no special governance rights," or "no right to designate a member… of the Board of Directors."[17] This passivity, as noted above, is inconsistent with either a mercantilist or imperialist-capitalist agenda. Further, some of these investments (particularly those from Gulf states) were undertaken after U.S. officials visited SWF sponsor-states to "persuade" them to contribute to the global bailout. Clearly, imperialist pressure was not being exerted by the SWFs looking to exploit western markets: it was more likely exerted against them to force the recapitalization of western-controlled financial institutions using SWF cash. Therefore, the imperialist-capitalist theory cannot explain these extraordinary investments.

So too, mercantilism fails to provide an explanation for extraordinary investments during the financial crisis. These recapitalizations were all made during a period of extreme uncertainty: conservative mercantilists would have disinvested from risky financial institutions fearing the loss of capital, while aggressive risk-taking mercantilists would have demanded large returns in exchange for their investments. The evidence, however, shows that SWFs did not disinvest—they rather increased

their investments in risky western financials during the crisis. While some have since cut back their investments, they did so only after the urgency of the global financial crisis had subsided. They also did not extract disproportionate benefits: they tended to act like cooperative players in the global economic governance system. The convertible bonds they purchased were preferred relative to other equity investors, but were subordinated to later investments made by the U.S. government; also, most SWFs converted their bonds to common shares early—which is inconsistent with the country-level maximization story.

SWF investments in western financial institutions during the crisis cannot be easily explained as the actions of a rational market investor. While some have argued that investing in vulnerable institutions and subsequent disinvestment in favor of more conservative instruments is perfectly consistent with the rational market investor theory,[18] this ignores the particulars of the investments themselves. When the SWFs invested in Western financial intermediaries, such as Morgan Stanley, Merrill Lynch, Citigroup or UBS, share prices had already plummeted and it was pretty clear among sophisticated investors that the bottom could not be identified because exposure to sub-prime mortgages was unknown.[19] Other large players in the financial system were refusing to invest in the financials under any terms.[20] In this environment, SWFs made huge investments concentrated in particular western financials rather than spreading the investment across the industry (contrary to their normal investment patterns), and made the investment decisions extremely quickly (for example, ADIA invested billions in Citigroup less than 48 hours after a visit from Robert Rubin – former US Treasury Secretary and then directors at Citigroup). Further, the fact that all SWFs incurred large losses as the result of these investments weighs against the market investor theory: either they were easily misled "dumb money" or they had some other common reason to invest in western financials beyond financial returns. Given that SWFs have historically outperformed the market, we reject the "dumb money" explanation, and instead conclude that the SWFs are not always market investors.

Another important attribute of SWFs is that they recycle dollars from eastern exporters to the west. This is consistent with an imperialist-capitalist theory, but inconsistent with the other two theories. Imperialist-capitalists should prefer equities in foreign markets to secure influence abroad, and dollar recycling is consistent with this behavior. Mercantilism, however, favors the accumulation of capital inside national borders, so sending large quantities of the international reserve currency back to the west would be anathema to mercantilist goals. Market investors should invest in the highest-returning opportunities available and diversify against currency risks; SWFs, however, are heavily invested in dollar-denominated assets to the extent that they are overexposed to the dollar. Therefore, neither the mercantilism nor market investor theories provide an explanation for why SWFs so consistently recycle dollars to the west.

SWFs also use funds to pacify domestic constituencies. In some countries, new SWFs have been established to expand the institutional space such that potential rivals for political authority are placated.[21] In other countries, the proceeds of investments have been used to fund current government expenditures during times of crisis. None of the existing theories can explain this behavior. Mercantilist institutions should maximize country-level benefits—not allocate benefits within the country to preferred groups. The allocation of funds domestically is beyond the scope of imperialist-capitalist theory, but to the extent that these institutions should be seeking to maximize profit by taking advantage of opportunities outside the domestic economy, the use of funds inside the SWF sponsor-country is inconsistent with expected behaviors. Lastly, the market investor theory does not explain this behavior either. Market investors would not allocate fund management responsibilities based on political concerns, nor draw down capital to fund current expenditures.

Finally, SWFs' *domestic* investment decisions are sometimes heavily politicized. SWFs themselves admit that non-financial motivations influence domestic investment decisions.[22] Less publically, SWFs often take large minority stakes in domestic companies controlled by members of the existing elite and their allies; SWF-owned domestic financial institutions also provide extremely

favorable lending facilities to the local merchant class on a name-basis.[23] These actions are parasitic of existing wealth, and fail to maximize either country-level benefits or financial returns accruing to the SWF.

As shown above, none of the existing theories about SWF objectives and motivations explain the breadth of their documented behavior. SWFs generally adopt a passive and diversified investment strategy in foreign markets, but made extraordinary and highly risky investments in western financial institutions during the financial crisis. They also recycle dollars to the west, make politicized domestic investments, and use funds to pacify domestic constituencies. Since none of the existing theories can explain all of these behaviors, a full understanding of SWFs requires a new theory about their institutional interests.

B. Autonomy Maximization

We offer a new theory on SWF objectives and motivations. We argue that SWFs act to maximize the domestic autonomy of the ruling elite in the sponsor-country. As mentioned above, SWFs are government-owned and controlled, and have no outside beneficiaries or liabilities beyond the government itself, so they are responsive to the expressed interests and objectives of the government. There are competing conceptions of what constitutes "governmental interest" in a democratic society, but a discussion of public choice vs. public interest politics is beyond the scope of this paper. In countries without representative democracy, or where the institutions of democracy are clearly subordinate to authoritarian rule, such as China, Singapore,[24] Kuwait, and Abu Dhabi, the government is comprised of ruling elites, who are not directly accountable to the public in general: it is easy to see how "governmental interest" becomes tied to the personal interests of the ruling elite. Indeed, the internal governance structures of the SWFs themselves ensure that SWF management is directly accountable to the ruling elite in each sponsor country. Consequently, it is unsurprising that SWFs can be, and are, wielded to advance the interests of those elites. First and foremost among these interests is the maintenance of their privileged position, which is characterized by autonomy within the sponsor-state. We argue that SWF actions that are not consistent with existing theories can be explained under our autonomy-maximization theory.

	Mercantilism	Imperialist-Capitalism	Market Investor	Autonomy-Maximization
Passive outward investment	X	X	ü	ü
Extraordinary outward investments	X	X	X	ü
Dollar recycling	X	ü	X	ü
Revenues used to pacify domestic constituencies	X	X	X	ü
Politicized domestic investment	X	X	X	ü

A passive outward investment strategy is consistent with autonomy-maximizing behavior. First, passive investments are less likely to incur the ire of "more powerful" states—either in the form of protectionist regulation against foreign investment or more active interventions into SWF sponsor-states—ensuring that western capital markets remain open to future SWF investment. Further, insofar as generating wealth is conducive to increasing domestic autonomy,[25] the ability of a passive

investment strategy to maximize wealth is consistent with autonomy maximization.

The extraordinary investments made by SWFs during the financial crisis are also consistent with the behavior of autonomy-maximizing institutions. Among the elite in the Gulf States, there is an implicit understanding that the security umbrella provided by the U.S. is not completely free. Therefore, in order to secure their continued control over the state in the long term (i.e. to protect their domestic autonomy), the ruling elite act to meet American demands from time to time.[26] Directing SWF investment toward the rescue of western financial institutions is quite consistent with protecting long-term autonomy in this sense.[27] Further, if the SWFs had refused to assist in recapitalizing western financial institutions, they may have been rejected as partners in the system of global economic governance—which would have reduced policy options for the elite in the future.

Dollar recycling, too, is part of a commitment to western states, but it is also critical for sustaining the domestic industrial policy choices that the elite in SWF sponsor-states have adopted. For both export and commodity-funded SWFs, a failure to recycle dollars would reduce western purchasing power and erode their own funding streams as export values decline. In the smaller SWF sponsor-states, a failure to recycle dollars may even result in western-backed regime change.[28] Therefore, SWFs' decision to concentrate investments in dollar-denominated assets is consistent with autonomy-maximization.

Autonomy-maximization also explains the use of revenues to pacify domestic constituencies. The multiplication of SWFs in some sponsor-countries provides potentially rivalrous actors within the sponsor state with large capital pools of their own—aligning their interests with those of the ruling elite. This improves the security of the ruling elite, increasing their autonomy as remaining political rivals will have fewer allies. Further, a draw down on capital assets during times of crisis is consistent with autonomy maximization: by spending money to meet government payrolls even during emergencies, the ruling elites are able to buy the continued loyalty of the population, improving their own ability to act freely after the end of the emergency.

Similarly, the politicized nature of domestic investments can be explained by autonomy maximization. Favorable loans and large minority investments function to buy out potential political rivals, ensuring that they do not enter politics. This ensures that existing elites have little competition for political power, and increases the range of domestic policy choices that are available without causing political unrest. Investing domestically in businesses that are labor-intensive tends to reduce political opposition among the masses. Taking a controlling stake in domestic financial institutions ensures that the existing elite will structure the economic development of the sponsor state (protecting their autonomy in this area of domestic policy).

Overall, we argue SWF behavior can be explained by our autonomy-maximization theory. Our theory is related to, but distinguishable from the sovereignty-maximization theory advanced by Dixon and Monk.[29] While their theory, like ours, acknowledges that SWFs are tools that can be used to advance the interests of their sponsors, in our view they fall somewhat short in completing this chain of analysis by resting on the 'state' as the sponsor. We argue that the true stakeholders in the SWFs analyzed in this paper are the ruling elites in the sponsor state, and that as such, it is the interests of these elites that SWFs advance. To these elites, SWFs serve as a valuable tool for protecting their interests. Limiting the interests of the ruling elite to state sovereignty, as would be necessary to justify a singular focus on sovereignty maximization, appears to miss the complex geopolitical and geo-economic conditions to which these elites feel compelled to respond. In fact, one can point to instances where the elites have been quite willing to compromise on their monopoly on the legitimate use of force within state borders (the key aspect of Westphalian sovereignty), but not control over SWFs.[30]

IV. CASE STUDIES

In this section we offer more detailed evidence in support of our theory drawing on the history and operation of SWFs from the Gulf States (Abu Dhabi and Kuwait) and the Far East (Singapore and

China). The Sovereign Wealth Fund Institute, an organization that tracks SWFs,[31] currently estimates these countries' SWFs account for more than half of the assets managed by SWFs worldwide—or about $2.2 trillion. They also comprise four of the six top SWF sponsor-states as measured by fund size. Saudi Arabia is listed as sponsoring the third-largest SWF, but its launch was announced only two years ago, and the size of the fund is actually completely unknown. All four countries selected are less than fully democratic and as such are representative of the majority of countries that have sponsored SWFs to date. Indeed, the only fully democratic country among those sponsoring one of the top 10 largest SWFs is Norway. The countries selected also exemplify the core funding mechanisms for SWFs: the accumulation of vast foreign exchange reserves as a result of substantial trade surplus and/or commodity exports.

A. Kuwait

For hundreds of years, autonomy has been a concern for the rulers of Kuwait. Situated on the best natural harbor in the Persian Gulf and surrounded by Saudi Arabia, Iraq, and Iran, the implicit threat of invasion has always loomed large.[32] Further, the royal position of the al Sabah was secured only by support from tribal leaders and the merchant class—which significantly constrained royal privileges since both tribes and merchants in the historical Gulf were highly mobile.[33] Whereas the al Sabah Emir once sent tributary payments to the Ottomans, guaranteed the safety of British trade ships, and privately bestowed gifts on tribal allies and merchants to secure royal autonomy, the modern bargain revolves around the allocation of oil revenues.

The creation of a sovereign wealth fund in Kuwait served to increase the autonomy of the al Sabah family, as did the replacement of the Kuwait Investment Board with the Kuwait Investment Company, and its subsequent supersession by the Kuwait Investment Authority. The KIA's subsequent actions reflect an objective of autonomy-maximization: the draw down on KIA funds during the Persian Gulf War, domestic investments in companies owned by the merchant class, and the investments in Citigroup and Merrill Lynch are all autonomy-maximizing activities.

The Kuwait Investment Authority (KIA) is the primary sovereign wealth fund in Kuwait, and manages both the Future Generations Fund (FGF) and General Revenue Fund (GRF) for the state. Both the KIA and its funding are statutorily decreed. Kuwait's FGF was established by Kuwait's Crown Prince and Finance Minister in Law 106 of 1976, which permanently allocated 10% of Kuwait's annual general revenues to the FGF and prohibited any reduction of this percentage or withdrawal of funds from the account. In 1984, the KIA was created by another royal decree to manage the FGF and GRF. Both of these decisions were autonomy maximizing.

The FGF was created in 1976, though the concept of a SWF in Kuwait can be traced back to the 1950s when the Kuwait Investment Board (KIB) was established, which was replaced upon Kuwaiti independence in 1961 by the Kuwait Investment Company (KIC). The KIB and KIC were created to manage surplus oil revenues, and the FGF was designed for the same function.

One might ask why Kuwait was extracting oil at levels that would create a budget surplus, but this is outside the scope of this paper.[34] Regardless of the motive, oil revenues must be allocated in some fashion. It is likely that the fledgling nation of Kuwait would have happily gone along with the status quo arrangement (in which the Emir funded the state apparatus out of his personal coffers, bribed prominent merchants to stay out of politics, and directly collected oil concession revenues from western oil companies). The creation of a sovereign wealth fund, however, maximized the autonomy of the al Sabah relative to other options.

First, separating the private affairs of the ruling family and the public affairs of the state is a strong signaling mechanism in the formation of the modern nation-state. If the al Sabah family had continued to deposit oil revenues into their personal bank accounts, then the oil reserves would not have been seen as "sovereign" by the international community. Consequently, nationalization of oil reserves would have

been labeled more accurately as private theft, and the recognition of the "statehood" of Kuwait, both internationally and domestically, may have been called into question – increasing the likelihood of foreign invasion or a democratic revolution.[35]

Second, while the al Sabah could have separated the public and private spheres by transferring natural resource wealth to their subjects, it would not have been acceptable to the individuals within the royal family to transfer "their" oil wealth to the public at large. It would essentially have converted a royally-controlled and monopolized resource (oil) into a resource freely distributable among the nation (cash). This likely would have shifted the domestic balance of power in Kuwait and Abu Dhabi toward the merchant class, which would have benefited dramatically from the increased demand for tradable goods. Thus, the only option that protected both the international security and domestic power of the royal family was to dedicate oil revenues to the public sector.

There was, however, a secondary decision to be made on the ratio of public spending to public savings. It was immediately clear in Kuwait that very high savings rates were not likely to be accepted by opposition groups: at least some portion of oil revenues was needed to buy off the merchant class. High public spending levels could have potentially increased buy-in to the national identity and loyalty to the al Sabah family if expansive government institutions were created to provide civil service positions, welfare payments, and subsidized services to citizens. Indeed, in Kuwait and other Gulf states, large bureaucracies were created; however, as soon as public funds are spent – even through "loyalty-building" civil service structures and subsidies, royal control dissipates. Further, oil reserves are not unlimited, so public spending is not a sustainable model for ensuring the continuous provision of "loyalty-building" services and subsidies.

In contrast, public savings are still controlled by the state (which is dominated by the royal family and its agents). Therefore, the royal influence and control created by public ownership of oil is preserved when oil revenues are allocated to a SWF. The KIA essentially transforms a natural resource monopoly into an "effective monopoly on capital."[36] When Kuwait's oil reserves eventually stop producing, the al Sabah will still have control over the most important wealth-generating asset in the country. This will leave the royal family financially autonomous: it will not have to rely on the merchant class or general public for taxes—ensuring that these groups do not gain political leverage. It will also ensure that the general public remains mostly dependent on the state for income: given investment income from the SWF, it will remain possible to continue paying citizens high wages to work for a few hours a day in the civil service and make direct cash subsidies. Thus, the decision to create a SWF is consistent with the royal interest in protecting its position of financial and political privilege (i.e. its domestic autonomy).

In choosing to create a SWF rather than simply sitting on a horde of dollars, Kuwait also satisfied western powers that were concerned about their balance of payments. As early as the 1950s, the KIB played a significant role in the Eurodollar market, and investments by the KIB, KIC, and KIA have been critical to managing the balance of payments between Kuwait and the West. Investing dollars abroad is fundamentally opposed to a mercantilist agenda,[37] but is quite consistent with an autonomy-seeking goal. Without a sovereign wealth fund to invest oil surpluses outside Kuwait, there likely would have been a severe backlash by the West against both Kuwait's independence and its nationalization of the oil sector.

The transformations of the KIB to the KIC to the FGF, and eventually to the KIA also increased the autonomy of the al Sabah. Regarding the transition between the KIB and KIC, it is pretty obvious that replacing the British-controlled KIB with the Kuwaiti-controlled KIC was essential to increasing Kuwait's autonomy. After gaining independence, seeking to control all of Kuwait's accumulated surplus capital (rather than leaving it in a pseudo-trust administered by the British) was only natural. The FGF was established in 1976 when the Kuwait Oil Company was nationalized; thus, dramatically increased revenues were going to be pouring into the state coffers. By forming the FGF, the al Sabah deflected the inevitable pressure to increase public spending by dedicating half of all accumulated assets and 10 percent of all future oil revenues to the sovereign wealth fund. This protected royal autonomy on public spending decisions. It also legitimized the decision to allocate oil revenues to the public sector by justifying the fund as being created to benefit future generations of Kuwaiti citizens, rather than simply

"Kuwait."

The FGF was, however, mostly focused on investments outside of Kuwait. When the 1982 Souk al Manakh stock market crash threatened the survival of almost every large company in Kuwait, the government stepped in to purchase shares in the traded companies from the public[38]—and a new entity was needed to manage these companies. Thus, the KIA was born. While the KIA has since partially privatized or reduced its holdings in these companies,[39] it is clear that it was formed to facilitate the transfer of funds that had been dedicated to international investments to a program designed to prop up the domestic economy (and stabilize the resulting political unrest). Housing both international and domestic investment management functions within the KIA ensured that future potential domestic crises could be averted more quietly. Interestingly, the legislation that created the KIA in 1982 prohibits the disclosure of any information about the organization or its performance to the public—at the penalty of up to three years in prison[40]—cementing the autonomy of the al Sabah to direct the KIA as they please.

From the board of directors to its funding mechanisms, the institutional structure of the KIA functions to protect royal autonomy. The KIA is led by Managing Director Bader Mohammad al Sa'ad, Executive Director of Operations and Administration Othman al Essa, and Bader al Ajeel, the Executive Director of General Reserves. It is overseen by a Board of Directors that is chaired by Sheikh Salem Abdulaziz al Sabah, and also includes Mustafa Jassem al Shimali, Bader Mohammad al Sa'ad, Khalid al Rowaieh, and Khalifa Musaad Hamada. Board membership is customarily allocated to the Governor of the Central Bank, the Minister of Finance (who holds the Chairmanship), the Minister of Oil, and the undersecretary of the Ministry of Finance, with additional seats being filled by prominent Kuwaitis with experience in investment management, at least three of whom must not concurrently hold a government position. The majority of KIA's directors must be from the private sector.

Thus, the KIA board of directors lacks the prominent royal membership that characterizes SWFs in Abu Dhabi. However, this does not necessarily infer any large degree of independence from the royal family. The Governor of the Central Bank, Minister of Finance, Minister of Oil, and undersecretary of the Ministry of Finance are all appointed by the Emir and the Prime Minister (who is generally also the Crown Prince). Even the requirement for a "majority-private sector" board is tempered by the appointment process, which the al Sabahs control: appointment of Board Members is executed through an Emiri decree.

Thus, despite a thin veneer of independence provided by the presence of non-royal directors, the fact that directors are appointed by the Emir and Prime Minister indicates that, in western parlance, the true shareholder in the KIA is the al Sabah family.[41] Further, since there is no need to engage in any kind of proxy fight or to even call a general shareholder meeting to effect the will of this shareholder, the directors can be fired at any time; similarly, there is no "for cause" restriction on termination in the organizing documents of the KIA.[42] Thus, the Emir maintains unqualified and instantaneous control over the KIA and the power to direct KIA investment choices if necessary.

In Kuwait, funding to the KIA is statutorily decreed. The GRF was created in 1960, with funding to be drawn from budget surpluses[43] Article 2 of Law 106 of 1976 dedicated 50% of the GRF as seed capital to the FGF; Article 1 additionally permanently allocated 10% of Kuwait's annual general revenues to the FGF and prohibited any reduction of this percentage or withdrawal of funds from the account. This may seem to reduce royal control over funding; however, given that the Emir retains a veto over all new legislation, has the power to propose legislation himself, and can dissolve the Assembly, the future of Law 106 of 1976 effectively rests in the hands of the Emir (and thus the al Sabah family). Further, the Emir may promulgate a royal decree pursuant to the law without Assembly approval. Here, regulatory decrees are rather important, as the ban on "withdrawal of funds" has been narrowly interpreted in the past.

This brings up one of the clearest examples of the KIA acting to maximize autonomy: the drawdown on FGF funds that occurred during the Persian Gulf War. At the time of the Iraqi invasion of Kuwait, Kuwait's Assembly had been dissolved for four years—so it could not possibly have approved any

withdrawals from the FGF during the war. However, funds from the FGF were used to provide short term financing for the operational costs of the government in exile.[44] The al Sabah additionally paid millions to American public relations firms to drum up support for a U.S.-led invasion of Kuwait to expel Iraq's army.[45] Additionally, after the allied coalition defeated the Iraqi forces and reinstalled the al Sabah family, the FGF was used to fund reconstruction efforts and provide direct subsidies to Kuwaiti citizens.[46] Granted, an invasion is an extraordinary circumstance, but Sheikh Jaber's actions in utilizing FGF funds were contrary to the express restrictions in Article 1 of Law 106 of 1976 because they were not approved by the Assembly. Furthermore, none of these actions were consistent with the KIA's professed mission of "achiev[ing] long term investment returns on the financial reserves of the State of Kuwait." They were, however, consistent with autonomy maximization.

Using FGF funds to continue payments to the civil service was a remarkably astute way to ensure the loyalty of the bureaucracy during the exile; absent these payments, support for the al Sabah regime could easily have waned in favor of establishing a more powerful legislature since tensions had been running high prior to the invasion. Similarly, buying up the debt of Kuwaiti citizens (and eventually forgiving most of it) ensured that citizens would not lose their homes due to non-payment of their obligations. While an argument could be made that using FGF funds to pay for the reconstruction of Kuwait's oil infrastructure was consistent with achieving long term investment returns (because oil production is Kuwait's most profitable investment)[47], given the availability of extensive international loans at the time, Kuwait probably could have borrowed money at rates below the returns on its international portfolio. Spending from the FGF, however, emphasized the competence (and "generosity") of the al Sabahs, while borrowing from the international community would have been a signal of weakness to the Kuwaiti population. As a consequence of using FGF funds, the legitimacy of the al Sabah was protected, thereby securing their domestic autonomy in the long term.

Domestically, the KIA invests in a manner that effectively buys out the political ambitions of the merchant class. The KIA has a history of investing in the businesses of prominent merchant families within Kuwait. While this kind of investment would not normally reflect a non-financial motive, it does suggest autonomy-maximization in the Kuwaiti context. As discussed earlier, the merchant class is a potential rival for political power in Kuwait. As early as 1950, Sheikh Abdullah al Sabah "bought out" the political ambitions of the merchant class by granting preferential monopolies, dealerships, extending personal loans, and withdrawing the al Sabah family from Kuwaiti commercial activity.[48] The continued allocation of oil revenues to the merchant class through KIA's domestic investment reflects the ongoing arrangement between the al Sabah and Kuwait's merchants: KIA funds are invested, few demands are made for dividends (as long as the family remains pliant), and shares are rarely sold. When this politicized domestic investment activity slowed during the 1980s as a result of depressed oil prices, Kuwait's merchants reentered the political scene: in 1989, prominent members of the merchant class began meeting in secret with members of the dissolved Assembly—worrying the al Sabah enough that the Emir established a replacement for the Assembly (though the crisis was ultimately rendered moot by the Iraqi invasion).[49] Therefore, it is clear that KIA's domestic investment strategy increases the autonomy of the al Sabah family by preventing the emergence of serious challengers to royal legitimacy.

In the international arena, the KIA has generally followed a conservative strategy by investing in a diversified portfolio while remaining below reporting requirements in most of its investments. To be sure, most of its international investments are profit-driven. This is not, however, inconsistent with autonomy maximization, as building wealth increases the range of policy options available to the al Sabah family, and preserves their ability to continue making these policy decisions after Kuwait's oil reserves are eventually depleted.

On the subject of investment levels themselves, prior to its Citigroup investment, the KIA held stakes larger than 5% in only three publically traded western corporations: an 8 percent stake in Swiss hotelier Victoria Jungfrau Collection AG, an 8 percent stake GEA AG, and an 8 percent share in Daimler AG. Remaining below the reporting threshold defined in domestic securities legislation is quite consistent with

autonomy-maximization, as it allows SWFs to avoid public scrutiny.[50] First, the KIA is well aware of the political firestorm that can result when its international investments are publicized. When British Petroleum's IPO floundered in 1987, the KIA purchased a substantial stake in the company, acquiring 21.6 percent by March 1988, only to be ordered by the British Monopolies and Mergers Commission to divest down to 9.9 percent, and pressured by the British government to sell off even more, leaving the KIA with an estimated 2.56% of BP, which it still holds today. Second, crossing key investment thresholds subjects even SWFs to an increased regulatory burden in western countries: by remaining below these thresholds, the KIA ensures that its investment options are not restrained by additional duties imposed by these regimes. Finally, keeping investment levels below these reporting thresholds ensures that the KIA's investments will not be reviewed by CFIUS, as only "control" transactions are subject to review. So, by avoiding large investments and activist interventions in the management of companies, the KIA preserves its ability to invest in a wider array of businesses while avoiding regulatory scrutiny and protectionist counter-measures—thereby maximizing its autonomy in financial markets.

The KIA's extraordinary investments in western financial institutions during December of 2007 and January of 2008 also reflect autonomy-maximizing behavior. While Bear Stearns and Lehman Brothers had not yet collapsed, it was pretty clear that subprime mortgages posed a substantial risk to western financial institutions. In that environment, the KIA purchased $3 billion in Citigroup convertible preferred shares bearing 9 percent interest, which would convert to 2 percent of common shares outstanding if the conversion option was exercised. At the time, the federal overnight rate was about 4.5 percent, so the preferreds presumably would yield a 4.5 percent premium; however, as preferred shares, the securities were not principal protected. It is hard to understand why the KIA would have put such a large sum at risk when Citigroup's share price decline showed no signs of slowing, had already reduced the company's valuation by 37 percent in the last six months, and for which no bottom could be seen. Simply put, something else must have been going on.[51]

The KIA's investment into Merrill Lynch was on similar terms: $2 billion for convertible preferred shares bearing 9 percent interest, although these had a mandatory conversion feature after 2.75 years. Similarly to the ADIA investment, this was a large risk to take on given the uncertainty surrounding the magnitude of exposure to mortgage-backed securities and the valuation of those securities. Although the conversion price was not initially disclosed, given that Merrill Lynch was trading at $54 per share at the time, and based on comparisons with the publically disclosed investment in similar securities by the New Jersey Investment Council, the KIA's preferred shares were probably supposed to convert to 2 percent of Merrill's common stock. Again, these shares were not principal protected, so the large risk taken by the KIA doesn't make a lot of intuitive sense.[52] Either the KIA was irrational, or there was something else going on in the transaction.

The investments into Citigroup and Merrill Lynch involved the KIA taking on substantial downside risks to stabilize two western financial institutions in return for less-than-certain returns. By making these investments in such a quick manner in a troubled market, the KIA improved Kuwait's reputation as a trustworthy and responsible player in the global financial system. This reputational boost should improve the KIA's autonomy relative to western financial regulators in the future—as the KIA should be seen as less threatening. It also can be viewed as part of the security bargain between the U.S. and Kuwait. In the aftermath of these investments, weapons sales and military base construction projects in Kuwait valued over $2.8 billion have been announced by U.S. firms.[53] The security guarantee provided by the U.S. is not unique: the al Sabah secured Ottoman support by sending tributary payments, and British protection in the 1930s-1960s was secured by the provision of access to Kuwaiti oil fields. In either case, the result of the KIA's investments in western financial firms during the crisis was an increase in autonomy.

The KIA was also deeply involved in bailing out the domestic Kuwaiti financial and industrial sectors. Law No. 2 of 2009, entitled "Enhancing the State Economic Security," authorized the KIA to recapitalize domestic banks through convertible bonds, shares, or sukuk bonds,[54] and extend

subordinated loans to, or purchase convertible bonds, sukuks or preferred shares in, domestic businesses in the productive sector.[55] It also authorized the Central Bank of Kuwait to guarantee domestic banks investment portfolio and real estate debt obligations,[56] and to guarantee up to 50 percent of new[57] or refinanced[58] commercial loans made to domestic businesses in the productive sector.

Pursuant to this law, the KIA intervened dramatically in the domestic private sector. The KIA made a $1.4 billion investment in April of 2009 into companies traded on the Kuwait Stock Exchange (KSE) to fight off a regional stock market route. This is not an investment that would be made by a profit-maximizing fund, as higher profits could be made by investing after a large run on the market than by stabilizing it; nor would it be made by a mercantilist institution, as it puts precious capital at risk; similarly, imperialist motives are not served by investing domestically. The investment was, however, a strong move toward protecting the autonomy of the ruling elite. During the previous bull market on the KSE, Kuwaiti citizens invested heavily into KSE-traded companies. If their investments collapsed, political turmoil might follow—especially since the KIA had already acted to stabilize western financial institutions. By stabilizing the KSE, the KIA rescued panicked small investors, and stabilized the value of large merchant-controlled companies—thereby preventing the spread of political unrest and ensuring the continued autonomy of the ruling elite. The level of private financing provided under Law No. 2 of 2009 is unknown, but it is almost certain that the KIA purchased convertible bonds and sukuks on favorable terms to equity holders. These mechanisms provided another protection against political unrest—this time by pacifying the owners of privately held companies (which are generally members of prominent merchant families or tribal leaders). There were even rumors that KIA bailout funds were being selectively directed to the companies of the al Sabah's political allies—a charge that the KIA denied[59], but the truth of which would not be inconsistent with previous investment behavior.

In summary, the formation of the KIA and its predecessor SWFs in Kuwait were autonomy-maximizing events aimed at ensuring international recognition of Kuwait's statehood and the al Sabah family as its legitimate rulers. In light of the geopolitical context in which Kuwait finds itself, the general strategy of investing internationally for profit in a mostly passive fashion furthers the same goal. By quietly recycling foreign exchange earnings from oil exports through KIA, Kuwait essentially cements the implicit security bargain with the US. Additionally, several extraordinary events support our argument that the KIA serves primarily autonomy-maximizing goals. First, the drawdown on KIA assets during the Persian Gulf War demonstrates that KIA accounts have been used by Kuwait's elites as a backup source of funds to prevent any disruption in payments to important allies (both domestic and international) on whom they rely for security and legitimacy—one that remains viable even if access to oil revenues has been compromised. Second, politicized domestic investments demonstrate how KIA investments have been used to pay off potential challengers to the ruling elite. Further, the KIA's large investments into Citigroup and Merrill Lynch during the financial crisis illustrate how SWF assets are used to meet Kuwait's political obligations during times of international turmoil. Last but not least, the bailout of the Kuwaiti economy in the aftermath of the 2008 crisis re-enforces this theme: the resources of the KIA are used to deflect calls for political autonomy and as such reveal autonomy-maximizing motives.

B. Abu Dhabi

Much of the story in Abu Dhabi mirrors that in Kuwait. The creation of ADIA and other SWFs, their general investment strategy, and their extraordinary actions all reflect autonomy-maximizing behavior. It is useful, however, to delve into the particulars, because Abu Dhabi's SWFs exist at a sub-national level such that an interesting story of domestic autonomy-maximization relative to other ruling Emirati families is also present, because the evolution of SWFs in Abu Dhabi is peculiarly linked to issues of succession and royal power sharing, and because the "grand bargain" with the merchant class is especially obvious in the context of the domestic banking sector.

In Abu Dhabi, four distinct sovereign wealth funds coexist, the first of which, ADIA, dates back to 1976 and the latest of which, Mubadala, was created in 2002. The same general argument applies to the creation of SWFs to manage oil revenues in Abu Dhabi as in Kuwait. Allocating revenues to a public-sector savings vehicle transforms the royal family's monopoly on oil reserves into a virtual monopoly on capital. Thus, the creation of a SWF maximizes royal autonomy relative to distributing revenues to the private sector, keeping revenues in private bank accounts, or allocating them more substantially toward public spending.

The creation of a SWF also maximizes autonomy relative to western powers. As mentioned in the Kuwait case study above, western powers have been concerned about the balance of payments resulting from oil sales since the Gulf States first assumed any degree of control over the revenues. In Abu Dhabi in particular, the consequences of refusing to recycle currency to the west are vividly apparent. When the former Emir Sheikh Shakhbout bin Sultan ruled over Abu Dhabi, he pursued an aggressively mercantilist strategy: he [kept] his reserves in gold and insisted on inspecting them in the bank each week," and "hid himself on his yacht in Abu Dhabi harbor, where he kept his sheep and his gold bars." [60] In 1966, development spending was only £1.75 million out of over £200 million in revenues[61]—creating a large imbalance in international payments. Consequently, he was deposed by his brother Zayed, who relied on British-backing and the support of credibly neutral members of the al Nahyan family. Understandably, the subsequent rulers in Abu Dhabi have been careful to maintain their implicit obligations to recycle currency to the west in order to prevent western interventions in the domestic political realm—thereby protecting the al Nahyan family's domestic autonomy.

Another prominent attribute of the SWFs in Abu Dhabi is that they are controlled at the sub-national level. This can be explained as a consequence of the circumstances surrounding the creation of the U.A.E., but it also maximizes the autonomy of the al Nahyan family within the national context. The formation of the U.A.E. was an ambitious political endeavor that was particularly precarious because it sought to subordinate the previously sovereign powers of seven Emirates ruled by six families to a national superstructure. Given that Abu Dhabi possessed the vast majority of oil reserves in the U.A.E., but only a minority of the population, Sheikh Zayed Al Nahyan would have insisted on reserving control of oil deposits to the Emirate in which they were located.[62] Indeed, Article 23 of the U.A.E. Constitution provides that, "the natural resources and wealth in each Emirate shall be considered to be the public property of that Emirate."[63] The inclusion of "wealth" in this constitutional provision indicates that retaining sub-national autonomy over the use of oil revenues was critically important to the political bargain that created the U.A.E. By reserving oil revenues to the individual emirates, the U.A.E. Constitution ensured that SWFs would be owned, controlled, and administered at the sub-national level. This in turn ensured that investment and spending decisions remained a local matter—thereby maximizing the autonomy of Abu Dhabi (and thus the al Nahyan family).

Other Emirates, particularly Dubai, have tried to establish independent wealth-generating assets to increase their ability to resist the influence of Abu Dhabi's oil revenues in the federal political system. While Dubai's rapid expansion has been impressive, particularly in its evolution into a global transshipment and distribution center, its aggressive leveraging strategy put its progress in jeopardy when the financial crisis hit. When it looked like Dubai's repayment obligations on a large sukuk issued by Nakheel could not be met, a bailout from Abu Dhabi seemed likely—but was not assured. While Abu Dhabi reversed from its initial position that it would not backstop Dubai's debt, the subtext was that Dubai's ambitions on influence within the federal system would be curtailed. Indeed, in January of 2010, the Burj Dubai—which was supposed to be a symbol of Dubai's achievement—was renamed the Burj Khalifah, in honor of Sheikh Khalifah bin Zayed al Nahyan of Abu Dhabi. The world's tallest tower now stands in the middle of Dubai as a reminder that it is Abu Dhabi, and thus the al Nahyan family, that has control and autonomy within the U.A.E.[64]

Another unique feature in the history of SWFs in Abu Dhabi is the proliferation of different funds. The creation of these new funds could probably be explained in a number of ways, such as

increasing efficiency through specialization, but it is probably best understood through the lens of royal succession.[65] Between 1906 and 1928, a series of fratricides and early deaths plunged Abu Dhabi's political system into chaos. It was only the intervention of the eldest son of Sheikh Zayed the Great, Khalifah bin Zayed bin Sultan al Nahyan (who had refused the position of Emir several times), that created the stability necessary to install Shakbout bin Sultan bin Zayed al Nahyan as Emir for 38 years. Khalifah's sons, collectively known as the Bani Khalifa, were also critical in the coup that deposed of Shakbout in favor of his younger brother Zayed in 1966. In light of this legacy of fratricide and instability, the proliferation of SWFs in Abu Dhabi is best understood as the expansion of institutional space. By opening new spaces within a controlled area of the economy in which non-ruling royals may pursue their ambitions, the creation of new SWFs lowers the stakes in royal successions and creates a common interest among royals in preserving the status quo—thereby reducing the likelihood of intra-family fractures and increasing the autonomy of the royal family.

After ADIA was established in 1976, Sheikh Zayed al Nahyan quickly created ADICO in 1977 to focus on domestic investments. ADICO was initially almost wholly-owned by ADIA. Setting up ADICO as a virtual subsidiary reflects a distinct decision by Sheikh Zayed al Nahyan to separate domestic and foreign investment decision-making. This decision expanded the political space available to accommodate allies and potential rivals. By placing different factions of the royal family on the board of directors at each SWF, the Emir could reward his allies and pacify potential rivals without allowing any individual to accumulate enough power to pose a serious political threat. For instance, directors and officers at the domestically-focused ADICO could presumably gain considerable domestic influence in the merchant and industrial community, but could not access the larger assets at the parent fund level. On the opposite side, ADIA directors and officers direct massive amounts of capital, but would not be interacting with the local business community on a daily basis. Therefore, separating domestic and international investment functions decreased the likelihood of conflicts within the royal family or political unrest from tribal allies. Both objectives are consistent with autonomy maximization.

In 1984, Sheikh Zayed established IPIC as a 50-50 joint venture between ADIA and the Abu Dhabi National Oil Company (ADNOC), giving it a mandate to focus on investments in the petrochemical sector. IPIC was essentially a forum in which ADNOC and ADIA could arrive at a consensus on investments in the petroleum sector after balancing financial returns against Abu Dhabi's strategic needs related to oil.[66] ADIA representatives on the IPIC board typically judged the financial merits of acquisitions, while ADNOC officials reviewed their strategic value to Abu Dhabi's oil sector. Still, the Supreme Petroleum Council retained the ultimate decision-making authority over IPIC investments to ensure that they conformed to IPIC's mandate of securing high quality upstream services and downstream markets for Abu Dhabi's primary export. The creation of IPIC created additional institutional space within the realm of SWFs, allowing Sheikh Zayed to accommodate the political ambitions of additional family members and political allies.

Initially, Sheikh Zayed delegated supervisory roles at the SWFs, ADNOC, the *diwan*, and many ministries to his Bani Khalifa allies—shoring up support against supporters of the deposed Sheikh Shakbout and increasing Zayed's policy-making autonomy in other areas. As the senior members of the Bani Khalifah grew older, and his own sons came of age, Sheikh Zayed shifted control of the SWFs and government agencies to his own sons to satisfy their political ambitions and smooth the way for an eventual succession. Prior to his death, Zayed had placed ADIA under the influence of a younger son, Ahmad (generally seen as being allied with Khalifa bin Zayed and not a succession challenger), while retaining the chairmanship for himself; IPIC was the province of Mansour; and ADICO was placed under the control of key tribal allies. None of these appointees were politically ambitious, however. Zayed's eldest son, and then-Crown Price, Khalifa was appointed to lead the Supreme Petroleum Council and Executive Council. Mohammed was given a leadership position in the United Defense Forces, the U.A.E. military.

Sheikh Zayed bin Sultan al Nahyan's death in 2004 prompted the first succession in Abu Dhabi since independence. It also marked the first uncontested transfer of power since the death of Zayed the

Great in 1909. Despite his position as Crown Prince, it was not sure that Khalifa would succeed to his father's position over Mohammed, as Mohammend's political status had grown tremendously due to his position as the eldest brother within the Bani Fatima. [67] While Khalifa had secured the support of the Bani Khalifa, the tribal hinterland, and most of his brothers outside the Bani Fatima, Mohammed could have made the succession difficult. Consequently, upon his appointment as Emir, Sheikh Khalifa bin Zayed al Nahyan immediately enacted measures designed to reward his supporters and mollify the Bani Fatima.

Khalifa first declared that Mohammend would be his Crown Prince; he then decreed the creation of Mubadala in 2004, transferred ADIA's interest in IPIC to ADNOC, spun off ADICU from ADIA and transferred ADIA's domestic assets (including ADICO, NBAD, and ABCD) to the newly independent ADICU. The historical, transitional, and current institutional structure of Abu Dhabi's SWFs is shown in Figure 1 in Annex A.

The dramatic 2004 re-organization not only decentralized control of Abu Dhabi's SWFs, it also divided control between powerful political players within the Emirate. Mubadala's very existence owes to Sheikh Mohammed's political influence: without a fund of his own, Mohammed would have been more likely to make a serious challenge to the succession rather than rallying behind Khalifa. Similarly, Mansour gained increased control over IPIC after ADIA's shares were transferred to ADNOC. Without the supervisory role that ADIA-aligned directors played in IPIC, Mansour is more free to pursue investments of his own choosing. Operational control of the new ADICU has been effectively delegated to al Nahyan tribal allies (the al Kindi and al Suwaidi).[68]

The consequences of separating the SWFs are not merely theoretical. In 2009, ADICU expanded its original "domestic" mandate to become an international investment vehicle. In buying up New York's Chrysler building in 2008,[69] ADICU seems to be treading into territory traditionally covered by ADIA. Financially speaking, there is little reason that ADICU should be investing in New York real estate: the Council's mandate was domestic; its employees have focused on domestic investing for some 40 years; and if the investment opportunity was attractive, there is no reason that ADIA would not be the appropriate vehicle. The absence of any response by ADICU's al Nahyan directors suggests that a distinct decision has been made to accept the actions of their tribal allies at the helm of ADICU—at least as long as they remain pliant allies.

In a similar fashion, IPIC, moving far beyond its 'petrochemical' mandate under Mansour's direction, acquired a 16.3% stake in Barclay's in 2008, through a deal that sidestepped the supervision of Sheikh Khalifa and was probably brokered through Mansour's Dubai-connections.[70] The transaction was rather murky, as it was reported that Mansour agreed to the deal in both a personal capacity and as the chairman of the IPIC board. Although much publicity accompanied IPIC's subsequent disinvestment in June 2009, IPIC retained a 5% stake in Barclay's. Apparently, IPIC is still in the banking business. The decision to allow Mansour to push for these kinds of non-petrochemical investments seems to be a conciliatory measure designed to mitigate any friction with Khalifa.[71]

The very creation of Mubadala seems to be a designed to pacify Mohammed bin Zayed by allowing him to pursue his own vision for developing Abu Dhabi, which tends to be more aggressive and modernizing than that of Khalifa or their father Zayed. Thus, Mohammed's Mubadala has moved aggressively to take significant stakes in high-profile foreign companies (Rolls Royce, AMD Computing, the Carlyle Group, and Ferrari, among others). Mubadala also invests domestically in numerous firms in various sectors including health services, aviation, and large-scale aluminum smelting. Perhaps most surprisingly, however, Mubadala has acquired large stakes in some domestic petroleum services companies, and even bought a 15% share in an oil block in Oman. It is clear that Mubadala's mandate is not geographically limited, nor is it limited by sector (as it has moved into IPIC's traditional realm). There seems to be little financial rationale behind creating an entire new SWF rather than creating a fund for aggressive investments under ADIA. Politically, however, creating space for Mohammed to pursue his own aims was important to ensuring an uncontested succession for Khalifa.

Overall, the proliferation of multiple SWFs in Abu Dhabi has increased the institutional space available for members of the royal family—increasing their individual autonomy and creating a more stable political environment in which dissent is less likely (thereby increasing Sheikh Khalifa bin Zayed bin Sultan's autonomy as Emir in the larger sense). This strategy was pursued by Sheikh Zayed bin Sultan, and was expanded during the succession that led to his son Khalifah bin Zayed bin Sultan ascending to the position of Emir.

It is equally important to recognize that the al Nahyan family retains control over the management of each SWF in Abu Dhabi. At ADIA, the board of directors is comprised of six royal family members and four close tribal allies. As the largest of Abu Dhabi's SWFs, it is considered the third most powerful institution in Abu Dhabi. Accordingly, the Emir directly holds the position of Chairman, and his younger brother Ahmad (who is not a political rival in any sense) directly manages the operations of ADIA through his position as managing director. At ADICU, while the Executive Council and management positions are dominated by tribal allies rather than the al Nahyans, five of nine board seats are held by the al Nahyan family—ensuring ultimate royal control. At IPIC, the majority of board seats are held by non-royals, but the fund is now a wholly owned subsidiary of ADNOC—thereby placing it under ultimate royal control. In practice, IPIC is dominated by Sheikh Mansour bin Zayed al Nahyan, though the managing director is not a member of the al Nahyan family. Sheikh Mohammed bin Zayed al Nahyan is the Chairman of the Board at Mubadala, and has surrounded himself with technocrats who have worked alongside him for decades. In all of these SWFs, the nomination and removal processes for directors are controlled by the al Nahyan family—ensuring that when push comes to shove, these SWFs will serve the interests of the royal family and thus ensure its autonomy from political competition at home and abroad.

In addition to maintaining royal control over the SWFs' boards of directors, the autonomy of the royal family is assured through SWF funding mechanisms. For Abu Dhabi's SWFs, it is difficult to confirm exactly when and how funding decisions are made with respect to state revenue stream allocation as there is no public law like in Kuwait. It is, however, fairly certain that all decisions on changes in allocation of oil revenues must be cleared by the Supreme Petroleum Council (SPC). Since the chair of the SPC is the Emir, and the other seats are held by al Nahyans and Emiri-appointed tribal allies, it is apparent that funding remains a failsafe tool to ensure SWF loyalty to the royal family.

Beyond the creation of SWFs and their institutional structures, the investment decisions by Abu Dhabi's SWFs also reflect an autonomy-maximizing objective. In the international sphere, ADIA's trademark has been its tendency to purchase small stakes in companies, below the threshold for mandatory reporting requirements. As ADIA's head of strategy Jean-Paul Villain – a Frenchmen who has held top positions at ADIA for most of the past twenty years -- noted, keeping ADIA's stake below this threshold eliminates the headaches associated with being a named shareholder.[72] As noted in the Kuwait case study above, this strategy is autonomy-maximizing because it maximizes the number of investment opportunities that ADIA can pursue without triggering a political backlash. As in the case of the KIA, Abu Dhabi's SWFs do not follow this "small investment" strategy inside the Middle East (including inside Abu Dhabi itself) where political reactions are less likely. For instance, ADIA holds large shares in the Arab Banking Corporation, the Arab International Bank, Ras al Khaimah's Union Cement Company, Qatar Telecom, and Egypt's EFG Hermes Holding. Similarly, ADIA does not nominate directors for western companies, but does nominate and elect directors onto the boards of Middle Eastern companies. It is therefore apparent that the ADIA general strategy is autonomy-maximizing.

ADIA's extraordinary investment into Citigroup can also best be explained as autonomy-maximizing. First, the investment fit with ADIA's aversion to exceeding reporting requirements: the convertible bonds convert to no more than 4.9% of Citigroup Inc.'s equity.[73] It was not, however, secretive. This is in large part because the investment was not made through the normal Villain-led strategy setting and opportunity-identifying regime. In this transaction, former Treasury Secretary and Citigroup's then-Chairman Robert Rubin (whose political linkages to the American

government were not unnoticed) traveled to Abu Dhabi, and met and shook hands with Sheikh Ahmed bin Zayed and Sheikh Mohammed bin Zayed; two days later, the money was wired to a Citigroup account.[74] This transaction's departure from almost all of ADIA's traditional investing patterns makes it look suspiciously like a political investment. One that is, in fact, autonomy-maximizing: by supporting the recapitalization of Citigroup, ADIA conveyed that it is a cooperative player within the system of global economic governance[75]—which should open more investment opportunities in the future. Despite its size and political nature, nothing in the deal suggests that it was mercantilist: ADIA acquired only convertible debt and remained a passive investor. As in Kuwait, large arms sales to the U.A.E. were announced in 2009-2010, which may have been part of the implicit political bargain in the transaction.

Outside of the ADIA, Abu Dhabi's SWFs are more aggressive. ADICU invests primarily within Abu Dhabi, and is not averse to taking large stakes in companies targeted for investment. ADICU owns majority shares in the National Bank of Abu Dhabi (NBAD), the Abu Dhabi Commercial Bank (ADCB), Union National Bank, and Al Hilal Bank, and large stakes in numerous other domestic companies. The majority stakes in domestic banks are particularly relevant because they guarantee that the domestic financial sector is ultimately responsible to the state (and thus the al Nahyan family). Through these intermediary financial institutions, it is possible to carefully manage the development of Abu Dhabi's economy—ensuring that political allies are more easily able to access credit markets. The scandal involving the Saad Group and Algosaibi & Brothers Company is illustrative of the kind of name-based lending that occurs on a regular basis throughout the Middle East.[76] Further, the provision of mortgage loans based on the reputation of the owner of the target property rather than the creditworthiness of the borrower is not unheard of. Overall, Abu Dhabi has used the subsidiaries of its SWFs to provide easy credit and cash payments to domestic political allies. This behavior is autonomy maximizing because it incentivizes loyalty to the royal family—thereby increasing the range actions that the royal family can undertake without leading to political resistance.

In a similar vein, IPIC has traditionally made large investments in the petrochemicals sector.[77] This strategy is consistent with autonomy maximization. By purchasing majority or controlling stakes in downstream petrochemicals companies[78], IPIC secures markets for Abu Dhabi's oil exports. This decreases Abu Dhabi's vulnerability to oil price shocks (and potentially creates channels for oil sales higher than OPEC quota levels). Similarly, by purchasing large or controlling shares in upstream services providers like Oil Search and Arab Petroleum Pipelines Co, among others, IPIC ensures that Abu Dhabi will have access to the technology and human resources needed to keep oil production levels high as existing reserves decline. So, by purchasing petrochemical sector companies, IPIC increases Abu Dhabi's ability to sustain oil sales and production autonomously.

Mubadala also pursues an aggressive investment strategy. It has taken a share greater than 5 percent in some 63 companies—many of which are western corporations. Some of these companies even operate in traditionally sensitive industrial sectors like aviation[79] and electronics.[80] Mubadala's investments follow exactly the kind of activist investment pattern that worries many western investors. The investments are explicitly made to steer future expansion by those companies to Abu Dhabi. Acquisitions in the aviation and aerospace sector were made to support the creation of an aviation hub in Abu Dhabi in conjunction with the newly constructed airport terminal and airport free trade zone.[81] Investments in the Guinea Alumina Corporation, the Emirates Aluminum Company, and Spyker Cars were all made to develop a seamless supply chain for aluminum that would create thousands of new jobs in Abu Dhabi—which is one of Mubadala's expressed goals. Developing and diversifying the economy inside Abu Dhabi simply doesn't make sense for a SWF that is looking to maximize profits because Abu Dhabi's sole competitive advantage is access to subsidized energy. However, in developing state-owned "private sector" industries, Mubadala is expanding the "private sector" opportunities for future generations of Abu Dhabi's citizens. Eventually, this should enable reductions in civil service positions while retaining royal control over citizens' employment.[82] Mubadala has also taken large stakes in

non-oil energy companies[83] in order to ensure continued state control over energy in Abu Dhabi. Thus, overall, it is clear that Mubadala's investment activity is autonomy-maximizing. Further, by separating these aggressive strategies from ADIA, any political backlash against Mubadala's investments will not restrict ADIA's ability to invest Abu Dhabi's primary reserves as much.

In summary, the formation of ADIA, placing control at the sub-national level, and the proliferation of new SWFs can best be described as choices made to ensure the autonomy of the ruling family. ADIA's general strategy of investing internationally for profit is not inconsistent with this goal. Indeed, its tendency to invest below reporting thresholds lends credence to an autonomy-maximizing strategy rather than a mercantilist one. While some commentators have suggested that ADIA's extraordinary investment into Citigroup during the financial crisis points to a mercantilist strategy,[84] our analysis suggests that it too can best be explained in autonomy maximizing terms. The size and nature of the transactions needs to be viewed in the context of the global crisis and the relationship between the US and Abu Dhabi. Living up to commitments implied by its relationship with a great power is essential for a small ruling elite that is vulnerable to internal and external threats. Finally, the more aggressive investment strategies of IPIC, ADICU (including the provision of favorable loans to political allies), and Mubadala also fit this explanation. They are meant to stabilize the current balance of power within the royal family and maintain the unified front presented by existing elites—thereby preventing vulnerability to demands made by other segments of society and protecting the autonomy of the ruling elite.

C. Singapore

Unlike the governments in both Kuwait and Abu Dhabi, Singapore is not a hereditary monarchy. Further, unlike those countries' SWFs, Singapore's Temasek and GIC are not funded by natural resource revenues. Despite these differences in local conditions, the creation, structure, and actions of Singapore's SWFs are best explained by autonomy maximization. Indeed, no other country has so openly embraced economic management as a means to protect the autonomy of the ruling elite both internally and externally. The initial creation of SWFs in Singapore increased the autonomy of Singapore's People's Action Party (the PAP)[85]; so, too, has the evolution of Temasek and the GIC. Just as with KIA and Abu Dhabi's SWFs, the normal investment patterns of these SWFs, as well as their extraordinary actions (interventions in the domestic stock market, purchases of large stakes in Chinese and American banks, and providing assurance for the Barclay's IPO, and recapitalizing CAO) fit the pattern of autonomy maximization, but cannot be explained with any of the other theories we explored above.

Singapore's elites have always been conscious of the issue of external autonomy, and it is not hard to see why. Singapore's political history has been marked by British colonization, Japanese military occupation, and other turmoil since its very creation: other than the brief reign of a puppet Sultan in the 19th century, Singapore had been controlled or subsumed within some foreign power from its inception until it gained independence in 1965. [86] As an independent republic, Singapore is wedged between Malaysia and Indonesia and although the population is 75% ethnic Chinese, the presence of a substantial Malay minority has prompted its neighbors to express their desire to see regional "ethnic solidarity" from time to time—ensuring that stability is never assured.[87] Notably, Indonesia sponsored terrorist attacks in Singapore during the 1960s to foment racial riots as part of its bed to prevent the unification of the Malaysian peninsula; Malaysia disputed Singapore's maritime claims until 1995,[88] and Singapore is also completely reliant on the Malaysian state of Johor for its drinking water. [89] It is therefore unsurprising that Singapore's elites have approached politics with a rather realist interpretation.[90]

Given that Singapore is, however, a tiny country relative to its neighbors (much less relative to whatever global power has been ascendant at a given time), it has never been able to rely strictly on military power to secure its existence. Relying on a sense of historical legitimacy within the region was an equally untenable plan given Singapore's origins as an imperialist outpost.

At independence, the domestic situation was equally tenuous. The country's per capita GDP was under $400 and unemployment was high. Singapore's entrepôt-based economy could not provide enough jobs to diffuse racial tensions over jobs, and industrial infrastructure was minimal:[91] a concerted industrial development policy was urgently needed.[92] As others have commented, the only way to "wean the native Malay population from ethnic politics was through the appeal of social democratic policies,[93] but full socialism was impossible absent a union with the Malay hinterland. Therefore, when the merger experiment between Singapore and Malaysia failed, the PAP was forced to embark on an alternate path.

As Lee Kuan Yew would later explain, the PAP "decided soon after independence to link Singapore up with the advanced countries and make [Singapore] a hub or nodal point for the expansion and extension of their activities."[94] This initial industrial policy was carried out through substantial investments and subsidized loans made by the Economic Development Board into domestic and foreign companies, and served the twin purposes of creating vested foreign interests in the continued viability of Singapore as an autonomous state and creating employment for the working class to quiet ethnic tensions.[95] By requiring private savings be paid into the Central Provident Fund (CPF), and incentivizing additional private purchases of government bonds, Singapore managed to co-opt a substantial pool of private capital into the service of the government. Critically, the CPF's liabilities would not come due for decades given Singapore's young population at the time. The allocation of assets, however, would be specifically approved by government bureaucrats according to current policy goals.[96] The move can therefore be interpreted as serving two goals. First, it created a public perception that the PAP was critically responsible for the country's new private sector growth. Second, it created a financial cushion to ward off economic downturns. This, in turn, assured that the PAP would be able to provide continued economic growth and stability even during times of economic shocks—thereby protecting the autonomy of the ruling elite.

In addition, the country pursued an active industrial policy to accelerate growth and position Singapore as a critical economy in the Far East. According to S. Dhanabalan, the longtime Chairman of Temasek, Singapore incentivized capital investments in manufacturing by both local and foreign sources by taking minority stakes in companies and making subsidized loans through the Economic Development Board (EDB).[97] In an effort to separate regulatory and business functions, the government transferred EDB's industrial loan portfolio to DBS Bank in 1968, and transferred EDB's equity holdings to the Ministry of Finance. During this early period, these holdings were managed by a special department within the Ministry of Finance. However, in 1974 the department was reorganized into Temasek, a limited liability company owned by the Ministry.[98] This raises the questions of why a special entity was needed and whether this reorganization served primarily administrative functions or further goals.

The official story is, of course, that the creation of Temasek was simply a decision made to separate the business and regulatory functions of the government to increase efficiency.[99] Given that the transfer of the ECB's equities to the Ministry of Finance was supposed to achieve this same goal, however, Temasek seems a bit redundant. Additionally, the timing was somewhat suspect, as one would have anticipated that Temasek would have been created at the same time that the EDB's loan portfolio was used to capitalize DBS Bank some six years prior. Finally, the fact that Singapore's regulatory bodies continued to protect monopolies held by Temasek-controlled companies, the separation of regulatory and equity interests does not seem to have initially driven any tangible changes in regulatory policy.

Mercantilist theory offers little insight on the creation of a separate government-owned corporation: the distinction between channeling capital accumulation through a Ministry or a Ministry-owned corporation is irrelevant because either can be used to ensure that capital stays within the country. Creating Temasek as an independent entity does not support the account that Singapore's SWFs are imperialist-capitalists either: when a country is trying to capture above-market rents through the imposition of imperial force, it would seem to be beneficial to keep a direct link between its equity

investments and the state such that investment targets would be more compliant for fear of the political consequences of resisting the SWF. The creation of Temasek is consistent with the actions of a rational market-based investor: vesting investment decisions in an autonomous company should increase returns over those generated by officials within a politicized Ministry of Finance. It is also consistent with the autonomy maximization theory we advance in this paper, especially when considering the timing of the creation of this sovereign wealth fund within its broader geopolitical context. Temasek was incorporated in the same year that American forces withdrew from Vietnam. This threatened to disrupt the tenuous balance of power in Southeast Asia that Singapore had worked carefully to create.[100] By shifting its portfolio of equities to a formal corporation separated from the government, Singapore signaled to the West that it was committed to capitalist principles, while the Ministry of Finance's retention of the equity interest in Temasek (and the fact that the new company was largely staffed by civil servants[101]) signaled to the socialist world that Singapore was not fully in the pocket of western interests. By adopting corporate formalities while retaining certain socialist aspects, Singapore was able to chart a middle ground that kept all sides interested in Singapore's continued viability—and protected the autonomy of the PAP.

Another mechanism by which Singapore's government, and thus the PAP, retains control over Temasek is its funding. Despite occasional protests that Temasek should not be considered a SWF at all because it receives only small capital injections from the government from time to time rather than on a regular basis,[102]Singapore's capital injection in 2008 of close to S$24.5 billion (US$18.2 billion)[103] was equal to more than 10 percent of the Temasek's portfolio value at the time.[104] While this occurred in the midst of the global financial crisis, it serves to illustrate the central role of Temasek for Singapore's economic policy. Further, as a Fifth Schedule Company, Temasek must obtain the approval of the Singaporean President if the value of its portfolio falls below that held when the current government took office. Since the PAP has ensured that its nominee for President has run unopposed by any viable alternative candidate since independence, the Presidential approval requirement ensures that the PAP would have a veto right over Temasek's annual budget for a full election cycle even if the party were to lose its majority in Parliament.[105]

Temasek's sister fund, GIC, was established more recently in 1981. It serves as another illustration of how small states use economic resources to placate major powers on whose goodwill they ultimately depend. By 1981, Singapore's economy had developed significantly, and had emerged as one of the Asian tigers and dragons (alongside Hong Kong, Taiwan, and South Korea) at least in part as a result of an aggressive export-led growth strategy.[106] In addition, the economy was generating both persistent positive cashflows (through Temasek's investment in domestic companies) and new low-cost capital (from individual savings in the Central Provident Fund). There was simply too much money available to invest solely inside Singapore. Moreover, there was increasing international pressure on Singapore and other countries with substantial accumulations of excess reserves to recycle them for the benefit of the global economy, especially in the aftermath of the oil crisis, which had exposed vulnerabilities in the western export markets. Thus, it was fairly apparent that international investment opportunities should be pursued. However, investments into foreign public corporations by a holding company for what were essentially state-owned enterprises probably would not have been regarded warmly in western democracies. Establishing a separate institution to manage Singapore's excess revenues allowed for a distinction to be made between the hands-on domestic economic policies of the PAP implemented through Temasek and the country's international investments. Thus, establishing the GIC enabled Singapore to access a broader range of investment opportunities without triggering a political backlash.

As discussed in the Abu Dhabi case study, creating a separate SWF for domestic and foreign investments also prevents management or employees at either fund from establishing a powerful competing locus of authority with ties to both domestic businesses and international actors—thereby protecting the existing privileged position and autonomy of local elites. In the case of Singapore, the

political importance of controlling SWFs and the investment opportunities they provide is illustrated by the fact that Lee Kuan Yew become chairman of GIC at a time when he was still serving as the country's prime minister, and has retained this position ever since. Further, establishing a second SWF expands the institutional space available to reward allies or sideline potential rivals, and ensure their loyalty to the ruling elite.[107]

Specializing investment functions is, of course, also perfectly consistent with profit maximization. Moreover, the shift to international investments is a move predicted by capitalist or socialist imperialist accounts. However, closer inspection of GIC's financial resources and their management strongly point towards autonomy maximization. GIC receives money from the public budget; however, because part of the Central Provident Fund's portfolio is Singaporean government bonds, the CPF functions to mobilize the mandatory contributions by Singaporean employees – a cheap source of captive capital – to facilitate GIC's activities abroad.[108] This ingratiates the PAP with the international community, signaling that it is a cooperative player in rebalancing global currency accounts. It also allows the PAP to increase the size of Singapore's reserves relatively easily since its cost of capital is so low—and this increase serves as propaganda each year to boost popular domestic support for the PAP. These easy returns are also used to justify high salaries for GIC employees—even those who serve in ex officio positions[109]—which serves to increase the attractiveness of remaining on good terms with the PAP rather than mounting a political challenge.

So far we have argued that the establishment of separate entities to manage funds that could be invested to boost domestic development or invest internationally supports the autonomy maximization theory advanced in this paper. We now extend this argument and suggest that the governance structure of both funds lends further credence to our theory.

Temasek's formal governance structure is the same as any normal western corporation: senior management is selected and overseen by a board of directors, which is in turn elected by shareholders.[110] The official line is that the Board is independent of the government because a majority of its directors are "non-executive independent private sector business leaders."[111] However, Temasek's sole shareholder is the Ministry of Finance, making it questionable how effective the presence of a Board is in separating Temasek from the government. Clearly, in the event of any substantial disagreement between the party and the Board over the Temasek's strategy or actions, it would be relatively simple for the Ministry of Finance to call a shareholder meeting to replace the entire slate of directors. Further, the appointment or removal of directors to Fifth Schedule Companies like Temasek requires Presidential approval under Singapore's Constitution.[112] Additional evidence comes from the staffing of top positions at Temasek, which are filled by PAP insiders—ensuring PAP influence on Temasek's day to day activities. Most obviously, the CEO of Temasek, Ho Ching, is the wife of Lee Hsien Loong—Singapore's current prime minister and the son of Lee Kuan Yew. Further, Ho Ching was nominated to be CEO shortly after her husband was elected Prime Minister—suggesting that her selection is part of a strategy to transfer power to the next generation of the Lee Kuan Yew cartel.[113] The Chairman of the Board, Suppiah Dhanabalan, is another example: he worked at the EDB prior to its funds being transferred to Temasek, was a prominent PAP politician during the 1980s, has held numerous ministerial portfolios, and remains a key member of the Lee Kuan Yew inner circle.[114] In defense of the rather clubby (and somewhat nepotistic) appointments, Lee Hsien Loong has said that Singapore is "such a small society if you want everybody to be disconnected from everybody else, we just don't have the bodies."[115] Perhaps this is true on some level, but it would certainly be possible to find non-family and even non-party members to fill these positions. Temasek's governance structure therefore allows the PAP to maintain control over Temasek, which in turn facilitates the PAP's ongoing efforts to guide Singapore's economy and retain control of the government.

The Chip Goodyear fiasco at Temasek provides a good example of how its governance structure does not actually isolate the Board from political considerations. In February 2009, Temasek announced that it

had tapped Chip Goodyear to become Temasek's new CEO, replacing Ms. Ho as of October 2009. However, the transfer of power never materialized and Mr. Goodyear left the company in the summer of 2009. Officially, there was a conflict in management style and strategy. This is, perhaps, a pleasant way to state that Goodyear had proven unexpectedly resistant to suggestions from the political elite – notwithstanding an extended search for the position and a long-standing relationship between Temasek's chairman and Goodyear. Others speculated that Goodyear's previous position at BHP Billiton might make his appointment a rather poor signal to China in light of China's ongoing battle with another Australian mining company, Rio Tinto, at the time.[116] In any event, the Board's attempt to replace Ho Ching failed.

The governance structure of the GIC is, perhaps, even more revealing for the importance of Singapore's SWFs to the ruling elite. Similarly to Temasek, the GIC is organized as a formal corporation with management that reports to a board of directors, who are in turn elected by shareholders. As with Temasek, however, the sole shareholder is the Ministry of Finance.[117] Thus, as long as the PAP retains control of the government, it has the power to select all directors. Additionally, like Temasek, GIC is a Fifth Schedule company, implying that no director may be appointed or removed without Presidential appointment. [118] This "safeguard" additionally ensures that in the event of an unexpected loss of parliamentary control, the PAP would still control the board of GIC for at least the remaining term of the President.[119]

As can be seen by the current Board's composition, the GIC is closely supervised by the PAP. Lee Kuan Yew has served as the Chairman of GIC since 1981, and his son Lee Hsien Loong is the co-Deputy Chairman alongside Tony Tan Keng Yam—a former PAP deputy prime minister.[120] Among the other 12 directors are the current Ministers of Finance, Trade and Industry, and Transport, along with a former Minister of Finance who had served in that position for 16 years.[121] Five seats are held by current senior managers within GIC, and two are held by senior managers are Temasek-controlled companies.[122] Ang Kong Hua is the only director with no ties to the PAP who is not currently working for a company controlled by one of Singapore's SWFs.[123] Overall, 14 of the 15 directors are strongly connected to the PAP or work for a company owned by the government. The career patterns leave the impression that a board position at GIC is a reward for outstanding (and loyal) services in business or government. This also ensures that GIC's strategies are aligned with the interests of Singapore's elites.

More than governance structures and personnel decisions, however, the controversy surrounding SWFs and their motives and strategies is concerned with their actual investment behavior. Temasek has traditionally taken controlling stakes in domestic companies and large minority stakes in regional companies. As discussed, Temasek's strategy has allowed the PAP to pick winners in the domestic market and foster the development of specific industrial sectors. Temasek began to develop an international profile only over the past decade. Closer inspection of its regional investments patterns suggests a similar pattern.

Temasek is highly selective in its choice of regional investments and tends to take relatively large stakes. In fact, Temasek is often sought by governments in the region as a core investor in industries that require a stable shareholder or to diffuse political tension in their own countries. The following investments arguably serve the dual purposes of generating profits and aligning the interests of potential political rivals (and former enemies). For example, Temasek invested in several Indonesian banks in the aftermath of the Asian financial crisis when the recapitalization of banks was of paramount importance to regional political stability. It now holds substantial minority positions in Alliance Bank (Malaysia) and Bank Danamon (Indonesia),[124] and was invited by the host government to take positions in Indonesian and Thai telecoms. While Temasek was eventually forced to divest its stakes in Indonesian telecoms Telkomsel and Indosat due to a controversial anti-trust ruling,[125] the fact remains that the initial investment was specifically invited by the Indonesian government. Temasek's purchase of a 49.6 percent stake in Thai telecom company Shin Corp. was supposed to demonstrate Singapore's ability to assist

regional allies by helping then-Prime Minister Thaksin Shinawatra to defuse allegations that his investment and telecommunications policies were aimed at benefiting a company owned by his family. Unfortunately for Temasek and Singapore, this acquisition sparked a "wave of unrest" that eventually resulted in a military coup and the ouster of Thaksin.[126] This episode demonstrates that even regional investments bear additional political risks relative to domestic investments. Whereas Temasek benefits from complete political support inside Singapore, it has little control over changes in the political winds in other countries. Not surprisingly, Temasek has treaded more carefully in recent years when investing regionally.

While Temasek's actions are regularly publicized, the GIC has largely avoided public scrutiny despite managing a larger portfolio.[127] This is fairly comparable to the situation in Abu Dhabi: the SWF tasked with investing globally (here, GIC) takes small stakes that are well below thresholds that would invite scrutiny or trigger disclosure requirements imposed by foreign regulators. Even on its own website, GIC discloses only highly aggregated figures describing its portfolio.[128] As mentioned in the previous case studies, this strategy is autonomy-maximizing because it maximizes the number of investment opportunities that GIC can pursue without triggering a political backlash.

It is, of course, true that the general investment patterns of both Temasek and GIC are consistent with autonomy maximization or profit maximization. True preferences, however, are often revealed in a crisis.[129] Crises are extreme events that may prompt actors to make unusual and economically irrational decisions; sometimes, however, these decisions reveal deep-seeded priorities that are difficult to discern in normal times when wealth maximization neatly coincides with political interests. Examining the reactions of Temasek and GIC to several crises over the past decade thus helps to shed light on their underlying motives.

The first example dates back to 2004, when China Aviation Oil (CAO), a subsidiary of China Aviation Oil Holding Company (CAOHC), a large company trading on Singapore's SGX exchange, collapsed.[130] CAO had taken substantial short positions on oil at a time when prices were increasing relentlessly. Consequently, it was forced to file for bankruptcy, but was reorganized and eventually relisted on the SGX. A closer look at this fairly innocuous chain of events reveals, however, a complex sequence of interactions between the Chinese and Singaporean governments in which Temasek played a central role. In a last minute attempt to rescue CAO, its parent company, China Aviation Oil Holding Company (CAOHC) engaged in insider trading under Singapore's laws.[131] Temasek and the other investors were wiped out when CAO filed for bankruptcy only weeks later. Singapore's Monetary Authority faced the stark choice of enforcing its insider trading rules (and assuring foreign investors in particular of its commitment to strong investor protection) or soft-pedaling in order to protect its relations with China.[132] In what cannot be described as less than a coordinated approach, the Monetary Authority levied a substantial fine on CAO, but Temasek recapitalized CAO within the week, thereby ensuring CAO's re-listing on the Singapore stock exchange – an entity in which Temasek indirectly holds a 24 percent stake. The events were quickly followed by an announcement that Temasek had been chosen as one of 2 initial investors in the China Construction Bank—a highly anticipated opportunity, given that it was the first of China's four largest banks to go public.[133] Evidently, by choosing a middle ground, Temasek preserved its ability to invest in Chinese companies (thereby maximizing its future range of investment options—and autonomy).

In line with the behavior of KIA and ADIA described above, both Temasek and GIC took major stakes in struggling banks and investment banks in the midst of the global financial crisis and invested repeatedly even after booking losses on their original investments. Temasek acquired a 13.7 percent stake in Merrill Lynch through substantial investments in late 2007, early 2008, and the fall of 2008.[134] While Temasek has always maintained that it was investing Merrill Lynch it thought that the company was undervalued (thus protecting its "profit-maximizing" credentials), skepticism is warranted. Temasek's initial $6 billion investment in December 2007 occurred at a time when many suspected that western

banks were facing substantial impending losses on their subprime loan portfolios. Perhaps Temasek simply misjudged Merrill's exposure; however, when it became clearer that Merrill was, in fact, facing massive write-downs, Temasek followed its paper losses with another $6 billion to shore up Merrill's balance sheet.[135] Temasek again stepped into the breach with *another* $3.4 billion in the fall of 2008 (part of which, however, was from a $2.5 billion reset payment that was triggered under the earlier investments when Merrill sold additional shares to other investors at prices below those it had sold to Temasek).[136] After its shares in Merrill were converted to Bank of America shares as part of that merger, Temasek closed out its position in early 2009-- resulting in an estimated $4.6 billion loss.[137] Temasek's loss-chasing behavior cannot be explained as profit-maximizing motivations. It did, however, help to support the health of the international financial system, thereby helping to protect the value of Singapore's US dollar-denominated reserves, and demonstrated that Singapore is a cooperative player in the global financial system.

GIC's contributions to the recapitalizations of UBS and Citigroup during the financial crisis gave it stakes of about 9% and 11%, respectively, in the companies. This, of course, seems somewhat contrary to its usual low profile investment pattern. However, it seems likely that GIC did not expect to actually take such a substantial stake—or even convert its preferred shares. Even when the preferred shares dropped in value by 80%, GIC held onto them. However, when the U.S. government indicated that Citigroup needed to increase its tier one capital reserves, but that converting its own preferred stock was contingent on other investors following suit, the writing was on the wall. The U.S. government was implicitly providing support for SWFs to take large stakes in Citigroup: conversion of the preferred shares to common shares was the only viable option for salvaging Citigroup's total common equity ratio. This also had the benefit of converting GIC's paper loss from 80 percent to 24 percent,[138] but it eliminated GIC's claim to a 7 percent dividend payment. A profit-maximizing investor responsive to short term shareholders would have either converted or sold off its preferred shares earlier to minimize its paper losses and the accompanying criticism; a rational long term investor (which GIC purports to be) should have continued to hold its preferred shares despite the suspension of dividend payments in order to eventually benefit from the 7 percent dividend, which was temporarily being paid to a trust. GIC, however, delayed the conversion until it had the tacit support of the U.S. government—thereby signaling its cooperative posture in the global financial system and protecting its future ability to invest in the U.S. To avoid ongoing American regulatory scrutiny, a prompt sell-off to bring ownership below 5 percent was required—and occurred. [139] This entire sequence of events is neither consistent with profit maximization nor with mercantilist theories. Instead, it demonstrates the use of these funds for autonomy maximizing purposes: they are used for highly risky investments to signal cooperation and maintain stability, even when this comes at a substantial economic loss. And contrary to predictions that would follow from mercantilist arguments, they are not retained to exert future control.

In addition to making stabilizing investments in western banks, Singapore's SWFs are deeply involved in the Chinese market. The rise of China is arguably the greatest threat to Singapore's role as a major economic hub in the Far East, and its role as a bridge between East and West. Hong Kong and Shanghai are major competitors on this front. When CCB, the Bank of China, and ICBC were partially privatized in 2005 and 2006, they attracted substantial investments from western institutions like Bank of America, RBS, Morgan Stanley and Goldman Sachs. However, when these institutions came under pressure at home to improve their tier one capital base, they chose to generate cash by selling off their stakes in the Chinese banks. As the initial investments were subject to a three-year lock-in period that expired in early 2009, it looked as if shares in China's banks would be flooding the market precisely when financial markets were down – with likely negative repercussions for China's financial institutions. Most of the shares sold by Western banks were picked up by government-linked Chinese institutional investors. This could have looked like Western investors were selling off their low-quality assets, thereby damaging the value of the Chinese banks. However, one major foreign investor—Temasek—also participated.[140] At a time when private investors were shying away from investing in financial

institutions, including those in China, Temasek shouldered the risk once more and signaled to external capital markets that the Chinese banks were still valuable (and not simply being propped up by the Chinese government through a back channel). Last, but not least, Temasek also appeared as one of the core investors that backed the IPO in 2010 of the Agricultural Bank of China—the last of the four major Chinese banks that had been slated for partial privatization.[141] Our theory suggests that Temasek made these investments in the Chinese financial sector to signal that an independent and largely autonomous, PAP is a useful friend for China—which in turn should provide a rationale for China to avoid impinging on the PAP's autonomy.

To summarize, the creation, internal governance structures, and investment patterns of Singapore's SWFs fit our autonomy-maximizing theory. Creating the institutions made the government, rather than individuals, the primary beneficiary of high domestic savings rates—ensuring that the PAP would remain firmly in control of Singapore's economic development. As discussed, each institution is clearly controlled by members of the PAP inner circle, and their governance structures ensure that this will remain the case. Extraordinary investments into key foreign financial institutions in both Asia and the West demonstrated Singapore's value in the international financial system—and ensure that global players will remain engaged in Singapore to provide an implicit security guarantee against any regional threats. Parallel support for the Chinese and western financial sectors helps to ensure that both will continue to engage with Singapore rather than leaving it to the other's sphere of influence. Singapore's SWFs also sometimes act to soften the impact of policies or actions undertaken by Singapore's government that would adversely affect the interests of these more powerful global actors. The strategy has proven successful, as Singapore and the PAP have been able to weather financial crises without incurring any obligations to outside countries or institutions—all while steadily improving their own regional security situation.

D. China

In some, but not all respects, China is an outlier among the countries surveyed in this paper. Unlike the Gulf States or Singapore, China is big—home to the largest population in the world—and is an emerging global power. Consequently, security motives do not play such a large role in motivating China's establishment of SWFs. Yet, the basic argument that SWFs are instruments designed to maximize the autonomy of rulings elite both domestically and internationally has substantial traction even in this case. We would like to acknowledge at the outset that among the countries discussed herein, China comes closest to acting like a mercantilist.[142] This is apparent in natural resource investments that SWFs and other state controlled entities in China have made across the globe.[143] These investments, which are frequently paired with aid to support infrastructure development, are clearly meant to secure China's access to resources that are indispensable for the continuing growth of its economy. Nonetheless, not all investments have this overtone. Specifically, the entities that invest China's large foreign exchange reserves, the State Administration for Foreign Exchange (SAFE) and China Investment Corporation (CIC), seem to pursue a much broader strategy, in which resource acquisition may play only a minor role.

The continued importance of the government as owner and manager of economic entities in China makes a clear distinction between what counts as SWF and what is simply a state owned enterprise exceedingly difficult. In fact, the generic definition of SWFs in the literature, which we have endorsed as well, does not facilitate such a distinction. Some sources list a number of state sponsored funds, including SAFE and CIC as well as China's National Social Security Fund, as SWFs, which is entirely consistent with the above definition.[144] Nonetheless, we will focus for the most part on CIC for two reasons. First, it is the only entity that has been officially designated by China as an SWF. It is also the most transparent institution, which makes an assessment of China's SWF governance structure and investment strategies much easier. Second, CIC invests both domestically and internationally. SAFE has also been reported to invest globally, but as an administrative agency can do so only through special investment entities.

Apparently, SAFE has established such entities in Hong Kong and has used them to invest in a series of companies that are listed on the London Stock Exchange.[145] However, very little is known about how much and where SAFE invests China's foreign exchange reserves.

CIC was officially established in the fall of 2007 in response to growing pressures from the international community, in particular the United States, to reinvest the rapidly increasing foreign exchange reserves the country had accumulated. This is highly reminiscent of the international pressure that triggered the creation of Singapore's GIC.[146] As it happened, CIC was established at the very moment that the global financial crisis began to unfold. This was almost certainly not planned, but has left its marks on CIC's early investments abroad.

Formally, CIC is directly under the control of the State Council, China's executive branch of government. Its most powerful stakeholder, however, is the Ministry of Finance. It provided CIC with its start-up capital by issuing bonds to the public and handing over the proceeds so that CIC could acquire foreign exchange from the People's Bank of China (PBoC), China's central bank for its foreign exchange reserves.[147] Thus, CIC was initially entirely debt financed. This created a heavy burden on CIC to generate substantial return on its investments in order to meet monthly interest payments. This structure proved to be unsustainable—especially in light of the global financial crisis. By August of 2009, an agreement was struck to recharacterize the initial capital contribution as equity rather than debt, thereby eliminating CIC's need to make regular interest payments,[148] and establishing it as an entity with no external liabilities.

CIC's official mission is "to make long-term investments that maximize risk-adjusted financial returns for the benefit of the State, our shareholder."[149] In an attempt to reassure the global public that this does not entail state control akin to the old socialist model, the report goes on to state: "Our legal framework and governance model require us to operate as an independent commercial entity in an environment of sound corporate governance. We are committed to maintaining excellent professional and ethical standards in corporate governance, transparency and accountability. We have the full support of our shareholder to achieve our mission and attain these goals."[150] As is said, however, talk is cheap. We therefore scrutinize the formal governance structure of CIC, the identities of those charged with running the fund, and its investment strategy (or at least, as much of CIC's strategy as can be gleaned from its investments during its short existence to date). In analyzing the CIC, we find only limited support for a mercantilist argument and similarly limited support for CIC's self-proclamation that it is completely driven by risk-adjusted returns. Many of CIC's international investments are small and passive, indicating that mercantilism is not the driving force behind CIC. CIC's larger acquisitions can best be explained as reactions to the global financial crisis—and indicate motives that are not aligned with maximizing risk-adjusted returns. CIC's refusal to turn its stakes in global financial institutions into mechanisms of control also indicates that mercantilism and imperialism are not its primary drivers. We argue that CIC's investments in global financial institutions during the crisis served to assure other major stakeholders in the global financial system (especially the U.S.) that China is a cooperative player and that it is not using its growing economic and financial power to control international markets. China's actions at the time were critical in deflating, at least temporarily, the pressure on China to abandon its efforts to subsidize export-driven growth through an undervalued exchange rate. At present, China's leadership does not see an alternative to this strategy and is acutely aware of the fact that continued economic growth is critical for maintaining its hold on power. In fact, during the crisis, CIC was been used to infuse capital into China's major financial institutions so that they could expand their credit facilities and prop up the domestic economy—thereby protecting Chinese jobs. This closely resembles similar practices in Singapore, where Temasek and GIC too were used to ensure against a more severe economic downturn that could have put political pressure on the country's leadership. It also shows that CIC has been used as an instrument of monetary policy—which is not exactly within the purview an investor looking to maximize risk-adjusted returns.

As a limited liability company, CIC's formal governance structure is similar to the conventional

western corporation. It has a board of directors that selects and supervises a management team, and there is some overlap between the two.[151] However, when looking at the actual personnel, it is clear that there is an additional governance system in place that is decidedly "Chinese". Those serving on CIC's board or as executives were drawn from China's financial elite – a cohort of financial cadre that has been groomed by the Communist Party, which ultimately controls their career path. CIC's chairman of the board of director and CEO of CIC is Lou Jiwei; the vice chairman, president and chief investment officer is Gao Xiqing. Both men come with extensive experience in government services, including in the financial sector. Mr. Lou has previously held positions, among others, at the State Council, the Ministry of Finance and the State Commission for Restructuring the Economy. Likewise, Mr. Gao has served in the general counsel's office of China's Securities Regulatory Commission (SEC) as well as at the National Council for the Social Security Fund. Indeed, inspection reveals that without exception, every member of CIC's board of directors, every executive, and every member of its supervisory board has held or concurrently holds key positions in government, including positions at the PBoC, SAFE, the Ministry of Finance, regulators overseeing banking, finance and securities, and at government-controlled financial intermediaries like Hui Jin Corporation, which holds the government's stakes in China's major banks and is a subsidiary of CIC.[152]

This suggests that the formal governance structure of CIC is deeply embedded in a dense network of personal ties. In contrast to the Gulf states, where personal ties are formed by kinship relations, or Singapore, where the small size of the country and its elite facilitates a combination of kinship and meritocracy, in China the network is maintained by Organizational Committee of the Communist Party (OCCP). The OCCP has the power to appoint and dismiss key cadres within China's system of governance not only in politics, but also in the economy and finance. It governs by controlling human capital. The CCP regularly updates a rulebook that lists the positions over which it commands control;[153] which include positions in top financial intermediaries.[154]

The role of the CCP in governing China's financial system is consistent with our autonomy-maximization theory. The CCP has asserted its control over the financial sector by way of controlling appointments to key positions at the very moment that China began to open the state controlled sector to private and foreign investors. As part of China's WTO agreement, it committed to fully upon the financial sector to foreign investment by the end of 2006.[155] The likely repercussions of financial liberalization (i.e. the threat to state control of the economy) were mitigated by two strategies: first, China invited strategic investors to acquire major stakes in major banks prior to the liberalization deadline in 2006, thereby ensuring that it controlled who would acquire such stakes and on what terms.[156] These investors entered into three-year lock-up agreements, which ensured that these arrangements would extend well beyond the liberalization deadline of 2006. Second, the CCP asserted its control rights over the financial sector by creating the OCCP to oversee the recruitment of financial cadres to key positions in finance – including at large banks that had just been partially privatized.

These strategies can also be interpreted as mercantilist, but they also reflect an attempt by the CCP to control a sector that is vital for managing the economy and ensuring continuous growth. In a country where political accountability is absent, delivering growth has become the most important source of the ruling elite's legitimacy. China has become adept at camouflaging its real governance structure by adopting elements of 'good governance' from the West. Incorporating CIC as a limited liability company was a first step in this direction. In addition, CIC has assembled an international advisory board that includes former World Bank president Jim Wolfenson, former chief economist at the World Bank Nicholas Stern, former member of the WTO's appellate body and professor at Columbia's School of International Public Affairs (SIPA) Merit Janow, and Vice Chancellor of the Chinese University of Hong Kong Lawrence Lau. The only member with a specific financial background is Taizo Nishimuro of Japan, who heads the Tokyo Stock Exchange Group.[157] Clearly, the recruitment of these international dignitaries[158] is meant to assure outsiders that CIC is playing by the rules of international corporate

governance and to deflect demands for the actual allocation of control rights, which in China lie mostly beyond formal legal structures.

CIC's investment strategy is bifurcated into domestic and international investments with slightly more than 50 percent of its initial capital of US$200bln assigned for foreign investment. A large chunk of the capital designated for domestic acquisition was spent on the acquisition of Hui Jin Investment Corporation, a government owned entity that was previously established to manage the government's controlling stakes in China's largest banks. Although CIC is the parent of Hui Jin, it does not have the authority to appoint Hui Jin's board. Appointments to the Hui Jin Board are made by the State Council—subject to the approval of the OCCP.[159] Moreover, management operations of the two entities are strictly separated. The picture that emerges from these interlocking (rather than hierarchical) directorates is one where a central agent—here, the CCP and its OC—controls the most important resource for the financial sector: human capital. With the help of training centers, carefully designed career paths that ensure that top management personnel at partially privatized banks have spent at least some time working for the Ministry of Finance or the People's Bank of China or another state agency, the CCP maintains its grip on the financial sector – and CIC is a central part of this regime.

This background is also critical when assessing CIC's international investments. CIC made its first major international investment in May 2007, months before the SWF was officially launched. It acquired a 10 percent stake in Blackstone, which reorganized into a limited partnership structure and launched its IPO just before the onset of the global financial crisis. The units CIC acquired do not confer voting rights, and by implication no influence over the management of the company. The investment suffered a substantial loss when the financial crisis unfolded, as the price of Blackstone's units plummeted. Nonetheless, CIC has held on to these shares, and in fact has elected Blackstone to be one of the key managers of its own assets.[160] This suggests that CIC invested in Blackstone not primarily to earn profits, but rather to secure access to expertise and human capital. By securing a successful IPO of Blackstone, they created a long-term relationship that gives CIC access to management expertise and builds loyalty with one of the most sophisticated groups of financial experts from the West. These relational ties can be interpreted as an extension of China's domestic governance regime for finance: control through human resource management rather than formal ownership rights with the goal of stabilizing the system and the powers that control it.

CIC's second major investment occurred later in 2007, at a time when the global financial system already showed serious signs of distress. In December of 2007 CIC acquired the equivalent of a nine percent stake in Morgan Stanley in the form of convertible units at a nine percent interest rate.[161] The difference in the structure of this investment as compared to the one in Blackstone six months earlier suggests that by late 2007 the riskiness of investing in prominent financial intermediaries from the West was apparent to all investors, including CIC. This does not mean that they could have foreseen the scale of the crisis, but it does suggest that CIC was not a naïve, inexperienced investor who simply made a bad investment decision. Not only was the 9 percent interest rate above prevailing market rates; it had also become apparent that private investors had lost interest in these financial intermediaries. Just like other SWFs, CIC assumed a critical role as an investor of penultimate resort (the final resort investment was duly left to the financial intermediaries' home central banks). Indeed, CIC stood ready for another rescue operation of Morgan Stanley in September of 2008, when the company found itself on the verge of collapse following the bankruptcy of Lehman Brothers. Press reports at the time revealed that CIC considered buying as much as a 49 percent stake in the company.[162] In the end, the transaction did not come through– most likely because both sides feared political obstacles, which would have delayed the rescue operation. Indeed, the investments SWFs had made in 2007 and early 2008 had created a political backlash in the US and triggered a review of rules governing the political review of foreign investments.[163] Similarly, CIC faced major criticism at home for its substantial losses on its earlier investments in Blackstone and Morgan Stanley.[164] In the end, Mitsubishi UFJ of Japan acquired a 20 percent stake and subsequently the US government acquired another 25 percent stake. However, less than a year later CIC

acquired another 47 million shares (at an undisclosed price) to help Morgan Stanley repay the funds it had received from the US government—thereby regaining its status as a fully private entity (if one discounts the fact that these stakes were now held by a SWF).[165] Interestingly, Morgan Stanley was later selected as another key asset manager for managing CIC"s overseas investments.

Comparing CIC's investments in Blackstone and Morgan Stanley suggests an emergent pattern. There is little indication that CIC is seeking to control foreign financial intermediaries it invests in (i.e. engaging in mercantilism or imperialism in the financial sector). Instead, it is building long term, reciprocal relations. At this point in time, CIC still needs foreign expertise to confront the vagaries of global financial markets. The foreign intermediaries were, in turn, dependent on capital that few private investors, if any, were supplying during the global financial crisis. By extending domestic patterns of control over human capital to global markets, CIC is creating a critical bridge between China's domestic financial governance regime and its relation to global markets. The motive for this strategy is not primarily financial. In fact, the very purpose of investing globally is to reduce China's current holdings of foreign exchange reserves – and in light of the magnitude of these holdings (over US$ 2500 bln[166]) the return on any of CIC's investments are likely to be trivial. Instead, the bridge serves the critical function of ensuring that the CCP has some tools at its disposal to manage global financial markets and mitigate any shocks that might emanate from them and create a challenge to its hold on power.

Outside the financial sector, CIC has invested extensively in sectors that supply China with critical resources. They include a 20 percent stake in GCL-Poly Energy Holdings Limited, a 17 percent stake in the Canadian mining company Teck Resources, a 15 percent stake in AES (US), and a 11 percent stake in the Kazakh gas company KazMunaiGas.[167] These investments are consistent with a mercantilist interpretation, but also fit our theory. Since the future of the CCP as China's ruling party is directly linked to its ability to deliver growth and ensure employment for an addition 6 million people who enter the Chinese workforce on an annual basis, securing natural resources is a means to serve both ends: external and internal control.

In general, filings with the SEC show that CIC has invested in numerous companies in the US and elsewhere, but in most cases has only taken small minority stakes. They offer little evidence for the proposition that CIC is on acquisition spree with the intent of controlling major companies in the US.[168]

In interpreting CIC's investment strategies, it is important to realize that China itself has become deeply dependent on the global financial system. This implies that China has become vulnerable to the volatility of global markets, which in and of itself is a threat to a system that is poised to maintain political and economic stability. Against this background, CIC's actions appear less as an aggressive foreign acquisition strategy, and instead as an attempt to help buffer the impact of global markets. It does so by using its resources to help mitigate the fallout from the global financial crisis and to limit the impact of vast fluctuations in the price of resources and commodities that are critical to the Chinese economy. As the CCP's legitimacy inside China (and perhaps even in the international context) is largely dependent on its ability to ensure continued economic growth, CIC's efforts to mitigate China's vulnerability to the international marketplace (and thereby sustain its economy in times of crisis) can be viewed as maximizing the autonomy of the CCP. Within China, if the economy is stable (as the CIC is trying to ensure), there are fewer competing claims against the party for political influence. In the international context, cooperation from the CIC in stabilizing financial markets (and in rebalancing currency reserves) demonstrates that the CCP is a potentially trustworthy counterparty—and reduces the salience of competing accounts of the CCP's merit in the international system (such as criticisms of its role in human rights abuses, etc). Viewed in this light, China's preeminent SWF also fits our autonomy maximization theory.

V. CONCLUSION

A widely accepted definition of SWFs holds that these entities are government-owned and controlled, and have no outside beneficiaries or liabilities beyond the government itself, so they are responsive to the expressed interests and objectives of the government. There are competing conceptions of what constitutes "governmental interest" in a democratic society, but a discussion of public choice vs. public interest politics is beyond the scope of this paper. This paper suggests that in countries without electoral democracy, such as China, Singapore,[169] Kuwait, and Abu Dhabi, the government is comprised of ruling elites, who are not directly accountable to the public in general: it is easy to see how "governmental interest" becomes tied to the interests of the ruling elite. Indeed, the internal governance structures of the SWFs themselves ensure that SWF management is directly accountable to the ruling elite in each sponsor country. Consequently, it is unsurprising that SWFs can be, and are, wielded to advance the interests of those elites. First and foremost among these interests is the maintenance of their privileged position.

The task of maximizing autonomy is, however, complex. The privileged position of ruling elites in non-democratic countries is dependent on domestic stability, security of the state against foreign rivals, and the maintenance of substantial autonomy relative to superpowers to which they might otherwise be vulnerable. Without domestic stability, elite status is fragile and will last only until the next coup or mass uprising; a foreign invasion would topple existing elites or at least subsume them into a hierarchy with foreigners at the top. Finally, as autonomy relative to superpowers decreases, the ability to direct state action toward benefiting the elite is restricted and domestic legitimacy may be threatened.

SWFs are well-suited toward serving an autonomy-maximizing function in the domestic arena. The creation of a SWF ensures that wealth stays under the control of the ruling elite rather than passing into the hands of the population as a whole. In the Gulf, the extraction and sale of oil could transform a royally monopolized resource into dispersed wealth, but concentrating the resultant revenues into a SWF ensures continued royal control. In Asia, export led growth could increase the purchasing power of the domestic population, but sterilizing the returns by concentrating them in a SWF protects against destabilizing currency crises and the rise of new wealthy classes who might challenge the existing elite for political control of the state. Further, once accumulated in a SWF, wealth can be strategically deployed in the domestic market to protect the status of elites. It can be used to "buy off" potential political rivals, expand the institutional space for political allies (increasing the benefits of aligning oneself with the existing elite), and to fund social programs that satisfy the needs of the population as a whole for the foreseeable future. Finally, SWFs ensure that domestic stabilization strategies can be maintained even in the face of shocks to the system like oil price or production declines or falling trade volumes. Collectively, these effects substantially improve domestic stability.

SWFs are equally well-suited to maximizing autonomy in the international context by improving state security and mitigating the impact of volatile global markets on the domestic economy. First, administering wealth through the public sector rather than funneling it to the private bank accounts of the ruling class (as is done in a substantial number of resource-rich countries) legitimizes the sponsor-state government in the eyes of the international community. In terms of the particulars of administering the fund, SWF investment decisions can also be made to directly induce potential threats to state security not to attack or to convince a third party to guarantee the security of the state. Even without such a direct bargain, deploying capital in other countries creates economic ties that discourage confrontation, and to create relationships that provide leverage in times of crisis.

SWFs can also be used to maintain substantial autonomy relative to superpowers that might otherwise exert pressure to limit the sponsor-country's range of viable domestic policy choices. This is relevant in particular for small countries that cannot effectively maintain their own external security. First, SWFs diversify the revenue stream of the sponsor-country, insulating against the effects of changes in the terms of trade or other exogenous shocks, such as commodity price fluctuations. Maintaining foreign-currency-denominated assets also decreases vulnerability to currency crises, which effectively increases the range of available domestic policy choices in the long term. Further, SWF investments can be directed toward injecting capital or liquidity into the economies of superpowers during their own periods of crisis, with the expectation that this assistance will be remembered during future interactions.

SWFs can also be used to fulfill unspoken "dollar-recycling" obligations that, if unmet, might lead to interventions by western countries. Finally, SWFs can also be used to secure access to natural resources or markets for primary exports, ensuring the long term viability of current industrial policy in sponsor countries and providing insurance against protectionism in developed countries.

More recently, SWFs have become an important force in global financial relations, not primarily because of their size, which is still dwarfed by private investment vehicles, but because of their ability and willingness to invest at times when private investors take flight. These investments have given rise to a series of interpretations. Some have stressed the potential danger that these 'neo-mercantilist' organizations may pose to the capitalist system. Others have painted a more positive picture by suggesting that SWFs could help enhance global social welfare by investing their resources to spur development in less developed countries, or to invest in green technology in an attempt to save the planet from climate change.[170] In contrast, this paper suggests that these investments too are best understood as part of a general strategy aimed at autonomy maximization. SWFs have invested widely in the global financial system, and are as such dependent on it. Their willingness to step in when private investors took flight is therefore not without self-interest. In addition, by helping to stabilize global finance they were able to either confirm existing relations of reciprocity or establish similar relations. As discussed in the case studies, for the Gulf States the financial crisis created an opportunity to reciprocate the security umbrella the US has offered them in the past. For China, the crisis created an opening to position itself not only as a challenge to US dominance, but as a relational player.

The actual context in which SWFs were established and operate, we suggest, is crucial for understanding their role and the attractiveness of various investment opportunities at any given point in time. Modeling SWFs according to the standard accounts of state control over economic activities, which are derived primarily from the historical experience of the West, misses these critical aspects—and is therefore bound to miss the critical determinants of SWF behavior both domestically and internationally.

VI. ANNEX A – FIGURES AND CHARTS

Figure 1: Equity Transitions among Abu Dhabi's SWFs

[1] The authors would like to thank participants at the conference on "Sovereign Wealth Funds and Other Long Term Investors: A New Form of Capitalism?" at Columbia University, 4-5 October 2010 for helpful comments and suggestions. All remaining errors are ours.

[2] JD Columbia Law School expected May 2011.

[3] Michael I. Sovern Professor of Law, Columbia Law School.

[4] From 2006 to 2008, filings increased by about 40% from 111 to 155, and investigations increased from 7 to 23. Committee on Foreign Investment in the United States Annual Report to Congress, November 2009 (public/ unclassified version), 3. Also available at http://www.ustreas.gov/offices/international-affairs/cfius/docs/2009%20CFIUS%20Annual%20Report.pdf (last accessed June 6, 2010).

[5] The notion that SWFs are autonomy maximizers is similar to, but not identical with the argument made by Dixon and Monk that SWFs are used to maximize the sovereignty of the state sponsor. *See* Adam Dixon and Ashby Monk, *Rethinking the Sovereign in Sovereign Wealth Funds* (August 2010), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1652701. Dixon and Monk argue that SWFs improve the "sovereignty deficit faced by small states vis a vis more powerful states", *Id* at 9, enhance states' international legal sovereignty, *Id* at 11, and further states' domestic Westphalian sovereignty, *Id* at 11. We will distinguish these positions more carefully below under II.B.

[6] Ashby H. Monk, "Recasting the Sovereign Wealth Fund Debate: Trust, Legitimacy, and Governance," *SSRN eLibrary* (2008), 10. Of course, by extension, SWFs may be liable and responsive to the population at large insofar as the sovereign is accountable to the nation. Given that many SWFs are sponsored by non-democratic governments, however, even this indirect accountability is questionable.

[7] *See, e.g.*, Thomas Mun, *England's Treasure by Forraign Trade* (London: 1664), available at http://socserv.socsci.mcmaster.ca/oldecon/ugcm/3ll3/mun/treasure.txt (last accessed June 6, 2010); James Steuart, *An Inquiry into the Principles of Political Economy*. Dublin: 1770. Available at http://books.google.com/books?id=6N8TAAAAQAAJ&printsec=frontcover&dq=james+steuart+principles+of+political+economy&source=bl&ots=XvVuzImnAt&sig=DA0GcZyW3j0r3YxCzhlNp8FRCyE&hl=en&ei=i8ELTLFag4LyBtHC1Y8H&sa=X&oi=book_result&ct=result&resnum=6&ved=0CC0Q6AEwBQ#v=onepage&q&f=false (last accessed June 6, 2010). See also Frank Halliday, *Arabia Without Sultans*, (New York: Random House, 1974), page 464.

[8] Ronald J. Gilson & Curtis J. Milhaupt, *Sovereign Wealth Funds and Corporate Governance: A Minimalist Response to the New Mercantilism*. 60 Stan. L. Rev. 1345, 1346 (2008).

[9] For an argument that China's policy is mercantilist, *see* Samuelson, Robert J., "China's Wrong Turn on Trade," *Newsweek*. Available at http://www.newsweek.com/id/34952 (last accessed 2/26/2010).

[10] *See* Max Weber, *Economy and Society*, Vol. 2, pp. 918-920 (Chapter IX: The Economic Foundations of 'Imperialism').

[11] Heike Schweitzer, *Sovereign Wealth Funds: Market Investors or Imperialist-Capitalists*. Working paper, pp. 1-2

[12] Need to identify a few pertinent references. There are lots, but I need help choosing. I'm thinking that citations to SWF websites and public interviews by officials would be the best.

[13] *See e.g.* Eric Langland, *Misplaced Fears Put to Rest: Financial Crisis Reveals the True Motives of Sovereign Wealth Funds*, 18 Tul. J. Intn'l & Comp. Law 263 (Winter 2009);

[14] Richard A. Epstein & Amanda M. Rose, *The Going-private Phenomenon: The Regulation of Sovereign Wealth Funds: The Virtues of Going Slow*, 76 U. Chi. L. Rev. 111, 114 (Winter 2009).

[15] For a comprehensive study on past investment patterns of SWFs, *see* Monitor, *Assessing the Risks: The Behaviors of Sovereign Wealth Funds in the Global Economy.* New York: Monitor Group, 2008.

[16] Larry Summers, who later became economic advisor to the Obama administration, opined that SWF investments in major US financial intermediaries signaled "the end of capitalism as we know it", see L. Summers, 'Sovereign Funds Shake the Logic of Capitalism', *Financial Times*, 30 July 2007, p. 9.

[17] *See* Paul Rose, *Sovereign Wealth Fund Investment in the Shadow of Regulation and Politics*, 40 Geo. J. Intn'l L. 1207, 1231—1235 (2009)

[18] Eric Langland, *Misplaced Fears Put to Rest: Financial Crisis Reveals the True Motives of Sovereign Wealth Funds*, 18 Tul. J. Intn'l & Comp. Law 263, 265 (Winter 2009)

[19] Indeed, the reason financial intermediaries turned to SWFs was that they were unable to secure sufficient funds to recapitalize at the time. Note also that Barclays, a bank that had largely escaped the problems associated with asset- backed securities, tried to launch a public offer in the summer of 2008. That offer was heavily undersubscribed. Only commitments secured from sovereign investors (Temasek, China Development Bank and Qatar Investment Authority) to acquire the unsubscribed share ensured that the capital increase succeeded. When Barclays needed more funds in the fall of 2008 it therefore went straight to sovereign investors. For details, *see* Katarina Pistor, *Global Network Finance*, 37 J. of Comparative Economics 552 (2009).

[20] While SWFs do benefit from favorable tax treatment in the United States, *see* Internal Revenue Code §892, such that they should value U.S. equities higher than either domestic investors or foreign private investors, *see* Victor Fleischer, *A Theory of Taxing Sovereign Wealth*, 84 N.Y.U.L. Rev. 440, 442 (2009), the complete lack of interest from non-sovereign sources suggests that a simple valuation gap was not the sole explanation.

[21] See especially our analysis of SWFs in Abu Dhabi infra at 20.

[22] Economic diversification, creation of employment opportunities for nationals, and economic development all play into domestic investments. Even the lauded Norwegian Government Pension Fund explicitly invests according to a political agenda: it will not invest in weapons manufacturers, alcohol or tobacco producers, or firms that do not meet its labor relations standards.

[23] For an example of the consequences of loose lending policies like "name-lending," see the massive write-downs by numerous SWF-controlled Middle Eastern banking institutions occasioned by the collapse of the Saad Group in 2009, and the subsequent backstopping of those banks by SWF sponsor-countries.

[24] While Singapore's government structure is that of a parliamentary democracy, functionally it combines authoritarian and democratic institutions to form a hybrid system of governance sometimes referred to as "non-representative democracy." In Kuwait, Parliament is formally subordinate to the Emir. For a discussion of the political systems of the countries that sponsor SWFs discussed in this paper see infra at 28.

[25] Increased wealth provides the existing elites with a greater capacity to buy out potential rivals and reward their supporters—ensuring their continued autonomy in the domestic sphere.

[26] Consider that even the 1970s oil embargo was lifted before any of the original conditions for its end had been met: not an inch of Palestinian soil had been returned. Relations between the Gulf States and the West had moved past the posturing, and a compromise was apparently struck in which OPEC was allowed to maintain higher oil prices, but the oil-producing states of the Arabian Peninsula tacitly committed to investing in the west, purchasing significant amounts of western military equipment, and paying for "economic and military assistance" from the U.S. Frank Halliday, *Arabia Without Sultans.* New York: Random House, 1974. Pages 20, 39. For a detailed account of explicit bargaining between

Arab tribal leaders and western powers during World War I and during the inter-war period, *see* Asakr H. al-Enazy, *The Creation of Saudi Arabia: Ibn Saud and British Imperial Policy, 1914-1927* (Routledge: New York, 2010).

[27] Indeed, military exports to non-Chinese SWF sponsor-states increased after the recapitalizations.

[28] In Abu Dhabi, Sheikh Shakbout's obsession with hording gold and refusal to recycle the proceeds of oil exports back into the global economy led the British to provide support for the 1966 coup led by his brother, Sheikh Zayed al Nahyan. Frank Halliday, *Arabia Without Sultans.* New York: Random House, 1974. Page 464.

[29] Dixon and Monk, *supra* note 2.

[30] The most obvious example is the establishment of both semi-permanent military bases and forward operating locations for the U.S. military in Kuwait, the U.A.E., and Singapore. *See* Military Bases Directory, available at http://www.globemaster.de/regbases.html (last accessed February 13, 2011). While Kuwait's al Sabah family pleaded for international forces to restore it to power in Kuwait during the Gulf War, it retained total control of KIA assets.

[31] *See* Sovereign Wealth Fund Institute, "Fund Rankings" (last updated December 2010), available at http://www.swfinstitute.org/fund-rankings/ (last accessed February 21, 2011).

[32] The al Sabah have proven that their preferred strategy is seeking out protection from a Great Power, which provides for effective deterrence while leaving domestic autonomy basically untouched. For example, this was the bargain that was expressly struck with the Ottoman and British Empires, and is implicitly in place with the U.S. today.

[33] If the Emir acted against the tribes or merchants, they would simply pack up and move to the territory of another Emir within the Gulf region—thereby depriving the Emir of tax revenues and military strength.

[34] As Halliday points out, it is "irrational for states that [are] unable to absorb their revenues to produce above a certain level" because oil reserves increase in value as global supplies diminish—enabling later-producers to capture higher profits. Frank Halliday, *Arabia Without Sultans*. New York: Random House Inc., 1974. Page 421. For small Gulf States like Kuwait and the UAE, the oil surplus could not possibly be fully allocated to the government's current accounts because there was simply not enough to spend it on. It is probably sufficient to note that the fiscal surpluses enjoyed by the Gulf States are the result of production policies designed to keep global oil prices low, and that once created, these surpluses must be allocated to something. Whether these policies are the result of western political pressure or self-interested choices aimed at disincentivizing the development of hydrocarbon alternatives is best left for analysis elsewhere. Today, given high production rates, efficiency concerns mandate that states' returns on extractive revenues at least equal the projected capital gains on oil reserves minus the net of marginal extraction costs. *See* Frederick Van der Ploeg, "Why do Many Resource-Rich Countries Have Negative Genuine Saving? Anticipation of Better Times or Rapacious Rent Seeking," SSRN eLibrary. October 2008. Pages 5-7. Available at http://ssrn.com/paper=1311145 (last accessed March 15, 2010).

[35] In light of recent events in North Africa, the salience of this point is even more apparent. The Tunisian and Egyptian revolutions have prompted Swiss authorities to freeze the personal bank accounts of Zine El Abidine Ben Ali and Hosni Mubarek, respectively, over concerns about corruption. Adam Levine, "Mubarek assets frozen by Swiss government," *CNN*, February 11, 2011, available at http://money.cnn.com/2011/02/11/news/international/swiss_banks_mubarak/index.htm (last accessed February 14, 2011); "Switzerland freezes assets of Zine al-Abidine Ben Ali and Laurent Gbagbo", *The Guardian*, January 19, 2011, available at http://www.guardian.co.uk/world/2011/jan/19/switzerland-freezes-assets-ben-ali-gbagbo (last accessed February 14, 2011). By concentrating wealth in personal accounts, these former leaders compromised internal legitimacy (illustrated by the widespread domestic belief that their regimes were corrupt) and made the funds they had amassed dependent on continued control of the state. Although no situation has presented itself to test the resilience of elite control of SWFs in the context of regime change, it stands to

reason that the formalities of corporate governance would provide at least some temporary buffer against asset seizure.

[36] To be sure, public spending does shift some wealth to the private sector, but the sheer size of the KIA's reserves and the strategic positions it holds in domestic financial institutions tends to ensure that it will remain the dominant player in the Kuwaiti economy (after the Kuwait Oil Company, of course). Further, unlike other institutional investment managers, SWFs like the KIA are not subject to the threat of asset withdrawal; therefore, the KIA is not as sensitive to demands for market returns. This enables the KIA to invest in projects with below-market financial returns (which are addressed below), providing cheap capital to political allies domestically and abroad.

[37] Reinvesting dollars abroad exchanges capital reserves for legal rights governed by foreign law, and thus runs counter to the mercantilist goal of accumulating capital assets. *See* footnote 4, *supra*, and accompanying text.

[38] John F. Wilson and Alexei P. Kireyev, "The Kuwaiti Financial System: Structure and Experience", *in Kuwait, from Reconstruction to Accumulation for Future Generations,* eds. Nigel Andrew Chalk et al., IMF Occasional Paper 150 (IMF: Washington, D.C., April 1997), page 1969.

[39] *Id*, at 1969.

[40] Kuwait Law No. 47 of 1982, Clause 9.

[41] Even if one were to deem the KIA a subsidiary of the state, the fact that the royal family appoints the KIA directors and owns a monopoly on the Executive power as a matter of right (rather than through an election by the public at large) indicates that the "directors" (the al Sabahs) of the "parent company" (Kuwait) cannot be replaced. Thus, the shareholders whose interests are represented in the KIA are simply the al Sabahs.

[42] Note that whereas it is theoretically possible under the corporate law of Delaware—the leading place of incorporation for US firms—to fire directors, it is in practice rather difficult due to widely diffused ownership base of most public corporations, the associated collective action problems, and the array of defenses available to the Board in the face of proxy challenges or tender offers for control.

[43] Robert Bacon and Silvana Tordo. *Experiences with Oil Funds: Institutional and Financial Aspects.* Energy Sector Management Assistance Program. Report No. 321/06. Washington, D.C.: The World Bank Group, 2006. P. 117.

[44] Robert Bacon and Silvana Tordo. *Experiences with Oil Funds: Institutional and Financial Aspects.* Energy Sector Management Assistance Program. Report No. 321/06. Washington, D.C.: The World Bank Group, 2006. P. 118.

[45] *See* Chapter 10, "How PR Sold the War in the Persian Gulf," in John Stauber and Sheldon Rampton, *Toxic Sludge is Good for You: Lies, Damn Lies, and the Public Relations Industry,* (Common Courage Press: Maine, 2002)

[46] Federal Research Division. *Kuwait: A Country Study.* Washington, D.C.: Kessenger Publications, 1993. P. 122.

[47] Although not its biggest revenue producer: by the mid-1980s, the KIA's foreign investments had already surpassed oil exports as Kuwait's primary source for revenues.

[48] Jill Crystal. *Oil and Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar*. Cambridge: Press Syndicate of the University of Cambridge, 1995. Pages 75-77.

[49] Federal Research Division. *Kuwait: A Country Study.* Washington, D.C.: Kessenger Publications, 1993. Page 106.

[50] The reporting threshold varies from country to country. In the US, for example, it is 5%. *See* Securities Exchange Act of 1934, §13(g); in Switzerland it is 3 percent. See Swiss Federal Act on Stock Exchanges and Securities Trading of March 24, 1995.

[51] While the KIA was eventually able to sell its preferred shares for $4.1 billion, yielding a profit of 36.7

percent, that deal seems to have been politicized and there was no way to predict when the KIA initially purchased the preferreds that Citigroup would adjust the conversion price on the preferreds down to $3.25 per share to induce an early conversion under a plan to increase tangible common equity. It was only this adjustment that enabled the KIA to profit from the deal. If the preferred shares had been either held or converted at the original conversion price, the transaction would have resulted in substantial losses to the KIA.

[52] Eventually, when Merrill sought to induce the conversion of these shares, the conversion price was dropped to $27.68 per share (and potentially even lower if the New Jersey Investment Council's complaint against Merrill Lynch was valid and the KIA was the undisclosed "other investment group" that received a better conversion price than the NJIC), *see* "New Jersey Sues Merrill Lynch, Claims Deception," *Consumer Affairs.* July 29, 2009. Available at http://www.consumeraffairs.com/news04/2009/07/nj_merrill_lynch.html (last accessed March 15, 2010). The KIA's common shares in Merrill were eventually exchanged for 0.8595 shares in Bank of America during the Merrill-BoA merger. *See* Thompson-Reuters. "UPDATE 1-Kuwait to keep Merrill, Citi stakes for now-paper," *Reuters UK.* September 6, 2009. Available at http://uk.reuters.com/article/idUKL672397020090906?sp=true (last accessed March 15, 2010). Assuming that the initial conversion into Merrill common stock was at $27.68, this would have given the KIA about 72.25 million shares in Merrill, and 62.1 million shares in Bank of America. At the current price of $16.75 per share on March 15, 2010, this means that the KIA's initial principal investment of $2 billion has declined in value to about $1 billion—even after the adjusted conversion price on Merrill. Adding in an assumed 6 quarters of interest payments on the preferred shares, the KIA would have earned another $275 million, but the overall result of this investment was pretty disastrous. Interestingly, adding together the KIA's loss on this transaction and its gain on the Citigroup transactions results in a net gain of $416.2 million—equivalent to an annualized 4.1 percent return, which is about equal to the targeted Federal Funds Overnight Rate of 4.25% when these investments were originally made.

[53] http://www.defenseworld.net/go/searchresults.jsp?st=csa%20kuwait%202010

[54] Kuwait Law No. 2 of 2009, "Enhancing the State Economic Security." Article 6.

[55] Id., Article 12.

[56] Id., Article 3.

[57] Id., Article 8.

[58] Id., Article 12.

[59] Jamal Yali, "Finance Minister denies giving halt to KIA studies presented by companies," *Kuwait News Agency.* July 6, 2009. Available at http://www.zawya.com/story.cfm/sidZAWYA20090707083201/Finance (last accessed March 16, 2010).

[60] Frank Halliday, *Arabia Without Sultans.* New York: Random House Inc., 1974. Page 464

[61] Frank Halliday, *Arabia Without Sultans.* New York: Random House Inc., 1974. Page 464

[62] At one point, the Union aimed to include the entire Trucial Coast, including Bahrain and Qatar. It was this very divide between wealth and population, along with disagreements on the locus of authority over the incipient military, that drove Bahrain and Qatar to drop out of the proposed union. *See* Frank Halliday, *Arabia Without Sultans*. New York: Random House Inc., 1974. Pages 469-471. Following their withdrawal, although Abu Dhabi's bargaining position in the negotiations to create the U.A.E. improved relative to the smaller emirates because the availability of potential alternative funding sources for the government declined significantly, the other sheikhs outnumbered the Al Nahyans and could have co-opted Abu Dhabi's resources through the Executive Council of the U.A.E. if ownership had not been reserved to the sub-national political units. Since it would have been difficult for the smaller, poorer Emirates to offer concessions to the Al Nahyans in exchange for truly national ownership of oil, it is little wonder that ownership was reserved to the individual emirates.

[63] Although the U.A.E. Constitution in force today was formally adopted in 1996, it varies little from the

"interim" Constitution drafted and adopted in 1971

[64] The bailout of Dubai's debt was funded by $10 billion in bond purchases by the U.A.E. Central Bank (which is overwhelmingly funded by Abu Dhabi) and $10 billion in bond purchases made directly by the government of Abu Dhabi; these transactions coincide with a forecasted $23 billion deficit in Abu Dhabi's budget—which was in turn covered by transfers from ADIA and ADICU to the general budget. Camilla Hall and Vivian Salama, "Abu Dhabi forecasts $23 billion budget deficit in 2010, prospectus shows," *Bloomberg News*, available at http://www.bloomberg.com/news/2010-07-20/abu-dhabi-forecasts-23-billion-budget-deficit-in-2010-prospectus-shows.html (last accessed March 1, 2011).

[65] The following paragraph is largely drawn from Davidson's account in Christopher Davidson, "After Sheikh Zayed: the politics of succession in Abu Dhabi and the U.A.E.," *Middle East Policy.* Vol. 13 No. 1 (Spring 2006). Pages 42-59. It is also important to note that the merchant class in Abu Dhabi was not as influential as in Kuwait. Abu Dhabi was not a natural transshipment point for trade, so the 1920s collapse of pearling revenues eroded merchant influence to a far greater extent in Abu Dhabi than in Kuwait. Further, Abu Dhabi had been effectively demilitarized since the early 1800s after Britain guaranteed its security, so merchant influence over the tribal levies was not as important.

[66] Without this cooperation, ADIA and ADNOC could have found themselves pursuing contradictory petrochemical investment strategies, or duplicating investments resulting in overexposure.

[67] Fatima was Zayed's favorite wife, and was the mother of 6 sons; in contrast, Khalifa's

[68] ADICU is ultimately supervised by a collection of royal family members (including Khalifa and his brothers Mohammed, Mansour, Hamed, and Sultan bin Tahnun of the Bani Khalifa) who serve on the Board of Directors.

[69] Landon Thomas Jr., "Abu Dhabi Buys 75% of Chrysler Building in Latest Trophy Purchase," *The New York Times*, July 9, 2008. Available at http://www.nytimes.com/2008/07/09/business/worldbusiness/09iht-chrysler.4.14369327.html (last accessed June 6, 2010).

[70] Mansour is tied to Dubai through marriage, and is considered to be the third most influential al Nahyan in his generation, after Khalifa and Mansour.

[71] The support of Mansour is key to diffusing any potential opposition to Khalifa from the Bani Fatima bloc of the al Nahyan family.

[72] Sudip Roy. "Money and Mystery: ADIA Unveils its Secrets," *Euromoney.* April 2006. Available at http://www.euromoney.com/Article/1018077/Title.html?single=true (last accessed March 17, 2010). While Villain also attributed this strategy to increases in market efficiency that have made making big bets more difficult and expensive, he emphasized that ADIA's secrecy (which would be impossible if investments were made above the reporting threshold) is critical for reducing the risk of political objections to ADIA investments.

[73] Eric Dash and Andrew Sorkin, "Citi Sells Abu Dhabi Fund $7.5 Billion Stake," *The New York Times*, November 27, 2007. Available at http://www.nytimes.com/2007/11/27/business/27citi.html (last accessed June 6, 2010).

[74] Emily Thornton and Stanton Reed. "Inside the Abu Dhabi Investment Authority," *BusinessWeek.* June 6, 2008. Available at http://www.businessweek.com/globalbiz/content/jun2008/gb2008065_742165.htm (last accessed March 17, 2010). Although Jean Paul Villain commented that the investment was in line with existing strategy (because ADIA was underweight in US equities, large companies, and credit, and was already looking to acquire 5-6 smaller $1 billion stakes in large US financial institutions when Citigroup came calling), concentrating the full investment into a single company whose financial future was tenuous (and investing what was probably 50 percent more into the asset class than was anticipated) does not fit ADIA's traditional conservative strategy.

[75] ADIA's current arbitration claim against Citigroup seeks damages of $4 billion, which would bring the

overall value of the investment to $8.06 billion, including $3.12 billion in interest payments (assuming that the 1 year extension option is exercised by ADIA, making the conversion date March 2011, implying a holding period of 40 months), and a current market price for the common shares of $4.01 per share (indicating a 87.4 percent decline in value relative to the conversion price of $31.83 per share). This would make the annualized return on the investment about 2 percent. In all likelihood, the suit is a negotiating tactic designed to prompt a renegotiation of the conversion price in a manner similar to the conversion rate reset on the KIA's preferred shares.

[76] Saad Group defaulted on a $1 billion debt in May 2009, forcing regulators across the Middle East to ask numerous banks to mark down overall loans to the groups (which were approximately $10 billion) by 50-75%. In the aftermath, almost every bank in the Gulf saw an increase in debt renegotiation and restructuring by family owned businesses—reflecting widespread concern. As was noted in the Arabic press, banks simply made lending decisions based on reputation rather than the underlying business. As a measure of how integral these loans are to the political bargain in the region, the U.A.E. Central Bank gave exposed banks access to lending facilities to resolve any liquidity problems caused by the markdown, effectively backstopping the bad loans, since both the Central Bank and the commercial banks are government-controlled.

[77] IPIC has made some extraordinary investments—most notably in acquiring a 16.3 percent stake in Barclay's. This investment is probably best explained as an exercise of Sheikh Mansour's personal autonomy, the limits of which were made more clear when pressure from within Abu Dhabi led IPIC to reduce its stake to a more traditional 5 percent. The reasons for acquiring a stake in a western financial institution at all probably mirror those that led to investments in Citigroup by ADIA and the KIA, and in Merrill Lynch by the KIA.

[78] Such companies include OMV AG, Borealis, CEPSA, PAK Arab Refinery, and Oman Polypropylene, among others.

[79] 36 percent of SR Technics and 32 percent of Piaggio Aero Industries

[80] 20 percent share in AMD Computing Solutions

[81] Competition with Dubai's new Jebel Ali Airport City was definitely a factor. Maximizing future policy options that would accrue to the emirate whose airport was more successful required activist investments in western companies.

[82] If these companies are privatized at some point in the future, the process will likely result in disproportionate benefits for political allies. Even if privatization is executed such that all citizens benefit equally, it will have the autonomy-boosting effect of reducing demands on ADIA funds. Offering citizens ownership of observable large domestic companies would likely eliminate demands on the more substantial assets held by ADIA.

[83] Including Dolphin Energy and the Abu Dhabi Future Energy Company.

[84] See Gilson and Milhaupt supra note 8.

[85] The PAP has held power in Singapore since the creation of the state due to the country's pluralist voting system. As a sign of its dominance, the party held every seat in the legislature from 1968-1980, and currently holds all but two seats. "Party Milestones," *People's Action Party Official Website.* Available at http://www.pap.org.sg/partyhistory.php (last accessed September 6, 2010).

[86] Singapore was originally carved out of Malay territory when the British installed and recognized the exiled elder brother of the Sultan of Johor as the ruler of Singapore to provide a base for British activity in the otherwise Dutch-controlled straits. Barbara Leitch Lepoer, "Founding and early years" in *Singapore: A Country Study.* Washington: GPO for the Library of Congress, 1989. Also available at http://countrystudies.us/singapore/4.htm (last accessed September 1, 2010). After the British East India Company deposed the Sultan and took full control five years later, the British ruled Singapore until 1939. With Britain's naval forces engaged in defending the home islands against Germany, Japanese forces quickly defeated the skeleton British defenses and imposed a brutal occupation regime in which Chinese

civilians were massacred in retaliation for ongoing resistance against Japan in mainland China. The British reassumed control of Singapore after the end of the war, and set Singapore on a path to independence. After securing full internal self government in 1959, Singapore temporarily merged into Malaysia in 1963(becoming independent of the UK) , but was expelled in 1965 and forced to fend for itself as an independent state. Michael Leifer, *Singapore's Foreign Policy: Coping with Vulnerability.* London: Routledge, 2000. Page 4.

[87] Michael Leifer, *Singapore's Foreign Policy: Coping with Vulnerability*. London: Routledge, 2000. Page 1.

[88] Michael Leifer, *Singapore's Foreign Policy: Coping with Vulnerability*. London: Routledge, 2000. Page 2-3.

[89] Michael Leifer, *Singapore's Foreign Policy: Coping with Vulnerability*. London: Routledge, 2000. Page 4

[90] As early as 1966, Singapore's first prime minister (and still the dominant figure in Singaporean politics) Lee Kuan Yew said, "in the last resort, it is power which decides what happens and therefore, it behooves us to ensure that we always have overwhelming power on our side." Michael Leifer, *Singapore's Foreign Policy: Coping with Vulnerability.* London: Routledge, 2000. Page 4.

[91] Raj Vasil, *Governing Singapore: A history of national development and democracy.* Australia: A llen & Unwin Academic, 2000. Page 5.

[92] Raj Vasil, *Governing Singapore: A history of national development and democracy.* Australia: A llen & Unwin Academic, 2000. Page 6.

[93] A political party is essentially in the business of acquiring and maintaining power. In older Western democracies, based on the nature of the citizenry and the open and competitive political environment, power is seen as a means to implementing policies, preferences, and priorities". However, in new states at independence, power was tied more directly to the exploitation of primordial loyalties and the distribution of patronage: policy success could not be relied on as voters were not sufficiently educated to make rational choices based on evidence. Raj Vasil, *Governing Singapore: A history of national development and democracy.* Australia: A
llen & Unwin Academic, 2000. Pages 8-9.

[94] Michael Leifer, *Singapore's Foreign Policy: Coping with Vulnerability*. London: Routledge, 2000. Page 12.

[95] Interestingly, these investments were largely funded by mandatory contributions by Singapore's work force to Singapore's Central Provident Fund, which was established in 1955. This imposition of a mandatory savings regime on the labor force, combined with Singapore's welcoming attitude toward into labor-intensive industries, created a substantial pool of capital for the government to redeploy toward additional industries. Further, the conservative fiscal policies discouraged local consumption, further accelerating the accumulation of capital. Finally, the EDB's efforts to ensure diversification via selective deployment of this cheap capital, the effects of Dutch Disease were mostly avoided.

[96] The CPF is a provident fund, so in addition to paying out a single lump sum to pensioners upon retirement, it also gives citizens the ability to withdraw some level of funds for specific approved purposes—such as housing, tertiary education, and health care costs. *See* Armando Barrientos, "Comparing Pension Schemes in Chile, Singapore, Brazil, and South Africa," *IDPM Discussion Series*, Paper No. 67, Manchester: United Nations Research Institute fo Social Development (2002), p. 8-10.

[97] Remarks by S. Dhanabalan at the 6th Mizuho Global Seminar in Tokyo, May 17, 2010. Transcript available at http://www.temasekholdings.com.sg/media_centre_news_speeches_20100517.htm (last accessed September 6, 2010).

[98] Remarks by S. Dhanabalan at the 6th Mizuho Global Seminar in Tokyo, May 17, 2010. Transcript available at http://www.temasekholdings.com.sg/media_centre_news_speeches_20100517.htm (last accessed September 6, 2010).

[99] S. Dhanabalan has said that "Temasek was formed simply to take a load off a Government [that] had other priorities and by forming Temasek, the government could be sure that there could be an independently focused, professionally managed and commercially disciplined approach to investments and managing businesses." Remarks by S. Dhanabalan at the 6th Mizuho Global Seminar in Tokyo, May 17, 2010. Transcript available at http://www.temasekholdings.com.sg/media_centre_news_speeches_20100517.htm (last accessed September 6, 2010).

[100] During the 1960s and 70s, Singapore's leaders promoted trade relations with Moscow in the belief that a Soviet role in Southeast Asia would ensure the permanent interest of the United States in the region. By involving both the Soviet Union and the U.S. as counterweights to China (the presumptive regional power), Singapore managed to carve out a fair amount of autonomy for itself rather than being captured under the "sphere of influence" of any particular power. *Singapore: A Country Study.* Washington: GPO for the Library of Congress, 1989. Also available at http://countrystudies.us/singapore/60.htm (last accessed September 1, 2010). Interestingly, by avoiding any commitment to a neutral foreign policy, while remaining part of the Non-Aligned Movement, Singapore also managed to keep each of these larger powers interested in the continued security of Singapore—which lent some protection against regional threats coming from Indonesia and Malaysia. *Singapore: A Country Study.* Washington: GPO for the Library of Congress, 1989. Also available at http://countrystudies.us/singapore/56.htm (last accessed September 1, 2010).

[101] Temasek was initially staffed by seconded and retired civil servants. Remarks by S. Dhanabalan at the 6th Mizuho Global Seminar in Tokyo, May 17, 2010, ¶ 20. Transcript available at http://www.temasekholdings.com.sg/media_centre_news_speeches_20100517.htm (last accessed September 6, 2010).

[102] Speech by S. Dhanabalan. "The Role of Sovereign Funds in Today's Globalization,"delivered at The Indus Entrepreneurs event, 21 August 2008, ¶¶ 27-28. Transcript available at http://www.temasekholdings.com.sg/media_centre_news_speeches_210808.htmhttp://www.temasekholdings.com.sg/media_centre_news_speeches_210808.htm (last accessed September 8, 2010).

[103] "Apres Ho Ching, Le Deluge?", *Asia Sentinel*, 9 February 2009. Available at http://www.asiasentinel.com/index.php?option=com_content&task=view&id=1710&Itemid=233&limit=1&limitstart=1http://www.asiasentinel.com/index.php?option=com_content&task=view&id=1710&Itemid=233&limit=1&limitstart=1 (last accessed September 8, 2010).

[104] *See* "Our Portfolio Value Since Inception," *Temasek Holdings Website*. Available at http://www.temasekreport.com/2010/portfolio/inception.htmlhttp://www.temasekreport.com/2010/portfolio/inception.html (last accessed September 8, 2010).

[105] The PAP has used the government's election board to disqualify opposition candidates for President since Constitutional amendments first required direct elections of the President in 1991. *See* "Presidential Election 1999," available at http://www.singapore-elections.com/pres-elec/1999.htmlhttp://www.singapore-elections.com/pres-elec/1999.html (last accessed September 8, 2010); "Presidential Election 2005," available at http://www.singapore-elections.com/pres-elec/2005.htmlhttp://www.singapore-elections.com/pres-elec/2005.html (last accessed September 8, 2010).

[106] The deeper for the East Asian "miracle" continue to be debated. While some attribute it primarily to export-led growth (see A, others emphasize broader industrial policies. See ROBERT WADE, Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization (Princeton University Press. 2003) and WORLDBANK, The East Asian Miracle: Economic Growth and Public Policy (Oxford University Press. 1993).

[107] See our discussion infra at [CROSS REF] of the career patterns of management personnel at the two funds.

[108] The CPF guarantees pensioners a return of 3.5%, and GIC's average returns are reported to be about 9 percent. Shawn Crispin, "Cracks Appear in Lee's Mantle," *The Asia Times Online*, March 20, 2009. Available at http://www.atimes.com/atimes/Southeast_Asia/KC20Ae02.html (last accessed September 6, 2010). The GIC is then able to retain these excess profits to boost its balance sheet.

[109] Singapore's government ministers earn average salary of $1.2 million—and Lee Hsien Loong earns more than $2 million. Shawn Crispin, "Cracks Appear in Lee's Mantle," *The Asia Times Online*, March 20, 2009. Available at http://www.atimes.com/atimes/Southeast_Asia/KC20Ae02.html (last accessed September 6, 2010).

[110] "Relating to Our Stakeholders," *Temasek Holdings Web Site*. Available at http://www.temasekreport.com/2010/governance/shareholders.html (last accessed September 8, 2010). Temasek also maintains an "International Panel" comprised of international business leaders. This panel does not exercise any supervisory or direct authority over Temasek, and generally serves as an advisory panel for the Board. *See* Speech by S. Dhanabalan. "The Role of Sovereign Funds in Today's Globalization,"delivered at The Indus Entrepreneurs event, 21 August 2008, ¶¶ 27-28. Transcript available at http://www.temasekholdings.com.sg/media_centre_news_speeches_210808.htm (last accessed September 8, 2010).

[111] Relating to Our Stakeholders," *Temasek Holdings Web Site*. Available at http://www.temasekreport.com/2010/governance/shareholders.html (last accessed September 8, 2010).

[112] Singapore Constitution. Article 22(a) and Article 22(c).

[113] Wilson Ng, "The Evolution of Sovereign Wealth Funds: Singapore's Temasek Holdings," *Journal of Financial Regulation and Compliance*, Vol. 18 No. 1 (2010), pages 6-14.

[114] Anne Hyland, "Singapore's Mr. Buffet," *Australian Financial Review*, May 24, 2002. Available at http://www.singapore-window.org/sw02/020524af.htm (last accessed September 8, 2010).

[115] Anne Hyland, "Singapore's Mr. Buffet," *Australian Financial Review*, May 24, 2002. Available at http://www.singapore-window.org/sw02/020524af.htm (last accessed September 8, 2010).

[116] In 2009, China arrested executives of another Australian mining company, Rio Tinto, on charges of corruption in the wake of Rio's refusal to engage in a $23 billion joint venture with China's Cinalco. Given the importance of China for Singapore's long term economic prospects, even a remote association with the Australian mining industry may have damaged Temasek's standing in China to an unacceptable extent. Mr. Goodyear was, according to some, suddenly an "unacceptable face of Singapore business." Ian Verrender, "Singapore Sling for Chip," *The Sydney Morning Herald*, 29 July 2009, also available at http://www.smh.com.au/business/singapore-sling-for-chip-20090724-dw51.html (last accessed September 8, 2010).

[117] GIC Report 2008-2009, page 25. Available at http://www.gic.com.sg/data/pdf/GIC_Report_2009.pdf (last accessed September 9, 2010).

[118] GIC Report 2008-2009, page 25. Available at http://www.gic.com.sg/data/pdf/GIC_Report_2009.pdf (last accessed September 9, 2010).

[119] *See* footnote 101, *supra*, and accompanying discussion.

[120] "GIC Board of Directors," *GIC Website.* Available at http://www.gic.com.sg/about/gic-board-of-directors (last accessed September 9, 2010). Tony Tan Keng Yam is a former deputy prime minister, and has held ministerial portfolios in education, trade and industry, finance, and defense. *Id.*, at 30.

[121] "GIC Board of Directors," *GIC Website.* Available at http://www.gic.com.sg/about/gic-board-of-directors (last accessed September 9, 2010) (Lim Hng Kiang, Tharman Shanmugaratnam, and Raymond Lim Siag Keat are currently ministers, and Richard Hu Tsu Tau is the former long-serving Minister of Finance).

[122] "GIC Board of Directors," *GIC Website.* Available at

http://www.gic.com.sg/about/gic-board-of-directors (last accessed September 9, 2010). Temasek owns large stakes in DBS Group Holdings Ltd. and Singapore Airlines Ltd.

[123] *See* GIC Report 2008-2009, page 31. Available at http://www.gic.com.sg/data/pdf/GIC_Report_2009.pdf (last accessed September 9, 2010).

[124] Ben Bland, "Temasek's Malaysian Governance Problem: What Happened Next," *Asian Correspondent*, 12 March 2010, available at http://asiancorrespondent.com/the-asia-file/temasek-s-malaysian-governance-problem-what-happened-next (last accessed September 19, 2010).

[125] On 19 November 2007, Indonesia's Commission for the Supervision of Business Competition (KPPU) announced that it had found Temasek guilty of violating Article 27 of Indonesia's Competition Law Number 5 of 1999—which prohibits any company from owning a "majority" of shares in two or more companies that together have more than half of the market share in any industry—despite the fact that Temasek's subsidiaries actually held less than half of the shares in each company. *See* "Temasek to Appeal to Indonesia's Supreme Court," May 2009, available at http://www.temasekholdings.com.sg/pdf/kppu_09may.pdf (last accessed September 19, 2010). The ruling was upheld on appeal to Indonesia's Supreme Court.

[126] Wayne Arnold, "Ouster of Thaksin Exposes Temasek," *International Herald Tribune*, 20 September 2006, available at http://www.nytimes.com/2006/09/20/business/worldbusiness/20iht-sing.2875492.html (last accessed September 19, 2010).

[127] Temasek reported that the market value of its portfolio has recovered from the financial crisis and rose to a new high of $183 billion in March 2010. Netty Ismail, "Temasek's Assets Set to Reclaim Peak as Asia Pays Off," *Businessweek*, 7 July 2010. Available at http://www.businessweek.com/news/2010-07-07/temasek-s-assets-set-to-reclaim-peak-as-asia-pays-off.html (last accessed September 9, 2010). GIC does not disclose its portfolio's value, but it was speculated to be about $200 billion as of March 31, 2009. Costas Paris and P.R. Venkat, "Singapore's GIC's Portfolio Suffers Loss In Fiscal 2009," *Dow Jones Newswires*, 29 Sept 2009. Accessible at http://www.nasdaq.com/aspx/company-news-story.aspx?storyid=200909290939dowjonesdjonline000215 (last accessed September 9, 2010).

[128] *See* GIC Report 2008-2009, pages 11--12. Available at http://www.gic.com.sg/data/pdf/GIC_Report_2009.pdf (last accessed September 9, 2010).

[129] See CURTIS J. MILHAUPT & KATHARINA PISTOR, Law and Capitalism: What Corporate Crises Reveal about Legal Systems and Economic Development Around the World (Chicago University Press. 2008) on using crises moments to analyze governance regimes.

[130] For a detailed account of this case, see Milhaupt and Pistor (2008) supra note [129], Chapter 7 at 125.

[131] Two months before CAO filed for bankruptcy, it offered 15 percent of its shares in CAO to investors in a private placement, but failed to disclose that the funds raised would be lent to CAO to meet its obligations to the counterparties on its oil futures and creditors who had provided short term liquidity. Temasek was one of the lead investors buying shares in this placement, which was read by other market participants as a signal of safety despite rumors that CAO was troubled.

[132] The importance of China is underscored by the fact that at that time, over one-third of all companies listed on SGX (which is controlled by Temasek) were from China—and represented the greatest opportunity for continued SGX growth.

[133] "Temasek to invest 1 billion USD in China Construction Bank," *People's Daily Online*, 5 July 2005. Available at http://english.peopledaily.com.cn/200507/05/eng20050705_194016.html (last accessed September 9, 2010).

[134] Elinor Comlay, "Singapore's Temasek Holdings TEM.UL has increased its stake in Merrill Lynch & Co Inc MER.N to 13.7 percent from 9.4 percent, according to a U.S. regulatory filing," *Reuters*, 30 September 2008. Available at http://www.reuters.com/article/idUSTRE48T4FE20080930 (last accessed

September 19, 2010).

[135] Jason Simpkins, "Merrill Lynch Turns to Temasek for Another Stock Purchase, Unloads $31 billion in CDOs," *Money Morning*, 29 July 2008, available at http://moneymorning.com/2008/07/29/merrill-lynch/ (last accessed September 19, 2010).

[136] Jason Simpkins, "Merrill Lynch Turns to Temasek for Another Stock Purchase, Unloads $31 billion in CDOs," *Money Morning*, 29 July 2008, available at http://moneymorning.com/2008/07/29/merrill-lynch/ (last accessed September 19, 2010).

[137] Costas Paris, "Temasek Counts the Cost of Merrill Stake," *The Wall Street Journal Asia*, 18 May 2009, available at http://online.wsj.com/article/SB124236495798923123.html (last accessed September 19, 2010).

[138] Conrad Tan, "GIC Cuts Loss in One Fell Swop," *AsiaOne Business*, 2 March 2009. Available at http://www.asiaone.com/Business/News/My%2BMoney/Story/A1Story20090301-125407.html (last accessed September 9, 2010).

[139] Costas Paris and P.R. Venkat, "Singapore's GIC's Portfolio Suffers Loss in Fiscal 2009," *Dow Jones Newswires*, 29 Sept 2009. Accessible at http://www.nasdaq.com/aspx/company-news-story.aspx?storyid=200909290939dowjonesdjonline000215 (last accessed September 9, 2010).

[140] For details on these transactions see KATHARINA PISTOR, Banking Reforms and Bank Bail Outs in the Chinese Mirror, in China's Transition to a Market Economy, (Joseph Stiglitz ed., 2010).

[141] Saeed Azhar and Michael Flaherty, "Temasek Offers $300 million to Invest in ABC July IPO," *China Daily*, 14 June 2006, available at http://www.chinadaily.com.cn/bizchina/2010-06/14/content_9976381.htm (last accessed September 19, 2010).

[142] See also Gilson and Milhaupt, supra note 8.

[143] This includes major investments in the financial, infrastructure and natural resource sectors by the Industrial and Commercial Bank of China (ICBC), which is indirectly owned by CIC (through Hui Jin). See Tom Burgis, "China to Extend Africa Acquisitions", The Financial Times, 30 July 2008, available at http://www.ft.com/cms/s/0/1f7ab242-5e5c-11dd-b354-000077b07658.html#axzz1FOVi0zJl (last accessed March 1, 2011).

[144] See also Mark Konyn, "Eyes stay focused on China's SWFs", The Financial Times, 8 November 2009, available at http://www.ft.com/cms/s/0/11a93d82-cb07-11de-97e0-00144feabdc0.html#axzz1FOVi0zJl (last accessed March 1, 2011). The article also lists the National Social Security Fund (NSSF) and the China-Africa Development Fund (Cad-Fund) as SWFs.

[145] Philip Stafford and Alida Smith, "Paper Trail Leads to London Top Stocks", The Financial Times, 12 September 2008, available at http://www.ft.com/cms/s/0/11a93d82-cb07-11de-97e0-00144feabdc0.html#axzz1FOVi0zJl (last accessed March 1, 2011).

[146] See *supra* at 28.

[147] See MICHAEL H. COGNATO, *China Investment Corporation: Threat or Opportunity*, 19 Report by National Bureau of Asian Research, (2008) and MICHAEL MARTIN, *China's Sovereign Wealth Fund*, CSR Report for Congress, (2008) for a detailed account of CIC's establishment and early investment strategies.

[148] Ouyang Xiaohong, Liu Peng, "CIC no longer to pay interests to the state", Economic Observer, 26 August 2009, available at http://www.eeo.com.cn/ens/homepage/briefs/2009/08/26/149395.shtml.

[149] See CIC's first annual report for the year 2008, available at http://www.china-inv.cn/cicen/resources/resources.html, at 4.

[150] Ibid.

[151] In addition, following the German corporate governance model, Chinese law also requires a board of supervisors, the members of which may not be executives. See JING LENG, Corporate Governance and Financial Reform in China's Transition Economy (Hong Kong University Press. 2009) for a comprehensive overview of China's system of corporate governance. China is indeed conventionally classified as a civil law country of German origin. The reasons are largely historical, as China copied Japanese law in the late 19th early 20th century, which in turn had borrowed law primarily from Germany. However, China's recent legal reforms have been more eclectic and include sourcing from the US, Taiwan (itself a German civil law country), and the European Union. For a summary of the law governing corporate law and securities listings, see HOWARD GENSLER, *Company Formation and Securities Listing in the People's Republic of China*, 17 Houston Journal of International Law, (1995). On China's approach to legal transplants, *see* WALTER HUTCHINS, *Jurassic Park in China's Legal System: An Essay in Honor of Stanley Lubman* (2005).

[152] See KATHARINA PISTOR, *Governing China's Finance*, *in* Capitalizing China, (Randall K. Morck & Henry Wai-chung Yeung eds., 2010) presenting date on personal networks that link executives and board members of China's financial institutions to key government agencies and/or other state controlled entities.

[153] For a detailed account of the emergence of this committee, see DdDd4*D*D. An earlier version of this rulebook was translated into English; see DdD4Dd4*D*4.

[154] See Pistor supra note 149.

[155] See Foreign Entry into Chinese Banking: Does WTO Membership Threaten Domestic Banks? , pt. (2001) for an early account of the likely impoact of financial liberalization.

[156] For details of the bank privatization strategy in China see KATHARINA PISTOR, *Banking Reforms and Bank Bail Outs in the Chinese Mirror*, in China's Transition to a Market Economy, (Joseph Stiglitz ed., 2010).

[157] For details of all board members, see CIC's 2008 Annual Report, supra note [] at 24-25.

[158] The practice of recruiting dignitaries to company boards in fact resembles that of newly formed corporations in 19th century England, when members of the aristocracy were recruited to serve on company boards. See RANDE W. KOSTAL, Law and English Railway Capitalism (Clarendon Press. 1994) (describing corporate governance practices in the 1830s and 40s).

[159] NEEDS CITATION

[160] Rick Carey and Jenny Strasbourg, "CIC Turns to Friends: Morgan, Blackstone", The Wallstreet Journal, 31 July 2009, available at http://online.wsj.com (last visited 3 July 2010).

[161] Reuters reporting "China's CIC ploughing $1.2 Billion into Morgan Stanley" as broadcast by CNBC 3 June 2009. See http://www.cnbc.com.

[162] James Quinn, "Morgan Stanley talks to suitors but Goldman says it's business as usual", Telegraph, 18 September 2008, available at www.telegraph.o.uk.

[163] The rules were finalized in November 2008, but already cast a shadow on ongoing transactions. Most importantly, the "Regulations Pertaining to Mergers, Acquisitions, and Takeovers by Foreign Persons; Final Rule", 31 CFR Part 800, available at www.ustreas.gov. The rules broadened the definition of "control" by a foreign entity, which was expanded to mean "the power, direct or indirect, whether or not exercised, through the ownership of a majority or a dominant minority of the total outstanding voting interest in an entity, board representation, proxy voting, a special share, contractual arrangements, formal or informal arrangements to act in concert, or other means, to determine, direct, or decide important matters affecting an entity; in particular, but without limitation, to determine, direct, take, reach, or cause decisions regarding the following matters, or any other similarly important matters affecting an entity". See ibid, § 800.204.

[164] Bill Powell, "Why China Won't Come to the Rescue", The Times, 19 September 2008, available at www.time.com (last visited 3 July 2010).

[165] Wang Xu, "CIC increases stake in Morgan Stanley", China Daily, 3 June 2009, available at www.chinadaily.com.

[166] Data available on a monthly basis from SAFE, www.safe.gov.cn.

[167] See data made available by the Sovereign Wealth Fund Institute, at www.swfinstitute.org.

[168] See also Rick Carew, What CIC Disclosures Say About Its Strategy, The Wallstreet Journal, 9 February 2010. Available at http://online.wsj.com (last visited 3 July 2010). More alarmist, however, Steven Mofson, "In SEC filing, China reveals vast U.S. holdings", the Washington Post, 9 February 2010, available at www.washingtonpost.com (last visited 3 July 2010).

[169] While Singapore's government structure is that of a parliamentary democracy, functionally it combines authoritarian and democratic institutions to form a hybrid system of governance.

[170] On SWFs as potential agents of development, see JAVIER SANTISO, *Sovereign development funds: financial actors in the shifting wealth of nations*, *in* New Perspectives on Sovereign Asset Management, (Malan Reitveld ed., 2008); on their potential role in green technology see James Lamong, "Norwegian State Fund in $4bn Green Push", in the Financial Times, 31 August 2009, available at http://www.ft.com/cms/s/0/f1932c8c-9646-11de-84d1-00144feabdc0.html#axzz1FOVi0zJl (last accessed March 1, 2011).