FRAGMENTED DECISION-MAKING PROCESSES IN A GLOBAL ECONOMY: SOVEREIGN WEALTH FUNDS AND POLICY COALITIONS IN CHINA

by

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Abstract

As surplus economies started to amass foreign exchange reserves in the past decades, sometimes up to staggering levels, they increasingly started to look for ways to diversify and increase their returns. One type of tool that was devised for this purpose was the creation of special state investment mechanisms like Sovereign Wealth Funds (SWFs). The use of these state tools is intensifying; indeed, most SWFs were created in the past 10 years or so. SWFs offer us a unique opportunity to observe the transforming manifestations of the role of the state in the global economy. This is crucially relevant in the wake of the 2008 global financial crisis. One of the most interesting empirical cases in this regard is China. Not only is China at the nexus of fundamental realignments in the global economic balance of power, it is also a strong state which owns and operates multiple SWFs. My research question stems from the observable divergence in SWFs’ behavior, more precisely, I ask: why are Chinese SWFs not behaving in the same way across the board? Through a study of four SWFs, the National Social Security Fund, the State Administration of Foreign Exchange Investment Company, the China Investment Corporation and the China-Africa Development Fund, a foray into the Chinese financial/economic decision-making patterns will be made. It will be shown that the four Chinese SWFs examined here exhibit substantially dissimilar behavior. The emerging causal narrative results from the fragmentation of decision-making structures in China, and from the widening of the policy-relevant pool of actors who have a say in the management of the Chinese foreign investments. This paper argues that specific alignments and realignments of policy coalitions are the main determinants of the funds’ behavior. This conclusion sheds light on decision-making processes and power structures in China, and attempts to provide us with a novel way to understand
China’s ever changing governance landscape and relation to the world. It can also suggest some potential avenues for looking at the various incarnations that SWFs can take around the world.
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>CADF</td>
<td>China Africa Development Fund</td>
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<td>CCP</td>
<td>Chinese Communist Party</td>
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<td>CDB</td>
<td>China Development Bank</td>
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<td>CIC</td>
<td>China Investment Corporation</td>
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<tr>
<td>CITIC</td>
<td>China International Trust and Investment Company</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>PBoC</td>
<td>People’s Bank of China</td>
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<td>MoF</td>
<td>Ministry of Finance</td>
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<td>MoLSS</td>
<td>Ministry of Labor and Social Security</td>
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<td>NCSSF</td>
<td>National Council for Social Security Fund</td>
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<td>NSSF</td>
<td>National Social Security Fund</td>
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<tr>
<td>PRC</td>
<td>People’s Republic of China</td>
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<tr>
<td>RMB</td>
<td>Renminbi (currency of the People’s Republic of China)</td>
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<td>SAFE</td>
<td>State Administration of Foreign Exchange</td>
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<td>SWF</td>
<td>Sovereign Wealth Fund</td>
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Introduction

National budget deficits have been increasing in most of the developed world in past years, and this has become particularly evident in the wake of the 2008 global financial crisis, most notably in the United States. The truth is the status of the US as a global creditor had already eroded many years ago. The United States has run persistent current account deficits since the 1980s (Okimoto, 2008), while oil exporting countries (from the 1970s) and then East-Asian countries (from the 1990s) started to amass surpluses. As surplus economies accumulated mounting reserves of foreign exchange, they also began to look for ways to diversify and increase their returns. One of the tools that were devised for that end was the creation of special state investment mechanisms like Sovereign Wealth Funds (SWFs). If the creation of the first SWF dates back to 1953 in Kuwait (2008i), the first significant wave of SWF creation started with the oil crisis in the 1970s. The second wave occurred in the years following the East-Asian crisis, as Asian economies attempted to decrease their vulnerability to foreign exchange fluctuations by accumulating reserves. Since then, we have seen a marked increase in the number of SWFs being set up: nearly 60% of funds have been created in the past 10 years (Monk, 2009).

The intensification of the use of these statist tools presents us with a trend that contrasts with the Washington Consensus, or the retreat of the state from the economy, which we have witnessed (perhaps until very recently), at least in the Anglo-Saxon world, since the 1980s. For instance, SWFs are sometimes acquiring shares in companies that had been privatized in the years preceding the transaction and constitute a sort of re-nationalization of assets by the investing countries. It is with this in mind that the study of SWFs provides us with an interesting opportunity to observe the transforming manifestations of state behavior on the global stage.
One of the countries that has attracted the most attention with respect to foreign state investments recently is China, as it brings together the elements of a strong state, a rising power, massive financial weight in the form of more than 2 trillion dollars of foreign exchange reserves, a supporting voice for the transformation of the rules of the game of international finance, and the creation of multiple state investment vehicles that have started to invest massively in equity stakes all over the world.

The multiple facets of Chinese outward investments are so prominent in the public sphere today that it is difficult to remember that this is only a very recent phenomenon. The current wave of Chinese investments overseas only started to truly pick up in 2004, when Chinese foreign exchange reserves reached around $600 billion and foreign investment restrictions were eased (Berger et al., 2009). China has been accumulating reserves at an exponential pace since then, and this has been paralleled by an increasing will to invest overseas. Yet, China has been at the centre of discussions surrounding state backed investments, among other things, because it is also at the centre of international geopolitical repositioning, including in the financial terms mentioned above (Xu, 2009). As China is a major rising power, the multiple manifestations of its might have been observed in the West with particular attention and curiosity, sometimes tainted with fear and condemnation and sometimes also with hope and anticipation.

China is a particularly fascinating actor in this regard because of the fact that it has developed many state owned investment vehicles. Even more fascinating is the fact that the different Chinese state funds are exhibiting substantially dissimilar behavior. This is particularly puzzling considering the fact that China is governed by an authoritarian party-state.

My research question stems from this suggested divergence in Chinese SWFs’ behavior. Precisely, I am interested in the following question: why are Chinese Sovereign Wealth Funds...
not behaving in the same way across the board? Indeed, answering this question can shed light on decision-making processes and power structures in China, but it can also suggest some potential avenues for understanding the various incarnations that SWFs can take around the world. In this paper, I will concentrate on China’s internal financial/economic policy-making processes and the effect it has on four Chinese SWFs.

Drawing from the Fragmented Authoritarianism framework, I argue that the fragmentation of decision making processes at the very top of the Chinese leadership has allowed for the loosening of the party-state apparatus and the emergence of space between different coalitions of policy makers, as well as between different institutions. I sustain that the four Chinese SWFs are behaving differently because of the existence of diverging visions at the top of the decision-making structures. Ultimately then, my independent variable consists of time-specific hybrid policy coalitions within the Chinese leadership that have an impact on the creation, the mandate and ultimately on the behavior of SWFs. Consequently, the diverging mandates and behavior of SWFs are the direct result of those conflicting visions for the role of state investment vehicles in the global economy that have been pushed forward in China, by different groups, at different moments in the past years.

This paper will be divided into the following sections: first, I will review potential alternative answers to my question; second, I will present my argument in more detail, while also situating it within the existing literature on Chinese fragmented authoritarianism by Kenneth Lieberthal and Michel Oksenberg as well as within factional politics analyses by Victor Shih and Cheng Li; third, I present the dependent variable, which will follow an assessment of the various existing definitional dilemmas of SWFs; finally, four empirical chapters will present the creation
and behavior of the Chinese state funds in turn, linking the variation in their behavior to the changing policy coalitions.

**Alternative Arguments**

Multiple avenues could be taken in order to answer the research question: why are Chinese Sovereign Wealth Funds not behaving in the same way across the board? This section will provide a few potential answers drawn from major schools of thought in Chinese politics.

**Totalitarian View of the CCP**

This view contends that the Chinese state has maintained a very high level of centralization and control (Heilmann, 2005). On the management of various SWFs, a Leninist state approach would propose for example that there is a consensus at the very top of the leadership on adopting multiple strategies at the same time and thus giving distinct mandates to the four funds, in order to attain a global strategy that is both comprehensive and planned in advance.

I believe that this view is not able to account for various characteristics displayed by the four funds studied here. First, there is a clear overlap of mandates between funds, as will be elaborated below. A coordinated and comprehensive strategy would not allow for this to happen. Second, the funds are following diverging ideological models. This is particularly noteworthy in the case of the China-Africa Development fund and of the China Investment Corporation. While the former pursues a developmental strategy and seeks to support and project the effort of Chinese enterprises in Africa, the latter pursues a more liberal “geoeconomic” strategy that has concentrated mainly on the banking sector, particularly in the developed world. This strongly
suggests a split in ideological persuasions of specific coalitions of decision-makers that were involved in the creation and subsequent management of the various Chinese SWFs.

Furthermore, not only is the fragmentation of decision-making structures in China now well documented (Oksenberg et al., 1988, Lieberthal, 2004, Mertha, 2008), elite politics, including factional politics (Li, 2007, Shih, 2008a), is also understood to play a definitive role at the top decision-making levels. Moreover, bureaucratic tensions between and within key political/bureaucratic organizations (xitong) are also well documented (Lieberthal, 2004), and this both increases the complexity of the situation and decreases the likelihood of decisions being taken unilaterally. Indeed, it will be shown that the diverging paths taken by the four Chinese SWFs are a telling manifestation of the fragmentation of policy-making processes in China today.

**Vertical Fragmentation**

There is a large body of literature in Chinese politics that considers the vertical disconnect between the central leadership and the provinces or the localities (Montinola et al., 1995, Tsai, 2002, Huang et al., 2009). This framework could be applied to the governance of SWFs by proposing for instance that it is the distance from the center that would determine the overall behavior of the fund. For example, it could be argued that certain funds are closer to the State Council or the Politburo than others, and these funds’ behavior would be more in line with the Centre’s current inclinations. Of course, the difficulty here would be to predict what type of behavior would result from more autonomy from the top and vice-versa, partly because one senses the absence of consensus at the top as well. Would a certain fund follow a more market-oriented investment strategy, or not?

This argument is also difficult to sustain because all four funds have very direct links with the State Council and are all very closely monitored by the top leadership due to the
sensitivity of their operations. In this case, the diverging behavior seems to be more about diverging policy coalitions, or a sort of elite horizontal fragmentation (in this case, slightly different than Lieberthal’s *kuài*), than vertical fragmentation.

**Bureaucratic Struggle**

The bureaucratic struggle argument would consider the tensions between the different institutions within which the funds are nested. As the funds belong to institutions that are vying for more power and resources, the mandates of the Chinese SWFs would be mostly the result of bureaucratic rent-seeking behavior (Lieberthal *et al.*, 1986, Lieberthal *et al.*, 1992, Lieberthal, 2004).

This argument certainly has potency up to a certain degree and most likely has an impact on the behavioral bias of the funds. We are indeed observing strong institutional belonging and historical infighting that has been documented particularly between two of the concerned institutions: the Ministry of Finance (MoF) and the People’s Bank of China (PBoC) (Wright, 2008). However, it is difficult to sustain the view that it is the main force behind the nature of their mandates. First of all, the varying behavior of the four funds involves complex qualitative divergences that engage ideological as well as regional and international relations positioning stances that would be hard to associate systematically with a particular bureaucracy or institution. Because SWFs’ international investments are such a sensitive policy area, major investment decisions most certainly need to be validated outside of the bureaucratic framework. Indeed, the financial/economic *xitong* (Lieberthal, 2004), where many important policy paths are developed, comprise both the MoF and the PBoC, along with other institutions. It is more likely that coalitions that extend beyond specific ministries would need to be established.
Second, the poster child of Chinese SWFs, the China Investment Corporation (CIC), has been created outside of a particular bureaucracy, and answers directly to the State Council. Straightforward bureaucratic infighting does not seem to resonate with the particulars of this case. Indeed, “[w]ith bureaucratic rivals and different factions represented on the CIC board, the relevant players take into account the impact of a major investment on bureaucratic and factional balance of power.” (Shih, 2008b)

More likely, bureaucratic infighting would have a polarizing or reinforcing effect on the funds’ mandates, instead of being the main policy driver. The substance of the SWFs mandates and behavior is to be found somewhere else than in pure bureaucratic antagonism.

**Institutional Nature**

The institutional explanation maintains that the funds belong to institutions that have distinct purposes and are consistent with different models. This bias would color the funds’ mandates. It is impossible to deny the fact that the institutions managing the four funds have distinct institutional histories and purposes and are informed by their respective institutional models to some degree. However, similar to what has been argued above, the very nature of Chinese foreign investment and the presence of international media scrutiny make the behavior of SWFs a very sensitive issue. It is not reasonable to assume that the institutions in question would have enough leeway to affect their investment mandates in a way that would compromise the central leadership’s positioning on these issues. As I argue below, at least some incentive from the top is necessary.

Diverging mandates would only be possible because of a certain degree of fragmentation at the top of decision-making circles, which takes into account the role of powerful factional members at the head of those institutions. This is not to say that the institutional nature of the
entities controlling the funds is not substantially important, but rather that the main policy impulse comes from a more complex web of policy actors, some of whom hold decisive positions of power outside the institutions within which the SWFs are nested.

**Independent Variable: Hybrid Policy Coalitions in China**

After a careful examination of some of the processes at play in the establishment of the mandates and the subsequent behavior of the four Chinese SWFs, at least two points emerged. First, the situation in China at the level of policy-making which relates to my research question is extremely intricate and complex. Not only is there a multiplicity of views and beliefs present among the Chinese elite, but these views are enforced in varying degrees, depending on a complex combination of power politics as well as political and economic circumstances, both domestic and international. Second and as a result, due to the complexity of internal politics with regards to major economic issues that impact foreign relations and which play to China’s international strategy, the alignment of coalitions which allowed for diverging mandates to emerge must be more intricate and time-specific than simply overlapping with existing ministries or even previously documented factions (Li, 2007, Shih, 2008a). Nonetheless, factional forces are also clearly present and play a definite role in the formulation of SWFs policies.

A brief overview of the elements of Lieberthal and Oksenberg’s seminal work on fragmented authoritarianism which are pertinent here is warranted, as it will form the basis for elaborating a slightly different argument. Lieberthal’s analysis of China’s internal power structures leaves one with the profound impression that the functioning of the Chinese political system is far from being a classical top-down, unitary and institutionalized system (Lieberthal, 2004). This feeling is embodied in his description of a staggering amount of criss-crossing jurisdictions, something which has been labeled the “matrix problem”. What complicates the
situation even further is the fact that the exercise of power in the People’s Republic of China (PRC) is still at a relatively low level of institutionalization (although it is increasing). This means that even today, a great part of decision-making, or rather, “consensus making” happens in an environment where the rules of the game are constantly being rewritten (Lieberthal, 2004).

This complexity plays out to a higher degree in our case because of the multiple ramifications of foreign exchange and investment policies, both domestic and international. Not only do these impact multiple xitong, and bureaucracies, but they also impact core values and beliefs regarding the best ways to respond to the rapid accumulation of foreign exchange, foreign pressure for transparency, the shifting international balance of power, and so on. State investment of national reserves touches on the very perception of the role of the state in China’s path toward international recognition and global positioning. It could not have been a more central yet divisive subject. Moreover, a amplifying phenomenon is the widening of the policy-relevant pool of actors as well as the diversification of policy-channels which can have an impact on decision-making processes (Mertha, 2009, Shih et al., 2009). In the words of Shih and Steinberg, the fragmentation has deepened.

It is clear that diverging views on these interlinked issues exist at the very top of the Chinese leadership today between factional leaders, bureaucratic leaders, as well as in academia and the business world (Li, 2007).

The formulation of the causal variable proposed here stems from this realization. As argued above, the fragmentation and eclecticism of Chinese decision-making structures has been well documented. No one uniform group of decision-makers is controlling the policy process in these cases. This is highlighted by the fact that diversified and sometimes contradictory mandates have been given to four different SWFs over a period of more than ten years. From this insight,
one needs to qualify the type of transitory forces that come together and gather enough political momentum to push forward a particular orientation for the creation of a SWF. These transitory forces do not disappear over short periods of time, but rather, transform along newly formed alliances, major leadership changes and other significant power upsets. Their enduring influences remain in the party-state corridors where supporters have implemented their policies, but even then, the implementation phase might suffer from shifting power impulses.

In short, this paper argues that it is a time-specific alignment of policy coalitions that is the main determinant of the funds’ mandates, as well as of the funds’ subsequent behavior. These time specific coalitions are a unique product of the influence of a core group of strong voices in China today, including not only top party leaders and bureaucrats, but also economists and members of the business community. Different supporters have conflicting beliefs, policy priorities, and vested interests in seeing their outcome prevail. The coalitions are time-specific in that the institutional and political repercussions of the creation of one SWF generate realignments and thus impact the ways in which subsequent funds are created.

After a review of the behavior of the four Chinese SWFs, likely policy coalitions emerge from the empirical narratives. At this point in time, labeling the policy coalitions at play is at a hypothetical stage. In short, I am presenting what seems to be a plausible hypothesis. It would have to be substantiated and confirmed through future research.

I believe that the policy coalitions behind the creation of Chinese SWF are motivated by a mixture of ideology and power politics. Thus, I have created a matrix incorporating elements of Cheng Li’s factional politics (elitist and populist factions) (Li, 2007), as well as from Jeremy Paltiel’s ideological “Chinese outlooks” (collectivist, realist and internationalist outlooks) (Paltiel, 2009). To these, I have added a new category, the developmental coalition.
The Populist coalitions, which are behind the creation of the NSSF and the CADF, are coalitions that were emerging at the end of the 1990s and of which the most prominent member today is Hu Jintao. Populist coalitions emerged to some degree in opposition to the Elitist policies of Jiang Zemin and the “princelings”, who supported more individualist or “opening-up” positions. The first fund to be created was the NSSF in 2000. As the first fund, a very mild and cautious strategy was adopted by what would have been a fairly broad Collectivist coalition. A learning and knowledge transfer process has occurred mainly between the NSSF and the CIC since 2007, as many executive members of the NSSF were transferred to the CIC, which retained a more passive attitude towards international investments, or to be more precise, an attitude more in line with normative expectations (Potter, 2007) of the US/UK controlled global financial marketplace.

The Populist coalitions continued to play a determinant yet slightly transformed role in 2006 with the creation of the China Africa Development Fund (CADF). Announced by Hu Jintao himself, and nested within one of China’s “policy banks”, the China Development Bank (CDB), the CADF was given a mandate that can best be described as developmental because of its strong...
intention to project Chinese industrial policy abroad. This coalition seems to be relatively broad, as exemplified by the career paths of CDB officials, but also relatively weak because it has been given comparatively few resources. The belief that a strong state should guide industrial policy is widespread in China, but disagreements over whether the CDB is the best means to implement such a vision are also likely to be prevalent, especially since numerous State Owned Enterprises (SOEs) are simultaneously supported in their investing initiatives overseas.

While the quote below was employed to reflect on China’s adherence to the WTO, the general dynamic is transferable to the tensions between the “passive rise” and “active rise” policy coalitions presented here. Indeed, “[w]hile the extent of China’s compliance with WTO disciplines may well reflect factors of local interest and political will, conflicts of underlying norms also appear to play a role. Norms of liberal capitalism underlying the GATT/WTO system seem to operate in tension with imperatives of state-driven development in China” (Potter, 2007) For instance, since its creation in 2007, the CIC has been at pains to convince the world that its strategy would remain within the accepted norms of international financial behavior. Moreover it is supported by an “Internationalist” coalition that suffers from strong adversaries and has thus been through important setbacks since its inception. A large part of the “Internationalist” coalition seems to share a connection with the MoF. They, in turn, have a strong career path link with the State Council, and are the coalition most inclined to present China as a responsible power on the international stage.

This coalition’s success in establishing the CIC in September 2007 has prompted a more “Active” / “Realist” coalition to rise to the challenge and infuse one of the State Administration of Foreign Exchange (SAFE)’s subsidiaries with a new and more aggressive mandate in that same year. Since then, the SAFE Inv. Co., has ostensibly been utilized as an opaque tool of the
state by proponents who would believe that China should continue to use non-transparent means to extend the reach of the state overseas. Members of this coalition have included PBoC executives, but also, possibly, members of the National Development and Reform Commission, which has been responsible for approving a significant part of SAFE Inv Co.’s investments, as a large number remained under the threshold necessary for reporting to the State Council ($200 million for investments in the natural resources sectors, $50 million for the non-resource sectors\(^1\)) (Berger et al., 2009).

In all those cases, the State Council does remain the organ responsible for overseeing all institutions responsible for each of the SWFs (the CIC is the only one which answers directly to the State Council). As such, it is involved to some degree in the elaboration of the SWFs mandates, even as an ultimate ratifying step. As could be verified in subsequent research, members of policy coalitions are likely to include a more diversified array of actors now than would have been the case only a few years ago, in 2000, at the time of NSSF’s creation for instance.

\(^1\) All figures are in US dollars, unless otherwise indicated.
Key bureaucratic leaders, factional leaders, leadership small group members

Key members of party and state research institutes, economic committees, work commissions, as well as key heads of domestic private investment funds, etc.

Policy Coalitions

Main causal input

State Council

- CADF
  - China Development Bank
- NSSF
  - National Council for Social Security Fund
- CIC
  - Central Huijin
- SAFE Investment Company Ltd
  - Ministry of Finance
  - State Administration of Foreign Exchange
  - People’s Bank of China
Definitional Matters and Sovereign Wealth Funds in China

Definiti on of Sovereign Wealth Funds

Before proceeding, one needs to survey the existing lack of consensus surrounding the very meaning of the expression Sovereign Wealth Fund, and to adopt a working definition. As a testimony to the short amount of time that has passed since SWFs first appeared on the radar of many analysts, Sovereign Wealth Fund is a term that was coined just four years ago by Andrew Rozanov, from State Street Global Advisors (Rozanov, 2005). Even so, the existence of state owned investment mechanisms goes back at least 50 years with the creation of the Kuwait Investment Authority in 1953 (2008i).

Since then, numerous attempts have been made to define SWFs. The most basic definition is that a SWF is an investment vehicle created by the state to manage public funds. However, this definition has not proven to be satisfying because it creates too many grey areas. One of the most recent definitional exercises was carried out during the meeting of the IMF International Working Group on SWFs which produced the “Santiago Principles” (2008j) (see Appendix 2 for full definitions). However, a few points remain unsatisfactory, and their definition is not considered to fully adequate for present purposes.

Financial objectives

The main oversight of the ‘Santiago’ definition is to presume that “(…) Created by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives (…)”. While this statement is not necessarily untrue, it is the view of the author that it frames the debate too narrowly. Of course, SWFs are investment funds, and as such, their objectives are necessarily going to include some financial or macroeconomic dimensions. But it is reductive to presume that this has to be their sole or even main objective.
Edwin Truman, senior fellow at the Peterson Institute for International Economics even goes so far as to say: “(…) because sovereign wealth funds are owned and ultimately controlled by governments, it is naïve to believe that they can or should be treated as apolitical.” (Truman, 2008b) Indeed, the fact that a financial objective is present in the management of SWFs does not exclude the likeliness that in some instances, financial gains will not be the primary objective. Thus the definition has to allow for the formulation of a broader set of considerations. More to the point, the current mandates of a given SWF, unless it is protected by clear legal independence from the polity, can always be revised in light of major political or economic developments. In other words, the alignment of a SWF with market behavior could in many cases, be contingent upon certain conditions.

Indeed, simply referring to SWFs as another type of investment fund underestimates their specificity. SWFs are state investment vehicles, and as such, respond primarily to state objectives, as they can be achieved through this kind of vehicle. States’ perceptions of their national interests are extremely varied, and the definition has to reflect that. In this respect, Ashby Monk provides us with a most suitable turn of phrase when he says that SWFs: “invest their assets (…) either in the short or long term, according to the interests and objectives of the sovereign sponsor.” (Monk, 2009)

Another point of contention in this definitional exercise concerns the outer limits of what can be considered as a SWF, as opposed to just another state investment vehicle. In the grey zones, we find pension funds, State Owned Enterprises (SOEs) and Central Banks; including these in the definition risks making it too vague and all-inclusive.
**Pension funds**

On the pension fund question, the analysis provided by an OCDE working group is extremely helpful. Many analysts say that pension funds should be excluded from the definition, mainly because they have ongoing “pay-as-you-go” responsibilities, and are often funded through contributions from employees and employers, which strictly restricts their behavior and the nature of their ownership and management structures (what OECD research has called Social-Security Reserve Funds).

However, the OECD separates them from another type of pension fund, Sovereign Pension Reserve Funds, which are created directly from fiscal transfers from the government for future social security needs and may behave like a SWF for decades (Blundell-Wignall, 2008). Indeed, these funds are usually “established directly by the government (completely separated from the social security system) (...) [and] unlike the first type of reserve fund, those within this category have been set up by governments to meet future deficits of the social security system.” (Blundell-Wignall, 2008) Thus, following OECD research, these would include the Australian Future Fund, the New Zealand Superannuation Fund, the Irish National Pension Reserve Fund and the French *Fonds de réserve pour les retraites*. It seems logical to this author to also add to this list – and to the SWF definition – the Chinese National Social Security Fund, among others, as these types of pension funds will *behave* like SWFs for years to come. Thus, the definition would exclude pension funds such as the Canada Pension Plan.

**Central bank and state owned enterprises**

A remaining question with regards to the inclusiveness of our definition concerns the distinction between a Central Bank’s management of its foreign exchange and a SWF’s management of its allocated pool of money. The best way to distinguish them is to include a note as to the “main purpose”, or principal activities of the fund, which have to do with the
governance of the funds (as opposed to a broader set of priorities, including managing the
country’s monetary policy). Accordingly, it seems reasonable to exclude SOEs from the
definition. Chinese state companies like the China National Offshore Oil Corporation (CNOOC)
which bid for the acquisition of Unocal in 2005 (Guerrera et al., 2005), are not considered to be
SWFs here. Similarly, the People’s Bank of China is also not considered a SWF here. The
Chinese State Administration of Foreign Exchange as such, would not squarely fit the SWF
definition adopted in this paper, because of the broad range of responsibilities with which it is
dowered, some of which include regulatory aspects. However, SAFE Investment Company Ltd.,
SAFE’s Hong Kong subsidiary through which SAFE is reported to be making its overseas
investments, fits the definition adopted here. In essence, SAFE Inv. Co. is behaving like a SWF,
and is managing its capital separately from the bulk of the reserves. Furthermore, as Rozanov put
it, SWFs often come into being after an evolutionary period: “Very soon, what started out as a
deposit at the central bank or a special purpose account at the Treasury often gets redesigned in
to a separate fund structure, with its own identity, system of governance and set of rules.”
(Rozanov, 2005). This is what might be happening to SAFE Inv. Co. at present.

**Leverage**

Some experts have insisted that a good way to differentiate SWFs from private hedge
funds, for example, would be to exclude the propensity to use leverage from the definition.
However, it is not inconceivable that a SWF would for some reason decide to borrow in order to
invest. Furthermore, many SWFs have now started to invest directly in hedge funds and other
risky investment mechanisms, and are in effect providing the capital that will allow a leveraged
position to be taken. As such, it seems incorrect to exclude leveraging from the definition.
**Liability**

Some discussions have revolved around the concept of liability as well. Commentators have argued that a SWF has to be free from liabilities in order to be considered as such (Monk, 2009). However, seeking to exclude funds that have no “outside liability except from the citizenry or the government in the abstract”, as Monk suggests, obscures the fact that liabilities is a concept that can include return targets, development objectives and operating performances, for example (Rozanov, 2005). Rozanov pushes the concept even further and states that: “the only way to have a meaningful debate on this is to look beyond the more narrowly defined liability profiles, and to consider the broader national agenda, which would include various social, political, inter-generational and environmental liabilities”. In essence, it cannot be assumed that the absence of liability is a prerequisite for the inclusion in the definition: SWFs have extremely varied liability profiles and a fund’s liabilities can help us understand and define its behavior. However, it seems reasonable to specify that as opposed to private investment companies or potential personal funds held by rulers, SWFs do have as direct beneficiaries the government or the citizenry. Accordingly, it is argued here that the CIC, which was financed through the emission of bonds, and thus has liabilities to its national bond holders (80% of which were purchased by the PBoC (Ziemba, 2007)), should not be excluded from the definition.

**Definition**

The definition adopted here thus draws from the multiple definitions that exist at present in the community of experts and practitioners around the world. It is an attempt to address some of the concerns mentioned above, and borrows particularly form the definitions proposed by the IMF, the OCDE, Ashby Munk and the SWF Institute as well as incorporating some of the author’s own additions (see appendix 2 for more definitions).
SWFs are defined as special purpose investment funds or arrangements owned and controlled (directly or indirectly) by the general government and have no immediate outside beneficiaries (beyond the government or the citizenry). They are established directly by the government (separated from the social security system and the management of official reserves), and the primary purpose of a SWF for the time being is the governance of the funds. These funds invest their assets, either in the short or long term, according to the interests and objectives of the sovereign sponsor and employ a set of investment strategies which include investing in foreign financial assets. The SWFs are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports.

**Dependent Variable: Chinese Sovereign Wealth Funds’ Behavior**

My dependent variable will consist of the behavior of four chosen Chinese SWFs: the National Social Security Fund (NSSF), the China Investment Corporation (CIC) the State Administration of Foreign Exchange Investment Corporation (SAFE Inv. Co.) and the China Africa Development Fund (CADF). As mentioned above, I am interested not only in their official mandates, but also in their investment patterns. I construct my dependent variable in this way – as opposed to focusing exclusively on investments, for instance – for three reasons.

First, Chinese SWFs are only a recent phenomenon. As such, data is scarce, and investments have begun to flow out of China relatively recently. Looking at a combination of mandates and investment patterns will allow us to complete our analysis in cases in which one or the other is lacking in detail. Second, the four Chinese funds are all, to varying degrees, opaque in their functioning, and we need to integrate all the information we can get in order to get a clearer picture. Third, China is particularly sensitive to changing power impulses that come from the top (Shih, 2008a), and these changes can create disparities between initial mandates and subsequent implementation. Having two policy steps to gather an overall impression of a SWF’s investment behavior is thus both necessary and useful. The observed variable, the funds’ behavior, will thus consist of a combination of two steps: the mandate and the investment pattern.
Additionally, in order to provide more depth to our analysis, a review of the story behind the creation of the funds, of their relation to other organizations within the Chinese state, as well as a review of the career path of the top executives managing the funds, can help us to better understand their overall behavior.

The funds’ mandate will mostly be taken directly from official sources. Three of the four funds examined here provide extensive statements of purpose on their websites. One of the funds is considerably more secretive in this regard (SAFE Inv. Co.). For this latter one, as well as to buttress the cases of the other three, mandates from the mother institution will be reviewed, but more information will also have to be inferred directly from the pattern of their investments overseas. The story behind their involvement in international investments, as well as behind their relations with other funds, will also be reviewed.

The lists of the funds’ investments, domestically and overseas, have been difficult to compile. Multiple sources have been used, including private analyses from specialized institutes and experts, media sources, official sources from China (including directly from the funds’ websites) and recipient countries as well as documents from public and international organizations. Thus, the lists that can be found in appendix two of this paper are, to the author’s knowledge, not to be found anywhere else in this integrated format. They are a compilation of multiple pieces of data that were not always congruent in their details or nature (currencies are a salient example), and as such, the lists are not always seamless. Moreover, the data presented here could not possibly be comprehensive, as there is no central source of information (it should be expected that many SWF investments go unnoticed). Some pieces of information were also found in one open source only, and could not be corroborated. The lists provide us, however, with a valuable overview of the funds’ investment trends.
The background details on the creation of the funds, on their relation to other organizations within the state, as well as on the career pattern of their top executives, come from various sources, including Chinese media reports, academic analyses, private reports and official information.

**The Four Funds in Relation: an Overview of Salient Characteristics**

One point is important to clarify from the start. Chinese Sovereign Wealth Funds are considered here as statist vehicles (and it could also be argued that SWFs in general are as well). As highlighted in the definition, whether a state gives what might be defined as a passive wealth maximization mandate to its SWF for a period of time, direct state ownership remains, and a potential departure from that mandate continues to be a possibility should economic or political circumstances change. As such, the four Chinese SWFs are considered here as first and foremost statist tools, in that they are a component of a state’s objectives, regardless of their mandates. This vision is inspired by the concept of national economics developed by Friederich List, as well as by the developmental state literature on East Asia. However, it is meant in a broader sense. The idea that the state has a leading role to play in the development of its national economy is still alive today in China, even if a direct reference to a developmental model in China is tentative at best. Mark Leonard has labeled the Chinese model “Yellow River Capitalism” (Leonard, 2008); others have called it the Beijing Consensus. These characterizations, however imperfect or premature they may be, highlight the fact that a model of a strong state is evolving and enduring in China. China is positioning itself against the beliefs in free-market capitalism, deregulation and the retreat of the state from the economy.
Within those statist interests however, a multitude of potential mandates exist. In China’s case, the range is considerable. At one end of the loop, so to speak, the most opaque of the funds, SAFE Inv. Co., is pursuing a more active strategic policy, which is referred to here as “political and industrial strategic positioning”. In turn, the CADF is understood to pursue a “projection of domestic industrial policy” which is regionally focused.

The two remaining funds pursue a more strictly geoeconomical strategy, yet it should be emphasized that the apparent absence of non-economical “mandate-drivers” does not preclude the fact that those funds are an instrument of the state’s ultimate strategic interests. For instance, the Chinese pension fund, NSSF, has been utilized for domestic financial objectives as well as for international wealth maximization.

The CIC, likewise, has been responding to a geoeconomic mandate, more clearly focused on gaining leverage in the international financial system, as well as providing a reserves diversification outlet. Yet, it retains a fairly heavy domestic financial bias, due to its acquiring of the Central Huijin Investment Company (which owns major stakes in a multitude of Chinese Banks) as well as major stakes in two of the big four Chinese banks.
Table 1 - A Typology of Chinese Sovereign Wealth Funds

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Statist Interests</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Wealth Enhancement</td>
</tr>
<tr>
<td></td>
<td>Geopolitical interest</td>
</tr>
<tr>
<td></td>
<td>Geoeconomic interest</td>
</tr>
<tr>
<td>Political and</td>
<td>Projection of domestic industrial policy, regionally focused</td>
</tr>
<tr>
<td>industrial</td>
<td></td>
</tr>
<tr>
<td>strategic</td>
<td></td>
</tr>
<tr>
<td>positioning</td>
<td></td>
</tr>
<tr>
<td>Political and</td>
<td>Moderate returns on investment, domestic financial policy</td>
</tr>
<tr>
<td>industrial</td>
<td></td>
</tr>
<tr>
<td>strategic</td>
<td></td>
</tr>
<tr>
<td>position</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gain leverage in the international financial system, reserves</td>
</tr>
<tr>
<td></td>
<td>diversification</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chinese SWFs</th>
<th>SAFE</th>
<th>CADF</th>
<th>NSSF</th>
<th>CIC</th>
</tr>
</thead>
</table>

Additionally, these four funds are graded in the order below when it comes to transparency (Linaburg, 2009). As an indication of the range, Norway’s Pension Fund Global and New Zealand Global Superannuation Fund, for example, score 10 in the index, as some of the most transparent funds; while Iran’s Oil Stabilisation Fund and Oman’s State General Reserve Fund score 1.

Figure 3 - Chinese Sovereign Wealth Funds Transparency Ratings
Empirical Cases

In this section, the relation between the four tentative policy coalitions and the four Chinese SWFs will be explored, starting in 2000 with the creation of the National Social Security Fund (NSSF – $81 billion). Subsequently, the China Investment Corporation (CIC – $288.8 billion) SAFE Inv. Co. and then a Hong Kong subsidiary of the State Administration of Foreign Exchange (SAFE Inv. Co. – $90 to 347.1 billion) will be analyzed. Finally, the Chinese Development Bank controlled China Africa Development Fund (CADF – $1 billion) will be examined from the moment of its official announcement, in 2006. See Appendix 1 for detailed lists of their investments.

National Social Security Fund

The NSSF was created in 2000. It is administered by the National Council for Social Security Fund (NCSSF), which answers directly to the State Council. Moreover, “[t]he NCSSF has a chair, vice chairs, and various directors, all of whom are appointed by the State Council.” (2008f). NSSF was in fact the first Chinese SWF to be created. It was originally funded by the central government, for the most part through fiscal budget allocation and with an initial endowment of approximately $3 billion (see website\(^2\)). However, it should not be asked to make any disbursements before 2030 (McCormack, 2008, 2009b). Until then, therefore, it satisfies even the strictest definition of a SWF.

By the end of 2002, NSSF had accumulated 124 billion RMB (approximately $15 billion) (2004), and by 2008, the NSSF had total assets of 562.4 billion RMB (approximately $81 billion)

\(^2\) At the time of writing these lines, the NCSSF website was down.
NSSF has to carry at least 50 per cent of its assets in bank deposits and government bonds. Its funding sources include: funds acquired from reducing state shareholding, stock ownership assets, funds from the central budget, funds raised by other means approved by the State Council, and investment returns. In addition, since June 19 of this year, all SOEs that have listed on the stock market since 2005 are required to transfer 10% of their shares to the NSSF. “The total size of the NSSF is expected to increase relatively rapidly because (1) the Central Government aims to raise the proportion of fiscal expenditure on social security expenses to 15 per cent; and (2) the expected large overseas IPOs of a number of state owned enterprises in the coming years will make a substantial contribution to the NSSF. Therefore, the potential of the NSSF to become a major institutional investor in the securities market is high.”

*Mandate*

NCSSF states on its website that it aims to operate coherently with widely accepted market principles. It is true that the fund has been given the clear mandate of investing overseas and to look for higher than “no risk” returns in accordance with the procedures and requirements prescribed by the “Provisional Measures for Investment Management of the National Social Security Fund” which were issued in 2001 by the MoF and the Ministry of Labor and Social Security (MoLSS). It also indicated a will to cut down on fixed income products and to expand its investment in private equity funds. However, it still carries an important proportion of investments as domestic recapitalization of banks and other domestic investments, which is not in line with most global pension funds strategies (or many other global SWFs’ behavior for that matter).

Indeed, up to know, the NSSF has been mostly used for domestic purposes as a supplementary tool of the state to intervene in the domestic economy, even if its mandate, as
cited on its website, insists on its international ambitions. Indeed, it is telling that: “the fund has reported its first annual loss since its founding eight years ago, losing 6.79 percent on its investments in 2008. The loss mainly reflected last year’s A-share market plunge, as the benchmark Shanghai Composite Index tumbled about 60 percent, according to the [N]SSF’s annual report (…)”(2009i). The fact that last year’s loss reflects the drop in the Shanghai Stock Exchange illustrates the extent of its (Chinese) domestic exposure.

One of the first investments carried out by NSSF, in 2001, was a 1.27 billion RMB equity purchase of shares in Sinopec and Yangtze Power. These purchases were the first in a long series of purchases that are in fact meant to provide some security to firms listing on the Chinese market (McCormack, 2008). In this sense, the NSSF has been used extensively as a domestic macroeconomic management tool by the Chinese government. In fact, NCSSF owns shares in the Bank of Communications, the Bank of China, the Industrial and Commercial Bank of China, and has projected investments in the Agricultural Bank of China, the China Development Bank, as well as projected investment in a joint private equity fund worth approximately $730 million with CITIC (see appendix 1).

Many analysts refer to the existing international portfolio of the NSSF, yet it has been impossible to confirm any single overseas investment through open sources. NCSSF’s former vice-chairman, Gao Xiqing, insisted in 2009 that the NSSF is preparing to launch a more aggressive overseas investment initiative (2009i). Similarly, the SWF Institute maintains: “The NSSF invests domestically however, they are beginning to invest in emerging market economies and Europe. They also plan to allocate up to 20% of the fund into foreign investments usually through external money managers rather than taking direct stakes. In addition, the fund is now allowing investments into private equity, similar to that of the China Investment Corporation.” (2009r) Up to now however, the ratio of overseas investment equals six percent of the total social
security fund (2009q). The fact that NSSF seems to be keen on appointing external money managers makes it difficult to track its overseas investments. For instance, the National Development and Reform Commission is managing part of NSSF’s capital, as exemplified by available information on the Hong Kong Exchange and Clearing Limited website. Indeed, the NDRC directly manages “component 005” of the NSSF; while other components have also been entrusted to private fund managers (2009p).

Ultimately, the NSSF was created to fulfill the needs of a future pension plan, with the intent to provide China’s aging population with the country’s first national pension plan. It provides an important and essential supplementary financial reserve for the implementation of old-age insurance and other social security programs. “The NSSF is therefore established to cover unfulfilled insurance obligations borne by the local governments” (2004). This initial incentive for the creation of NSSF, its mandate, and its investment behavior up to now can help define characteristics of the coalition which originally supported its creation.

Analysis

As the pioneer SWF, NSSF has been very insecure and conservative in its attitude towards overseas investments despite the ambitions elaborated in its mandate. As will become clear in the light of the three other case studies, it has definitely been the most cautious of the four funds. This is at least partly owing to the fact that it was the pioneer. China had little international financial expertise at the time of its creation, and only two years or so had passed

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3 “The social security system in Mainland China is mainly composed of a number of social insurance funds — pension funds, medical insurance funds, unemployment insurance funds, occupational injury insurance funds, child birth insurance funds and rural pension funds. These funds are operated at the local (provincial) government level. The current status is the result of a radical reform process that has been going on since the 1990s. The post-reform model is basically established by now. Under the new model, enterprises are relieved of the responsibility of directly operating and managing the social insurance funds.” (2004) Institutional Investors in Mainland China. Research and Planning. Hong Kong: Hong Kong Exchange and Clearing Limited.
since the Asian financial crisis. This timid behavior is also possibly explained by the fact that the coalition supporting it could not secure a clear mandate regarding overseas investments back in 2000.

Furthermore, the creation of the NSSF was probably the result of a push toward a more collective approach to development. By the end of the 1990s, the country had undergone two decades of rapid “reform and opening” policies, and the extent of social dislocation was becoming apparent. Jiang Zemin, and what Cheng Li calls the elitist faction, was still in power, but Hu Jintao’s star was rising rapidly. With him, a more collective approach was put forward, and the creation of the NSSF seems to have come with this trend. Providing that this hypothesis is representative of the reality, it is also noteworthy that the collectivist faction rising with Hu is described by Cheng Li as being very inexperienced with the financial/economic sphere of policy-making (Li, 2007), which could explain in part the uneasiness with which the NSSF has behaved internationally at least in its first years. Looking at the available data on the career path of top NCSSF officials (admittedly, the pool of data is extremely thin), it is apparent that at least three of them were previous MoF managers.
Table 2 - Career Path of NCSSF Officials

<table>
<thead>
<tr>
<th>Number of past and present NCSSF top officials having served in other institutions</th>
<th>Ministry of Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>State Council</td>
</tr>
<tr>
<td>1</td>
<td>People’s Bank of China</td>
</tr>
<tr>
<td>0</td>
<td>National Development and Reform Commission</td>
</tr>
<tr>
<td>3</td>
<td>Central Committee of the CCP</td>
</tr>
<tr>
<td><strong>Total: 6</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: China Vitae

Most notably, the current chairman of the CIC was a previous president of NCSSF. Both funds seem to exhibit similar “passive” behavioral trends, in that they insist on the commercial or strictly economical orientation of their mandate, and are the only two of the four funds to do so. NCSSF seems to have, in many ways, gathered the expertise that is now being used with more confidence at the CIC.

**China Investment Corporation**

The genesis of the CIC started in March 2007, with the creation of a “team [by the State Council] tasked with drawing up plans for a new investment vehicle” (2008d). The research team was headed by Lou Jiwei, who had just stepped down from his position at the MoF to accept the position of Deputy Secretary General (ministerial level) of the State Council (2009d), and devote himself to this endeavor.
Before going further, it is useful to conduct a brief review of Lou’s career highlights up to then. From 1985 onwards, Lou had been deeply involved with financial and monetary policies of the reform and opening up process. Throughout his career, he has been close to the State Council and the MoF (of which he was a Vice-Minister from 1997 to 2007). Interestingly, Lou was in Shanghai (working as Vice-Director of the State Commission for the Reform of the Economic System (2008d)) when the 1989 demonstrations broke-out in Tiananmen and in other cities around China (Mufson, 1998). In an interview he gave to the Washington Post in 1998, Lou admitted discouraging his subordinates to go and take part in the protests. He himself never went to look either (Mufson, 1998). Lou had worked very hard on furthering China’s opening up process, and was very keen on continuing to do so. He has had a strong technocratic career in the financial/economic xitong, apart from a stint as Vice-Governor of Guizhou province, where he was sent by Zhu Rongji (Mufson, 1998), then Premier and also head of the technocratic faction (Shih, 2008a). It is important to understand the institutional leaning of Lou Jiwei, as the creation of the CIC is very much the result of his lobbying and efforts.

Lou had started to push for the creation of a separate institution which would manage China’s mounting foreign exchange reserves. Indeed, Chinese foreign exchange reserves had begun to increase markedly around 2004, and reached what experts label a “reserve adequacy level” around the year 2006 (above $900 billion). So the capacity to diversify away from US treasury bills only arose then.
Naturally, China foreign reserves are held by the PBoC. Until 2007, the Chinese Central Bank had been very conservative in the management of its reserves, and once the reserve adequacy ratio had been reached, various dissenting voices were starting to be heard over the best way to put part of the capital to work. Working quickly, on May 16, 2007, one of the State Council’s advisors to the new “fund in gestation” announced that the entity would be funded through a special bond sale issued by the MoF. It was also announced that the total capital to be endowed to the new fund would be $200 billion. The name China Investment Corporation was also used for the first time (2008d). It is interesting to note that in 2007, China was in the midst of a bout of inflation. The stock market and the property market were experiencing bubbles. The issuing of special domestic RMB bonds by the MoF acted in effect as a contractionary monetary policy on the economy as a whole. This was in line with other contractionary policies that had been implemented all through 2007, and that would ultimately result in the fall of the Shanghai Stock market in October 2007 (Massot, 2009). This is how 1.55 Trillion RMB was raised, which was then used to acquire approximately $200 billion from the PBoC.
Table 3 - China Investment Corporation Bond Sale

<table>
<thead>
<tr>
<th>Issue Date (2007)</th>
<th>Amount Issued (USD billion)</th>
<th>Sold to</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 28</td>
<td>$79.43</td>
<td>People’s Bank of China</td>
</tr>
<tr>
<td>September 17</td>
<td>$4.25</td>
<td>Public</td>
</tr>
<tr>
<td>September 21</td>
<td>$4.68</td>
<td>Public</td>
</tr>
<tr>
<td>September 28</td>
<td>$4.85</td>
<td>Public</td>
</tr>
<tr>
<td>November 2</td>
<td>$4.69</td>
<td>Public</td>
</tr>
<tr>
<td>November 19</td>
<td>$4.80</td>
<td>Public</td>
</tr>
<tr>
<td>December 11</td>
<td>$101.64</td>
<td>People’s Bank of China</td>
</tr>
<tr>
<td>December 14</td>
<td>$3.57</td>
<td>Public</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$208</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: RGE Monitor (Ziemba, 2007)

As is evidenced in the table above, most of the bonds were actually purchased by the PBoC itself (the equivalent of $181 billion). At that time, the PBoC was also controlling a domestic investment vehicle: the Central Huijin Investment Co, and was rumored to have been reluctantly persuaded to hand over the control of Huijin to the new CIC (Anderlini, 2008b).

On May 20, 2007, Central Huijin purchased $3 billion worth of shares in the Blackstone Group, acting on behalf of what was released as “China’s State Investment Company”, China’s new investment vehicle (2007a). This was one of the first indications that Central Huijin would eventually be transferred to the CIC. The contact given by Blackstone for the transaction, on China’s side, was Jesse Wang (Jianxi), Vice Chairman of Central Huijin Investment Ltd, who would later become a member of the Executive Committee of CIC as well as Executive Vice President and Chief Risk Officer.

Interestingly, during the month of July, there was some mention of delays by the Deputy General Manager of the yet unofficially running CIC. He said the delays might postpone the
planned September launch. The hesitations that occurred in the months prior to the official launch of the CIC indicate that the final arrangements might still have been in discussion, and that disagreements over the ownership, structure and mandate of the fund still existed.

The CIC was officially founded on September 29, 2007, as a wholly state-owned company (2009c). In October 2007, Lou Jiwei announced that Central Huijin had been bought by the CIC for $67 billion. The CIC then also acquired 50% stakes in two domestic banks, the Agricultural Bank of China, and China Development Bank, for an estimated $65 billion (McCormack, 2008), presumably through central Huijin. Indeed, the operations of CIC and Central Huijin are distinct, although the former owns the latter: CIC makes non-RMB investments internationally, and Central Huijin makes RMB investments domestically (2009c). By the time these purchases were completed, CIC was left with a little more than a third of its initial endowment. The CIC, which is often heralded as disposing of $200 billion to invest overseas, actually only ever had less than $70 billion to do so (although the 2008 annual report mentions a little over $100 billion set aside for global investments, which probably reflects the growing assets of the CIC to $288.8 billion).

The CIC released its 2008 annual report in August 2009. The report showed that CIC made a net profit of 6.8% on its investments, while its global investment portfolio had a negative rate of return (-2.1%). In other words, the domestic investments in Chinese banks were the only reason CIC turned a profit in 2008. The total equity of the CIC was thus $288.8 billion at the end of 2008, while its assets stood at $297.54 billion (2009c).

**Mandate**

The CIC finds itself in a convoluted situation following the bond sale that provided it with its initial capital. This puts a lot of pressure on the CIC to perform, and CIC does not seem
to have a guarantee that the bond sale will be renewed when all its capital is invested. The CIC has in fact been given a “trial period”. Its situation is further stressed by the fact that the return promised on the bonds is slightly above 4%. Taking into account the appreciation of the RMB since the bond sale (the CIC faces a currency mismatch, to the extent that the bonds were issued in RMB and the overseas investments are made in USD), plus the running costs of such an organization, the result is that the CIC has to seek very high returns on the international markets, perhaps to the order of more than 10% annually. In an environment where most funds have lost in the past two years due to the global financial meltdown, this is an almost-impossible task to achieve. Indeed, the CIC announced profits of 6.8% for 2008, insufficient to cover the compounded necessary returns (2009m, 2009c). This situation is unique to the CIC, other Chinese SWFs do not have such high return targets to reach.

Soon after the creation of the CIC, in late 2007, several quotes by the Chairman, Lou Jiwei, pointed towards the strategic goals of the fund. In September, when the CIC was officially launched, he said that “[t]he Company will focus on overseas financial products to diversify investment and improve investment returns. Second is to inject capital into domestic financial institutions (…) increase the value of state-owned financial assets.” (2008d).

A willingness to invest in financial products had certainly been confirmed by the first investments of the CIC (the Blackstone purchase by Central Huijin had been transferred to CIC by then), the purchase of a little less than 10% in Morgan Stanley, in December of the same year, as well as with the purchase of shares in the Visa Group, J.C. Flowers & Company (a US private equity fund manager) and Reserve Primary Fund (a US currency market fund). There seemed to be a trend there in concentrating on the financial sector. The CIC had also acquired substantial stakes and had done so relatively publicly.
Highlighting the fact that the CIC would be a transparent and model investment fund, in the first year of the CIC operations, and possibly trying to ease international fears about its strategic potential, Lou had been very adamant about one aspect of the strategic goals of the fund: it would not try to buy into strategic resources. This statement had been repeated by Li Yong (non-executive director of the CIC and former MoF vice Minister).

A recent quote by CIC’s Chief Risk Officer, Jesse Wang Jianxi, puts that line into question. In March 2009, he said: “CIC will seek investment opportunities in consumer goods, manufacturing and resources companies this year”⁴. Furthermore, “(…) in April, the group has posted a new recruiting plan on its website seeking professionals in commodities (…)” (Sainsbury, 2009). This turn of events was confirmed in June 2009 when CIC was rumored to be interested in buying 3.5% of Enel, an Italian Energy Company. Then, in July 2009, Vancouver based mining company Teck Resources Limited announced an investment of 1.74 billion CAD by CIC. This is a very interesting 180º policy turn. Ostensibly, CIC has turned a page on its decision to stay away from resources.

All in all, however, the CIC has portrayed itself as a mature state investment company, concerned about the way it is perceived by an international audience (exemplified by the amount of interviews Lou Jiwei has been given in the past two years) and keen on assimilating with accepted norms of financial behavior. This is very much in line with an internationalist view of China’s position in the global economy, and the CIC has most likely been supported by a coalition of supporters who see China taking this route.

**Analysis**

Lou Jiwei, as exemplified by his career path, had the makings of a strong technocrat and centralizer. He had worked mainly as a technocrat to further the reform and opening up process of the country, but during the Tiananmen incidents, had also positioned himself against Zhao Ziyang and his supporters, who had wanted to encourage more populist policies (Shih, 2008a). The character of the CIC is very much in line with this. As an institution very close to the MoF and the State Council, the CIC pursues a rigorous management policy, relatively transparent strategy (it is the most transparent of the four Chinese SWFs) and elitist behavior.

Gao Xiqing, CIC’s Vice Chairman, President, and Chief Investment Officer also has a strong technocratic and international background. He was educated at Duke University, and worked in China’s banking sector, at the China Securities and Regulatory Commission and at the Bank of China. The CIC has also recently appointed an international advisory council, which include experts from all over the world (one Canadian is on this advisory council, David Emerson, the former Minister of Foreign Affairs).

The overall positioning and mandate of the CIC indicates that it is supported by the proponents of a China that would look to engage with the international financial order in a way that is broadly in line with international expectations and best practices. It is noteworthy that when the International Working Group on Sovereign Wealth Funds convened in Santiago to put together a set of Generally Accepted Principles and Practices for the governance of SWFs globally in October 2008, of the four Chinese SWFs, only CIC was represented (2008j).

Some analysts have put forward the idea that the main impulse behind the actions of the CIC is directly linked with bureaucratic tensions with the PBoC (2008d, Wright, 2008, 2009s). It is true that in China, the MoF and the PBoC have had some difficult relations for decades, as
they were often positioned as rivals when it came to managing the country’s finances (2008h, Anderlini, 2008b, Setser, 2008). The fact that before 2007, the PBoC was in control of China’s mounting foreign exchange reserves and of China’s biggest domestic investment vehicle, Central Huijin, would have comparatively reduced the leverage of the MoF in managing the economy. It is likely that the MoF would have been keen on regaining economic leverage over the economy. In other words, the MoF would have probably tried to wrestle more power as discussions over the creation of a new investment vehicle were happening.

However the presence of bureaucratic self-interest in China is not surprising and does not necessarily constitute the main policy driver behind the behavior of the CIC. More precisely, if the presence of previous MoF bureaucrats in the CIC management is evident (Lou Jiwei, a previous Vice Minister of Finance, as well as a former Finance Minister and three additional former Vice Minister of Finance are represented, see table below), the presence of PBoC officials is also quite clear (at least four of them). This indicates that a compromise was reached in terms of the representation of the two bureaucracies within the CIC’s structure. As Cheng Li explains, in line with his factional politics argument, in the “(…) most important leadership bodies of the PRC, the two top positions are filled by one leader from each of the two different coalitions, thus creating a situation of check and balances. (…) It reflects the trend in the Chinese political establishment to maintain a balance of power.” (Li, 2005)
Table 4 - Career Path of CIC Officials

<table>
<thead>
<tr>
<th>Number of CIC top officials having served in other institutions</th>
<th>Institution</th>
</tr>
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<tbody>
<tr>
<td>5</td>
<td>Ministry of Finance</td>
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<tr>
<td>1</td>
<td>State Council</td>
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<tr>
<td>4</td>
<td>People’s Bank of China</td>
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<td>3</td>
<td>National Development and Reform Commission</td>
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<td>2</td>
<td>NCSSF</td>
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<tr>
<td>1</td>
<td>SAFE</td>
</tr>
<tr>
<td><strong>Total: 20</strong></td>
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</tbody>
</table>

Source: CIC Website

More to the point, the content and ideological leaning of the CIC does not lend itself to a simplistic association with the MoF, nor does the institutional position of the CIC within the structure of the state. Indeed, the CIC itself is not actually managed by the MoF and the Ministry should have little direct control over the policy direction of the fund. The CIC is structurally autonomous from the MoF, has a Ministerial level, and answers directly to the State Council, as do the MoF and the PBoC. One can see that the strict bureaucratic infighting argument would be hard to sustain in light of this data. Likewise, supporters of an “internationalist” stance are numerous in China, and are to be found outside of MoF as well.

As mentioned above, an interesting turning point in the short history of the CIC occurred this year, when it started to indicate a clear intent to start investing in resources, against previous statements. This policy reversal could have been prompted by the international environment, which has changed dramatically since 2007, as the prices of commodities have cooled down, and
as the initial CIC financial investments incurred huge losses. This reversal could also have been caused by a change in domestic political circumstances, the result of a negotiated position between different investment arms of the government. However, the available information lends itself to the explanation that the reversal was a more straightforward response to the transformation of the international environment both in terms of the potential returns on investments in commodities but also in terms of the perception of the CIC by the international community. Indeed, in 2007, at the time of its creation, the CIC was facing a more difficult international environment as at that time Western economies were booming and fears of Chinese strategically motivated investments were more common. It might also be the sign that the CIC – or the coalition supporting it – is gaining ground.

**State Administration of Foreign Exchange Investment Company Limited**

The State Administration of Foreign Exchange has multiple subsidiaries all over China as well as international branches (its website mentions 36 administrative branches and 298 central sub-branches). SAFE is a deputy ministerial level state administration. Jamil Anderlini from the Financial Times mentions, among others, subsidiaries in London, Singapore, New York and Hong Kong. Yet, until a couple of years ago, almost no one had heard of them (Anderlini, 2008b). Until now, SAFE (which is the government department responsible for the management of foreign exchange reserves and the regulation of foreign exchange transactions) has been extremely secretive on the existence of its foreign subsidiaries (SAFE Inv. Co. scores 2 on the Linaburg-Maduell transparency chart (Linaburg, 2009)). Anderlini also adds that: “(…) the entity is so secret that Safe repeatedly refused to acknowledge its existence to the FT, until it was confronted with incontrovertible evidence” (Anderlini, 2008b) Equally, “SAFE Investment Company also repeatedly denied all knowledge of the investments or its relationship to SAFE, even when confronted with the company’s share register. This shows SAFE holds 99,999,999 of
the 100m shares issued. Hu Xiaolian, SAFE’s [former] chairwoman, holds the remaining single share.”(Anderlini et al., 2008)

Most secondary sources point towards the Hong Kong subsidiary as the branch through which SAFE is conducting most of its overseas investments. Again, Anderlini states that: “SAFE uses a Hong Kong subsidiary when investing on offshore equities in the US and other countries (…)”(Anderlini, 2009a). Furthermore, he points to the fact that although worldwide subsidiaries were more or less replicating the positions of the Beijing headquarters, it appeared to change with the Hong Kong office, which started taking more risks, and diverging from Beijing’s portfolio in the year leading to 2008(Anderlini, 2008b). Unfortunately, for the sake of this research, it has been impossible to verify whether all overseas investments are conducted through SAFE Inv. Co. or how much of SAFE’s foreign non-reserve portfolio is controlled by SAFE Inv. Co. This is partly because when listed abroad or when talked about in foreign media, the distinction is seldom made between SAFE and SAFE Inv. Co.

The SWF Institute has earmarked the amount of reserves that are controlled by SAFE Inv. Co. in Hong Kong to $347.1 billion. Multiple other sources have mentioned that SAFE has been allowed to spend up to 5% of total official reserves in assets other than bonds. This would amount to more than $100 billion by mid-2009, and is increasing by the day (2008h, Scissors, 2009) (see appendix 1 for partial list of equity investments).

SAFE Inv. Co. was created on June 2, 1997, just one month before the handover of Hong Kong to the mainland, with an initial capital of HKD 100 million (2008h). At that time, it didn’t have access to much foreign exchange and was established to “support and promote the development of Hong Kong’s financial market” (Anderlini, 2008b).
The current mandate and even global behavior of this fund are amongst the hardest to determine because of the fact that SAFE has not been open on this regard. One thing is certain though, SAFE Inv. Co. started to emerge from obscurity, to invest in foreign equity and to behave more aggressively on the global stage very recently. Whether this became apparent as the result of increased media scrutiny is a pertinent question; however, as mentioned above, Chinese foreign exchange reserves started to increase markedly from 2004 only, and reached a “reserve adequacy level” around 2006. So the capacity to diversify away from US treasury bills only arose then, and coincided with increased media scrutiny.

More significantly, the CIC was created in 2007, coinciding with the changes in the behavior of the SAFE Inv. Co. From that point on, SAFE’s Hong Kong subsidiary was given more aggressive mandates. Around the same time, in July 2007, the PBoC bought a 0.46% stake in BG Group. Amadan International claims that this purchase was ultimately to be transferred to the CIC. However, recent data provided by the Financial Times show that the shares are still owned by the PBoC controlled SAFE.

If we look at SAFE Inv. Co.’s investment patterns, it appears that it is privileging the following sectors, in order of importance: natural resources (mining, oil & gas companies, electricity), finance and insurance, food industry, media, software and support and other services. SAFE has primarily invested in developed economies, particularly in the UK, and owns minority stakes in British Petroleum, Royal Dutch Shell, Rio Tinto, BC Group, BHP Billiton, Tesco, Cadbury and many others, but also in France’s Total and the US’s Texas Pacific Group (which subsequently bought 65% of Washington Mutual). SAFE also owns stakes in three of the biggest Australian banks. The extent of SAFE’s positions overseas is certainly underestimated because of the fact that information access is limited. Brad Setser from the Council on Foreign Relations
says that: “SAFE has built one of the largest US equity portfolios of any foreign government entity investing abroad, including the major sovereign wealth funds” (Anderlini, 2009a).

These investment trends show significant dissimilarities with CIC’s. First, SAFE Inv. Co. has been making exclusively very small equity investments (mostly under the 3% disclosure level), which has been in line with a non-transparent behavior. Second, it has clearly favored investments in resource-based companies, whereas the CIC (until 2009) and the NSSF had avoided that. Third, it has visibly not been allowed to develop a public image at all: statements are absent and SAFE Inv. Co. does not have a website (it is only mentioned in passing on SAFE’s website). Fourth, SAFE has made more sensitive moves as well. Indeed, it was the vehicle behind the offer to buy “$150 million US dollar-dominated bonds from the government of Costa Rica as part of an agreement signed [the year before] under which the Central American nation cut diplomatic ties with Taiwan (after 63 years) and established relations with the People’s Republic of China”. (Anderlini, 2008a) It seems beyond doubt that directives for such an initiative would have involved decision-makers outside of (and higher than) the top level of the PBoC.

All this suggests that SAFE Inv. Co. might have been utilized as a tool by a coalition of decision-makers who think there is space in Chinese foreign investment policy and foreign policy for such non-transparent behavior.

Analysis

In the light of information pointing to the fact that SAFE Inv. Co. in Hong Kong has not been strictly following the investment positions of SAFE in Beijing, a potential answer to my research question could be that SAFE Inv. Co. is acting on its own, much in the same way that localities have gained autonomy from the Central Government in past years. However, the
Sovereign Wealth Fund Institute states on its website that: “SAFE Inv. Co is organized as a privately held firm, however SAFE officials serve on its board”. More to the point, SAFE owns 100% of SAFE Inv. Co.’s shares. This indicates a strong filial belonging to the Beijing headquarters, and weakens the “rogue subsidiary” or “vertical fragmentation” thesis. Additionally, as pointed above, sensitive investments like the Costa Rica bonds purchase could not have been conducted without approval from decision-makers outside of SAFE Inv. Co, and PBoC.

Another alternative argument to the policy coalition argument presented here could draw from the bureaucratic rent-seeking approach. Yet, if some degree of bureaucratic infighting is present in China, it is also true that the situation is much more complex than horizontal tensions between two governmental agencies (see discussion in CIC’s analysis above). Party leaders are involved in major financial decision-making, especially when they can impact China’s foreign policy standing. Shih goes even further and argues: “(…) political signals sent through both the formal channels and through the factional network, rather than shifting institutional configurations, were the primary determinants of monetary policy in reform-era China.” (Shih, 2008a)

The argument made here is certainly not to sustain that SAFE will necessarily push for more politically or foreign policy oriented investments, in fact, other such direct political interventions might remain rare. Rather, the point being made here is twofold. First, an intervention such as the Costa Rican bond purchase indicates that higher levels of decision-making are involved in SAFE Inv. Co.’s actions overseas. Second, SAFE Inv. Co. is potentially utilized or supported by leaders who believe that a more politically active SWF strategy is useful or necessary.
As Shih sustains in his analysis of factional politics in China since the beginning of the reforms, “The complexity of China’s banking institutions allowed the political elite to mobilize them toward disparate political purposes. (…) Ultimately, the most significant feature of the Chinese banking system was the pervasive influence of the Chinese Communist Party, which induced a high sensitivity among bankers to political signals from the top.” (Shih, 2008a)

As SAFE’s actions are not transparent, it is difficult to unearth the lineage of the coalition of policy-makers with an interest in supporting it. One noticeable fact is that the career path of most SAFE officials is very closely linked with the PBoC, and not at all with the State Council or the MoF.

Table 5 - Career Path of SAFE Officials

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<tr>
<th>Number of SAFE top officials having served in other institutions</th>
<th>Ministry of Finance</th>
<th>State Council</th>
<th>People’s Bank of China</th>
<th>National Development and Reform Commission</th>
<th>Central Committee of the CCP</th>
<th>NCSSF</th>
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Sources: SAFE website, China Vitae

Interestingly, one of the most radical comments concerning China’s place in the global economy to come out of a Chinese official recently was voiced by the Governor of the PBoC, Zhou Xiaochuan in March 2009. Zhou proposed the use of the IMF’s special drawing rights as
an alternative to the US as a global reserve currency (Zhou, 2009). Without going into the details of whether such a proposal is feasible or not, it seems that the signification of this public comment goes beyond practicalities. To be sure, the motivations behind such a comment are multiple, “China is worried about the value of its foreign currency reserves, most of which are denominated in US dollars; it wants to relieve itself of blame for the crisis; it wishes to preserve as much of its development model as possible; and it is (…) seeking to countervail US pressure on the exchange rate of the renminbi.” (2009v). But this could be indicative of the presence of a less conciliatory stance among the Chinese leadership today. If there is indeed a more “realist” coalition of actors ready to support an “active rise” policy among the Chinese leadership today, it certainly seems like they have been considering SAFE Inv. Co. as part of their array of potential tools.

**China Africa Development Fund**

On November 4, 2006, at the Beijing Summit of the Forum on China-Africa Cooperation, President Hu Jintao announced the creation of a China-Africa development fund that would ultimately reach $5 billion in capital. The goals of the fund as he stated them at the summit were to “encourage and support Chinese enterprises to invest in Africa” (2009e). The main “initiator” of the fund, the bank which initially drafted the plan for the creation of CADF as stated on its website, was the China Development Bank (CDB), the “Chinese bank with the largest portfolio of foreign cooperation investment and financial projects”. (2009h).

The fund officially started operating on June 26, 2007, with initial funding of $1 billion. Phase 2 of funding, comprising of $2 billion, was announced by CADF CEO Chi Jianxin in spring 2009 as going forward in the beginning of 2010 (Erasmus, 2009).
The mission of the CDB, one of China’s policy banks, includes the following statement: “China Development Bank Corporation (…) is dedicated to the mission of strengthening the competitiveness of China and improving the living standards of its people in support of the State's medium-to long-term development strategies and policies (…) These support the State's key national projects, basic industries and the high-technology sector as well as pillar industries and critical infrastructure construction. (…) In answer to the call of the State to encourage domestic enterprises to "Go Global", the Bank also engages in a wide range of international cooperative activities.” (2009f). The MoF owns 51.3% of CDB while the rest is owned by CIC, through Central Huijin (Leung, 2009).

Indeed CDB is working on a range of international joint financial initiatives, of which CADF is the only wholly owned, wholly funded by CDB, and wholly managed by the fund/bank itself. Other international joint funds include: the China – Italy Mandarin Fund, the ASEAN Development Fund, the Sino – Swiss Partnership Fund and the China – Belgium Direct Equity Investment Fund. (Zhang, 2007, 2009o)

The Chairman of the Board of Directors, Chen Jian, further states: “We aimed to bring leading financial concepts into practical application in China, integrating the government's advantages in organising and coordinating with CDB's advantages in medium-to long-term investment and financing, align the State's strategic priorities with the needs of the market, and enhance the cooperation between government, corporations and society.” (2009h)

Since its creation, the CADF has opened many offices in Africa. It has been pursuing perhaps the most specific investment strategy of the four funds, it has stated goals: “to support African countries' agriculture, manufacture, energy sector, transportation, telecommunications,

Afrol News quotes the CADF management as stating that since June 2007 until March 2009, the fund had invested around $400 million distributed in over 20 different projects (2009j). Projects that received news coverage, mostly in African newspapers, include: “[a] cotton planting and processing facility in Malawi, [a] 560,000kW scalable power station in Ghana, [a] glass factory in Ethiopia, [an] Egyptian Suez Trade Park, and [a] Nigerian Lachish Trade Zone” (2009j).

Chen Yuan, the Chairman of the Board of Directors of China Development Bank, said this year: “Everyone is saying we should go to the western markets to scoop up [underpriced assets], I think we should not go to America’s Wall Street, but should look more to places with natural and energy resources.” (Anderlini, 2009b). Moreover, “[i]n an interview published in state-controlled media, the chairman of China Development Bank said Chinese outbound investment would accelerate but should focus on resource-rich developing economies” (Anderlini, 2009b).

Indeed CADF has been quite vocal about its intentions of seeking out resource-based companies, in contrast with all other Chinese SWFs (with the exception of the CIC this year). The fund has also been quite clear that it is not endowed with a strictly commercial mandate. The fund’s investments currently range from $5 to 25 million and it typically seeks 8 – 10 year long investments (Hu, 2009).

**Analysis**

The CADF is perhaps the most straightforward of the four SWFs analyzed in this paper. Indeed, it has been quite vocal in terms of its mandate and objectives. For instance, as stated on
its website, it is said that: “CADFund will embody the Chinese government's diplomatic and economic policies towards Africa and boost a new type of strategic partnership between China and Africa.” (2009e) Mark Fung, the General Counsel of CAD has added: “We want to be less passive and more active” (Hu, 2009).

The exact nature of its investments has been difficult to establish however. From the available data, it appears that the CADF is the fund that comes closest to a developmental strategy; although elements of statism, or developmentalism are present in all funds. In an interesting innovative effort, Santiso even goes as far as coining the expression ‘Sovereign Development Fund’ (Santiso, 2008) to express the concentration of activity of many SWFs in the developing world.

From the limited data available on the career path of top CDB officials, it appears that the bank is managed by former MoF officials rather than PBoC officials by a ratio of four to one. “The steering committee for setting policy is composed of members of CDB, the Ministry of Finance, the Ministry of Commerce and the National Development and Reform Commission” (Zhang, 2007).
Table 6 - Career Path of CDB Officials

<table>
<thead>
<tr>
<th>Number of CDB top officials having served in other institutions</th>
<th>Number of officials</th>
</tr>
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<tbody>
<tr>
<td>Ministry of Finance</td>
<td>4</td>
</tr>
<tr>
<td>State Council</td>
<td>0</td>
</tr>
<tr>
<td>People’s Bank of China</td>
<td>1</td>
</tr>
<tr>
<td>National Development and Reform Commission</td>
<td>2</td>
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<td>Central Committee of the CCP</td>
<td>0</td>
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<td>NCSSF</td>
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<td>SAFE</td>
<td>0</td>
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<td>CIC</td>
<td>0</td>
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<tr>
<td><strong>Total: 10</strong></td>
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</tbody>
</table>

Source: China Vitae

The most significant signal in this case however probably comes from the fact that Hu Jintao himself announced the creation of the fund. The announcement at the end of 2006, during a full stock market boom, when supporters of a more collectivist approach have the upper hand, is noteworthy (see Victor Shih’s “generalist” factions (Shih, 2008a). Furthermore, on the CDB’s website, Jiang Chaoliang, the CDB’s Governor, insists that the goal of the Bank includes: “(…) focusing on improving the people's livelihoods, and promoting a harmonious society”, as well as highlighting the Bank’s social development aims and social responsibilities. The language of a “harmonious society”, Hu Jintao’s vision, and a “collectivist” stance, is very prominent in his text.
Interestingly, Mark Fung adds that CADF aims at making: “so-called passive investments because the fund does not have the resources and expertise to more actively take part in the management of the projects it puts money in” (Hu, 2009). One cannot help but notice that compared to the amount of foreign reserves available to the other SWFs, CADF has been endowed with relatively few funds. This might indicate that the tentative coalition supporting a developmental mandate seems at least to have difficulty convincing others that the CDB is the best tool for its aims.

Recent quotes by Wen Jiabao, China’s Premier, might confirm this. He said in July 2009, that “Beijing will use its foreign exchange reserves, the largest in the world, to support and accelerate overseas expansion and acquisitions by Chinese companies, (...) We should hasten the implementation of our ‘going out’ strategy and combine the utilisation of foreign exchange reserves with the ‘going out’ of our enterprises.” (Anderlini, 2009b). Indeed, China has a multitude of Chinese SOEs keen on investing abroad, and they might be more efficient in getting broad political and institutional support for their endeavors.

One point is clear though: “[i]f Chinese firms are explicitly backed by China’s reserves, it gets harder to argue that their expansion reflects a purely commercial calculus” (Setser, 2009).
Conclusion

The use of Sovereign Wealth Funds is a relatively recent yet intensifying phenomenon. China itself has created four SWFs over the past nine years. This paper was initially motivated by the desire to understand why these funds behave differently and the processes at play within the Chinese decision-making structures, which allow for this divergence to occur. What emerged was an intricate story of power politics and disagreement over the ideal state investment strategies within the Chinese party-state apparatus. These sorts of policy disagreements about the role of state controlled financial tools in the global economy is certainly not unexpected, as it occurs in many policy circles in developed and developing countries alike. What is most interesting in this case is that the existence of four such state controlled financial tools allows us to observe the types of behavior that can result from policy coalitions which have diverging conceptions of their role.

The result of this divergence in interests and ideologies is the creation of at least four distinct Chinese SWFs, with separate institutional structures, mandates and investment patterns (as well as many more outbound investments mechanisms that did not qualify as SWFs under the definition adopted here). Indeed the four analyzed SWFs exhibit a type of behavior that suggests the existence of what I label hybrid policy coalitions. Over the course of the past several years, policy coalitions have evolved and responded to their domestic and international environments.

Thus, the creation of the first fund, NSSF, had an impact on the realignment of coalitions that have supported the creation of subsequent funds. This time-specific dynamic was also noticeable during the first year of operation of the CIC and the SAFE Inv. Co. In other words, and unsurprisingly, policy coalitions do not operate in a vacuum and are still very much a
product of the deepening fragmentation of decision-making structures in China today (Shih et al., 2009), as well as of the broadening of the pool of relevant policy actors (Mertha, 2009). Ultimately, their vision for Chinese state funds’ investment mandates is the result of these changing evaluations and the resulting political compromises.

In terms of future research “[f]or Western policy makers, the main challenge will be to keep track of an increasing array of financial institutions related to the Chinese government and to discern patterns of coordinated actions that may have strategic implications.” (Shih, 2008b) Indeed, as the difficulty to gather data on the investments of the four Chinese SWFs demonstrates, not only are those SWFs relatively opaque in their operations, but they also give multiple mandates to external fund managers, which highly complicates the picture.

Ultimately, two trends might warrant the attention of academics and policy-makers who have been interested in addressing the concerns raised by state-led investments. In the immediate term, attention should focus on the continuing lack of transparency and legitimacy of those institutions (Monk, 2007). In the longer term, one might ponder the likelihood that Chinese state investment vehicles will become more aggressive, and command more power than they do now. SWFs, in a sense, are the proportional projection of a state’s financial sway and economic might, and as China gains confidence on the international financial scene, we should expect to see more rather than less, of China’s SWFs. That trend, linked to the shifting balance of global economic power, should raise the awareness of those who see the end of clear Anglo-Saxon financial hegemony as a momentous transformation.

The analysis of Chinese SWFs also points to a distinct emerging model of state-led governance of foreign investments, and it “(…) highlights [the fact] that the state plays a larger
role in the economy of the world’s leading creditor nation than in most of the economies that it is investing in” (Setser, 2009).

All in all, the rise of SWFs is a trend that is at the center of a redefinition of national economic models of development and growth as well as at the center of an international shift in the balance of power from a North-Atlantic based, to a North-Pacific based center of gravity.
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(2009m) CIC said to make $10b in profit last year. China Economic Review.


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(2009v) What the G2 must discuss now the G20 is over. The Financial Times.
Anderlini, Jamil (2008a) Beijing uses forex reserves to target Taiwan. *Financial Times.*
Arthuis, Jean (2008) Rapport d'information fait au nom de la commission de Finances, du contrôle budgétaire et des comptes économiques de la Nation sur le rôle des fonds souverains. in Sénat (ed) *Session ordinaire.*
Leung, Sophie (2009) China Development Plans Brazil, Russia, Egypt Offices *Bloomberg.*
Li, Qing and Zhen Cao (2009) PE Losses Sting Chinese Investment Arms. *Caijing Magazine.*


Wright, Logan (2008) CIC and SAFE: Coordination or Bureaucratic Conflict? *China Stakes.*


Appendices

Appendix 1: Factual Charts

National Social Security Fund / 全国社会保障基金 (Quánguó shèhuì bǎozhàng jījīn)

Date of creation: 2000

Assets: RMB 562.4 billion ($81 billion)

“Liabilities: RMB 5.8 billion pension fund of the Government’s Operations Department, which handles investments for the NSSF and RMB 4.6 billion of individual accounts in the basic pension system” (NCSSF website).

Headquarters: Fenghui Shidai Dasha (South Wing) 11 Fenghuiyuan Xicheng District Beijing 100032

Dai Xianglong: President
    Background: PBoC, Agricultural Bank of China, Tianjin municipality

Wang Zhongmin: Vice-Chairman
    Background: People’s government, Shaanxi Province

2007 projected investment asset allocation: fixed income products (50%) - targeted annual rate of return (3.5%), equity (30%) obtained through rebalancing and structural adjustments, strategically allocated to business investments (20%) - targeted annual rate of return (6%), cash and cash equivalence (0%) (NCSSF website).
NSSF investments in Chinese Banks

<table>
<thead>
<tr>
<th>Investment</th>
<th>Date</th>
<th>Amount of shares</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Development Bank (projected)</td>
<td>News source</td>
<td>unknown</td>
<td>Approx. $2.9 billion</td>
</tr>
<tr>
<td></td>
<td>14/10/2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CITIC - NSSF Private equity fund worth approx $730 M (projected)</td>
<td>News source</td>
<td>unknown</td>
<td>unknown</td>
</tr>
<tr>
<td></td>
<td>26/08/2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of Communications*</td>
<td>2003-2004</td>
<td>5.55 Billion shares</td>
<td>$1.43 billion</td>
</tr>
<tr>
<td>Industrial and Commercial Bank of China (ICBC)</td>
<td>2005-2007</td>
<td>unknown</td>
<td>$2.6 billion</td>
</tr>
<tr>
<td>Bank of China</td>
<td>2005-2007</td>
<td>unknown</td>
<td>$1.4 billion</td>
</tr>
<tr>
<td>Agricultural Bank of China (projected in 2007)*</td>
<td>2008</td>
<td></td>
<td>$2.1 billion</td>
</tr>
</tbody>
</table>

*(McCormack, 2008)*

Investments on the Hong Kong Stock Market include…

- Bank of China*
- Bank of Communications*
- Industrial & Commercial Bank of China*
- China Merchant Bank*
- China Blue Chemical*
- China Communications Services Corporation*
- China Communications Construction*
- China Coal Energy*
- China Petroleum & Chemical Corporation (SINOPEC)*
- Dalian Port*
- Hunan Non-Ferrous Metals*
- Industrial & Commercial Bank of China*
- Jilin Qifeng Chemical Fiber*
- Shanghai Jin Jiang Int’l Hotels (Group)*
- Shanghai Prime Machinery*
- Zhaojin Mining Industry*
- Zhuzhou CSR Times Electric*

* The complete list would be extremely long, since on top of active NSSF investments, all SOEs listing on the Chinese markets have to transfer a portion of their shares to the fund as well.
China Molybdenum
Sichuan Xinhua Winshare Chainstore
Xinjiang Xinxin Mining Industry
China CITIC Bank Corporation
Sinotruk (Hong Kong)
China Railway Group
China National Materials
Yangtze Power
Jiangling Motors Corporation, Ltd.
Guangdong Electric Power Development Company
Guangdong Provincial Expressway Development
Chongqing Changan Automobile Limited Company
China International Marine Containers
China Vanke Co. Ltd.
...

* (McCormack, 2008)
** (2009p)

** China Investment Corporation / 中国投资有限责任公司 (Zhōngguó tóuzī yǒuxiàn zérèn gōngsī)

Date of creation: September 2007

Assets: $288.8 billion

Headquarters: New Poly Plaza, 1 Chaoyangmen Beidajie, Dongcheng District, Beijing, 100010

Lou Jiwei: Chairman and CEO
   Background: State Council, MoF
Gao Xiqing: Vice-Chairman, President and CIO
   Background: NCSSF, China Securities Regulatory Commission
Zhang Hongli: Executive Director, Executive Vice President & COO
   Background: MoF
Yu Erniu: Employee Director
   Background: Bank of China, MoF
<table>
<thead>
<tr>
<th>Investment</th>
<th>Sector</th>
<th>Date</th>
<th>Investment Arm</th>
<th>Total percentage of shares owned</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teck Resources Limited*</td>
<td>Mining (Canada)</td>
<td>14/07/2009</td>
<td>CIC (through wholly-owned Fullbloom Investment Corporation)(^6)</td>
<td>17.2%</td>
<td>$1.5 billion ($1.74 billion CAD)</td>
</tr>
<tr>
<td>Minmetals**</td>
<td>Metals and minerals trading company (China)</td>
<td>- projected - news source (28/06/2009)</td>
<td>CIC</td>
<td>unknown</td>
<td>unknown</td>
</tr>
<tr>
<td>Goodman Group***</td>
<td>Property trust (Australia)</td>
<td>16/06/2009</td>
<td>CIC</td>
<td>unknown</td>
<td>$160 million ($200 million AUD)</td>
</tr>
<tr>
<td>Enel****</td>
<td>Energy Group (Italy)</td>
<td>- projected - news source (11/06/2009)</td>
<td>CIC</td>
<td>3.5%</td>
<td>$1.6 billion</td>
</tr>
<tr>
<td>Morgan Stanley*****</td>
<td>Financial services company (USA)</td>
<td>03/06/2009</td>
<td>CIC</td>
<td>9.86%</td>
<td>$ 1.2 billion</td>
</tr>
<tr>
<td>Fortescue******</td>
<td>Mining (Australia)</td>
<td>- holding talks - news source (12/08/2009)</td>
<td>CIC</td>
<td>unknown</td>
<td>approx $1 billion</td>
</tr>
<tr>
<td>Blackstone Group (fund of funds unit)†</td>
<td>Financial services (USA)</td>
<td>2009</td>
<td>CIC</td>
<td>unknown</td>
<td>$500 million</td>
</tr>
<tr>
<td>Blackstone Group ††</td>
<td>Financial services (USA)</td>
<td>10/2008</td>
<td>CIC</td>
<td>12.5%</td>
<td>unknown</td>
</tr>
<tr>
<td>Visa Inc. †††</td>
<td>Financial services (USA)</td>
<td>2008</td>
<td>CIC</td>
<td>unknown</td>
<td>$100 million</td>
</tr>
<tr>
<td>Reserve Primary Fund †††</td>
<td>Currency market fund (USA)</td>
<td>2008</td>
<td>CIC (through Stable Investment Corp.)</td>
<td>unknown</td>
<td>$5.4 billion</td>
</tr>
<tr>
<td>Morgan Stanley******</td>
<td>Financial services</td>
<td>19/12/2007</td>
<td>CIC</td>
<td>9.86% (diluted to $5.6 billion)</td>
<td>$5.6 billion</td>
</tr>
</tbody>
</table>

\(^6\) According to CBC, this company was set up for the purpose of this purchase only
<table>
<thead>
<tr>
<th>Investment</th>
<th>Sector</th>
<th>Date</th>
<th>Investment Arm</th>
<th>Total percentage of shares owned</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Railway††††</td>
<td>State Owned Enterprise (China)</td>
<td>20/11/2007</td>
<td>CIC</td>
<td>5.50%</td>
<td>$100 million</td>
</tr>
<tr>
<td>Blackstone Group †</td>
<td>Financial services (USA)</td>
<td>20/05/2007</td>
<td>CIC (through Central Huijin)</td>
<td>10%</td>
<td>$ 3 billion</td>
</tr>
<tr>
<td>Central Huijin Investment Company ×</td>
<td>Investment company (China)</td>
<td>11/01/2007</td>
<td>CIC</td>
<td>100%</td>
<td>$67 billion</td>
</tr>
<tr>
<td>J.C. Flowers &amp; Company**</td>
<td>Private equity fund manager (USA)</td>
<td>2007</td>
<td>CIC</td>
<td>80% of funding towards a separate private equity fund</td>
<td>approx $3.2 billion</td>
</tr>
<tr>
<td>Veolia Environnement***</td>
<td>(France)</td>
<td>Unknown</td>
<td>CIC</td>
<td>1.5%</td>
<td>unknown</td>
</tr>
</tbody>
</table>

* (Waller, 2009)  
** (Wachman, 2009)  
*** (2009k)  
**** (2009l)  
***** (Wang, 2009)  
****** (Feller, 2009)  
† (Carew et al., 2009)  
†† (Kwok, 2008)  
††† (Puel, 2009)  
†††† (Cao et al., 2008)  
††††† (2007c)  
x (2008d)  
x (2008c)  
xxx (Patel et al., 2008)
## Central Huijin Investment Company Limited / 中央汇金投资有限责任公司

(Zhōngyāng huìjīn tóuzī yǒuxiàn zérèn gōngsī)

<table>
<thead>
<tr>
<th>Investment</th>
<th>Date</th>
<th>Percent of shares</th>
<th>Amount of shares (billion) on December 31 2008</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Bank of China</td>
<td>29/10/2008</td>
<td>50.00%</td>
<td>130.000</td>
<td>$19 - 45 billion</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Note: other 50% owned by MoF</td>
</tr>
<tr>
<td>China Development Bank</td>
<td>31/12/2007</td>
<td>48.70%</td>
<td>146.092</td>
<td>$20 billion</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Note: other 51.3% owned by MoF</td>
</tr>
<tr>
<td>China Everbright Bank</td>
<td>30/11/2007</td>
<td>70.88%</td>
<td>20.000</td>
<td>$2.7 billion</td>
</tr>
<tr>
<td>China Reinsurance Group Corporation</td>
<td>11/04/2007</td>
<td>85.50%</td>
<td>30.908</td>
<td>$4 billion</td>
</tr>
<tr>
<td>Guotai Junan Securities</td>
<td>14/10/2005</td>
<td>21.28%</td>
<td>1.000</td>
<td>$0.13 billion</td>
</tr>
<tr>
<td>Shenyin &amp; Wanguo Securities Co. Ltd</td>
<td>21/09/2005</td>
<td>37.23%</td>
<td>2.500</td>
<td>$0.31 billion</td>
</tr>
<tr>
<td>China Galaxy Financial Holdings</td>
<td>14/07/2005</td>
<td>78.57%</td>
<td>5.500</td>
<td>$0.67 billion</td>
</tr>
<tr>
<td>ICBC</td>
<td>22/04/2005</td>
<td>35.41%</td>
<td>118.263</td>
<td>$15.00 billion</td>
</tr>
<tr>
<td>China Jianyin Investment</td>
<td>09/09/2004</td>
<td>100%</td>
<td>20.692</td>
<td>unknown</td>
</tr>
<tr>
<td>China Construction Bank Corporation</td>
<td>30/12/2003</td>
<td>48.22%</td>
<td>112.688</td>
<td>$20 billion</td>
</tr>
<tr>
<td></td>
<td>2009**</td>
<td></td>
<td></td>
<td>unknown</td>
</tr>
<tr>
<td>Bank of China</td>
<td>30/12/2003</td>
<td>67.53%</td>
<td>177.402</td>
<td>$22.5 billion</td>
</tr>
<tr>
<td>Import Export Bank of China</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
<td>$5.00 billion</td>
</tr>
</tbody>
</table>

*(McCormack, 2008)*

**(Yu, 2009)**

****(2008a, McCormack, 2008)*

*****(2009a)*

******(2009g)*

†(2008b)

††*(Li et al., 2009)*

All remaining data (2008c)
SAFE Investment Company Ltd / 国家外汇管理局投资公司 (Guójìā wàihuì guǎnlǐ jú tóuzī gōngsī) 7

SAFE / 国家外汇管理局 (Guójìā wāihuì guǎnlǐ jú)

Date created: 1997 (Arthuis, 2008)

December 2007 estimated value: 347.1 billion dollars in foreign non-reserve assets, among which 18.9 billion in foreign securities, 220.6 billion in foreign debt securities and another 107.6 billion is invested directly abroad (2009t).

Headquarters: Huanrong Hotel, No.18 in Fucheng Road, Haidian District, Beijing, 100048

Yi Gang: Administrator
   Background: PBoC, Indiana University, Peking University

Deng Xianhong: Deputy Administrator
   Background: Various state commissions, SAFE

Wang Xiaoyi: Deputy Administrator
   Background: PBoC, IMF, SAFE

Fang Shangpu: Deputy Administrator
   Background: PBoC, Fujian Industrial Bank, SAFE

Li Chao: Deputy Administrator
   Background: China Construction Bank, China Securities Regulatory Commission, PBoC

SAFE Investment Company Ltd.

<table>
<thead>
<tr>
<th>Investment</th>
<th>Sector</th>
<th>Date</th>
<th>Investment Arm</th>
<th>Percent of shares</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK equity market</td>
<td>Oil &amp; Gas</td>
<td>Early 2008</td>
<td>SAFE Inv. Co.</td>
<td>1.6%</td>
<td>$2 billion</td>
</tr>
<tr>
<td>(see table below)8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>British Petroleum*</td>
<td></td>
<td></td>
<td>SAFE</td>
<td>unknown</td>
<td>$2.5 billion</td>
</tr>
<tr>
<td>Texas Pacific Group</td>
<td>Finance</td>
<td>Early 2008</td>
<td>SAFE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(which subsequently)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

7 The author’s translation
8 Except for BP investment
<table>
<thead>
<tr>
<th>Investment</th>
<th>Sector</th>
<th>Date</th>
<th>Investment Arm</th>
<th>Percent of shares</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>bought 65% of Washington Mutual)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (France)</td>
<td>Oil &amp; Gas</td>
<td>04/04/2008</td>
<td>SAFE</td>
<td>1.6%</td>
<td>$2.7 billion</td>
</tr>
<tr>
<td>Commonwealth Bank of Australia</td>
<td>Bank</td>
<td>late 2007</td>
<td>SAFE Inv. Co</td>
<td>&lt;1%</td>
<td>approx $200 million AUD ($176 million)</td>
</tr>
<tr>
<td>Australia and New Zealand Bank</td>
<td>Bank</td>
<td>late 2007</td>
<td>SAFE Inv. Co</td>
<td>&lt;1%</td>
<td>approx $200 million AUD ($176 million)</td>
</tr>
<tr>
<td>National Australia Bank</td>
<td>Bank</td>
<td>late 2007</td>
<td>SAFE Inv. Co</td>
<td>0.33%</td>
<td>approx $200 million AUD ($176 million)</td>
</tr>
<tr>
<td>Prudential</td>
<td>SAFE</td>
<td></td>
<td>1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costa Rican bonds</td>
<td>--</td>
<td>01/06/2007</td>
<td>SAFE</td>
<td></td>
<td>$300 million, plus $150 million in aid</td>
</tr>
</tbody>
</table>

*(2008h)  
**(Li et al., 2009)  
***(Arthuis, 2008)  
****(Anderlini et al., 2008)  
*****(Bowley, 2008)

**SAFE Investment in UK-listed companies**

<table>
<thead>
<tr>
<th>Investment</th>
<th>Sector</th>
<th>Price (000 £)</th>
<th>Percent of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royal Dutch Shell Plc</td>
<td>Oil &amp; Gas</td>
<td>590.934</td>
<td>0.9%</td>
</tr>
<tr>
<td>Rio Tinto Plc</td>
<td>Mining</td>
<td>279.097</td>
<td>0.52%</td>
</tr>
<tr>
<td>BG Group Plc</td>
<td>Oil &amp; Gas</td>
<td>241.817</td>
<td>0.72%</td>
</tr>
<tr>
<td>Tesco Plc</td>
<td>Food &amp; Drug Retailers</td>
<td>225.347</td>
<td></td>
</tr>
<tr>
<td>BHP Billiton Plc</td>
<td>Mining</td>
<td>188.320</td>
<td>0.5%</td>
</tr>
<tr>
<td>Barclays Plc</td>
<td>Banks</td>
<td>174.968</td>
<td></td>
</tr>
<tr>
<td>Royal Bank of Scotland Group Plc</td>
<td>Banks</td>
<td>172.698</td>
<td>1.5%</td>
</tr>
<tr>
<td>National Grid Plc</td>
<td>Utilities &amp; Other</td>
<td>168.550</td>
<td></td>
</tr>
<tr>
<td>Aviva Plc</td>
<td>Insurance</td>
<td>138.065</td>
<td>0.97%</td>
</tr>
<tr>
<td>Unilever Plc</td>
<td>Food Producers &amp;</td>
<td>122.036</td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>Sector</td>
<td>Price (000 £)</td>
<td>Percent of shares</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-------------------------------</td>
<td>---------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Reckitt Benckiser Group</td>
<td>Personal Care &amp; Household Products</td>
<td>108.861</td>
<td></td>
</tr>
<tr>
<td>HBOs Plc</td>
<td>Banks</td>
<td>104.504</td>
<td></td>
</tr>
<tr>
<td>Cadbury Plc</td>
<td>Food Producers &amp; Processors</td>
<td>78.982</td>
<td>0.97% **</td>
</tr>
<tr>
<td>Morrison (WM) Supermarkets Plc</td>
<td>Food &amp; Drug Retailers</td>
<td>66.275</td>
<td></td>
</tr>
<tr>
<td>British Energy Group Plc</td>
<td>Electricity</td>
<td>59.273</td>
<td></td>
</tr>
<tr>
<td>International Power Plc</td>
<td>Electricity</td>
<td>56.601</td>
<td></td>
</tr>
<tr>
<td>Legal &amp; General Group Plc</td>
<td>Life Assurance</td>
<td>52.993</td>
<td></td>
</tr>
<tr>
<td>WPP Group Plc</td>
<td>Media &amp; Entertainment</td>
<td>46.415</td>
<td></td>
</tr>
<tr>
<td>Lonmin Plc</td>
<td>Mining</td>
<td>44.806</td>
<td></td>
</tr>
<tr>
<td>British Sky Broadcasting Group</td>
<td>Media &amp; Entertainment</td>
<td>43.437</td>
<td></td>
</tr>
<tr>
<td>Old Mutual Plc</td>
<td>Life Insurance</td>
<td>36.754</td>
<td></td>
</tr>
<tr>
<td>Marks &amp; Spencer Group Plc</td>
<td>General Retailers</td>
<td>35.077</td>
<td></td>
</tr>
<tr>
<td>RSA Insurance Grp</td>
<td>Insurance</td>
<td>31.925</td>
<td></td>
</tr>
<tr>
<td>Capita Group Plc</td>
<td>Support Services</td>
<td>31.448</td>
<td></td>
</tr>
<tr>
<td>Severn Trent Plc</td>
<td>Utilities – Other</td>
<td>26.653</td>
<td>0.86% **</td>
</tr>
<tr>
<td>Smiths Group Plc</td>
<td>Aerospace &amp; Defence</td>
<td>20.137</td>
<td></td>
</tr>
<tr>
<td>Drax Group Plc</td>
<td>Electricity</td>
<td>19.470</td>
<td></td>
</tr>
<tr>
<td>Sage Group Plc</td>
<td>Software &amp; Computer Services</td>
<td>18.399</td>
<td></td>
</tr>
<tr>
<td>Wolseley Plc</td>
<td>Construction &amp; Building Mats</td>
<td>16.251</td>
<td></td>
</tr>
<tr>
<td>G4S Plc</td>
<td>Support Services</td>
<td>14.667</td>
<td></td>
</tr>
<tr>
<td>InterContinental Hotels Groups Plc</td>
<td>Leisure, Entertainment &amp; Hotels</td>
<td>13.980</td>
<td></td>
</tr>
<tr>
<td>Tate &amp; Lyle Plc</td>
<td>Food Producers &amp; Processors</td>
<td>13.887</td>
<td>0.75% **</td>
</tr>
<tr>
<td>Firstgroup Plc</td>
<td>Transport</td>
<td>12.905</td>
<td></td>
</tr>
<tr>
<td>Whitebread Plc</td>
<td>Leisure, Entertainment &amp;</td>
<td>12.091</td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>Sector</td>
<td>Price (000 £)</td>
<td>Percent of shares</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>---------------------------------------------</td>
<td>---------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Segro Plc</td>
<td>Real Estate</td>
<td>11.749</td>
<td></td>
</tr>
<tr>
<td>Enterprise Inns Plc</td>
<td>Leisure, Entertainment &amp; Hotels</td>
<td>8.484</td>
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<td>IMI Plc</td>
<td>Engineering &amp; Machinery</td>
<td>8.206</td>
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<td>Rentokil Initial Plc</td>
<td>Support Services</td>
<td>7.719</td>
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<tr>
<td>Mitchells &amp; Butlers Plc</td>
<td>Leisure, Entertainment &amp; Hotels</td>
<td>7.592</td>
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<td>Hays Plc</td>
<td>Support Services</td>
<td>7.108</td>
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<tr>
<td>Schroders Plc</td>
<td>Speciality &amp; Other Finance</td>
<td>6.602</td>
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<tr>
<td>Provident Financial Plc</td>
<td>Speciality &amp; Other Finance</td>
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<tr>
<td>Misys Plc</td>
<td>Software &amp; Computer Services</td>
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<tr>
<td>Punch Taverns</td>
<td>Leisure, Entertainment &amp; Hotels</td>
<td>4.965</td>
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<td>Electrocomponents Plc</td>
<td>Support Services</td>
<td>4.261</td>
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<tr>
<td>Kesa Electricals Plc</td>
<td>General Retailers</td>
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<tr>
<td>Vedanta Resources Plc</td>
<td>Mining</td>
<td>1.912</td>
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</table>

* (2009t)
** (2008h)
*** Thomson Financial, in: (2008h)
All other data: (2008g)

**China Africa Development Fund / 中非发展基金 (Zhōngfēi fāzhǎn jījīn)**

Date created: 2007

Assets: $1 billion ($5 billion announced)

Headquarters: No.29, Fuchengmenwai Street, Xicheng District, Beijing, China, 10037

Zhao Jianping: Chairman of the board of directors
Shu Jiawei: Chairman of the supervisory board
Chi Jianxin: Chief Executive Officer

“CADFund will focus on the following industries and fields:

1. Agriculture and manufacturing industries, which are crucial to the economic recovery and development of African countries, as well as to the enhancement of strengthening their own development competencies;

2. Infrastructure and underlying industries, such as electric power and other energy facilities, transportation, telecommunications and urban water supply and drainage;

3. Natural resources, such as oil, gas and solid mineral resources;

4. Industrial parks set up by Chinese enterprises in Africa.” (2009e)

<table>
<thead>
<tr>
<th>Investment</th>
<th>Country</th>
<th>Cost</th>
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<tbody>
<tr>
<td>Cotton planting and processing facility</td>
<td>Malawi</td>
<td>unknown</td>
</tr>
<tr>
<td>560,000 kW power station**</td>
<td>Ghana</td>
<td>unknown</td>
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<tr>
<td>Hansom International Glass factory**</td>
<td>Ethiopia</td>
<td>unknown</td>
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<tr>
<td>Suez Trade Park**</td>
<td>Egypt</td>
<td>unknown</td>
</tr>
<tr>
<td>Lachish Trade zone** / Lekki Trade Zone**</td>
<td>Nigeria</td>
<td>unknown</td>
</tr>
</tbody>
</table>

*(2009j)
**(Erasmus, 2009)
Appendix 2: Various Definitions of SWFs

International Working Group of Sovereign Wealth Funds

“SWFs are defined as special purpose investment funds or arrangements, owned by the general government. Created by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets. The SWFs are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports.” (2008j)

Ashby Monk

“SWFs are 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.” (Monk, 2009)

SWF Institute

“A Sovereign Wealth Fund (SWF) is a state-owned investment fund composed of financial assets such as stocks, bonds, real estate, or other financial instruments funded by foreign exchange assets. These assets can include: balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports. SWFs can be structured as a fund, pool, or corporation. The definition of sovereign wealth fund exclude, among other things, foreign currency reserve assets held by monetary authorities for the traditional balance of payments or monetary policy purposes, state-owned enterprises (SOEs) in the traditional sense, government-employee pension funds, or assets managed for the benefit of individuals.” (2009a)

OECD

“A SWF is a fund set up to diversify and improve the return on foreign exchange reserves or commodity (typically oil) revenue, and sometimes to shield the domestic economy from (cycle inducing) fluctuations in commodity prices. As such most invest in foreign assets. (...) Where national resource funds are earmarked for particular regions, such as Canada’s Alberta Heritage Savings Trust Fund, and the USA Alaska Permanent Fund, they are included as a SWF. Some of the above funds are set up to meet industrial objectives, such as regional development, as in Temasek.” (Blundell-Wignall, 2008)

Public Pension Reserve Funds (PPRFs) could be defined as funds set up by governments or social security institutions with the objective of contributing to financing the relevant pay-as-you go pension plans. Based on this yardstick, two sub-categories of pension reserve funds can be identified:

i. The first type, Social Security Reserve Funds (SSRFs), is set up as part of the overall social security system, where the inflows are mainly surpluses of employee and/or employer contributions over current payouts, as well as, in some cases, top up contributions from the government via fiscal transfers and other sources. Among others, Denmark’s Social Security Fund, Japan’s Government Pension Investment Fund, and USA’s Social Security Trust Fund
fall within this category. These funds may be managed by the social security institution itself or an independent – often public sector – fund management entity. While most of these funds, like the social security system itself, fall under the government sector, there are some exceptions. For example, the Canada Pension Plan (CPP) reserve fund is legally independent of government. The CPP has no financial guarantee from government and relies solely on mandatory pension contributions and investment income from the reserve fund to finance pension benefits for Canadian citizens. In this sense, the CPP reserve fund may not be considered a SWF.

ii. The second type, Sovereign Pension Reserve Funds (SPRFs), refers to those funds which are established directly by the government (completely separated from the social security system), and its financial inflows are mainly from direct fiscal transfers from the government. Unlike the first type of reserve fund, those within this category have been set up by governments to meet future deficits of the social security system. Some are not allowed to make any payouts for decades. Examples include the Australian Future Fund, the New Zealand Superannuation Fund, the Irish National Pension Reserve Fund, the Norwegian Government Pension Fund, and the French *Fonds de réserve pour les retraites*. Some of these funds are sometimes treated as SWFs and indeed a few fit both definitions. For example, Government Pension Fund-Norway and Government Pension Fund-Global, both established in 2006, are the result of the re-structuring of the Norwegian pension reserve funds (formerly, the National Insurance Scheme Fund) and a SWF (formerly, the Government Petroleum Fund). The Government Pension Fund- Global (solely invested in foreign assets) has a mandate beyond financing pension expenditures, and is therefore classified as a SWF in this paper.” (Blundell-Wignall, 2008)

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*Deutsche Bank Research*

“Sovereign wealth funds – or state investment funds – are financial vehicles owned by states which hold, manage or administer public funds and invest them in a wider range of assets of various kinds. Their funds are mainly derived from excess liquidity in the public sector stemming from government fiscal surpluses or from official reserves at central banks.” (Kern, 2007)

*Peterson Institute*

“Sovereign wealth fund” is a descriptive term for a separate pool of government-owned or governments-controlled financial assets that includes some international assets. (…) SWFs take many forms and are designed to achieve a variety of economic and financial objectives.” (Truman, 2008a)

*IMF*

“SWFs can generally be defined as special investment funds created or owned by governments to hold foreign assets for long-term purposes.” (Das, 2007)

*Oxford Economics*

“(…) Sovereign Wealth Funds – that is, vehicles for investing these surplus state funds strategically and more profitably.” (Portman, 2008)