THE UNIVERSITY OF MELBOURNE
Published on *Up Close* (https://upclose.unimelb.edu.au)

#235: Tight-lipped transactions: Degrees of transparency in sovereign wealth funds

VOICEOVER
Welcome to UpClose, the research talk show from the University of Melbourne, Australia.

ERIC VAN BEMMEL
I'm Eric van Bemmel, thanks for joining us. Gerard Lyons of Standard Chartered Bank has called it the rise of state capitalism where national governments increasingly look to run large scale investment funds to manage state owned assets. Sovereign Wealth Funds - as these investment vehicles are known - are now estimated to represent over $5 trillion US dollars in assets world wide - more than doubling between 2007 and 2012. Before the global financial crisis hit full force in 2008, Sovereign Wealth Funds were the object of some suspicion; not all of them can be described as transparent and the motivations of governments in deciding funds activities - according to some observers - may have more to do with strategic concerns than with commercial ones. Indeed a Chinese fund's attempt to acquire a major American oil company in 2005, was abandoned after the adverse political reaction in the United States that viewed the deal - rightly or wrongly - as about more than market considerations. The GFC may have distracted our attention from questions over sovereign wealth funds but their rise and rise makes them hard to ignore and sovereign funds have been a source of much needed finance during the crisis itself underscoring their increasing importance and arguably positive impact. Joining us to pick apart the light from the shadows cast by Sovereign Wealth funds, we are joined on UpClose by Christopher Balding. He is Associate Professor of Political Economics at Peking University, HSBC School of Business based in Shenzhen, China and author of the 2012 book, Sovereign Wealth Funds: The New Intersection of Money and Politics. Christopher Balding also blogs at Balding's World - you can find a link to it on our episode page. Christopher is speaking to us via Skype from Los Angeles. Christopher, thank you for joining us on UpClose.

CHRISTOPHER BALDING
Thank you for having me Eric.

ERIC VAN BEMMEL
Now Christopher, in doing some of the background reading for this episode, I noted on the Wikipedia page for Sovereign Wealth funds that there are some 65 funds - a lot of them popping up fairly recently - what were Sovereign Wealth funds first developed for?

CHRISTOPHER BALDING
They were actually developed for very reasonable purposes and the basic idea being that countries were faced with a sudden and large and sustained inflow of capital, primarily from commodity countries - gas, oil, minerals, metals ? things of that nature and so they would be faced with this large inflow of capital which could have very negative impacts for their economy. This would primarily come about through large increases in inflation which were due to the sudden growth of public spending - would really have no long term positive impact on the country. So countries decided that when they were faced with this sudden, large and sustained inflow of capital, that they had to manage their finances better. So they created what has ultimately come to be called sovereign wealth funds to attempt to manage this very good problem better.

ERIC VAN BEMMEL
And they have a stabilising effect on the economy and they were originally known as stabilization funds were they not?

CHRISTOPHER BALDING
Yes, they were known as exactly that and in fact the first sovereign wealth fund really began as nothing more than a cash management operation because there were some Middle Eastern Gulf states that didn't know what to do with all their money. It really just started as a one room operation in the Bank of England saying, where should we deposit the money that we have. And so hey started distributing it to different English banks and it grew from there over 40 years to hundreds of billions of dollars in Kuwait and other places like that today which in the Gulf is a few trillion dollars. It really started very simply and for very reasonable purposes.

ERIC VAN BEMMEL
Aren't there also other reasons that are claimed for these funds - for example, building up savings for future generations? Not just that stability function but for looking to the future, intergenerational equity, so to speak?

CHRISTOPHER BALDING
Yes. The basic idea being there - and many funds have done this - is to target a variety of purposes. For instance, Abu Dhabi has specifically tried to expand its economic base as much as they can from reliance on gas and oil. Other countries have specifically made the intergenerational transfer between current generations that are receiving the economic bounty of oil and gas to future generations that might not have access to such natural resources. Norway is a country that pops to mind as focusing heavily on that being able to leave a savings account for future generations. So there has been a number of different major ideas that sovereign wealth funds

have essentially tried to build upon.

ERIC VAN BEMMEL
I have also read - just as an aside here - that with the increasing establishment of African sovereign funds, that it has the effect of boosting credit ratings. Nigeria's recent, first credit rating from Moody's was due in part to the establishment of such a fund.

CHRISTOPHER BALDING
Yes and one of the things that you see a lot with the African funds in particular, is this idea that they can use these funds to better manage their own economy. They will have less reliance on outside institutions like International Investors or The World Bank and so that they can use these funds to develop their economy better, whether it's being able to get an international rating or whether it's being able to develop infrastructure better. But it does return to this idea of how do we stabilise the economy longer term. One of the primary issues associated with that is for many reasons, commodity reliant economies tend to be more prone to boom and bust and there are two specific reasons for that. The first is that commodity prices tend to be extremely volatile. If you look at oil prices over - even a five year period, much less a 20 year period - commodity prices tend to be very, very volatile. The other reason is that when prices are up, governments, who are receiving large royalty and tax revenue, tend to go out and spend that money and they tend to actually spend more than the money that they are receiving in anticipation that the good times are going to continue to last. Consequently what happens is they make commitments - spending commitments - far into the future, that they frequently can't sustain given the volatility of oil prices. And so, consequently, you then have a public spending element that goes hand in hand with that. So in addition to the overall macro-economic position, there is also this very public government driven boom cycle that accompanies that and so the idea by stabilising and creating these funds is that they can essentially smooth out so that the booms aren't quite as high and the busts aren't quite as low.

ERIC VAN BEMMEL
And Christopher how are these funds generally overseen and operated?

CHRISTOPHER BALDING
You know I definitely can't say that there is any one particular model, just in a pure structural perspective. You see some of them run from out of the Central Bank, you see some of them run from the Ministry of Finance, you see some of the run from independent entities altogether to make very broad, sweeping generalisations here. You do tend to see in the Gulf states for instance, where we have some big ones - and the same would also be true of Singapore, is that the ruling families are heavily, heavily involved in either the executive or the day to day management of the sovereign wealth funds. Whereas in other countries like say Russia, China and Norway, it is definitely much more of a professional management system, where there is use of outside managers, there is reporting that goes on - whereas in those other countries, there is definitely much more oversight by ruling families.

ERIC VAN BEMMEL
And how much risk is acceptable for these funds given that they are set up often to benefit future generations or to stabilise the economy? There must be a long term perspective?

CHRISTOPHER BALDING
Yes and that is actually a big question that sovereign wealth funds are definitely wrestling with. My own personal opinion, and this is my own personal opinion only, is that most commodity dependent funds should be very, very low on the risk scale and the reason is very simple. If we look at the national wealth of a commodity dependant country - let's say Abu Dhabi, Kuwait someplace like that - their national wealth in total, which also includes sovereign wealth fund assets, is, in most cases 80%-90% in oil and gas assets that simply haven't been taken out of the ground yet. So a country, simply what they are doing is simply monetising the assets that they have in the ground. What I mean by monetising is just taking an asset out of the ground and turning into a financial asset like a stock, a bond, cash et cetera. Their existing national wealth, because it is so closely tied to commodity prices, is incredibly volatile. So when they turn that asset from oil and gas into a financial asset - cash, stocks, bonds - to offset the volatility and the riskiness of that commodity price, that they would be very well served to stick it into a very low risk asset such as low risk sovereign or corporate debt and even in many cases, cash, because there is simply so much risk with the rest of their national wealth portfolio if you will. But there are other people who take very different opinions and Norway for instance, they have, by law, a 60/40 split between stocks and bonds and they have returned very close to what global markets have for many years, and they have done very well with that. Norway is probably in a little bit better position to take higher risks than other countries but very reasonable people can reach different conclusions on this topic.

ERIC VAN BEMMEL
Now Christopher, how do we compare these funds then with say public pension funds?

CHRISTOPHER BALDING
The most obvious difference between sovereign wealth funds and pension funds is a very simple thing. When they are investing they act in a very similar manner. They will go out. They will buy stocks. They will buy bonds. They will normally have a relatively roughly equal split between stocks and bonds. But there is one very important difference and that is a pension fund has what we call an offsetting liability meaning that there is somebody - a government employee, a company employee - that is paying into that pension fund and creating a liability for the pension fund. They have to pay back and they are purchasing these assets so that they can pay back that liability to that employee in the future. Sovereign wealth funds on the other hand, they have no explicit liability. They do not owe money to anyone. They have a responsibility to the government, to the citizens of a country but there is no inherent liability that they owe money to a citizen or the government or anyone else for that matter. So this is truly net wealth whereas a pension fund has, in most accounting

jurisdictions, an explicit liability that they owe money to a government to pay for their employees or to actual employees.

ERIC VAN BEMMEL
So Christopher, Norway actually uses a lot of the proceeds from its sovereign wealth fund as a form of transference to social benefit ? isn't that similar to what a pension fund does?

CHRISTOPHER BALDING
Well there is two important differences. The first is that there is not an explicit liability. It is a very discretionary portion of the budget that they work out in concert with the sovereign wealth funds so that a representative from the government and a representative from the sovereign wealth fund get in a room together and they decide, okay, how much are we going to give you this year? The second thing is that there are very strict limits on how much that can be a part of the government's budget and there is two very strict rules that the Norwegian government uses here. The first one is that the transfer to the government budget cannot exceed 4% of GDP and the 4% comes from a very rational place. The idea that Norway is using is that the long term rate of return on their assets, is going to be between 6% and 7%. So if they figure that inflation is going to be 2% to 3% then that means that they can top up their budget by roughly 4% every year and still be able to grow their sovereign wealth fund. The other thing that they do which is very important, is that they tie their government budget to what they refer to as the 'non-oil economy' and transfers to the government can only be comprised of a certain percentage of that money. What they have essentially done is that they have tied growth of the government budget to the non-oil economy so that they are not going to have rapid growth if oil prices go through a boom period and then come collapsing back to earth. That is very important to keep in mind because Norway went through many years in the 70's and 80's and even part of the early 90's where they were not managing their oil bounty well to be honest and they will tell you this. This is not a state secret. They had many years of high inflation. They went through numerous booms and busts as a result of the North Sea Oil and they came up with some ideas of, we need to do a better job managing this. We need to do a better job linking government spending to the things that are going to last, not the price of oil. That is how they created some of these rules where they could absolutely use some of this money for social purposes but at the same time, if as they anticipate, North Sea oil dries up within the next 10 to 20 years, that they will still be in very sound financial footing.

ERIC VAN BEMMEL
On UpClose, this episode, we are talking sovereign wealth funds and their impact; we are joined by political economist Christopher Balding. I am Eric van Bemmel. Now Christopher, just one other quick comparison I would like you to make; sovereign wealth funds and state owned enterprises, which really are in a sense a sovereign wealth investment by a country are they not?

CHRISTOPHER BALDING
Well this goes to the issue of what exactly comprises a sovereign wealth fund. I

personally take a little bit of a narrower view point when it comes to what exactly is a sovereign wealth fund because many people have tried to define Sovereign wealth funds as all state assets which would go so far as to include copiers in a government office or state owned enterprises. When we are talking specifically about sovereign wealth funds, I personally take the view that we need to limit that to financial assets that are invested seeking some type of above market rate of return. All that means is that if we were to include every state owned enterprise in the world, every country in the world would have some degree of a sovereign wealth fund but that doesn't necessarily imply that that country has sovereign wealth or even net wealth. So when we are talking about countries that have state owned enterprises, you know, China is a country that if we included every state owned enterprise, they would have probably a few trillion dollars by themselves. The reason that this is important, is that it provides us some type of limiting idea of what we are referring to when we talk about sovereign wealth funds. Otherwise we could consider the United States Postal Service as part of a sovereign wealth fund even though they are nearly bankrupt, so we have to draw the line somewhere. With that said, there are countries where the concept of state owned enterprises and sovereign wealth funds does become quite blurry. You see this a lot in Asia. You see this in Russia. You even see this a little bit in other countries - the Norwegian oil company is heavily involved in the oil business up there. So it is a little bit of a blurry line but when we are talking specifically about sovereign wealth funds I think it would be best to focus on portfolio type of investors that are investing in stocks and bonds around the world rather than state owned enterprises.

ERIC VAN BEMMEL
Fair enough. For countries running the sovereign wealth funds, what is some of the domestic political issues that crop up?

CHRISTOPHER BALDING
There is a number of issues. The biggest issue is - and this is an understandable thing and this is a problem that countries even without sovereign wealth funds face but it is definitely exacerbated in sovereign wealth fund countries - and that is how to spend the money. In the United States, the biggest political debt right now is, how should we handle our budget? Well, imagine you have the flip side in a sovereign wealth fund country where politicians are looking at hundreds of millions or billions or even hundreds of billions of dollars just sitting there doing nothing. This is a real temptation for politicians on how to productively use this money. That would probably be the first one. You can site countries that have realised that they have this money and have gone through enormous spending growth. In the early part of 2000, Russia was enjoying large growth and revenue from oil royalties, their public spending in some years was approaching 40%. You simply cannot spend money productively out of the public purse by growing it at 40% annually, that is simply unheard of and consequently there was a lot of wasted money and I don't think even Russians would say that that money was spend productively. So that would be the biggest issue. Probably the other issue is, it allows countries to pay money to solve problems and I am not referring to basic health problems, infrastructure problems like that, but it allows countries to use money to buy off opponents or throw money at a

problem when they realise they are fighting a losing battle.

ERIC VAN BEMMEL
Can you give me an example of that?

CHRISTOPHER BALDING
Yes, the example I just cited is probably one of the best. In Russia when they were growing public spending by 30/40% there were serious problems in Russian society. Public health, alcohol addiction and things of this nature and so they were increasing social spending enormously and if you look at the numbers, they simply haven't solved anything. They have gone back into significant deficit and their sovereign wealth fund has actually declined in size rather sizably since probably around 2007 or so and so that is one type of problem. Another way that you see this is in Singapore. In Singapore in particular, what you have is you have government ministers that are cycling to the companies that they oversee and then back to the government and in many cases sitting in a government regulatory body while also being Chairman of the Board of the company. And probably the example that best exemplifies this is, there was an interview with a Singaporean minister where he jokingly said, I actually have to write letters to myself and what he was saying is that in his position as Chairman of the Board of a company, he had to write letters to himself as the regulatory head of a body in Singapore. So he was literally writing letters to himself and this creates a real conflict of interest, both for the company, the oversight and the government.

ERIC VAN BEMMEL
What about the political issues, implications for countries that are on the receiving end of sovereign fund based investment? They must have some concerns as well when the money is starting to come in from other countries?

CHRISTOPHER BALDING
They do and what is surprising is that there has really been a very small number of cases where you could really point to serious problems being created, where undue pressure has been applied or benefits given because it is a government investment are actually quite small. I want to make that point very clear, early. But this is a concern that goes back many, many years. Back in the 70's and 80's when you had the petro-dollar crisis from funds being recycled from when there was an oil price boom back in the late 70's, you had these funds - primarily Gulf funds at the time - buying what they considered to be quasi government debt in the form of telecoms that had not been unregulated in the United States at the time and so they carried a higher interest rate than government debt but they also provided a greater yield and the concern at the time was that these middle eastern governments and sovereign wealth funds would be somehow applying pressure to telecom companies in the United States, trying to use this for intelligence purposes and there was actually a number of instances where there were congressional or senate hearings over that at the time. Today, again you see it similarly, but for sovereign wealth fund owners the 2008 financial crisis was probably almost a welcome relief. I doubt they would say it in quite those words, but it was probably almost a welcome relief in the sense that in

2007/2008 people were quite concerned about their activities, there were senate hearings in the United States and there was a lot of discussion about this. After 2008, you actually had instances where Nicolas Sarkozy, the ex President of France, was actually criticising sovereign wealth funds for not investing more in European economies. A lot of the concerns, a lot of the questions about sovereign wealth fund investment really come down to what is the position of the recipient country? If the recipient country is in a strong position, if they have a strong economy, they are more likely to raise concerns about this. If they are in a weaker position and their economy is faltering, then they are much less likely to raise concerns about sovereign wealth fund investment.

ERIC VAN BEMMEL
So things have certainly turned around since the global financial crisis in terms of the view of these funds. I suppose because there are national implications to these investments, when an investment goes sour and perhaps you have some examples of this, are there bilateral relationship implications - political implications on a bilateral level?

CHRISTOPHER BALDING
Most sovereign wealth funds have been quite smart to try and steer very clear of just about anything that would be considered a politically sensitive investment. There was a case just recently in the United States where there was some Chinese entrepreneurs that were trying to build a wind farm near a navy base in Oregon. President Obama used his executive power to turn that investment down but sovereign wealth funds themselves have been very, very careful to avoid anything that might be remotely considered a sensitive issue and in fact, most sovereign wealth funds really take quite a relatively small stakes in companies, meaning for instance, Norway has - I believe it is state law - that they can only hold 2% of a company's outstanding equity. China has generally taken a pretty similar viewpoint and I believe the most they will take is 10% in a company outside China.

ERIC VAN BEMMEL
I have read also that some of these funds have avoided voted their shares, they might have 10% of a company but they won't vote in some cases to avoid being seen to be influential I guess, that is giving up control though isn't it?

CHRISTOPHER BALDING
Yes it is and in fact there are some people who have said that this isn't a good precedent to set and that they should continue to vote their shares. They should continue to monitor the company. They should continue to play a role as an active shareholder, but sovereign wealth funds have, in most cases, been quite reluctant to rock the boat, if they will because I think companies and countries alike on both sides see that as a line that most people just don't want to cross. With that said there are examples where state power has been used to influence sovereign wealth fund investment. One of the best examples is with regards to Singapore. Some time, I believe it was in 2005 or so, Singapore Airlines and Temasek Holdings of Singapore, they were starting a air cargo transport business based out of China and they

partnered with a company in the Chinese military industrial complex to start an air cargo transport which would be based out of Shanghai and fly to Europe and other destinations. Within about a year of the cargo transport business being started, this company, their Chinese joint venture partner, was placed on what we call the 'treasury blacklist' and the treasury blacklist is basically companies that are in violation of American law for who they deal with and in this case this company was in violation for shipping high grade machinery to Iran. They were doing all kinds of high grade machinery that was involved in weaponry and all other materials like this. And so, basically the result of this was that they could not fly their air cargo transport business - because they were flying Boeings and Airbuses - and they could not purchase the replacement parts, the maps, all kinds of things. This essentially shut down their air cargo transport business. The two side notes to this that are worth noting, is that the company that was the joint venture partner of Singapore Airlines and Temasek, was a well-known weapons proliferators. This was not any type of shock to anyone. They had been listed in State Department reports and referred to as a serial proliferator for many years and they had been warned repeatedly about their activities shipping precision machinery to Iran. This was something that a business manager with any level of due diligence or research on their joint venture partner, would have found very easily.

ERIC VAN BEMMEL
I am Eric van Bemmel and on UpClose this episode, we are speaking with political economist, Christopher Balding, about the economic importance and political impact of sovereign wealth funds. Now Christopher, why would a country with a strong natural resource base - say a country like Canada - decide not to pursue establishing a sovereign wealth fund?

CHRISTOPHER BALDING
You know that is a real question. I cannot speak for Canada. The primary reason that countries decide to establish sovereign wealth funds for commodity dependant economies is primarily if there is significant inflationary pressures. My understanding of Canada is that it is somewhat similar to the United States in that natural resource producer will pay a royalty to the landowner for access to those natural resources. In a country like Canada, which is so big, it is probably not creating the level of inflationary pressure yet due to commodity prices and so consequently they don't feel the need to essentially - what we say in economics is suck out some of that liquidity - capture some of that cash so that it doesn't create inflation because there are multiple examples across time where countries have essentially let the commodity driven expansion take its natural course and you see very high levels of inflation which creates a lot of problems for the country and so if there are countries that feel their economy is diversified enough and is not feeling inflationary pressure, then they are more likely to let the natural resource boom take its natural course.

ERIC VAN BEMMEL
Now Christopher, you write about three primary categories of sovereign wealth fund and you have mentioned of course the main one being these commodity dependant, typically commodity rich economies, seeking to grow their stabilisation funds such as

Norway and you have spoken about Norway in some detail. There are those countries without those large commodity deposits but who typically have maintained fixed exchange rates and they have large current account surpluses, Singapore being one of them and again you have spoken quite a bit about Singapore, China being another - where does China fit into this?

CHRISTOPHER BALDING
Yes, to just touch briefly again upon the two types of sovereign wealth funds. One of the things people don't stop and think about is that a commodity driven sovereign wealth fund, a commodity driven country is no wealthier if they have money in their sovereign wealth fund than if they have left the oil in the ground. That oil in the ground is still worth money tomorrow and the day after tomorrow.

ERIC VAN BEMMEL
It amounts to the same thing?

CHRISTOPHER BALDING
It amounts to the same thing. The comparison I would draw is that it would be like Bill Gates selling Microsoft stock and saying look I have more money in the bank. Well, Bill Gates isn't any richer or poorer after he sells Microsoft stock. Non-commodity funds however, are a very interesting case, because what they are essentially doing, in any number of forms, is they are capturing the wealth creation of their population. If you look at it, this is happening in a number of different ways, whether it is through taxation, whether it is through monopolies in local industry or whether it's through an artificially low level of the currency, but what these sovereign wealth funds do that do not have that natural wealth, is they are capturing the wealth that would in most other countries go to the business owners and the workers.

ERIC VAN BEMMEL
So with China though, they have a number of massive sovereign wealth funds, one of them being the China Investment Corporation, CIC. I understand that they are explicitly forbidden from investing that money domestically, is that right?

CHRISTOPHER BALDING
Yes, that is correct. China is a very interesting case for a couple of reasons; there are a couple of interesting things I will say about China. They are specifically forbidden by law from investing in China but there's two very important things to know about that. One, a subsidiary of the China Investment Corporation is called the Central Huijin Investment Corporation. Now the Central Huijin Investment Corporation owns the major stake in all four of the Chinese major state owned banks. Just in case you are unaware, China has essentially four state banks which control, I believe, about 70% of the market in China. So there is probably 51% of each bank that is controlled by this Central Huijin Investment Corporation and they have holdings in a small number of other corporations but for the China Investment Corporation to say that we don't invest in China, is kind of disingenuous. The other thing that has happened, is what the China investment Corporation has done is they have taken a lot of this money to New York with the law that says they cannot invest

directly in Chinese companies in China, but what they have done, is they have gone and they have purchased large amounts of exchange traded funds, or even mutual funds in US markets that are essentially indirectly flowing back to China because these funds are ETFs or mutual funds are investing the money for them back in China. So even so they say they don't invest in China, on multiple levels it is kind of disingenuous, potentially even legally suspect though I am not a Chinese lawyer.

ERIC VAN BEMMEL
Right. A third and I guess a minor category of sovereign wealth funds you do mention are vanity funds. What are those and who does them?

CHRISTOPHER BALDING
Most of the sovereign wealth funds that have been created in recent history have been funds in small African countries or countries that realise, hey, we have a lot of natural resources and we should try and set aside a portion of this money. The vanity funds however, are a completely different class and probably the best way to describe a vanity fund is, shortly before the 2008 financial crisis, about a year before, the Irish government decided that they needed to get in on the sovereign wealth fund game. All the other cool countries had one so they were going to form one too. They capitalised their Irish sovereign wealth fund, which, if I remember correctly, I believe it was about $25-$30 billion and they were going to invest in Irish and European and global companies and they were going to become a world beater just like Abu Dhabi and Singapore and everybody else. Of course, everybody knows how the Irish financial housing bust and financial crisis has treated Ireland - it hasn't been too kind. First of all there was no capital base for this. Just as with Singapore or China who are extracting this money from their populace, Ireland had no ready source of capital other than tax revenue. They had to take this money from their populace. Second of all, Ireland already had at the time, booming industry. So Irish investors were doing quite well. Foreign companies were streaming into Ireland. There was no real purpose for the Irish sovereign wealth fund. It had no money that it could comfortably rely upon. That is where I came up with this term 'vanity fund' because it really was just to be invited to the retreats where they were going to meet other sovereign wealth fund investors. They were going to be considered as the next great country just like Kuwait and Singapore and other places like that when really there was no purpose for it whatsoever.

ERIC VAN BEMMEL
It doesn't necessarily increase your credit ratings either?

CHRISTOPHER BALDING
Exactly.

ERIC VAN BEMMEL
Christopher, just a final question; one often hears about the lack of transparency with many of these sovereign wealth funds, how much data on these funds is out there for public or academic consumption and what are the challenges for analysts and researchers to understanding the sovereign fund landscape?

CHRISTOPHER BALDING
The amount of data has increased significantly. With that said, it is still quite problematic and the last thing is that it varies quite widely. For instance, just about anyone can go to the Central Bank of Norway and give them a list of questions and they will answer just about any question you have. Norway publishes on their website, a yearly detailed listing of every stock they own, how much they own, how that stock has performed so you can completely reconcile what they say their fund has earned and how their portfolio is done. Then there are other countries which release almost no information. Probably the largest one upon which there is virtually no information is a branch of the Saudi Arabian Monetary Authority, which is credited as having $300-$400 billion under management and you can honestly find virtually no information about this money.

ERIC VAN BEMMEL
No reporting requirements?

CHRISTOPHER BALDING
No reporting requirements. It merely shows up as a line item on the Central Banks balance sheet that they are holding this money and it does not specify in any way of the risk categories or specifically what type of instruments. It just lists this line item that this is what they are holding. In another case, in Kuwait, it's actually completely against the law and it's probably proclaimed on the Kuwait Investment Authority's website that it is against the law for information to be disseminated about their sovereign wealth fund activities. Then there are other countries that have actually, at least decided that they have to be a part of providing some information because if they don't provide some information, people are going to start asking more questions. So they have definitely taken those steps towards transparency. One of the ones that comes to mind is the Abu Dhabi Investment Authority, probably the largest sovereign wealth fund in the world and they have voluntarily taken great steps to provide more information, provide more interviews and data to researchers so there have been great steps in that area. With that said, as a researcher, a lot of this research is much more like putting together a puzzle where you are slowly piecing together a picture of their activities than it is if you just have a data set and you can see what they have done very easily. You have to be very diligent, you have to piece information together, you have to look at different sources because you will come across tidbits about their activities in such a variety of places. As I heard one sovereign wealth fund manager say, we had never issued press reports, nobody even cared about what we did until about 2008. Then all of a sudden people thought that we wanted to take over the world and were assigning all type of nefarious intention to us and a year earlier, no one had even cared what we did. I think it is as much a change in mentality for the sovereign wealth funds, as it is an interest from outside parties in what is going on.

ERIC VAN BEMMEL
Here is a crazy thought, that the lack of transparency could be seen akin to a blind trust where one almost wants to hide ones investments, or investment strategy or holdings to protect national reputation.

CHRISTOPHER BALDING
That is absolutely correct. There are definitely cases where I think there is real evidence that sovereign wealth funds are not everything they appear to be. Myself, as well as some others for instance, have raised I think very valid concerns about the state of financial affairs at the two Singaporean funds. That would be the best case. I think a lot of the sovereign wealth funds that find themselves in this position, struggling with what to do, are realising that it is better for them to be proactive in providing some level of transparency, some level of information because if they are not providing information, all that does is welcome speculation and questions. People begin assuming the worse even if behind the scenes everything is as it should be.

ERIC VAN BEMMEL
Christopher, we will have to leave it there, thank you very much for joining us on UpClose.

CHRISTOPHER BALDING
Thank you so much for having me.

ERIC VAN BEMMEL
That was political economist, Associate Professor Christopher Balding of the Peking University HSBC School of Business in Shenzhen, China. He was speaking to us on a Skype connection from California on the topic of sovereign wealth funds and their economic and political impact. Relevant links, a full transcript of this, and all our episodes can be found at our website at www.UpClose.unimelb.edu.au. UpClose is a production of the University of Melbourne, Australia. This episode was recorded on the 30 January 2013 and produced by Kelvin Param and me Eric van Bemmel. Audio engineering by Gavin Nebauer. UpClose is created by me and Kelvin Param. Thanks for joining us, until next time good bye.

VOICEOVER
You've been listening to UpClose. We're also on Twitter and Facebook. For more info, visit, www. http://upclose.unimelb.edu.au. Copyright 2013 The University of Melbourne.

Source URL: https://upclose.unimelb.edu.au/episode/235-tight-lipped-transactions-degrees-transparency-sovereign-wealth-funds