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China, after drafting legislation this past week, is a mere formality away from officially authorizing \$200bn of initial funding for her nascent sovereign wealth fund (SWF). Funds of these kinds, investing “excessive” government liquidity, are proliferating around the world in both number and size at a remarkable pace. Even before China’s investment agency’s official installation, a surrogate state-owned enterprise invested \$3bn of sovereign funds on its behalf in purchasing stock in US private equity monolith, Blackstone’s IPO. By forfeiting voting rights, the investment was roundly considered a masterful inaugural move, allaying fears of nebulous intent, currying favor with what has been (especially toward China) an increasingly protectionist US government and providing itself a front row seat in learning large-scale, aggressive investment techniques from a premier practitioner.

The significance of the growing number and wealth of SWFs is not to be underestimated. Injecting sovereign monies to roam the marketplace along side traditional sources of wealth, not only fundamentally alters the global flows of capital, but also transforms sovereign wealth funds into some of the world’s largest institutional investors, capable of moving markets, muscling competitors and even perhaps informing power politics. Exposing excessive liquidity (i.e., swelling foreign exchange reserves) to higher though measured risk is considered by most to be sound public policy and indeed the fiduciary responsibility of those managing sovereign money. The nature and intent, however, of sovereign investment is an area of understandable question and frustration as monetary return may, in some cases, cease to be a SWF’s principle aim.

Suspensions of this kind were piqued in 2005 when China’s state-owned CNOOC attempted to purchase Unocal, the US oil and gas exploration and production firm. The bid was eventually dropped after significant controversy—especially noisy was Washington’s cynicism. SWFs (first employed as a hedging instrument by oil-rich countries) exist mostly in non-democratic countries with underdeveloped capital markets and China here is no exception. Its new fund should not only expect to encounter serious obstacles were it to again venture into acquiring sensitive assets from western countries, but could as well, depending on its behavior, be seen as little more than a thinly veiled political proxy—in turns antagonizing and placating—in pursuit of strategic advantage. A SWF for China, however, is only mildly novel. A fleet of state-

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owed enterprises have been and continue to be available to heed centrally planned directives regardless of reason or expense, making her SWF unique only in name and structure and portending marked behavioral change unlikely. Much more likely, China will steer its SWF in a manner akin to the Blackstone equity purchase, electing to sidestep controversy, reaffirm itself as a responsible stakeholder and build a financially successful fund.

SWF regulation is quickly becoming an issue and the growing number and wealth of the funds necessitate some kind of supra-national regulation. Lack of transparency warrants corruption concerns and the nature of government-funded investments, as significant government activity, should not be a secret—accountability should, as much as possible, be required and China would be well served to demonstrate leadership on issues of this nature. US officials have recently called on the IMF to draw up a set of best-practice guidelines, though a binding, enforceable agreement under the auspices of the IMF or WTO would be superior. Collective regulation should carefully monitor the effects SWFs have on global asset prices and inflation as massive amounts of government liquidity (Stephen Jen of Morgan Stanley estimates \$2.5 trillion and growing) will be increasingly pushed into the market, perhaps even in direct competition.

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