Divisive Economic Device? Understanding China's Choice to Create a Sovereign Wealth Fund

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This essay seeks to elucidate the puzzle of China's policy decision to create a Sovereign Wealth Fund (SWF). Much literature has been put forth on the topic to predict the strategic benefits China may be pursuing through its investments in American firms using its SWF, China Investment Corporation (CIC). Such speculation on these ambitions continues to present inconclusive theories, and with the available data, further articulations on this matter are unproductive. Three explanations for *why* China created CIC, however, can be elaborated with much more evidence. This essay will show that both rational-actor, profit seeking models and bureaucratic politics provide strong explanations for CIC's creation. A third explanation — that China is seeking international power — is much more difficult to prove. This section is of value however, because it permits an opportunity to discern the causes for CIC's creation from the implications of its creation, which have been harped on in previous literature. This paper finds that there could be an explanation for CIC at the international level, but contrary to alarmist literature, there is no evidence to support the claim that CIC was created for use as a strategic tool to threaten the United States.

The ultimate conclusions on the CIC is that the development of the Chinese sovereign wealth fund reflects China's growing power as well as a shift in the international order,

in which the interaction between the state and others has changed. In fact, it appears China is using CIC as a way to engage further within the international financial system as it comes to recognize that its power stems from domestic economic growth. This seems to mirror the global trend towards a politicized economy or political capitalism¹. While this paper shows that CIC is a representation of this trend within China, and that CIC serves an end for international relations for China, it cannot be discerned that this was an explicit goal of China's at the creation of CIC. It is therefore important to underline that CIC is not a tool of foreign policy, but rather a method of international engagement. By outlining the three reasons why China created the CIC, the mechanisms of China's engagement in the international system will be explained. To accomplish this, the essay will be organized in to five sections: the first section will provide a brief overview of CIC, the following three sections will discuss reasons for creating CIC and the final section will be a contribution to the existing literature on the intentions of the CIC in relation to American security, that draws from the conclusions made in the three preceding sections.

Part I: The Guts of CIC

The creation China Investment Corporation was announced in March of 2007. The China Jianyin Investment Company,

a government agency, initially bought a \$3 billion non-voting stake in Blackstone Group, before officially setting-up operations in September, when the investment group transferred the shares over to CIC². With a starting capital fund of \$200 billion, CIC's addition to the collection of SWFs worldwide is noteworthy. It is marked as the 4th largest in the world, but also the most recently created. In the CRS Congressional report for January 2008, it was predicted that if China made more of reserves available, the fund could be worth over \$1 trillion³. The report cites Brad Setser, who argues an organization "with a working capital for \$1 trillion dollars would have the ability to push the US economy into recession."

The financing of CIC was convoluted. Understanding the power and capital flows within the system can be difficult (for reference, see omitted flow chart with indications by Cognato, Aizenman and Glick, and Shih).⁴

The CIC is headed by Lou Jiwei, who holds the title of Chairman within CIC and doubles as CCP party Secretary. More public within the organization is Gao Xiqing, the CEO who chairs the fourteen members of the executive board council for CIC. The majority of the council members have a background in finance; Gao and another executive, Wang Janxi, worked on Wall Street for several years prior to their CIC careers⁵. Two executives are also involved with the National Development and Reform Commission, considered one of the most formidable commissions within the Chinese bureaucratic system⁶. NDRC makes most of the pertinent policies today, and under the Mao era it was in charge of managing the planned economy⁷.

The CIC website posts little information about its holdings, despite many complaints about CIC's lack of transparency, and the promises by Gao Xiqing that the institution would boast levels of transparency comparable to Norway's Global Pension Fund⁸. The most current tally of CIC's holdings can be found in the Security and Exchange Commission's annual report (see SEC report,

ending quarter December, 2009).⁹ According to the report, CIC's largest holdings are in Blackrock, Morgan Stanley, and Teck Industries; however, the Chinese portfolio has never been highly diversified; it mainly contains stocks in financial institutions, technology and research corporations, and energy-production industries¹⁰. Prior to the 2008 financial crisis, CIC held almost singularly equities stock. Jiwei reported after losing 2.1% of its initial investments in the U.S. in 2009 that the CIC would broaden its holdings — leading to an expanded portfolio¹¹. Evidence shows that interests have been directed towards primary consumer goods, particularly in American agricultural production companies¹².

Part II: CIC has some Guts

Explanation 1: acting rationally

On October 14th, 2010 China reported that it held \$2.65 trillion in US foreign exchange, the highest citing ever¹³. Holding vast forex is a sophisticated problem for China: while the influx of American dollars represents a transfer of productivity to the Asian continent, it comes at an opportunity cost; with each increase of forex holdings, China's dollar holdings diminish in value¹⁴. It has been cited that holding these forex reserves costs China \$100 billion a year¹⁵. In his interview on 60 minutes, Gao Xiqing, CEO of CIC, explained that the decision to create CIC was essentially a way to reduce opportunity costs of owning so many US dollars and to reduce the risk that forex holdings would depreciate in value as the dollar weakened¹⁶. From a rational-actor stand point we can understand the decision of China to move its US dollar holdings out of US bonds and into the equities market as profit maximization. The move also provided China the opportunity to increase rates of return by taking on more short-term, higher risk rather than maintaining long-term, lower yield investments in bonds.

Further support that CIC was created

for profit maximization comes from the SWF's dependency on fast payouts. Due to its structure (briefly recounted above) CIC is responsible for paying out on billions in bonds. This set-up differs somewhat from common SWF construction, but is due to the fact that CIC's capital flows from foreign exchange reserves that sit under the State Affairs Foreign Exchange¹⁷. To finance CIC's creation, bonds were purchased from the Peoples Bank of China, and therefore CIC is responsible for paying-out on these bonds annually, which amounts to RMB 1.55 trillion¹⁸. This translates to a cost of \$40 million per day to run the CIC, or \$14.6 billion per year¹⁹. Because CIC is not deferential to any other bank within the system, only to the State Council, CIC is completely dependent on the quick and fast payouts from its investments to make the payments on the bonds. It is in the great interest of CIC Chairman Lou to find high yielding investments therefore, which commonly take the form of equities investments.

CIC is also very unique in that the forex that finance the fund came not from sales of natural resources — like the petrol financed SWFs of many middle-eastern states, but rather from mass exports. This varies the importance of the SWF somewhat, because the high demand for Chinese products is premised upon the strength of the USD against the RMB. The very existence of the Chinese SWF affects Chinese export strength and China's continued ability to accumulate massive forex, therefore the situation of financing and payout is much more interdependent than is found in natural resource-based SWFs. If the Chinese government did not address the problem of the massive forex, then the USD would continue to lose its value against the RMB and the Chinese advantage of low-cost exports would be diminished. The establishment of the CIC is pivotal in maintaining the low valuation of the RMB because if China continued to accumulate USD then the RMB would naturally inflate in value to equalize import/export

margins. As Chinese growth necessitates a devalued currency, China had to find way to circumvent currency inflation. The creation of CIC disposed of some of the USD influx. This explains why CIC is not particularly risk averse *and* why the top leadership continues to invest despite the enormity of losses it faced in 2008. This also provides a very rational explanation for CIC's creation — a mechanism to allow China to continue growing.

The issue of unequal USD flow into China because of the pegged value of the RMB parallels China's continued investment in American corporations to prevent equalized trade margins. Both mechanisms simultaneously unravel the possibility for a greater quantity of exports from the U.S. and a recalibration of U.S. reserves across the international system²⁰. The political effects of this are detailed by Herman Schwartz in his book *Subprime Nation* where he explains: "As SWFs come to hold more and more of U.S. overseas debt, their expectations about a higher return will force an end to the pattern of US Arbitrage,"²¹ which he pinpoints as the source of U.S. growth and power. He continues, "If Asian countries and oil exporters shift out of the U.S. Treasury debt into equities via sovereign wealth funds (SWFs), they pose an immediate threat to US power," by jeopardizing the potential for growth based on foreign investment in the Treasury.²² SWFs move investments out of the U.S. government and make it practically impossible for the USD to recover its value.

This, in turn, threatens the dollar as the international reserve currency and debases America as the leading economic power — to which US political power is tied²³. In this way the development of the CIC has strong political implications, and it is not simply, as Gao articulates, an investment cooperation. Yet, while it is clear that CIC was created to improve returns on US currency, it is not clear whether shifting the economic and consequentially political system was also a goal of the Chinese government. It is more likely that the fears of

the changing power differentials outlined by Schwartz are in fact reflections of trends and not decisive actions.

Explanation 2: dictated by Chinese bureaucratic politics

Leading up to the creation of the CIC, there was considerable debate within China amongscholarlycriticsabouttheaccumulation of vast foreign exchange reserves and what to do with them²⁴. Two opinions were vocalized most loudly. One was to employ private financial groups to handle the funds with the single goal of increasing returns on China's foreign exchange reserves²⁵. The other was to create a sovereign wealth fund to back state-owned Chinese companies. It was even proposed to create a super-sovereign reserve of currency²⁶. The top leadership tried to create an entity that satisfied both camps and to create an institution that would act in both capacities concurrently. Even before the creation of the CIC, however, there were arguments at the bureaucratic level over control of the future institution. The Ministry of Finance and the People's Bank of China, which operates under the State Association on Foreign Exchange (SAFE), both rivaled for control. Eaton and Ming, in their essay *China's Sovereign Wealth System*, describe the development of CIC as an idea that was born out of the bickering between the SAFE and the MoF for greater control over forex. A SWF was initially decided upon as an option that would allow both institutions to exercise influence over the reserves. In the end, however, neither party gained direction over CIC; instead it was decided that the organization would report directly to the State Council and that its ties would be more strongly allied to the MoF because traditionally ministries of finance control SWFs²⁷. This proposes the idea that the structure of CIC was determined by bureaucratic politics.

CIC was finally endowed and began functioning as an investment agency when the CIC bought RMB \$200 billion worth

of bonds from the PBoC²⁸. Two thirds of this amount was invested into domestic institutions, namely Central Huijin, which controls three of largest recapitalized banks in China: the Industrial and Commercial Bank of China (ICBC), the Construction Bank of China (CBC) and the Bank of China (BoC); and to aid two other ailing banks: the China Development Bank (CDB) and the Agricultural Bank of China (ABC)²⁹. Shih has argued that the CIC will act essentially as a lobbying group for these banks and not particularly as a tool for Chinese diplomacy because the majority of CIC investment is concentrated in domestic institutions. Therefore, the majority of the CIC's capital will flow from dividends paid by these banks, and thus the bulk of CIC's attention will go towards persuading the government to limit competition within the banking sector, slow down foreign entry, set interest rates to give banks a healthy spread, and bail-out bans if non-performing loan ratios rise³⁰. Senior policy analyst for the US Senate, Eric Anderson, noticed that through these domestic investments, China may be attempting to correct some issues with non-performing loans. These issues developed out of some faulty economic policies enacted in 2006 to ensure that certain state owned enterprises would not crumble. The issue of these loans barred China's full accession into the WTO back in 2001³¹. China was given a five-year grace period to restructure these loans — a task that she continually stalls on³². The creation of CIC and the subsumption of these failing banks into CIC could represent an effort on China's part to fix these failings of its domestic financial structure at a superficial level to permit China to fully integrate into the WTO.

From this perspective, it is interesting to consider CIC as an emblem of movement towards greater Chinese participation in the international monetary system and increased acknowledgement of her own political power, stemming from her own economic growth. It seems China feels she has reached a certain

economic capacity and that she is legitimated to participate in the international political system. This explains the heavy concentration of CIC's capital in domestic SOEs rather than a dispersal of the capital abroad: if China believes that her political legitimacy in the international realm stemmed from heady economic policy at home, she would be more interested in strengthening this structure than venturing abroad. Interest abroad is still evidentially part of the creation of CIC, but perhaps understanding this perception of her own economic power we can shift our understanding of CIC as a mechanism to consolidate Chinese economic power. Such consolidation will legitimize great economic

"The decision to create CIC was essentially a way to reduce opportunity costs of owning so many US dollars."

growth in China as a way to assume more clout on the international political scene.

Explanation 3: striving for international control

Distinct evidence to support the claim that the CIC was established as a mechanism for international control does not exist. Indeed it is from this puzzle that most of the literature on the CIC stems. The best way to understand if foreign policy explains CIC's creation is to imagine the structures that would appear within the institution if this were its purpose and to discern if CIC does indeed have such structuring. If CIC were to be a tool for foreign policy, it would work in two ways: at a macro-level from the Chinese state herself to affect the American financial system in a systemic way, or from within the businesses in which CIC holds stakes. Both Kirschner and Drezner have put forth convincing arguments debasing the possibility that the CIC could work as a macro-level foreign policy tool. Kirchner asserts in his article *Sovereign Wealth*

Funds and National Security: The Dog that Will Refuse to Bark that if China were interested in financial coercion, direct action through forex would be much more effective³³. Drezner, too, expounds on the limits of financial statecraft, particularly against great powers³⁴. From these arguments it is clear that using SWFs as a tool of foreign policy at the macro-level would be almost impossible footwork and that the CIC displays little of the necessary structure to carry-out such financial jockeying. If CIC were hoping to act from the inside, we could predict that China would set up CIC in certain ways: lack of accountability and transparency within the investment apparatus, strategic investments, adopting controlling or voting stakes within these companies, and using financial relationships to lobby domestically within debtor countries. The first three of these we can discard as a goal of CIC, while the last proves more difficult due to lack of evidence.

At the conception of CIC, many complained that the institution was less transparent than the Singapore SWF³⁵. To date, CIC has little information available on its website about its holdings, intentions, investment strategy or long term aims. In his 2008 60 minutes interview, Gao Xinqin explained that China's SWF would be as transparent as Norway's and that there was no need to implement international regulations over transparency of SWFs³⁶. That same year, the IMF, at the request of the G-7, developed a policy of greater regulation, this incited great backlash, particularly on the part of China³⁷. One of the huge points of contention for China was the "teeth" underlining in the IMF policy³⁸. Bodies receiving investments could punish the foreign states for not upholding the IMF code by mandating investigations or even freezing further investments³⁹. China, however, came to accept the policy. One might argue that China had little choice but to accept if she wanted to continue investing, particularly since the U.S. at this time had also begun implementing its own, more stringent, policy towards SWFs. But further action by China shows that skirting

transparency and incorrect investor behavior were not priorities.

One might predict that during the temporary lapse of American power during the financial crash China would use the opportunity to act less-than-transparently. But, in the face of great disdain for the transparency impositions, China continued to act accountably. This shows that given the opportunity, China did not use CIC as a foreign policy tool to accumulate politically sensitive holdings within the US economy. Additionally, it is not profitable to reason that CIC was too new in 2008 to circumvent such regulations. At this point, CIC was able to take on the \$1.8 million dollar stake in Morgan Stanley. It was likely of more interest to China to follow these international protocols to ensure future investment opportunities and also to gain legitimacy in the international realm for complying with the IMF's standards⁴⁰.

One might also expect CIC to acquire strategic holdings if it were purposed to be a foreign policy tool. In section one is a chart of CIC's holdings as most recently reported to the US Congress. First, it is worth noting that China has refrained from investing in military and defense technology. Despite being a lucrative sector in the American economy, she has respected that this would be a suspicious investment in the eyes of most Americans. Second, one will note the numerous holdings that are actually purchased through a third body. This represents an effort on the part of China to distance herself from direct interaction with the corporation in which it seeks holdings. Lastly, it is necessary to address the commonly cited argument that China is seeking stakes in America's most influential firms to usurp the country from the inside-out⁴¹. The problem with this argument is that America's most powerful firms also happen to be the most worthy of investment. It makes sense that China would invest in equities and natural resources because these types of firms tend to have the highest and quickest paying returns. As shown in section one, at least part

of China's intention in CIC must be to earn high and fast payouts. Investing in America's strongest industries, finance and natural resources, proves to be the best path to this

Gao Xiqing, the Vice Chairman and Chief Investment Officer at CIC, meets with members of Israel's Ministry of Finance.

goal.

The third reason CIC should not be classified as a foreign policy tool is because she has overtly declined voting stakes in her investments. One of the most frequently cited alarmist arguments is that CIC will win voting stakes in the companies in which it invests. The argument asserts that through a bottom up mechanism, China will gain control of these companies, and by extension the U.S. government⁴². Yet, China to date, has declined all voting stakes in its investments. The most public instance of this was CIC's decline of a board seat in Morgan Stanley, despite owning a 9.9% stake in the company, the second largest stake in the company overall⁴³. Winston Wenyan reported that the fund was "not really looking for voting rights or control but [was] trying to take advantage of surging asset values in China and depressed valuations here in the U.S." He continued to explain that the Chinese "like minority stakes, so as not to raise the ire of politicians in Washington."⁴⁴ A voting stake is clearly not the game China is hunting. Wenyan's observation also supports part-one conclusions that China is intent on raising capital quickly.

The last way CIC might act, if it were a foreign policy tool, would be to use its stakes

to lobby the U.S. government. Because of the protests against CIC investing in American institutions at its conception in 2007, such blatant action on the part of CIC would be untactful. The Chinese government and CIC officials are certainly aware that such outright action would never go un-protested. But arguing that these leaders are competent is not proof enough to dispel this theory. In fact, there is no evidence to be found about this claim. It is probable that if CIC were able to lobby the US government through one of its acquisitions, they would do this as surreptitiously as possible⁴⁵. American policy, however, has remained steadfast towards Chinese interests, and so it seems unlikely that CIC is using its powers in this way, or if it is, they are quite ineffective.

In total, it is unlikely, but not completely determinable, that CIC is a foreign policy tool. While the first two proposed explanations for CIC's creation, profit maximization and bureaucratic politics, provide more resolute explanations, this third explanation proves exceedingly hard to negate due to limited information. The great question remains: even if CIC was created as a tool, could it threaten the US? The arguments of Kirchner, Drezner and Cognato dispel this thought. I believe a softer coercion is more likely. Just by the nature of investing \$1.4 trillion in the US economy means the CIC has a measure of soft power, as it has obtained stakes in 60 of some of America's most important industries⁴⁶. We cannot discern whether soft power was a specified goal for the creation of CIC, or if China's leaders even recognized in 2007 that it would gain such great soft power. It is evident that CIC is now aware of its current and future source of soft power thanks to its investments in American equities by some of the top leadership's recent press-statements.

China has credited herself as being the stopgap between economic failure and the U.S. and she will verbally recognize her economic importance to the United States. China's continued investment in the U.S. and

exportation of cheap goods to maintain the high volume of U.S. dollars that flow into China show the soft-power importance that Chinese investments and exports have for the U.S. In the CRS report for Congress published on August 15th, 2008, it was argued that Chinese soft power was augmented by her investment in Morgan Stanley when the stock was plummeting⁴⁷. This shed a heroic light on CIC and China as an investing agency in general. Since then the American government has turned to China as a potential stable investor, most notably in U.S. bonds.

China's strength throughout the financial crisis may be another source of soft power for the country as a sound investment body that can lend legitimacy and stability to an industry. Gao Xiqing was reported saying "The US economy is built on the support, the gratuitous support, of a lot of countries. So why don't you come over and ... I won't say knowtow, but at least be nice to the countries that lend you money."⁴⁸ In this way, China benefits from enlarging the intersection between the economic and the political as it begins to take on an image of a quickly growing investment body, a rarity in these economically hard times. As the concentration of power in the world system comes to center more on economic growth, the perception that such growth emanates from China is exceedingly important, and positions her more centrally as a source of power within the system. CIC only works to promulgate this image as an investment body of endless reserves. It was not until after the financial crisis that such articulations like the one cited above by Gao were uttered. In fact, the assumption by both investors and receivers was that if any type of power would flow from CIC, it would be due to investments in technology and natural resources⁴⁹. Perceived as an illegitimate way to consolidate power within the international system, China adamantly insisted that the intention of the CIC was purely profit maximization of forex holdings⁵⁰. Influencing American foreign

policy by reminding the U.S. government of the debt China owned, is perceived by the international community as more legitimate

"It has been cited that holding these forex reserves costs China \$100 billion a year."

diplomacy because the interests of the two states have become "aligned."

The conclusion to draw from this study of CIC's effect on foreign policy relies on the conclusions developed in section three: CIC is a way for China to continue economic growth because growth in China is recognized as the source for increased international attention. To tie all this together, it is helpful to think back to the proposals for CIC before it was formed. Zhou Xiaochuan, CCB governor, proposed that China create a super-sovereign wealth fund. He imagined the entity would be led by the IMF and would revoke the U.S. dollar as the dominant currency and replace it with several currencies including the Euro and the Yen. He also envisioned special drawing rights for states with large investments. This proposal demonstrates several Chinese objectives: to secure an improved way to invest forex, to enhance her domestic growth by making the Yen a dominant currency of trade, and to use her economic power as a way to engage further with the international system⁵¹. Understanding this purpose of CIC provides an effective framework to also understand the Chinese oversight in the creation of BRIC. It explains Chinese stubbornness in maintaining a devalued currency in the face of US demands⁵². It also explains China's agreement with other BRIC economies to contribute to IMF reserves through the purchase of IMF bonds denominated in Special Drawing Rights that allowed China to modestly advance her

goal of developing non-dollar currencies as reserve currencies⁵³.

Part III: When and how CIC will display its Guts

"Political might is often linked to financial might, and a debtor's capacity to project military might hinges on the support of its creditors" Brad Setser⁵⁴.

What does it all ultimately mean? China has recognized her growing economic prosperity as a platform to command greater political power and to realize a greater number of her international desires. She seems to be using this power as means to engage further with the international system. Although China has not been able to demand outright for specific policy changes within the United States, she has been able to deter Washington from certain pursuits, such as involvement in North Korea⁵⁵. While we cannot make founded observations on the true intentions of China in relation to its purpose with CIC in the international system, we can conclude that it is currently not being used as a tool of foreign policy. This does not mean that China will not look to its SWF or simply to its vast forex reserves for policy coercion in the future. As CIC stands currently, the only foreign policy implications it represents are not divisive, but simply manifest, as its pure existence represents China's growing power in the international system. With that follows a certain legitimacy that simultaneously serves to delegitimize some of the United States' similar soft coercive powers. The bottom line is that China is becoming more politically important in the international system through her economic policies.

¹The term Politicized capitalism emerged at the transition of the Chinese political economy in the early 1980’ when Deng Xiaoping worked to develop a market economy around a planned sphere economy. Victor Lee and Sonja Oppenheimer characterize the term in their chapter in “On Capitalism” as the following: “Politicized capitalism is a hybrid institutional order in which recombinant elements of central planning and state control combine and interact with emergent markets and private ownership forms. It comprises institutional arrangements patched together in ad hoc improvisations to address the needs and demands arising from rapid market-oriented economic growth.” Nee, Victor, and Richard Swedberg. *On Capitalism*. Stanford, CA: Stanford UP, 2007. Print.

² Cognato, Michael

³ Martin, Michael. 2008.

⁴ Indications for this chart came from Cognato, Aizenman and Glick, and Shih.

⁵ Cognato, Micheal.

⁶ Cognato, Micheal.

⁷ Cognato, Michael.

⁸ Truman, Edwin

⁹ SEC report, ending quarter December, 2009.

¹⁰ Martin, Michael

¹¹ Somerville, Glenn

¹² Interview conducted with , director of agricultural investment at CIC, 12-09-2010.

¹³ http://www.chinadaily.com.cn/china/2010-10/14/content_11407514.htm

¹⁴ Leonhardt, David

¹⁵ The ‘norm’ for SWF’s is that capital flows directly from the ministry of finance, where forex reserves generally lie. The power and capital flows are therefore singular and less complicated than CIC’s because there is only one link and that is to the ministry of finance. Dani Rodrik, “The Social Cost of Foreign Exchange Reserves,” *International Economic Journal* 20 (September 2006); 115-130 Drezner

¹⁶ http://www.cbsnews.com/stories/2008/04/04/60minutes/main3993933_page2.shtml?tag=contentMain;contentBody

¹⁷ As shown in the chart in section one, the PBOC does not sit under the same commission as the CIC. To finance the CIC, there was a cross bureaucracy exchange.

¹⁸ Eaton, Sarah, and Ming Zhang

¹⁹ Eaton, Sarah, and Ming Zhang

²⁰ Schwartz, Herman. Subprime Nation, p.14-22, 208-226.

²¹ Schwartz, Herman. Subprime Nation, p.16.

²² Schwartz, Herman. Subprime Nation, p.22.

²³ This may also be the reason American analysts are so quick to assert that these policies of China are a direct threat to US power.

²⁴ Cognato, Michael

²⁵ Bahgat, Gadat

²⁶ Drezner, Daniel. “Bad Debts: Assessing China’s Financial Influence in Great Power Politics.”

²⁷ Eaton and Ming,

²⁸ Martin, Michael.

²⁹ Deduced from reporting of Eaton and Ming, Cognato, Aizenman and Glick, and Shih

³⁰ Shih, Victor. “Tools of Survival: Sovereign Wealth Funds of Singapore and China.” *Geopolitics*. 14.2 (2009): 300-375. Print

³¹ Anderson, Eric.

³² Anderson, Eric.

³³ Kirshner, Jonathan. “Sovereign Wealth Funds and National Security: The Dog that Will Refuse to Bark.” *Geopolitics*. 14.2 (2009): 305-315. Print.

³⁴ Drezner, Daniel. “Sovereign Wealth Funds and the (in)Security of Global Finance .” *Journal of International Affairs*. 62.1 (2008): 115-130. Print.

³⁵ Eaton and Ming declared the most transparent SWF to be Norway’s and the least transparent to be Singapore’s. This is attributed to their governing styles. In this instance, transparency refers to the ease with which one can discern the institutions’ holdings, intentions, and future investment strategies. In this paper transparency has the same definition.

³⁶ “China Investment An Open Book?.” *60 Minutes*. CBS: New York, 06 04 2008. Television. 15 Nov 2010.

³⁷ Drezner, Daniel. “Sovereign Wealth Funds and the (in)Security of Global Finance .”

³⁸ Gurria, Angel

³⁹ Gurria, Angel

⁴⁰ The question of poor reporting and transparency in CIC’s investments can be explained by China’s governance style more confidently than it can be explained by malicious intentions of China. Kathryn Lavelle explains in her article that SWF engagement style and transparency is highly correlated with the parent government’s governing style; therefore authoritarian regimes tend to be much more opaque in their investment strategies than their democratic counterparts.

⁴¹ An argument most notably promoted by Larry Summers.

⁴² Truman, Edwin and Lynch, David

⁴³ Martin, Michael. United States of America. *China’s Sovereign Wealth Fund: Developments and Policy Implications* . Washington DC: Congressional Research Service, 2010. Print

⁴⁴ “Morgan Stanley Posts loss; Sells Stake to China,” Harper, Christine. 12-19-2007, Bloomberg News. <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a61Th6lcsbsU>

⁴⁵ This view is asserted by Larry Summers in his article *Funds that Shake Capitalist Logic*, it is also shown in Micheal Martins’ essays for CRS from 2008 and 2010, and lastly in the CRS report entitled, *Comparing Global Influence: China and the US Diplomacy, Foreign Aid, Trade and Investment in the Developing World*

⁴⁶ In this essay soft power “soft power” has the sense of power that is otherwise completely political, that stems from a source other than pure governmental policy and is employed through means of pressure or influence.

⁴⁷ Lum, Thomas and Blanchard, Christopher and Cook, Nicolas and Dumbaugh, Kerry and Epstein, Susan, and Kan, Shirley and Martin, Michael and Morrison, Wayne and Naton Dick and Nichol, Jim and Sharp, Jeremy and Sullivan, Mark and Vaughn, Bruce United States of America. *Comparing Global Influence: China and the US Diplomacy, Foreign Aid, Trade and Investment in the Developing World*. Washington DC: CRS, 2008. Web. 22 Nov 2010. <<http://www.usembassy.it/pdf/other/RL34620.pdf>>.

⁴⁸ Drezner, Daniel. “Bad Debts: Assessing China’s Financial Influence in Great Power Politics.” *International Security*. 34.2 (2009): 7-45. Print.

⁴⁹ Lum, Thomas and Blanchard, Christopher and Cook, Nicolas and Dumbaugh, Kerry and Epstein, Susan, and Kan, Shirley and Martin, Michael and Morrison, Wayne and Naton Dick and Nichol, Jim and Sharp, Jeremy and Sullivan, Mark and Vaughn, Bruce

⁵⁰ Jessie Wang reportedly stated, “The mission for this company is purely investment driven.”

⁵¹ The reason this proposal was not adopted is because the United States protested strongly against it at the G-7 meeting in 2007.

⁵² “In late March, Zhou Xiaochuan — the head of China’s central bank and the senior official who’s closest to Geithner — gave a speech suggesting that the dollar be replaced as the world’s reserve currency” Leonhardt, David. Drezner, Daniel. “Bad Debts: Assessing China’s Financial Influence in Great Power Politics.”

⁵³ Drezner, Daniel. “Bad Debts: Assessing China’s Financial Influence in Great Power Politics.”

⁵⁴ “At the end of a discussion with Lardy about the imbalances between the U.S. and China, I asked him what forms of leverage he thought the Obama administration had. “We have no leverage,” he replied. He then couched this slightly, saying that the administration could threaten the Chinese with trade barriers but that such threats weren’t likely to be very credible.”

⁵⁵ Leonhardt, David. “The China Puzzle.” *The New York Times*, (17-05-2009) 1-5. Print

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