The Political Economics of Sovereign Wealth Fund Investment

Abstract

With market instability becoming a major threat to the financial stability of states around the world, the sudden rise in the number and size of sovereign wealth fund investments around the world in the last decade is hardly surprising. Being a relatively new subject in the realm of international relations and international political economics, there is still much to be learned about the new alternative asset class and its place in modern society. One of the most contentious issues on the topic revolves around the evident and still possible effects of SWF investment on domestic and international political discourse, and simultaneously the role played by politics on SWF investments themselves. It is this relationship between the politics and the economics of SWF investment that this report seeks to determine, and by the conclusion, does so effectively. To do so, the report uses both quantitative and qualitative data to establish a link. The report begins by outlining a background to set the scene for the investigation, going on to outline a theoretical framework for the study using four sub-theories within the theory of International Political Economics which are assigned to each of the three cases based on their relevance and applicability. Next, the report details the intricacies of the main regulatory body of SWF investments, the Generally Accepted Principals and Practices (or Santiago Principals) in order to base the report in the context of its common function. Finally, the report applies the material to three case studies, selected for their relevance to the topic, those being the Social and Economic Stabilisation Fund and Pension Reserve Fund of Chile between 2006 and 2009, the China Investment Corporation and the Qatar Investment Authority. The result of the study indicates that there is, in fact, a considerable relationship between SWF investment and political discourse, both positive and negative which vary between cases. SWF investment can simultaneously benefit domestic politics, while also having the capability of resulting in economic protectionism and international distrust. Furthermore, the sovereign nature of SWF investment make them extremely difficult to regulate, allowing for some funds to become tools for states to pursue political agendas throughout the world. All in all, the report successfully identified the link between SWF investment and political discourse, proving the original hypothesis and adding to the growing foundation of academic knowledge on the subject of sovereign wealth fund investment.