Institute of Chinese Studies
ICS
中国研究所 DELHI

OCCASIONAL PAPER

No. 56 August 2020

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China's SWF: New Financial Arm in the Economic Structure

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ICS OCCASIONAL PAPER NO. 56

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First published in 2020

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Abstract

China's spectacular growth in the last few decades has led to the accumulation of huge amounts of foreign reserves. The emergence of sovereign wealth funds (SWFs) has been another major change in the economic and financial sphere of the world. In 2007, China also decided to invest its massive foreign reserves in SWF. SWFs are pools of assets owned and controlled directly or indirectly by governments both domestically and abroad. The western powers have always confronted China for using SWF to gain an upper hand in the rebalancing of economic power. The advanced western countries, specifically the OECD, have been very critical of China's SWF investment portfolios in strategic sectors, which it sees as a geo-political tool used by China to assert its position as a new rising power. The western countries have also accused China of threatening their national security and attempting to distort the already present global financial and economic architecture of the world. The paper concludes that the major disquiet and apprehension of the OECD countries are not with the PRC's SWF per se but pertain to issues of transparency and the state-capitalist nature of the Chinese system.

Key Words: China, Sovereign Wealth Fund (SWF), Investments, China Investment Corporation (CIC).

Introduction

This paper will explore the debate and controversies surrounding the Chinese Sovereign Wealth Funds (SWFs). It will try to assess whether these SWFs are trying to generate revenues for better domestic economic growth of China or, as is routinely argued in western writings, that China's SWF provide it with the capability to alter the contemporary world financial and economic structure. This paper will examine the investment portfolios and strategies of the China's SWF such as the China Investment Corporation (CIC). To that end, the paper also looks at Temasek Holdings, a Singaporean Sovereign Wealth Fund and compares it with China Investment Corporation (CIC) in order to locate the success of Chinese Sovereign Wealth Fund at the global level.

The research methodology for this paper involves the use of the empirical approach to gather data with regard to the sectors and the amount of investment made by the PRC through the SWF. In order to review the objectives, one tries to identify and analyse the trends based on the available data. Likewise, in terms of examining the theoretical approaches qualitative methods would be used to the study of SWF and its implications for the global political economy. In this paper, SWF is the independent variable, whereas the strategic assets of the recipient countries are the dependent variable. The strategic sectors into which the SWF investments are channelized make up the intervening variables. In this case; energy, infrastructure (including the proposed Belt and Road Initiative) and agriculture are the relevant sectors.

The primary sources used in this research are policy documents, official statistics and papers with regard to the SWF available on the website of the relevant institutions such as the State Council of the PRC, People's Bank of China (PBC), Ministry of Finance, Ministry of Commerce and the Sovereign Wealth Fund Institute (SWFI). Speeches and official statements of the Chinese leaders and other official/government statements from other countries have also been included. The secondary sources taken into consideration are works available on the subject by various western and mainland based authors. Secondary sources taken into account are reports

and research papers and other related studies released by agencies such as the Congressional Research Services (CSR), Chinese Academy of Social Sciences (CASS), Institutional papers from organizations like IMF, Goldman Sachs, Morgan and Stanley etcetera., and articles from various scholarly journals and periodicals.

This paper has three sections. The first section deals with the background information on China's SWF. The second section examines all the stakeholders concerned and/or connected with China's SWF and China's response. The third section talks about the investments done by the China's SWF in various sectors globally. It also focuses on China's ability to leverage its foreign policy goals through these investments. The paper will conclude with a summary of the findings, with implications for further research and policymaking.

Hypothesis

The major disquiet and apprehension of the OECD countries with China's SWF pertain to transparency and not with SWF per se.

Over more than three decades of economic reforms since 1978, the share of China in the world economy multiplied from 1.7 per cent to 9.5 per cent (1978-2010), when valued at market exchange rate (Li et al. 2012: 1). In addition, the Chinese foreign exchange reserves also grew at an average annual rate of 23 per cent (Lugo 2012: 13). The Chinese state was able to achieve this impressive success through a strategy of export-led and driven growth and high investment and saving rates. China also attracted huge amounts of foreign direct investment through its export-oriented policy, which also paved the way to its huge surplus of foreign exchange reserves. This in turn, over a period, led to the setting up of State Administration of Foreign Exchange (SAFE) Investment Company (SAFE IC) in 1997, the National Social Security Fund (NSSF) in 2000 and the China Africa Development Fund (CADF) in June 2007.

Since the last quarter of the twentieth century, international relations have been characterised and shaped by the forces of economic globalization[1]. However, complex transformations have taken place in the last decade in the global economy. The GFC,[2] which shook the world in 2008, engulfed not only the developed economies but also unsettled the developing countries. It was during this period that China first created the China Investment Corporation (CIC). However, according to the given definition of SWF by IMF and Santiago Principles, only the China Investment Corporation (CIC) conforms to the parameters of a SWF (Yann 2009: 105). Therefore, going by this logic the first China' SWF was established only in 2007.

Listed in the Table 1 below are the world's 10 largest SWF.

Table 1: Largest Sovereign Wealth Funds by Assets under Management

Country	**Sovereign Wealth Fund Name**	**Assets-USD Bill**	**Inception**	**Origin**
Norway	Government Pension Fund-Global	1058.5	1990	Oil
China	China Investment Corporation	941.4	2007	Non-Commodity
UAE-Abu Dhabi	Abu Dhabi Investment Authority	683	1976	Oil
Kuwait	Kuwait Investment Authority	592	1953	Oil

[1] Economic globalization refers to the increasing interdependence of world economies because of the growing scale of cross-border trade of commodities and services, flow of international capital and wide and rapid spread of technologies. It reflects the continuing expansion and mutual integration of market frontiers, and is an irreversible trend for the economic development in the whole world at the turn of the millennium (Shangquan 2000, UN.ORG).

[2] The financial crisis of 2007–2008, which started in the US, is termed as the global financial crisis. It began as the subprime mortgage crisis in the United States and with the collapse of the investment bank Lehman Brothers on September 15, 2008. The international banking crisis prevailed across the globe, swamping many huge economies under the garb of it. Many economists have considered it the worst financial crisis since the Great Depression of the 1930s.

China-Hong Kong	Hong Kong Monetary Authority Investment Portfolio	522.6	1993	Non-Commodity
Saudi Arabia	SAMA Foreign Holdings	515.6	1952	Oil
China	Safe Investment Company	441	1997	Non-Commodity
Singapore	Government of Singapore Investment Corporation	390	1981	Non-Commodity
Singapore	Temasek Holdings	375	1974	Non-Commodity

Source: Based on Sovereign Wealth Fund Institute (SWFI 2018a)

China's SWF and the concerns of the West[3]

The western world saw the establishment of China's SWF with much scepticism and concern. Firstly, the China watchers in the western world were concerned that China's SWF investments could raise issues with regard to national security concerns. Secondly, the advanced countries of the west have dominated the world financial market but the SWF investments from China might change that. Finally, the major concern was that China would be using China's SWF for promoting its geo-political objectives.

Brad Setser, from the Council on Foreign Relations pointed out in an interview to National Public Radio's Morning Edition that, "The rise of sovereign wealth funds represents a shift in power from the U.S. to a group of countries that aren't transparent, aren't democracies, and aren't necessarily U.S. allies" (Martin 2008a: 2). Lawrence Summers, President Obama's top economic adviser, then wrote an op-ed in Financial Times in July 2007 raising his disquiet over SWF "profound and [go] to the nature of global capitalism" (Summers 2007). While Simon Johnson wrote in an IMF Journal, "the real danger is that sovereign wealth funds (and other forms of government-backed investment vehicles) may encourage capital account protectionism,

[3] The "West" used here is to primarily refer to the OECD countries.

through which countries pick and choose who can invest in what" (Johnson 2007: 3). This all led to the adoption of protectionist measures in the western world.

China's Response

The financial crisis of 2008, as mentioned earlier, led to a slump-down of top-notch banks like the Lehman Brothers, which went bankrupt. Other big names such as AIG, Bradford & Bingley, Fannie Mae, Fortis, Freddie Mac, HBOS, Royal Bank of Scotland, Hypo and Alliance & Leicester[4] in the US ran into financial difficulties as well, and China intervened to bail them out with the help of its SWF. China also came out to aid other western financial institutions as the crisis deepened in the fall of 2008 and winter of 2009. Notwithstanding this bailout of major financial institutions in the western nations, they were nonetheless extremely sceptical of China's SWF as an investor. Therefore, assessed China's motivation more in political terms than economic (Xu 2010).

The reading of the relevant literature reveals that China's SWF have always marked their presence in global finance not as regulators but as major investors. The PRC government officials in various pronouncements have stressed the need for China to continue generating economic growth and prosperity, since it is critical in ensuring regime legitimacy as well as a prerequisite for realising "the China Dream."[5] Nevertheless, China's SWF investment portfolios, quite markedly diverse – from financial institutions to strategic sectors - have intensified the concerns within the OECD countries as to whether the PRC's motivations are purely commercial or geo-politically oriented. Mistrust of China also arises from issues of transparency. The fact that China is a party state with deeply intimate ties existing between the state and party officials and the SWF, leads to highly opaque functioning and decision-making. Therefore, from a western liberal perspective, this also gives rise to concerns regarding China's intentions of

[4] Mathiason, N. 2008. 'Three weeks that changed the world', The Guardian, 28 December, https://www.theguardian.com/business/2008/dec/28/markets-credit-crunch-banking-2008 (accessed on 22 July 2018).

[5] It was on 29 November 2012 that Xi Jinping first referred to "zhongguo meng' (the China Dream). This is a core objective under Xi Jinping led government, which prioritises the "great rejuvenation" of the Chinese nation. "The Chinese dream, after all, is the dream of the people. We must realize it by closely depending on the people, and we must incessantly bring benefits to the people," Xi said that at the National People's Congress, when elected as the President on 14 March 2013.

politicising the market to pursue its geo-political goals. During the testimony before U.S.-China Economic and Security Review Commission in 2008, Michael F. Martin, an analyst at the Congressional Research Service said that, ‘‘China [would use] CIC to secure significant market power over an important commodity market or financial sector’ (Martin 2008b: 6). High profile financial investments by China in Morgan Stanley and Blackstone group have further intensified these concerns. This has also contributed to the adoption of protectionist measures by the western nations against China to guard against the impact on the financial markets.

Arguably, the most significant concern regarding the China's SWF is with respect to transparency. As some have argued (Morrison & Labonte 2013; Truman 2007; Martin 2008a), most of the above-mentioned concerns would be ameliorated to a large extent if the SWF were more transparent and relied on private corporate governance, rather than being a political and state controlled asset. The opacity of SWF has always been a key factor for western analysts and critics who are extremely sceptical of the politically driven investment decisions. The major contention here is between state capitalism and market capitalism. In the case of state capitalism, the government routinely intervenes in the play of market forces and takes regulatory decisions in addition to intervention that affects price functions in the given market. Whereas in market capitalism, the markets are, for the most part, free to regulate the pricing based on supply and demand functions. The market is largely unrestricted by government intervention in the case of the latter. Therefore, the market forces do not have a free hand to pursue profit and wealth maximization. This fundamental divergence has thus prompted the western countries to adopt protectionist measures, which hamper the cross-border capital flows and exacts a toll on global financial markets. Consequently, an increase in the protectionist backlash against strategic investments could be damaging for global trade.

Divergent trends characterize international political economy today. On one hand, various sorts of crises have shaken up the Western Liberal Capitalism while on the other hand, it has given way to a potential alternative of State Capitalism in emerging markets (*The Economist* 2012). Some of the prominent countries that are part of the ‘State Capitalist’ group are China, Russia and Venezuela. The major argument among the critics and analysts of State Capitalism is the use

of the SWF by the host countries in the recipient countries challenging their economy and influencing/impacting their foreign policy.

Ian Bremmer in his article, 'State Capitalism Comes of Age: The End of the Free Market?' (2009), points out that,

> 'the free-market tide has receded and its place has come state capitalism, a system in which the state functions as the leading economic actor and uses markets primarily for political gain. This trend has stoked a new global competition, not between rival political ideologies but between competing economic models. And with the injection of politics into economic decision-making, an entirely different set of winners and losers is emerging…. State capitalism has four primary actors: national oil corporations, state-owned enterprises, privately owned national champions, and sovereign wealth funds (SWFs)'.

China's SWF: Genesis, Investments and Policy Framework

1. China Investment Corporation (CIC)

In September 2017, within a decade since its establishment, the CIC emerged as the second largest SWF in the world (Dou 2017). Setting up the CIC was one of the most intricate alignments in the political and financial arena of China. From the formation of the Huijin Investment Company to the creation of CIC, the contention was between the key economic policy-making organisations, People's Bank of China (PBOC) and Ministry of Finance (MOF). It was regarding the ownership, management and best possible utilization of China's excess foreign reserves, in order to obtain higher returns through the state's investments, to look for resource security, specifically in the energy quadrant (Liew & He 2010: 41).

It was on September 29, 2007 after a two-year period of intensive work by Chinese authorities (Zhang & He 2009: 101-102). The CIC was marked as a quasi-commercial entity funded and supported by the Chinese government. CIC comes directly under the Chinese State Council and

the PBOC or the MOF do not have any ownership rights in CIC (Li 2009: 1495). Thus, the CIC has a ministerial ranking but comes after the PBOC and the MOF, although the high-ranking officials in CIC are mainly from the PBOC and the MOF. CIC has three subsidiaries, CIC International Co., Ltd. (CIC International), CIC Capital Corporation (CIC Capital), and Central Huijin Investment Ltd. (Central Huijin). The establishment of CIC took place in September 2011, with a decree for the management and investment of overseas assets. Since then, the overseas investment and management are under the supervision of CIC International. The CIC Capital began in January 2015. Therefore, the overall international investments comply with CIC International and CIC Capital (CIC 2018).

The major purpose of CIC has always been to obtain higher returns from the investments. However, since it reports to the PRC State Council, its political motivations have always been under international scrutiny in the international forum.

Investments

CIC invests internationally and domestically. The disposition of the capital investments by these two portfolios has varied governance systems. In case of Huijin, the Chinese Central Government directly assigns executive managers. The two capital portfolios also differ in terms of profit-generated accounting rules, in pursuance of investment strategies. In the revenue accounting rulebook, the global output is determined on a market base while the domestic output on a cash base (i.e. calculated as dividends over the equity book value). The difference in investment strategies lies in the fact that in the global scenario, when CIC invests in foreign firms it is generally in minority stakes with no plans to own a firm, albeit in case of domestic investments inherited through Huijin, it is in the State-Owned Enterprises (SOEs) (Lugo 2012: 15).

In the initial phase of 2007-2008, the international investments by CIC (primarily in the US) went to the top financial institutions while domestically, institutions like the Agricultural Bank of China (ABC), China Development Bank (CDB), China Silver River Holding etc., were the major recipients. In the case of the financial institutions, it included minority stakes (under 10 per cent

in U.S. firms of Morgan Stanley and Blackstone i.e. US$3 billion and US$5.6 billion respectively and another US$120 million in various small investments. CIC earned a nominal 0.2 per cent return on the global portfolio in 2007. It also led to CIC entering the year 2008 with sizable cash inflows (CIC 2008: 32-33).

On the other hand, in terms of sectoral distribution, the major investments during 2009 and 2010 were in energy and natural resources. The portfolio also included real estate and financial institutions. The "CIC's investments in individual entities were much smaller, between US$600 million and US$700 million on average, suggesting moderation in risk taking as well" (Wu et al. 2012: 351, cited in Eaton & Zhang 2010: 498). CIC's strategic investments range from iron in Australia to sugar in Brazil in terms of countries while in case of commodity infrastructure from processing facilities, terminals to the parts of the supply chain. It also invested in agricultural commodities in 2008 in Noble, when the price of rice, wheat and soybeans were hiked (Wu et al. 2012: 353).

In January 2011, CIC opened representative office in Toronto. The backdrop to this was the national campaign launched by the Chinese government in 2006 - "Go Global" - in order to persuade Chinese firms as a part of strategy to extend China's competitiveness and to rebalance China's export-oriented growth model. Furthermore, the 12th Five-Year Plan (FYP) adopted by the Chinese government in March 2011, accorded top priority to climate change and energy. CIC dedicated itself to improving its global portfolio in energy investments and therefore saw this as the perfect opportunity to become part of both, China's 'Go Global' strategy and the 12th Five-Year Plan (FYP) (Cieślik 2014: 36-37).

In 2011, the investment base of CIC further diversified. It invested in infrastructure, in Australia in Horizon Road - October 2011 and the same year made its foray in Africa. The investments of 2012 saw an increase in infrastructure investments across the western periphery, as the CIC Chairman himself conveyed in 2012 that the company was interested in investing in European and US infrastructure (*BBC* 2012). 2013 and 2014 saw the investments covering new areas of Russia and Mexico. In 2015, the CIC established a specialised investment platform known as CIC Capital Corporation (CIC Capital). Following which in 2016, CIC Capital with other

international institutions entered into long-term strategic collaborations to further conduct joint projects with several Chinese companies. In 2017, the CIC announced that the fund would promote huge investments in the Belt and Road Initiative of President Xi Jinping and therefore expand its investments in infrastructure.

Long-term Investment Plans

Looking at its long-term agenda, CIC is setting up its overseas branches in a strategic move to expand global outreach, deepen partnership and improve investment capabilities. In pursuance of its goal to make direct investments in the US Economy, the CIC thus opened its representative office in New York.

Foreign Policy Objective

CIC's main agenda has always been profit making through investment returns, so that it can support the domestic economy. However, the western governments have always been fearful of the Chinese government using it as a tool of economic statecraft. The outbound investments are seen to act as bargaining chips in case of a foreign policy objective, as in bringing about China-friendly policies on matters like Taiwan and Tibet and using the resources of CIC to build China's soft power. However, CIC's investments in strategic sectors like technology and industry can be potentially dangerous in case they get a control over or steal the technological know-how and collect information regarding the host country (Shih-Ping 2010: 88).

Temasek Holdings (Singaporean SWF)

In 1974, the government of Singapore established Temasek Holding with the government budget surplus. It was set up in order to have a strong presence in the industrial sector of Singapore, therefore to become a part of the state's nation building efforts (Temasek 2018a). The holdings have a presence in the financial sector (40 per cent), telecommunications and media (24 per cent), and transportation and logics (10 per cent) (Demange 2009: 84), Furthermore, it was carried on with consumer and real estate, life sciences and agri business, energy and resources.

Temasek as of now is a global investment company, driven by a set of commercial principles to create and maximise risk-adjusted returns over the long term (Temasek 2018b).

Investment Portfolio

From the very beginning, the investment portfolio of Temasek Holdings aimed towards government-linked companies (GLCs) in order to promote the interests of the state. The companies are: Maritime and Air Infrastructures and transportation include Singapore Airlines, Port of Singapore (PSA), Neptune Orient Lines (NOL), engineering in the maritime oilfields (Keepel and Semb Corp), electronics (Singapore Technologies, Chartered…), financial services (DBS), the health and biotechnology sector and the information and communication technology sector (Singtel) (Demange 2009: 84). The average annual rate of return has been 17 per cent for Temasek Holdings (Balding 2012: 1).

During the 1970s and 1980s, it focussed domestically and on the development of the GLCs as the 'engine of national economic growth'. The investment portfolio of Temasek saw an increase by 840 per cent from US$345 million US$2.9 billion between 1974 and 1983 (Low 2008: 161-77, cited in Ng 2010: 7). Eventually in the 1990s, the Singaporean economy liberalised and the GLCs became profitable and competitive. Only later via stock exchange listings, the GLCs were restructured and capitalized. It was only in 2000 that Temasek decided to expand its market horizon along the international borders. In 2002, Ho Ching, wife of the current Prime Minister Lee Hsien Loong joined Temasek.

In the same year, Temasek came up with a new, 'active' strategy for international investments and more transparency within the organization. It also decided to invest outside the country, and bought stakes in 2003 in Indonesian banks, BII Bank and Bank Danamon, for US$530 and US$337.5 million respectively. It seceded from the domestic developmental agenda towards a new role of a commercial enterprise, aimed at creating and delivering a sustainable, long-term return for the Singaporean economy. It very quickly entered into the new markets. It has 11 global offices 2 in Beijing, and 1 office in Shanghai, Mumbai, Hanoi, London, New York, San Francisco, Mexico City, Washington, D.C., and Sao Paulo (Temasek 2018a).

Presently, it is following the development trail by buying direct stakes in Singaporean and Asian Companies. The yields it generates from the asset sales and dividend income, it reinvests into foreign assets, henceforth behaving like a private equity fund (Cummine 2014: 40). In 2005, it bought six per cent of stakes in China Construction Bank for US$9.3 billion and in Bank of China too, four per cent and for US$5.4 billion. Then in between 2006 and 2008, there were major investments done in US and UK banks. However, the beginning of the global financial crisis resulted in quick selling off the stakes in these banks (Ng 2010: 8). Afterwards in 2009, the new charter stressed on Temasek's role as a commercial investor moving towards long-term wealth creation rather than investing strategically for national economic objectives. It was in October 2010, that Temasek issued a zero-yield exchangeable bond having a three-year maturity period with a premium of 27 per cent, exchangeable at Standard Chartered Bank (Cummine 2014: 42).

Further, 'the interesting dimension of the bond is the ability to systemically reduce its holding in an investee company at a premium over the current market price while enjoying nominally interest-free financing for three years'. This implicates the funding strategy of Temasek to aid the development of its own domestic capital markets (Schena & Chaturvedi 2011: 3, cited in Cummine 2014: 42). In 2014, Temasek Holdings set up an Emergency Preparedness Fund (T-PREP Fund) to assist the Singaporeans in the event of natural disasters and epidemics (Temasek Review 2015: 70). This initiative forms a small percentage of the US$1.2 billion endowed to philanthropic causes and community building through the Temasek Trust. (Cummine 2014: 42). The net portfolio of the Temasek Holdings was US$266 billion in 2015. The portfolio grew to a record of US$308 billion, up from US$275 billion since 2017 (Li Sen 2018).

CIC and Temasek Holdings

Temasek Holdings started as a state led development fund long before the China's Sovereign Wealth Funds came into action. Launched as an independent global asset manager, CIC initially borrowed its model from Temasek Holdings. Both the funds have been very successful but their investment strategies, goals and their working management have been different. CIC mainly invests globally, specifically in the developing countries. Temasek in the beginning, concentrated

within the country and in the Asia Pacific region. The CIC now looks at the foreign policy aims like that of Belt and Road Initiative while Temasek is fostering economic development of the country. The working management (advisory boards and staff) in case of Temasek includes 37 per cent of foreigners while in case of CIC it only accounts to 10 per cent. Even in the decision-making process it is easier for Singapore, since the political elite and business interests more or less consist of the same people while in case of CIC it has been a tussle right since its inception (Shih 2009: 332). Singapore surpassed Chinese investments in U.S. commercial property by US$1 billion in 2017. Although, the Singaporean investments rose because only the Chinese investments in US were going down (Keeten-Olsen 2018). In 2018, China Investment Corporation noted a 17.6 per cent return on its overseas investments while Temasek noted a 12 per cent return. In 2018, China started taking a cautious approach towards overseas investment because of the trade war going on in between US and China, while increasing the investments in domestic industry. Even Temasek Holdings took a cautious approach in 2018, by slowing the pace of its investments (Daga & Kim 2018).

Although Temasek was a role model for CIC, it is the latter, which has met with much greater success with regard to investments. One of the many reasons for the decline of Temasek Holdings was a slew of controversies surrounding it regionally as well as globally. For instance, Temasek's acquisition of Thailand's Shin Corp in 2006 (owned by the then Prime Minister of Thailand, Thaksin Shinawatra) led to objections in Thailand (Arnold 2018). Thereafter in 2012, Temasek Holdings also faced the accusation of nepotism - of filling the top positions in the Fund with family members of the then Singaporean Prime Minister Lee Hsien Loong. Ho Ching, who headed the fund in Singapore, was the wife of Lee Hsien Loong (*Asia Sentinel 2*012). Thirdly, in 2014, Keppel Corporation (of which Temasek is the largest shareholder) bribed Brazilian executives and politicians to win business deals (Bowie 2018). Moreover, while Temasek was far more cautious in its investments, preferring to go for safe options focussing on Asian holdings, CIC went for the bolder bets. CIC actively invested in real estate, bailing out London's Canary Wharf, buying Australian real estate etc. CIC also put up stakes in hedge funds in billions (Stein 2009). All this turned out to be in favour of CIC and since it has not been involved in any controversies, which made its investment bids easier around the world. Therefore, comparatively CIC is more successful fund in comparison to Temasek Holdings.

2. State Administration of Foreign Exchange Investment Company (SAFE IC)

State Administration of Foreign Exchange (SAFE) is responsible for managing China's foreign exchange reserves. It was in 1979, that the central government established SAFE for regulating and administering foreign exchange. It is an administrative agency also responsible for drafting rules and regulations for conducting foreign exchange market activities. SAFE has a subsidiary in Hong Kong, established in 1997 and known as SAFE Investment Company (SAFE IC). SAFE IC has invested heavily in foreign equities, becoming one of the second largest SWF of China (SAFE 2018).

Investments

As pointed out by Ewa Cieslik, "the fund focuses its investments generally on the developed countries and mainly in four sectors: financial, energy, real estate, and to a lesser extent agriculture" (2014: 32). However, in 2007, the SAFE IC mostly focused its investments on low-yielding securities; mainly bonds while most of its reserve investing in US treasury securities.

The investments made around 2008 were more or less in the energy and finance sector. In January 2008, it purchased and invested in minority stakes of around US$800 million in the Australian banking sector: ANZ Bank, Commonwealth Bank of Australia and National Australia Bank. It invested in Texas Pacific Group (TPG) purchasing 20 per cent stake for more than US$2.5 billion in US financial sector. It invested in the French oil major Total, purchasing 1.6 per cent of its shares in 2008 and in British BP Petrochemical Corporation by procuring the acquisition of less than one per cent of its shares in 2008. The other energy sectors in UK where SAFE IC has invested in are Royal Dutch Shell, Rio Tinto, BG Group, and BHP Billiton. It was in mid-2011 that SAFE IC's focus moved more into financial and real estate sectors as well. The fund reached nearly US$570 billion in 2012. In late 2009, SAFE IC registered its fund, Gingko Tree Investment Ltd in the UK, but it was not before 2012 that it started making investments. The biggest four investments in real estate deals in Britain were done through Gingko Tree fund-UPP Group Holdings Ltd. Providing university accommodation - Gingko Tree bought 40 per cent stake in it in January 2013. In 2014, SAFE released a new law simplifying the

administration of foreign exchange matters concerning cross-border equity transactions and investment/financing activities, talking about China's "going-out" strategy in order to use both the domestic and international resources, as well as markets to improve the convertibility of cross-border capitals (*Norton Rose Fullbright* 2014). In 2015, SAFE IC also invested in the Buttonwood or Wutongshu Investment Platform Co Ltd (which is a platform wholly owned by the SAFE), along with two subsidiaries, invested in the shares of 11 listed companies in Q4 2015.

SAFE is also one of the stakeholders of Silk Road Fund dedicating 65 per cent of its shares and fund to Xi Jinping's "One Belt, One Road" initiative (Huang 2016).

The investments in 2016 consisted of Chinese companies securing foreign acquisitions. SAFE IC again invested in the BRI initiative through ChemChina. ChemChina bought the Italian premium tyre maker Pirelli & C. SpA for a sum of US$7.7 billion. It secured a 25 per cent stake from the Silk Road Fund Co. — an investment vehicle controlled by China's SAFE and other state-owned entities in order to set up a subsidiary to acquire Pirelli's shares. In May 2017, while addressing the "Belt and Road Forum for International Cooperation", President Xi Jinping pledged to boost the Silk Road Fund with an investment of US$14.5 billion. The fund will eventually finance infrastructure projects in Asia and in China, Central Asia and Europe, and it will upgrade trade and transportation networks. In November 2017, the Silk Road Fund, under the auspices of SAFE, established a joint infrastructure investment platform, along with General Electric (GE) (Mengjie 2017).

Long-term Investment Plans

SAFE oversees the management of foreign exchange; it has also purchased the maximum number of US Treasury bills but for higher returns, SAFE diversified its pool and invested in commodities like private equity. The investment managers at SAFE had a long-term objective for equities and wanted sustainable long-term investments for the GFC. Of late, it has been investing in real estate and infrastructure, joining the BRI initiative of long-term infrastructural

investments in 2017. SAFE in 2016 invested in Chinese equities (A-share market) to play a stabilization role (China.org.cn 2016).

Foreign Policy Objective

The actions of SAFE have always been secretive, even though every year it comes out with an Annual Report; it does not give the information regarding SAFE IC investments. The obscurity of SAFE raises suspicions over the political purpose of the fund, whereby China can easily use it to fulfil its foreign policy objective (SWFI 2018b).

3. National Social Security Fund (NSSF)

During the 1990s, China faced a major crisis with regard to sustaining the future of China's senior citizens. The demographic change at the provincial level of the aging population was due to the one-child policy enacted by the Chinese government since the late 1970s and the improvement in life expectancy had led to rise in numbers of the senior citizens. The Chinese government was very well aware of the imminent difficulties in ensuring pensions for this section of the population. Throughout the 1990s, therefore, the Chinese government tried to devise policies for building a sustainable pension system. On August 1, 2000, the Central Committee of the CPC and State Council established the NSSF under the administration and management of National Council for Social Security Fund (NCSSF). The Fund is setup as a 'strategic reserve fund' to sustain the future social security expenditure at the national level and to bail out potential pension defaults at the provincial level (NSSF 2018).

Investments

The NSSF has invested in a variety of financial products both at home and abroad, which includes fixed-income assets as well as stocks (Huaxia 2016). The NSSF fund invests according to the regulatory framework for investments, therefore the fund can invest directly or it can take up licensed investment managers. If NSSF prefers to invest directly in the assets, it can invest

only in bank deposits or government bonds, while in other cases NSSF needs to appoint fund managers authorized by Ministry of Human Resources and Social Security (MoHRSS).

In between 2001-2003, the majority of the NSSF funds were self-managed and retained in the form of cash and government bonds, except in the case of a one-time purchase of about RMB 1.3 billion (US$153 million) of Sinopec IPO shares in 2001. In 2003, the chair of NSSF submitted the proposal for overseas investment that got acceptance by the government in 2006. In January 2007, the NSSF awarded its first mandates to 10 foreign fund managers, to raise more than US$1 billion in overseas stocks and bonds. It also notified that for its overseas investment it had chosen Citibank and Northern Trust as global custodians. (Leckie & Pan 2007: 89). The NSSF had assets worth 516 billion yuan (US$73.7 billion) by the end of 2007, including US$1.66 billion in overseas investments. (Zhu & Lin 2008). In 2008, the NSSF received the permit for investment in venture capital and private equity funds up to 10 per cent of its total assets, registered with the National Development and Reform Commission (NDRC) (Impavido et. al. 2009: 18). In 2008, the assets under management also reached US$80 billion (*Reuters* 2009). Subsequently, in late 2009, the NSSF Chairman declared that the fund had acquired authorization for investing as much as 20 per cent of its assets in overseas stocks and funds, 13 per cent higher than previously. This gave NSSF the capacity to invest in a variety of assets in the overseas market--the investment consequently increasing from US$30 billion to US$40 billion. In addition, by the end of 2011, the NSSF had over 868.82 billion yuan (US$137.9 billion) worth of assets.

Thereafter in July 2012, NSSF signed 12 agreements with global investment managers including JP Morgan, Lombard Odier, Nueberger Berman, Schroders, Standish, Stone Harbor Investment Partners, AGF Management Limited, Investec, RBC Global Asset Management, AEW Capital Management, AMP Capital and European Investors. In 2013, the NSSF recorded a 6.2 per cent return on investment, according to the annual reports released by NSSF. The US$200 billion (€146 billion) fund earned CNY 68.6 billion (€8.1 billion) from its investments in 2013 (Ang 2014). In 2014, China’s National Council for Social Security Fund (SSF) declared a return of 11.69 per cent for its funds based on a strong equity market rally in the Mainland. The assets of the SSF’s funds totalled 1.5 trillion RMB by the end of 2014. Direct investment assets reported for 50.26 per cent, whereas the remaining 49.74 per cent allocated through mandates, up from

46.05 per cent in 2013 and 41.17 per cent in 2012. The SSF for overseas investments reported that 8.50 per cent of total assets amounting to around 131 billion RMB were utilized (Au 2015).

By the end of 2015, the net assets of the NSSF totalled up to 1.9 trillion yuan (*China Daily* 2017). In January 2015, the Chinese government came out with new pension reforms, which came into force in October 2016. In 2015, the Chinese government allowed the NSSF fund to buy more and invest in local government debt, investment trusts and shares in state-owned companies (Hui 2015). The new scheme in August 2015 allowed local pension funds to invest up to 30 per cent of its total assets in domestic equities, equity funds and mixed funds. The predicament of the NSSF was that the fund was able to invest up to 120 billion RMB in pension fund in the A-share market originally. In November 2016, the commission named the Bank of China, Bank of Communications, China Merchants Bank Industrial, and Commercial Bank of China as the custodian banks. In 2012, NSSF received 100 billion RMB worth pension emoluments from Guangdong and in 2015 from Shandong provincial government assets worth 50 million RMB in its first phase were received (*Asia Asset Management* 2016). The NSSF possessed total assets of 2.04 trillion yuan by the end of 2016, with a 1.7 per cent of investment return (Zhang & Chen 2018). At the start of 2017, the NSSF with its trillion-yuan (US$317 billion) was looking for more overseas investment opportunities and therefore the fund is now looking towards joining and investing more in the Silk Road Fund. The vice-chairman, Wang Zhongmin, told that the fund would take a go-slow and low-key approach while acknowledging the fact that a bag of investment deals was on its way. The NSSF might mandate part of its assets to private equity funds to seek investment returns.

Long-term Investment Plans

As a strategic reserve fund, NSSF is looking towards future long-term investments only. By the end of 2016, the overseas investment had reached 136 billion yuan, which was 67 per cent of its total investible assets. Chairman Lou Jiwei said that there were substantial risks in investing such large sums in the domestic market; therefore ‘to achieve a high risk-adjusted, long-term return and ensure the appreciation of the social security fund, the NSSF would look for more investments overseas but only if returns proved promising. He also added that the fund was keen to invest more in alternative markets, but was short of staff with the relevant experience. The

fund also decided to be a part of BRI initiative where it would like to invest in the globally known private equity fund so that it can create strong investment returns and a stable cash flow for future (Ren 2017; Tang 2017).

Foreign Policy Objective

The agenda of the NSSF is to sustain the public pension funds as a way to support future social security; as of now, it has not been a supportive factor in the PRC's foreign policy. It can invest 20 per cent of its fund assets in China (Koch-Weser & Haacke 2013).

4. China Africa Development Fund (CADF)

The CADF is a Chinese private equity fund, completely funded by the China Development Bank (CDB), one of the three Chinese government policy banks. The CADF is one of the major parts of Chinese government plans for the execution of its objectives for the African continent. The fund aims to activate investments in Africa through Chinese companies in different sectors like infrastructure, agriculture, manufacturing etc. (CADF 2018). In June 2007, China Development Bank established the fund with an initial capital of US$ 1 billion and then with an initial scale of expansion of US$5 billion. CADF was to support economic relations and trade between Africa and China.

Investments

The fund started functioning in the year 2000. Between June 2007 and June 2008, the CADF granted investment to six projects, which involved more than US$90 million. The CADF investments are majorly in agriculture, manufacturing, infrastructure, natural resources, natural resources exploration and industrial parks. The fund focused on initiating strategic relations with more than 10 major enterprises in China, promoting business cooperation with African countries. The companies provide them with low interest-bearing loans and on-site facilitation services.
By January 2009, CADF had invested US$400 million in more than 20 projects in Africa. Some of the projects CADF invested in were:

- Malawi - cotton project; also implemented in Mozambique, Zambia and Zimbabwe;

- Ghana – the Sunon-Ansogi Power Plant, with a production capacity of 560 000 kW power station;
- Ethiopia - glass factory: holds 40 per cent shares (other projects besides glass factory under investigation are: agriculture, construction and manufacturing); (*China Daily* 2008).

By 2010, the fund had already invested in 30 projects in Africa, costing around US$800 million. In 2010, CADF also began with the second phase of fundraising, and it raised another US$2 billion in three years. The CADF had ultimately financed and backed 60 projects across 30 African countries by 2012 (Hanauer & Morris 2014: 42). In May 2014, the assets of the CADF crossed US$5 billion mark. The China Development Bank gradually hit its target of US$5 billion of the equity investment held in Africa by the close of 2015, and had invested in more than 80 projects across 35 African countries from infrastructure to agriculture to energy resources and it granted almost US$3.2 billion in CADF (China.org.cn. 2015). Moreover, at the Johannesburg Summit of the Forum on China-Africa Cooperation held in December 2015, Chinese President Xi Jinping announced an extra allocation of US$5 billion for CADF, with the total amount reaching US$10 billion. By the end of November 2016, the Chinese Vice President said that the projects have attracted an additional amount of US$17 billion in enterprise investments and bank loans across Africa (*African Review* 2016).

In an interview to Xinhua in December 2017, the chair of the CADF Chi Jianxin, provided a glimpse of the comprehensive nature of the fund and its activities. He said that the fund consisted of US$4.5 billion, which it plans to invest in 91 projects around 36 countries, and that the amount US$3.2 billion had already been invested. Further said that the fund was planning to make more investments and direct more capital into Africa through the 'Belt and Road Initiative' (ZD 2017).

Long-term Investment Plans

CADF investments focus on the long-term results. The head of the fund, Chi Jianxin has also said that the fund looked towards its African investments in the medium to long-term perspective, as different African countries are at different stages of development, industrialization and urbanization. The fund is planning to invest in sectors like agriculture,

manufacturing, resources and industrial zone development. Expanding its ambit, the CADF will invest in greener projects like solar, wind and hydro and in developing high-yield agriculture within a sustainable development paradigm (MOFCOM 2013). The CADF is also collaborating with the BRI to make African economies more competitive and is trying to narrow the gaps between landlocked countries and coastal regions (Zhong & Ren 2017).

Foreign Policy Objective

After the financial crisis of 2008, China's exports were going down and it needed to break into new markets. The economic conditions of China led it to look for new markets and engage with its excess industrial capacity as a part of its 'going global' strategy (Albert 2017). The fund also is a part of the BRI initiative through its development framework, therefore promoting cooperation and interconnectivity from Eurasia to Africa.

Elizabeth C. Economy and Michael Levi argue in their book, '*By All Means Necessary*', that China in pursuit of natural resources is engaged in so called 'commercial diplomacy', "Beijing pitches vast trade, assistance, and investment deals on frequent trips to resource-rich countries, and retains an almost unparalleled ability to provide low-cost financing and cheap labour 'for infrastructure projects" (Albert 2017).

Conclusion

Contrary to the fears and concerns about the China's SWF prevalent in the west – or in other parts of the world - the Chinese themselves appear to be in a more sanguine and optimistic frame, as has been assessed by a leading western tabloid:

> "[W]ith the West in a funk and emerging markets flourishing, the Chinese no longer see state-directed firms as a way-station on the road to liberal capitalism; rather, they see it as a sustainable model. They think they have redesigned capitalism to make it work better, and a growing number of emerging-world leaders agree with them" (*The Economist* 2012).

Contrary to the general perceptions, China has also been highly receptive to the suggestions from the IMF, WTO and GATT when charged with currency manipulation. Eventually, the organizations have themselves concluded that the 'currency manipulation' cannot be held against China, until and unless the organization themselves amend their own laws and regulations (Howard 2013).

China's SWF, specifically CIC, has seen a significant growth in the last decade and acquired the position of the second largest fund in 2017. The growth of China's SWF in the next 10 years is towards ushering China's rise to the ranks of the developed countries. Hence, China's SWF will definitely be huge boon in the economic growth and development of a new China. For the present, they do not appear to constitute a challenge to the well-established western institutions or to the national security of other countries. In the long-term, that could well be an inevitable consequence of China's rise as a world power. The current debates have obscured the nature and objectives of the SWF and instead of generating a serious rethink on fashioning the norms and rules concerning SWF, it has got more fixated on the fears and uncertainties regarding the rise of China. China is certainly looking forward to its emergence as a major player in the world. Nevertheless, at the time of writing this article, there is no case can be made for these SWFs as holding or exercising the kind of power that could shake up the global financial architect.

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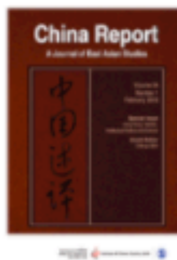

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