Contents

Foreword xi
Acknowledgments xiii
Introduction xv
Abbreviations and Acronyms xxi

SECTION I | ROLE AND MACROFINANCIAL RELEVANCE 1

1 | Demystifying Sovereign Wealth Funds 3
Espen Klitzing, Diaan-Yi Lin, Susan Lund, and Laurent Nordin
Understanding the Rise of SWFs 4
The Diverse Aims and Investment Strategies of SWFs 6
SWFs Remain Powerful, Despite the Financial Crisis 8
SWFs Will Remain Long-Term Investors, but the Crisis Has Prompted Some Shifts 9
SWFs Will Continue to Grow 11
References 13

2 | From Reserves Accumulation to Sovereign Wealth Fund: Policy and Macrofinancial Considerations 15
Yinqiu Lu, Christian Mulder, and Michael Papaioannou
Adequate Level of Foreign Reserves 16
Options for Ample Reserves 18
Support from the SWF in a Financial Crisis 19
Macrofinancial Linkages Associated With Management of an SWF 20
Conclusion 22
References 23

3 | Sovereign Wealth Funds: New Economic Realities and the Political Responses 25
Steffen Kern
Cross-Border investments: Toward a Global Diffusion of Corporate Ownership? 26
SWFs as Foreign Investors in the United States and the EU: The Policy Issues 31
Policy Responses: A Danger of Protectionist Reflexes? 33
The International Dimension: Ensuring Open Markets in a Fragmented Regulatory Environment 36
Good Conduct by SWFs: The Key to Greater Acceptance in Recipient Countries 38
Conclusion: The Global Perspective 39
References 40

4 | Sovereign Wealth Funds and Economic Policy at Home 43
Jon Shields and Mauricio Villafuerte
The Role of an SWF Within the Overall Macroeconomic Policy Framework 44
Accountability 53
Conclusion 55
References 56
SECTION II  I  INSTITUTIONAL FACTORS

5 | Sovereign Wealth Funds and the Santiago Principles ........................................... 59
   Udaibir S. Das, Adrian Mazarei, and Alison Stuart
   SWFs: Objectives and Taxonomy ............................................................................. 60
   Issues Surrounding SWFs ...................................................................................... 61
   The IWG and the Development of the Santiago Principles ...................................... 63
   The Key Features of the Santiago Principles .......................................................... 65
   Concluding Observations and the Road Ahead ...................................................... 70
   References ................................................................................................................ 73

6 | Legal Underpinnings of Capital Account Liberalization for Sovereign Wealth Funds .................................................................................................................. 75
   Wouter Bossu, Obianuju Ezejiofor, Thomas Laryea, and Van Liu
   Domestic Law ........................................................................................................... 76
   International Law ...................................................................................................... 76
   International Law Under the IMF’s Articles of Agreement ...................................... 78
   IMF Jurisdiction over Restrictions on Current Payments ......................................... 79
   Soft Law Through the Santiago Principles ................................................................ 81
   Looking Forward ....................................................................................................... 83
   References ................................................................................................................ 83

7 | Sovereign Wealth Funds: Investment Flows and the Role of Transparency .......... 85
   Robert Heath and Antonio Galicia-Escotto
   Cross-Border Data .................................................................................................... 86
   Domestic Statistics .................................................................................................... 89
   How Do SWFs Fit into External Sector Statistics? ...................................................... 90
   Statistical Data Reporting Practices of SWFs .......................................................... 91
   Conclusion ................................................................................................................ 92
   References ................................................................................................................ 92

8 | Regulating a Sovereign Wealth Fund Through an External Fund Manager ........... 95
   Andre de Palma, Luc Leruth, and Adnan Mazarei
   Regulating the SWF Operating Overseas Through an External Fund Manager .......... 97
   A Simple Model ........................................................................................................ 99
   Results, Interpretations, and Policy Implications ...................................................... 103
   P-A Players with Multiple Objectives ...................................................................... 106
   Conclusion ................................................................................................................ 110
   References ................................................................................................................ 110
   Annex: A Dynamic Model of Learning by Investing ................................................. 111

9 | Sovereign Wealth Funds and Recipient-Country Investment Policies: OECD Perspectives ........................................................................................................... 113
   Kathryn Gordon
   Reaffirmation of the Relevance of OECD Investment Principles for Fair Treatment of SWFs ................................................................. 114
   National Security Is a Legitimate Concern but Should Not Be Used to Disguise Protectionism .......................................................... 115
### SECTION III | INVESTMENT APPROACHES AND FINANCIAL MARKETS 123

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Author(s)</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Sovereign Wealth Fund Investment Strategies: Complementing Central Bank Investment Strategies</td>
<td>Stephen L Jen</td>
<td>125</td>
</tr>
<tr>
<td>11</td>
<td>Investment Objectives of Sovereign Wealth Funds: A Shifting Paradigm</td>
<td>Peter Kunzel, Yinqiu Lu, Iva Petrova, and Jukka Pihlman</td>
<td>137</td>
</tr>
<tr>
<td>12</td>
<td>Managing a Sovereign Wealth Fund: A View from Practitioners</td>
<td>Didier Darcet, Michael du Jeu, and Thomas S. Coleman</td>
<td>151</td>
</tr>
<tr>
<td>13</td>
<td>Sovereign Wealth Funds and Financial Stability: An Event-Study Analysis</td>
<td>Tao Sun and Heiko Hesse</td>
<td>173</td>
</tr>
<tr>
<td>14</td>
<td>The Macroeconomic Impact of Sovereign Wealth Funds</td>
<td>Julie Kozack, Doug Laxton, and Krishna Srinivasan</td>
<td>187</td>
</tr>
</tbody>
</table>
D. The New Zealand Superannuation Fund: Surviving Through and Seeing Beyond the Global Financial Crisis .......................................................................................................................273
Adrian Orr
E. Norway: Dealing with Risk in an Uncertain World ..................................................276
Thomas Ekeli and Martin Skancke
F. The Russian Federation: Challenges for a Rainy Day ........................................277
Peter Kazakevitch and Alexandra Trishkina

APPENDICES .........................................................................................................................281

1 | The Santiago Principles .......................................................................................................281

2 | The International Forum of Sovereign Wealth Funds ................................................285

Contributors .........................................................................................................................287

Index ........................................................................................................................................299