Sovereign Investment: Concerns and Policy Reactions

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Sovereign wealth funds hold more than three trillion dollars' worth of investments, almost twice the amount in all the hedge funds worldwide. It is expected to go up to nine trillion by 2015. At the same time, sovereign wealth funds are relatively unregulated. The International Monetary Fund and the G7 aim to establish temporary and voluntary rules to introduce transparency and uniformity until more permanent regulatory structures are instituted. What permanent rules and procedures should govern sovereign wealth funds? What bodies should enforce them? What is the most effective way of doing so? Do the current provisional rules answer the national security concerns of host countries? It is these kinds of relevant and important questions that are addressed in the latest book by a team of experts from the Vale Columbia Center on Sustainable International Investment. The book is reviewed by Dr. Lilach Nachum, Professor of International Business at Baruch College of City University New York.


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For several reasons this book represents a most timely and important contribution. For one, the international activities of government-owned and controlled entities – sovereign wealth funds (SWFs) and state-owned enterprises (SOEs) – have been growing rapidly, turning these entities into significant players in global markets. Furthermore, government-owned entities differ from privately-owned firms – the major players in international investment and the focus of most scholarly and practical attention – in terms of their ownership, goals, motivation and organization. Moreover, these entities have been the subject of considerable controversy, on the ground of the political motives that may shape their activities, and have become a symbol of the tension between state- and market-versions of capitalism (Gilson and Milhaupt 2008). Lastly, most of foreign investment by government-owned entities, notably SWFs, is in the form of portfolio investment, an investment type that is not subject to regulations of FDI and until recently was not specifically regulated by national or multi-lateral rules. Although the need for regulatory response is widely recognized, the nature of the response is highly debated. Examining the regulatory environment surrounding the foreign investment of government-owned entities is thus of considerable important.

This edited volume makes an important contribution towards deepening the understanding of these issues. It brings together contributions by leading authorities with diverse academic and professional backgrounds, including representatives of the IMF, OECD, academic institutions, law firms, and multinational enterprises, to provide an interdisciplinary analysis of the international activities of government-owned entities and their political and regulatory implications. It addresses critical questions related to the regulatory environment surrounding sovereign investment, including the rules and procedures that should govern this investment and the appropriate bodies that should enforce them.

The papers in the book are grouped in three parts. Part I – the rise of SWFs and SOEs - sets up the stage by defining the players and the specific concerns they raise and reviewing policy and regulatory responses to their activities, at the national and supra-national levels. It also describes the reactions of SWFs and SOEs to these developments and shows how they have modified their investment strategies.

Part II is devoted to discussions of regulatory concerns raised by the international activities of government-owned and controlled entities. It examines the financial impact of these investments, national security concerns, and transparency issues of entities whose ownership structure shields them from the imperative of disclosing information about their activities. These issues are discussed across different industries and in varying national settings, presenting most informative comparative evaluations of country regulations of FDI and sovereign ownership. Regulatory activity related to investment by sovereign entities is concentrated overwhelmingly in the developed world, and this is reflected also in the contributions in this part. In part this is the result of these countries being major recipients of foreign investment by sovereign entities, but probably a major reason is the greater sensitivity to government ownership in developed countries and greater concerns regarding possible distortions to free, open market principles that might be introduced as a result of these activities.

Part III constitutes the bulk of the volume. Various contributions that form this part discuss the nature
of the regulatory response to foreign investment by government-owned entities. They also address issues related to the evolving international investment regimes and its account of sovereign international activities, and present the regulatory response of several developed countries and regions. These concerns are particularly heightened by the fact that government ownership of economic entities is more common in the developing world, and most SWFs and SOEs active internationally originate in these countries (Aizenman and Glick 2008). The book concludes with an evaluation of sovereign investment from a historical perspective.

The book contains wealth of data documenting statistically the magnitude and significance of sovereign entities and their investment, in general and in the international arena, and presenting these activities against various benchmarks that provide adequate means to properly evaluate their magnitude and scope, and ground the theoretical discussions in a plethora of data.

A notable strength of the book lies in the normative tune adopted by many of the contributors. The book begins by setting up explicitly practical questions for developing the regulatory framework surrounding the activities of sovereign entities, and taken together constitutes a major pillar towards achieving this goal. Many of the contributions outline concrete suggestions for a response agenda. It thus constitutes an important contribution to the debate regarding the appropriate political and regulatory response to the emergence of government-owned entities as significant global players.

Whereas the book is of apparent interest for policymakers responsible for the formulation of policies towards government-owned entities, it is of broader interest. Sovereign entities represent a challenge for the theory of FDI where the major players have traditionally been privately-owned firms. The distinctiveness of sovereign entities challenges many of the assumptions underlying the theory, not least the assumption of profit maximizing firms that implicitly at least underlain all theoretical developments in this area (Fernandes 2011). The book is of interest also for multinational companies. Research has shown that the international activities of sovereign entities significantly affect those of national firms operating internationally (Venudes 2013).

The book is edited by three scholars of the Vale Columbia Center on Sustainable International Investment (VCC) and it represents an important addition to an impressive stock of publications by scholars associated with the VCC on the political and legal aspects of international investment.

A notable feature of the debate surrounding sovereign investment, which is apparent also in this book, is the occupation with concerns related to these activities, to the relative neglect of their potential benefits. This state of affairs is not in tune with the reality and does not do justice to their actual impact. For the most part, sovereign entities have exercised positive impact on the economies and countries in which they invested. Whereas such investment understandably evolves threatening aspects, the experience thus far appears to suggest that on balance it is benign. The regulatory challenge is to recognize this duality and properly respond to the tension between the benign and threatening aspects of investments by government-owned entities. The debate will be much enriched, and more beneficial to the parties involved, when it addresses, in addition to the concerns, also the value created by these entities and means to divide it among the parties involved.

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