Market Blues

By Terrence Keeley

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Summary:

To the Editor:

Robert Kimmitt ("Public Footprints in Private Markets," January/February 2008) provides an overview of sovereign wealth funds (SWFs) in the global economy that is helpful but incomplete. His proposed principles for a policy response are well intended but neither workable nor adequate. Kimmitt delineates four kinds of sovereign investment. In fact, there are six. His category of SWFs should be divided into three parts, stabilization funds, state-holding corporations, and future generation, or future welfare, funds. Each of these has different investment horizons, different investment benchmarks, different risk-management frameworks, and different oversight requirements.

Kimmitt emphasizes how important it is for SWF investment to be driven by economic, rather than political, concerns. But he does not -- and cannot -- explain with clarity how to distinguish these two motivations. For example, it was economically sensible for the Chinese national oil company CNOOC to bid on the U.S. firm Unocal, just as it was economically attractive for Dubai Ports World to own U.S. ports. Where does economics end and politics begin? Economics dictates that China should secure a larger share of the world's natural and physical resources to keep its growth juggernaut on course. Because other countries hold the same objective simultaneously, China's goal becomes political.

Finally, despite emphasizing, although not clarifying, the importance of economic, as opposed to political, considerations, Kimmitt unhelpfully and unnecessarily omits the principle of reciprocity from his list of recommended policy principles. Although he admits that "many countries with SWFs are themselves far too closed to foreign investment," he dismisses the salience of a more explicit, bilateral application of reciprocity "because it is in the United States' interest to be open to market-driven investments." But it is almost certainly not in the interest of the United States to permit countries that restrict its investments, block its goods and services, and undermine its quest for energy independence to invest freely in its natural resources, means of production, infrastructure, leading brand names, intellectual capital, and technology.

TERRENCE R. KEELEY

Managing Director, Global Central Bank Services, UBS Securities LLC
