Sovereign Wealth Funds: Evaluating the Threat to U.S. Interests at Home and Abroad

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This paper explores the debate over sovereign wealth funds (SWFs) and the foreign policy risks they pose. Large flows of capital from SWFs—government-controlled investment vehicles—have led to cries that the funds are being used sway political outcomes abroad. I ask under what circumstances such concerns may be founded and when alternative measures of statecraft are preferable. I conclude that the risk from SWFs is low and that protectionist measures should be avoided where possible.

Introduction

"Like any Shakespearean character, sovereign wealth funds are neither uniformly good or evil, but are institutions caught between two poles (Balding 2012)."
—Christopher Balding, Associate Professor at Peking University HSBC School of Business

Sovereign wealth funds are government-owned investment vehicles that serve a variety of economic purposes. Described as sitting "at the intersection of high finance and high politics," sovereign wealth funds (SWFs) have long been suspected of also serving political purposes (Drezner 2008). These funds exist between the gravitational pulls of profit-seeking and political advancement, raising concerns over conflicts of interest between the home government and the fund's financial health. Scholarship on the subject is divided on whether political motivations commonly touch the investment strategy of SWFs, but if a state were to use financial instruments to advance foreign policy goals, it is not clear that SWFs are the choicest means of doing so. What, then, explains the polarization of opinion on the threat posed by SWFs? Truman explains the phenomenon well: "If a country were to conduct political and economic espionage, it could use more efficient and clandestine means than to set up an SWF. However, once established, the risk is there (Truman 2014)." The general lack of transparency among funds only exacerbates concerns.

This paper explores the mobilization of capital by SWFs for political objectives. The question of whether SWFs pose a threat to U.S. interests hinges not only upon investment in sovereign U.S. territory, but also upon investment abroad. As Edwin Truman writes, once the risk is there, the great diversity among funds with regard

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to transparency, structure, governance, and other factors calls for individual evaluation of funds and their investments. Today, domestic discourse concerning foreign investment centers upon China and critical technologies. The U.S., however, has developed comprehensive measures to evaluate foreign investment at home and block proposed transactions judged menacing. But how should the U.S. react to investment driven by clear political motivations by states in regions and nations outside the U.S.? And how might this risk be managed without obstructing global economic development?

After providing an overview of SWFs and the policies designed to regulate foreign investment in general, this paper will explore (1) fund-specific factors that influence the likelihood of politically-driven investment, (2) the primary means through which SWF funds can be used as political tools, (3) the circumstances under which alternatives such as sanctions may be preferable tools of statecraft, and conclude with (4) a brief discussion on meeting the challenges associated with SWFs. The evidence reviewed in the following sections suggests that while SWFs have been used to achieve political objectives in the past, the ability of other geoeconomic tools to produce comparable effects diminishes the risk attached to SWF investment abroad.

The Advent and Purpose of Sovereign Wealth Funds

The term "sovereign wealth fund" was not coined until 2005 (Truman 2014). A relatively recent phenomenon, SWFs first raised concerns in the wake of the global financial crisis of 2007–2009. A number of SWFs had earned affection for their investments in leading financial institutions early on in the crisis, only to become the target of criticism following the collapse of the system and the subsequent failure of these investments (Truman 2014). Despite the intense scrutiny and media attention directed toward SFWs during this time, it was only several years earlier that the funds had their humble beginnings as "stabilization funds" tasked with reducing the risk associated with volatility in commodity prices and the Dutch Disease phenomenon in which other industries suffer as a result of more attractive commodity prices (Balding 2012). The transformation from stabilization fund to sovereign wealth fund was rapid, occurring as the growth in available capital outpaced the needs of domestic stabilization functions (Balding 2012). Soon, capital surplus was being used to maximize risk-adjusted returns in the global financial marketplace (Balding 2012).

Today, SWFs address three primary economic risks while profitably investing surplus capital. First, SWFs can help countries avoid inflation associated with rapid growth in money supply caused by surplus inflows by moving the inflows into international assets (Balding 2012). Second, SWFs prevent excessive growth in government expenditures in the event of rising tax revenues (Balding 2012). If a government did not closely manage expenditures and increased spending indiscriminately with each revenue windfall, inflation would likely occur (Balding 2012). Finally, surplus inflows can cause an unhealthy appreciation in a country's real exchange rate, in turn making exports less competitive (Balding 2012). Investing surplus capital abroad reduces inflationary pressure on exchange rates.

The capital held by SWFs is typically generated through one of three primary channels. The first type of fund includes those dependent on commodities. The high commodity prices between 2000 and 2010 led many countries to develop large fiscal surpluses, which were managed through the creation of SWFs (Balding 2012). These funds represent the largest category: 70 percent of non-pension SWFs are funded with commodity export proceeds (Truman 2014). The second type includes SWFs developed by countries with fixed currency exchange rates that generate significant current account surpluses. China, for example, developed the Chinese Investment Corporation (CIC) to manage large foreign exchange reserves while achieving higher rates of return than cash or low-yield debt alone could provide (Balding 2012). The third and final type is what Christopher Balding calls "vanity sovereign wealth funds," which invest capital from government revenue (Balding 2012). France's highly-levered Strategic Investment Fund, created in 2008 despite the country's poor economic health at the time, falls into this category (Balding 2012).

Investment strategies among SWFs vary considerably. Asset allocation depends on the fund's investment horizon, risk tolerance, risk management strategy, and preferred level of liquidity (Truman 2014). Equities, bonds, hedge funds, private equity, real estate, and infrastructure projects are all included in the wide range of possible acquisition targets. On average, SWFs have demonstrated a preference for equity investment, although asset allocation differs across funds (Drezner 2008, 121). Controlling ownership stakes are rare among SWFs and occur most commonly in domestic investments, though large long-term investment positions are common, as the size of SWFs makes them well-positioned to weather market fluctuations (Truman 2014, 18; Drezner 2008, 120). The Qatar Investment Authority, for example, purchased an average stake of 40.28 percent in investments from 2000 to 2014 (Fotak 2017, 41). The average stake held by a given SWFs in investment targets, however, ranges widely. On the high end of the spectrum, the State Oil Fund of the Republic of Azerbaijan holds an average stake of 83.82 percent, while the Bahrain Mumtalakat Holding Company holds only 6.67 percent, on average (Fotak 2017, 42).

Domestic and Multilateral Policy on Sovereign Wealth Funds

Policymakers have taken a special interest in foreign investment and the associated political implications for over four decades. Whether or not SWFs actually pose a danger to national security, the fear surrounding possible power-seeking motives could result in the creation of additional protectionist measures beyond those already in place (Cohen 2009, 713). But because the U.S. and the world at large have benefited immensely from free trade and an open financial system, protectionist policy dampening capital inflows and inhibiting the free circulation of funds through the global economy is undesirable (Monk 2009, 452. Though a skeptical attitude toward open capital markets remains in a number of countries, as Truman concludes, "We may not in all cases be comfortable with the consequences of the free flow of finance and investment either internally or across borders, but on balance it promotes competition and efficiency (Monk 2009, 46)."

Given the positive aspects associated with global investment, policymaking bodies have focused primarily on developing 'best practices' for SWFs, rather than on strict legislation impeding investment. In 2008, a group of countries participating in the International Working Group of Sovereign Wealth Funds solidified 24 generally accepted principles and practices centering upon transparency, good governance, and accountability known as the Santiago Principles. These principles are, however, entirely voluntary and are without compliance mechanisms. Further, thirty-four states belonging to the Organization for Economic Cooperation and Development (OECD), along with twelve non-member states, signed an agreement to apply equitable and fair treatment to foreign firms operating and investing in their territories (Masters and McBride 2018). National security exemptions may be granted; however, in the case of investment in 'critical infrastructure (Masters and McBride 2018).' This commitment is also nonbinding.

In the U.S., the review and regulation of foreign investment began in earnest with the creation of the interagency CFIUS in 1975 by President Gerald Ford authorized to review foreign investments. CFIUS has since been strengthened several times, with the 1988 passage of the Exon-Florio amendment to the 1950 Defense Production Act, and most recently in 2018 with the passage of the Foreign Investment Risk Review Act (FIRRMA) in the face of intensifying Chinese investment (Jalinous 2018). The latter drastically boosted the mandate of CFIUS by expanding its purview to transactions beyond simply those seeking a controlling stake in American firms ("Impact of CFIUS Reform On Private Equity Transactions" 2018). Particularly now, given its broadened mandate, CFIUS is well-positioned to block investments capable of affecting U.S. security (Truman 2014, 43). The CFIUS investment review criteria included in Section V, as well as additional provisions allowing for the discretion of senior U.S. government officials, grant the committee considerable purview, thus providing the U.S. with an effective safeguard against threatening foreign investment. Moving forward, it will be important to continue the policy of careful evaluation by CFIUS while avoiding indiscriminate protectionism.

Structural Concerns Surrounding Sovereign Wealth Funds

> *"When the government becomes both referee and player, the game changes rather dramatically for every other participant (Cox 2007)."*
> *—Christopher Cox, Former Chairman of the U.S. SEC*

The rapid proliferation of SWFs began in 2000, with must funds created after 2005 (Balding 2012, 21). Today, assets held by SWFs are highly concentrated with the largest ten SWFs accounting for 70 percent of global SWF assets under management (Truman 2014, 11). The largest of global SWFs, Norway's Global Government Pension Fund (GPFG), holds assets valued in excess of $1 trillion (Harris 2017). The Abu Dhabi Investment Authority and CIC, of the Emirate of Abu Dhabi and the People's Republic of China respectively, are not far behind, with assets under management of around $800 billion each (Harris 2017). It is useful to note, however, that SWFs account for only a small fraction of global financial flows, with global wealth estimated in excess of $317 trillion (McIntyre 2018). But even given the small relative amount of capital moved by SWFs, several factors surrounding their evolution and governance are a possible cause for concern.

Both characteristics of funds themselves and capabilities associated with the capital they wield have led to questions surrounding political implications. First, the investment practices and corporate governance structure of many SWFs are opaque. A GAO report found that only four SWFs out of 48 surveyed reported detailed information about all investments, while the home nations of others expressly prohibit the release of such information (Government Accountability Office 2008). This lack of transparency has raised concerns pertaining to accountability. Without disclosure of corporate governance structure, it is impossible to rule out political control over investment decisions. Fund governance models vary according to the political institutions of the home country, with certain models preventing perceptions of legitimacy (Lavelle 2017, 188; Nacvalovaite 2014, 271). Further, because governments own SWFs, shareholder accountability is less of a limiting factor (Blackwill and Harris 2017, 57). Another consideration is the balance of power between the SWF's home country and the target country of investment (Balding 2012, 81). An imbalanced power relationship, for instance, may increase the "political sensitivity" of a target country investment (Balding 2012, 81). The size of a proposed investment, too, could raise alarms. As mentioned previously, however, most funds prefer minority to majority stakes, perhaps given that the purchase of a controlling stake in a company producing technology sensitive to national security, for example, would face significant pushback in most countries investment (Balding 2012, 81).

With regard to global trends, the redistribution of wealth away from Western countries to states that did not previously wield significant global economic influence and are perceived to have different values implies potential conflicts in interest (Truman 2014, 2). The Western financial institutions that had dominated the global financial system are witnessing a shift in the system, with "capital flowing 'uphill' from emerging to mature economies (Gieve 2008, 451)." It has even been postulated that large emerging economies, including China, Brazil, India, and China, could form a coalition imperiling the liberal economic order (Nölke and et al. 2014, 450). Today's rising economic powers had a minimal role in shaping the world's financial institutions, and thus may be perceived by leaders in mature industrial countries as having little stake in the continued health of these institutions. While acknowledging these concerns, however, it is also possible to recognize the benefits conferred upon the global financial system by SWFs. Investment abroad "spreads financial capital, know-how, and technology…It helps the world economy adjust to imbalances and gives countries, particularly those from emerging markets, a stake in each other's prosperity and capitalism's future (Lavelle 2017, 188)." In addition, the economic ties cultivated by SWF investments abroad can strengthen relations by providing the investing country with a stake in the target's future success (Plotkin

2018, 89). A full accounting of these benefits suggests that despite concerns relating to SWFs, overly protectionist regulation should be avoided to the degree possible.

The Pursuit of Political Objectives Through SWFs

> *"For even if a SWF does not invest on the basis of political motivations today, that does not mean that it will not (or cannot) do so tomorrow (Lenihan 2014, 228)."*
> *—Ashley Thomas Lenihan, Senior Fellow with the Institute for Law, Science, & Global Security at Georgetown University*

By definition, SWFs invest large amounts of capital abroad. Whether or not these investments serve exclusively economic purposes may depend on the fund. In December 2013, Russia gave Ukraine a $15 billion bailout package to prevent the country from descending into economic crisis. The deal, reached through talks between high-level Russian and Ukrainian officials, was not without controversy. Observers widely consider Russia to have acted to keep Ukraine firmly within its political orbit (Blackwill 2017, 55). Ukrainian President Viktor Yanukovich also faced intense scrutiny and was accused of "selling" Ukraine to the highest bigger after rejecting a European Union trade deal ("Russia Throws Ukraine $15 Billion Lifeline" 2013). To pay for the package, Russia had diverted one-sixth of assets under management by its SWF, the National Welfare Fund (Blackwill 2017, 55).

Exercising economic influence to achieve political objectives is not a new method of statecraft. Countries have long imposed sanctions and implemented carefully measured trade policy to regulate the behavior of another state or push a political situation toward the favored outcome. As with the case of Russia and Ukraine, SWFs represent a new mechanism through which a state may use financial capital to buy power or influence. There exist a number of means by which SWFs may do so. Within the U.S., concerns center upon the access that may be afforded to an SWF and by extension, the country of ownership, through an investment. The Committee on Foreign Investment in the United States (CFIUS) provides a useful framework outlining areas in which foreign investment, including by SWFs, may pose a threat to U.S. security:

> (1) "domestic production needed for national defense requirements;" (2) "the capability and capacity of domestic industries to meet national defense requirements," such as human resources, technology, and other supplies; (3) "a foreign person's control of domestic industries and commercial activity on the capability and capacity of the United States to meet the requirements of national security;" (4) "U.S. international technological leadership in areas affecting U.S. national security;" (5) "the long-term projection of U.S. requirements for sources of energy and other critical resources and material;" (6)

"U.S. critical infrastructure, including [physical infrastructure such as] major energy assets;" (7) "sales of military goods, equipment, or technology to countries that present concerns related to terrorism; missile proliferation; chemical, biological, or nuclear weapons proliferation; or regional military threats;" and (8) "transshipment or diversion of technologies with military applications, including the relevant country's export control system (Tipler 2014, 1241)."'

While these criteria are certainly wide-ranging, domestic investment is not the sole mechanism by which SWFs can threaten U.S. interests. The mobilization of capital by SWFs can, in theory, affect U.S. interests abroad in three primary additional ways: economic balancing, coercion, and as an impediment to democracy promotion. First, SWFs can be used for the purpose of economic balancing against the U.S. or its allies. The relative size of a nation's economy is directly linked to measures of both soft and hard power and, according to realist theory, states are focused on the relative power distribution within the international sphere. Profit-maximization behavior by SWFs should therefore not be viewed as fully distinct from the pursuit of political influence. Attempts to rebalance the global power distribution are more likely to emphasize economic capacity in today's environment, in which the likelihood of major power war is exceedingly low (Lenihan 2014, 238).

Balancing can take on both direct and indirect forms. According to Kirshner, direct economic balancing can be attempted through SWF investment in three ways: currency manipulation, monetary dependence, and systemic disruption (Kirshner 2009, 308). In addition, SWFs can also be employed to grow relative economic power less directly through the pursuit of long-term domestic economic capacity, the strengthening of state-owned enterprises, or the capture of natural resources (Lenihan 2014, 240). These three methods are not necessarily indicative of attempts at balancing, but may be considered so in cases where SWF investments in a country grow that nation's dependence upon the investing country, thereby altering the balance of power (Lenihan 2014, 247).

Several factors, however, weaken the theoretical ability of SWFs to engage in balancing, rendering active attempts through currency manipulation, monetary dependence, and systemic disruption improbable (Kirshner 2009, 308). First, while some relative gains are possible through SWFs, their size compared with that of the global economy make it unlikely that investment by an SWF could tip the scales of global economic power distribution and trigger systemic disruption. This argument also applies to monetary dependence and the less direct possible forms of balancing. SWF investments are not typically large enough to pose a serious threat, create dependency, or allow one state to pull ahead of the pack.

The SWFs of China, heavily invested in American assets, provide a useful hypothetical in analyzing the possible threat of balancing through currency manipulation. As the "largest banker" of the U.S., China owns roughly 28 percent of American debt, which some fear constitutes substantial leverage (Amadeo 2019). In theory, a complete unwinding of China's U.S. debt holdings could severely weaken the dollar, leading other nations holding treasuries to sell. In practice, this approach would only backfire. As Kirshner writes, currency manipulation is likely to "result in widespread rather than targeted distress and will not put pressure on the target government unless it is quite severe (Kirshner 2009, 309)." Further, as most Chinese treasury holdings reside within state banks, Chinese SWFs do not comprise a significant enough proportion of treasury ownership to bring about such an effect (Setser 2018). On the whole, balancing concerns thus appear to be unwarranted.

Secondly, capital invested by SWFs may serve as a tool of coercion, whether explicit or otherwise. Both the promise of investment upon fulfillment of conditions and the threat of divestment have been used by a number of SWFs to achieve political objectives. In early 2008, Muammar el-Qaddafi, the Prime Minister of Libya, threatened to divest the Libyan SWF from any African state that opposed his desire to strengthen the African Union (Drezner 2008, 121). It is unclear whether Qaddafi's statement yielded political results, but the threat of withdrawal of Libyan capital from other nations by a political leader is indicative, at least in the case of Libya, that political considerations can hold sway over the investment decisions of SWFs.

In contrast to Qaddafi's threats, China's investment in Sub-Saharan Africa has taken on a number of forms, both overtly and implicitly coercive. Chinese development aid, private equity, and investment in infrastructure projects and resource extraction have been embraced by African nations as an attractive alternative to tied aid by Western players, including the U.S. Unlike Western investors wary of doing business on the African continent, Chinese investors are rapidly deploying capital to the region as a result of the nation's 'Going Out' policy and Belt and Road Initiative (Shinn 2012, 6). China has since been accused of exchanging investment for the implicit political support of the 54 African nations in forums like the United Nations. And indeed, scholars researching the matter discovered a correlation between Chinese investment in African states and their likelihood of casting votes in the UN General Assembly in China's favor (Dreher 2015). Chinese FDI has taken on a far less subtle role in bringing China's political influence to bear: its inflow is predicated on explicit recognition of the One China policy (Blackwill 2017, 56). Only five years after China first invested in the continent, the number of African states recognizing Taiwan had fallen from thirteen to four (Blackwill 2017, 56). SWFs are only one component of Chinese investment in Africa, yet their potential influence should be of concern to the U.S., particularly given that it typically stands on the side opposite China on matters put to a UN vote.

Finally, Daniel Drezner raises a possible second-order effect of SWFs: the impaired development of democracy. He writes that "these investment vehicles aid and abet the persistence of 'rentier states,' governments that do not need their citizens to raise revenue (Drezner 2008, 125)." In such a scenario, particularly conceivable within the oil-rich Gulf states traditionally governed by monarchical political systems, an abundance of resources concentrated in the hands of the ruling apparatus leaves little room for the advancement of democratic ideals. Though the U.S. has in recent years begun to pull back from interference in the affairs of foreign governments, it has historically supported the growth of democracy around the world. That SWFs bolster the position of undemocratic governments in some states is, therefore, an important consideration as U.S. foreign policy continues to evolve.

Are Alternative Geoeconomic Measures Preferable to SWFs?

Geoeconomics, or the "use of economic instruments to promote and defend national interests, and to produce beneficial geopolitical results; and the effects of other nations' economic actions on a country's geopolitical goals," is statecraft without the use of military (Blackwill 2017, 20). Today, geoeconomics has in many ways supplanted the use of military force in achieving political objectives (Blackwill 2017, 4). Russia, for example, has in several instances cut off energy to Ukraine in the winter to exert control over Kiev (Blackwill 2017, 4). China has reduced economic benefits to any European government that plays host to the Dalai Lama and restricted imports of Japanese automobiles in protest of Japan's behavior abroad (Blackwill 2017, 4). As seen in the previous section, SWFs, too, may be employed by states within a framework of economic carrots and sticks. But a critical question is under what circumstances SWFs are better suited to the pursuit of global power and influence than any of the other leading geoeconomic instruments specified by Robert Blackwill and Jennifer Harris: trade policy, investment policy, economic and financial sanctions, cyber, aid, financial and monetary policy, and national policy on energy and commodities (Blackwill 2017, 49). If attractive alternatives to the use of SWFs for geopolitical gains exist, the probability that SWFs will be used in this way is reduced.

In a general sense, SWFs are an undesirable geoeconomic tool because of their declared nature as institutional investors with predominantly passive positions. To the degree that the advertisement of SWFs as purely commercial bodies detached from government control is false, the ability of SWFs to invest abroad freely diminishes (Lenihan 2014, 237). It is in the interests of SWFs and their governments to build trust with the states in which they wish to invest to avoid protectionist measures. Ashley Lenihan thus makes the convincing argument that states are more likely to use other means of economic influence or coercion abroad in order to shield the reputation of SWFs (Lenihan 2014, 237). More specifically, SWFs are often not as well-suited to winning power abroad as are other geoeconomic tools across the items discussed in the previous section, (1) winning access to sensitive technology and infrastructure, (2) balancing, (3) coercion, and (4) the obstruction of democratic development.

In the U.S., the concern surrounding access to sensitive technology and infrastructure is often overstated. CFIUS is extremely well-equipped to block investments that constitute a potential threat. U.S. national security and that of our allies, however, does remain threatened by the growing cyber capabilities of rival nations. Attacks can be launched and go undiscovered for years (Blackwill 2017, 62). Terabytes of data can be stolen and billions in damages incurred (Blackwill 2017, 62). The cyber capacities of China and Russia include the ability to damage critical infrastructure, including power grids and utilities, and to steal information relating to the military from contractors and government agencies (Blackwill 2017, 60–62). Further, though the U.S. is shielded by CFIUS, the national security-relevant assets of our allies may be protected foreign investment to a lesser degree. It is common for nations to have adopted some form of policy to monitor FDI, but the "elegant mechanism" of CFIUS and concern over foreign investment does not have parallels in all nations in whose security the U.S. takes interest (Plotkin 2018, 91; Marchick and Slaughter 2008, 4).

Turning to balancing efforts, it is unlikely that SWFs could be employed to tip the economic scales between two nations in a meaningful way. Financial and monetary policy, however, is a far more likely tool in balancing attempts, with a number of nations pushing for a lesser role for the dollar abroad. Such policy has historically been a major driver of state power, far beyond the capacity of a single SWF: "ambitious ideological projects and impressive territorial conquests have less enduring influence on the leverage of states than the mobilization and management of capital…National power is fundamentally financial (Blackwill 2017, 74)." A helpful example of the use of monetary policy for balancing purposes is the introduction of the euro in 2001, which joined the nations of the European Union in a largely geopolitical maneuver (Blackwill 2017, 77). And indeed, when Latvia joint the euro zone in 2014, it was viewed as protection against Russia (Blackwill 2017, 77). According to Blackwill and Harris, the global presence of a nation's currency, its capability to raise funds cheaply, and its capacity to alter another country's cost of borrowing are the primary drivers behind the effectiveness of that nation's financial and monetary policy in achieving political objectives (Blackwill 2017, 71). The rising status of the euro and Chinese yuan as the second and third reserve currencies, respectively, thus carries serious geopolitical implications for the U.S. that extend far beyond the capabilities of an SWF.

An examination of the economic coercion of states, both positive and negative, also reveals that SWFs are not necessarily the most efficient or effective vehicle available. As demonstrated by the example of China providing FDI to African nations contingent upon allegiance to the One China Policy, investment by SWFs wielded as an incentive can in some instances carry enough weight to affect political outcomes. But because SWFs are only one slice of the global investment pie, other geoeconomic tools are likely to prove similarly effective. The dispensation of official aid, for one, has produced significant positive coercive effects. Several Gulf states, for example, provided large amounts of economic assistance to Egypt, totaling $22 billion between 2011 and 2013 (Blackwill 2017, 71). Following Morsi's downfall in 2013, capital continued to flow, with billions of dollars moving into Egypt from Saudi Arabia, Kuwait, and the UAE for the purpose of bolstering Morsi's successors. In 2015, the Saudis and Egyptians signed the Cairo Declaration establishing the foundation for both a joint military force and strengthened economic relations and only several months later, Egypt deployed 800 troops to Yemen to fight alongside the Saudis against Houthi rebels (Blackwill 2017, 71). Because SWF investments inevitably retain the trappings of commerciality, it is difficult to imagine their use inspiring such a result.

Negative coercion attempts using SWFs are also unlikely to decidedly alter political outcomes. The threat of divestment, in particular, does not hold significant weight. A study by Beck and Fidora of the instances of 28 separate disinvestments by the Norwegian Government Pension Fund-Global on the basis of its ethical investment principles did not find a significant impact on the companies' stock prices (Truman 2014, 48). Further, the Norwegian GPFG's ban on investment in Israeli firms with ties to the construction of settlements, even on the heels of announcements of similar policies by the funds of other nations relating to Israeli banks involved in settlement construction, did not result in significant changes to these institutions' behavior (Johnson 2014).

Once a fund has divested from a company or nation, its leverage is exhausted. Sanctions, on the other hand, are a more targeted and biting mechanism of negative coercion which can be ramped up to increase pressure. Because the successful deployment of sanctions depends on international cooperation and the pervasiveness of the dollar, it is unlikely that the U.S. will see sanctions put in place against it or its allies. But an important point to consider with regard to sanctions is that their use by the U.S. may work counter to American interests. Rival economic powers already seek to undercut the dollar, and Blackwill and Harris point out that the use of sanctions may lead the victims of sanctions to seek alternative currencies. Under sanctions relating to behavior in Ukraine, Russian state-owned energy firm Gazprom sought payment in rubles and yuan, rather than the euros and dollars upon which it had previously depended (Blackwill 2017, 59).

Finally, the role of SWFs in suppressing the development of representative forms of government in some states is deserving of special attention. Rentierism and the idea of a "citizen shareholder" in the Gulf are only one among a number of factors that together perpetuate undemocratic political systems, but as Mick Moore has argued, "the greater the dependence of the state on earned income, the more likely are state-society relations to be characterized by accountability, responsiveness and democracy," and the oil and gas revenue of Gulf states falls squarely within the camp of unearned income (Sandbakken 2006, 136). The phenomenon described by Moore is attributable to three factors outlined by Camilla Sandbakken: the wealth generated by oil reduces the reliance of Gulf states on their populace through taxation, flows directly to the state enabling it to suppress or buy off political dissent, and creates a social structure unfriendly to democracy in which the dependence of the citizenry on the state for financial security can outweigh any desire for regime change (Sandbakken 2006, 137). SWFs were not created with the purpose of bolstering existing political regimes, but they nonetheless provide powerful incentives for regime continuity that are not obviously replicable through any other geoeconomic mechanism.

The cases examined in this section do not serve to determine a clear winner between the use of SWFs and alternative geoeconomic tools. But the examples provided nonetheless suggest that nations with SWFs have ample reason to deploy other means of expanding their political influence abroad. Given that the stated purpose of SWFs is to invest in foreign assets for the purpose of profit generation, to be implicated in geopolitical machinations would be a reputational blow that in turn impairs the ability of SWFs to invest without heavy restrictions. The existence of alternative economic and financial means of pursuing political objectives abroad is additional evidence that the wealth of SWFs need not be wielded in this way. Yet the anti-democratization effects and potential coercive abilities of some SWFs are noteworthy, and the recurring theme weaved into fears surrounding SWFs is that once in existence, the risk is there.

Conclusion

> *"Fortunately, there are more than 200 countries in the world. And, fortunately, there are many countries who are happy with us (Anderlini 2008)."*
> *– Gao Xiqing, former president of the China Investment Corporation (CIC)*

The international frameworks created to manage foreign investment lack teeth. There is a delicate balance that must be struck, however, between protectionism and U.S. interventionism on the one hand, and insufficient safeguards on the other. Producing specific policy recommendations for the U.S. and other nations is beyond the scope of this paper, but some existing measures can be said to err too heavily on one side or the other. Individual OECD nations have implemented a large number of exceptions to global investment principles, arguably in violation of the spirit of the agreement. Truman explains, "what is weakly binding and mandatory has many loopholes…national security is a huge loophole in national investment policies through which financial and other forms of protectionism can expand (Truman 2014, 153)."

The U.S., for example, has built restrictions on foreign investment in several sectors on the basis of "essential security" needs, including the unlikely 'maritime dredging and salvaging (Truman 2014, 153).' Such measures carry the danger of prompting SWFs to simply take their investments elsewhere, as suggested in the above quote from Gao Xiqing of the CIC, an outcome both unnecessary and undesirable. Conversely, the Qatari SWF, the Qatar Investment Authority, has been repeatedly accused of violating the Santiago Principles, with a GeoEconomica report concluding that "Qatar's foreign policy interests have strongly informed Qatari sovereign wealth management (Blackwill 2017, 59)." Without any multilateral enforcement mechanisms in place, the Qatari fund was able to continue earning nearly 17 percent in annual returns without any political ramifications (Blackwill 2017, 59).

Addressing geoeconomic risk is no straightforward task. As discussed in previous sections, SWFs are only one among several methods available to rival nations. Access to sensitive assets may also be achieved through cyber-attacks and infiltration, economic balancing can be undertaken using monetary and financial policy, and coercion can be attempted with the dispensation of aid, carefully crafted trade policy, and targeted sanctions. Democratization may also be forestalled through other means of political repression. A complete answer to the question of how the U.S. should respond to such threats rests upon the trajectory of U.S. foreign policy. Sufficient domestic measures exist to protect against national security threats posed by SWFs. But the degree to which the U.S. intervenes in, or counters, geoeconomic efforts by SWFs elsewhere ought to be determined in line with the responsibilities the nation assumes abroad. Only after the U.S. decides whether to continue to embrace an active role overseas can a coherent and effective strategy toward politically-motivated investment by SWFs be crafted.

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