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Sovereign Development Funds: Key Financial Actors in the Shifting Wealth of Nations

OECD Emerging Markets Network Working Paper

23 Pages

Posted: 14 Nov 2008

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Date Written: Octobre 12, 2008

Abstract

The emergence of Sovereign Wealth Funds (SWF) has signaled a major reshaping of the world's economy: financial actors from developing countries playing on an equal footing with the financial giants of OECD countries. Rising financial centers such as Singapore, Dubai or Shanghai have nurtured leading financial institutional and asset managers independent of the traditional Western financial centers of New York, Boston or London.

Beyond this spectacular emergence also lies promising news for the wealth of (developing) nations. Sovereign wealth funds may grow to become major actors of development finance: Sovereign Development Funds. Should SWFs allocate 10% of their portfolio to other emerging and developing economies over the next decade, this could generate inflows of USD\$1400 billion: a yearly amount higher than all OECD countries development aid put together.

The international investment of sovereign funds is already increasing. If domestically, some sovereign wealth funds tend to behave as development finance institutions, working to boost economic diversification or build strong national champions, in their international investment strategies their behavior resembles traditional investment funds, seeking performance and solid returns.


This article will first discuss the emergence of these institutions (which are not totally new) and follow by assessing their potential impact in other emerging markets. We conclude by arguing that sovereign funds, because of their origins (emerging economies for most of them) and their potential (or already effective) re-positioning towards emerging markets could usefully be considered as Sovereign Development Funds (SDF).

Keywords: sovereign wealth fund, diversification, emerging markets

JEL Classification: F30, O16, P16

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