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# A principal-agent analysis of China's sovereign wealth system: Byzantine by design

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## ABSTRACT

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competition with CIC in the area of high risk, high yield investment. Although China's SWF tournament emerged as a quite unintended consequence of bureaucratic politics, China's leadership has since tacitly endorsed this rivalry because it has supplied the government with valuable carrot and stick mechanisms with which to discipline fund managers.

Q KEYWORDS: [China Investment Corporation](#) [State Administration of Foreign Exchange](#)  
[sovereign wealth funds](#) [principal-agent problem](#) [corporate governance](#)

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## Notes

1 Kaufmann et al.'s (2008) governance measures cover 212 countries and aggregate data from 33 separate sources. The 'voice and accountability' score 'measure[s] perceptions of the extent to which a country's citizens are able to participate in selecting

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3 Our measures of Abu Dhabi transparency/accountability are not as strong as the others. In all the data sources we consulted, data sources for Abu Dhabi specifically (i.e. as separate from United Arab Emirates) were not available so we have used the UAE measures. We think this is reasonable especially considering that Abu Dhabi is the most powerful emirate in the UAE. Unfortunately, the Institutional Profiles Database data, the only data source we found that includes direct measures of government transparency, did not collect data from UAE.

4 The EIU Democracy Index is based on five categories: electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture. The index categorizes countries in terms of four types: full democracies; flawed democracies; hybrid regimes; and authoritarian regimes. The CHECKS variable counts “the number of veto players in a political system, adjusting for whether these veto players are independent of each other, as determined by the level of electoral competitiveness in a system, their respective party affiliations, and the electoral rules” (Beck et al., 2001: 170). Since countries that do not hold competitive legislative elections are assigned the minimal score of one, the CHECKS variable does not capture contestation in authoritarian systems. For political systems with competitive elections, the CHECKS variable increases by the number of veto players in the system and adjusts for differences between presidential and parliamentary systems.

5 Conceived during the turmoil of the Asian financial crisis in 1997, these special meetings of the State Council are held every five years and are occasions for setting the framework of broad financial policy reforms.

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