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The Politics of Trade, Aid and Standards

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

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shaped the creation of CIC and then show how SAFE was subsequently drawn into

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.

KEYWORDS:

- China Investment Corporation
- State Administration of Foreign Exchange
- sovereign wealth funds
- principal-agent problem
- corporate governance

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Notes

- 1 Kaufmann (2003) argues that the lack of aggregate data from the private sector is a major perceptual barrier to understanding the role of selecting and appointing officials in the association, and a factor in the lack of transparency.
- 2 This paper is based on a review of the data that CIC would have collected in the early 2000s that the insular Singaporean government had in Singapore, where the government had a strong and probably attracted a significant amount of grip on information. The agency reporting to the State Council manage billions of dollars without public supervision.'

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 Concealment of information from the public is a key factor in setting the framework for the financial system.

6 Bank reform is a key factor in the MoF's strategy for the creation of a new capital market. The MoF has injected capital into the Bank of Abu Dhabi, which has led to the creation of a new capital market. The MoF has also injected capital into the Bank of Abu Dhabi, which has led to the creation of a new capital market. The MoF has also injected capital into the Bank of Abu Dhabi, which has led to the creation of a new capital market.

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