Sovereign Wealth and Politics

By Peter Mandelson

BRUSSELS—Sovereign wealth fund managers are not the type to court publicity. They are even more wary of controversy. For the last six months they have had both.

In a political climate in Europe and the United States that is increasingly defensive about globalization, the funds have become the target of anxiety about foreign investment and, in particular, about the growing economic strength of Russia and China. With the size of the funds set to grow hugely, publicity for the funds is a given. The question is how to avoid the controversy and to maintain business as usual. The basis for a deal is now taking shape.

In my meetings with them, sovereign fund managers have often briddled at being the subject of suspicion. They rightly point out that for more than five decades they have been quietly investing the proceeds of oil and gas wealth for future generations without raising the slightest concern. Some have standards of transparency that are exemplary.

Although it is often made, the comparison of sovereign wealth funds to state-run businesses, especially powerful state-controlled monopolies like Gazprom, is misleading. A state acting like a business—throwing the resources of government behind a company that competes with others—is a different proposition from a state looking to invest its surplus capital in the most commercially advantageous way.

But the funds risk getting the facts right and the politics wrong. The explosion of resources under sovereign wealth fund management and a shift by some into stocks rather than the more traditional bonds have made them front-page players. Some recipient countries feel that they should know more about their investment objectives or of their precise relationship with their sponsor governments. The possibility that a state might seek to use its investments for political leverage is very slim, but because recipients are not quite sure of the rules of the game, they can’t exclude it entirely.

The smart move from the funds would be to confound the suspicions. If sovereign wealth funds want to manage the politics of their dramatic rise, they should study the experience of the hedge-fund and private-equity industries in Britain. When growing public anxiety about their intentions and business models put them on the defensive, hedge funds and private equity moved quickly to reassure the public with voluntary codes of conduct. Sovereign wealth funds should do the same.

Norway, which already sets a high standard for transparency and governance in sovereign wealth investment, has said it would work with the International Monetary Fund on a voluntary world-wide code of conduct. Singapore and Abu Dhabi have both signed up to some basic investment principles agreed with the U.S. that could become a steppingstone to a wider global agreement.

Work between the funds and the IMF on such a code has gotten off to a prickly start. Some funds are suspicious of the IMF’s motives. But the IMF is not, and wealth funds have a good track record as benign investors. Fund managers know that any attempt to use their investments for political leverage could backfire badly on them. So a voluntary and limited code of conduct would only formalize what they already do. Any fund unwilling to sign up to a reasonable code would have trouble explaining why.

Still, the funds are absolutely right to insist that such responsibility for transparency and fair treatment goes both ways. Assurances from the funds on transparency and openness deserve equivalent guarantees from OECD members that they will treat fund investments fairly and without discrimination. The OECD this week adopted a declaration welcoming SWF investments and recommitting members to principles of openness and nondiscrimination. The funds should see this as a gesture of good faith, and OECD politicians should stand by it. It is the essential quid pro quo that could seal this code and allow governments to turn down the heat under this issue.

Europe and the U.S. have no interest in turning away sound investment or encouraging public skepticism about foreign investment. So long as its capital is invested for no other goal than a good commercial return, a sovereign wealth fund is not different from a pension fund, and its investments are likely to be much longer-term.

But it would be a mistake for the sovereign wealth funds to believe that this will stop some more populist politicians from calling for discrimination or greater controls if public anxiety seems to demand them. Rather than responding with resentment or indifference, the funds should step up and show that if people want reassurance, they can have it.

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