

U.S. Senate Committee on Foreign Relations
Senator Richard G. Lugar
Opening Statement for
Hearing on Sovereign Wealth Funds
June 11, 2008

I thank Chairman Biden for holding this hearing, and I join him in welcoming our distinguished panel.

The rapid expansion in the number and size of sovereign wealth funds is one of the most consequential international economic developments in recent years. The U.S. Treasury Department estimates that the number of sovereign wealth funds doubled between 2000 and 2005. As oil prices remain well above \$100 per barrel, the incomes of oil exporting nations are soaring. By some estimates, these national investment reserves now hold close to \$3 trillion. Russia has about \$130 billion in its Stabilization Fund, and Venezuela has an estimated \$18 billion. News reports indicate that the Saudi government is developing plans for the largest sovereign wealth fund in the world, which would exceed \$900 billion. According to Treasury Under Secretary David McCormick, sovereign wealth fund assets are “larger than the total assets under management by either hedge funds or private equity funds and are set to grow at a much faster pace.”

The expansion of sovereign wealth funds is not an inherently negative development. They have infused helpful liquidity into international financial markets and, in some cases, promoted beneficial local development. Yet sovereign wealth funds are not ordinary investors. Their ties to foreign governments create the potential that they will be used to apply political pressure, manipulate markets, gain access to sensitive technologies, or undermine economic rivals. Some observers have argued that the primary goal of sovereign wealth fund managers will almost always be to produce a good return on invested assets. Consequently, they are unlikely to engage in political or economic manipulation. Yet, producing a good return on investment is often stated as the primary goal of state-owned energy companies. But we have witnessed, in recent years, numerous instances of nations using or threatening to use their energy assets for political purposes.

In this context, we must examine whether U.S. agencies have the resources and expertise necessary to effectively respond to the policy complexities inherent in sovereign wealth funds. We also need to study how the United States, working with like-minded nations and international institutions can promote transparency in sovereign wealth funds that reduces concerns about political and economic manipulation. The high level of transparency demonstrated by the sovereign wealth funds of some countries – such as Norway – has shown that transparency can be internally beneficial. The Norwegian fund’s transparency helps maintain public support for its investment strategy.

In addition, our government must find the right balance between promoting investment in the United States and safeguarding security interests through regulation. The United States’ rising government debt and continued dependence on foreign oil have intensified our reliance on foreign investment. We certainly do not want to discourage healthy investments in the United States. As we have seen, some sovereign wealth fund investments helped provide financial stability to a number of U.S. banks.

The Treasury Department has undertaken efforts designed to balance our need for foreign investment with prudent safeguards. Domestically, it has been working to improve accountability within the Committee on Foreign Investment in the United States for review of foreign government-controlled transactions, and it is creating a working group on sovereign wealth funds. Globally, the Treasury

Department is supporting the International Monetary Fund and the World Bank in their development of voluntary best practices for sovereign wealth funds. It also has proposed that the Organization for Economic Co-operation and Development identify best practices for countries that receive foreign government-controlled investment. In addition, the Securities and Exchange Commission requires that sovereign wealth funds disclose holdings of 5 percent or more in a public company and the Federal Reserve imposes a number of regulations on sovereign wealth fund investments in U.S. banks.

I look forward to this opportunity to discuss the foreign policy consequences of sovereign wealth funds and to examine whether additional public policy responses are necessary.

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