Government-owned sovereign wealth funds are swelling in size and influence but could their high-profile acquisitions provoke a nationalistic backlash? Lydia Lim and Lynn Lee find out.

As the size and influence of the SWFs swell with soaring commodity prices and foreign exchange reserves, governments and financial regulators are alert to rising nationalism that may affect their performance and stability. How should they handle the investment fallout from SWFs? Are there measures being taken to assuage the concerns of host nations?

Creeping nationalism

The outlook for SWFs hinges on whether the world is in the midst of a new era of nationalism. Those who believe in the age of interconnectedness and globalization argue that countries will fall into line because they need to access foreign funds, to increase their wealth. These trends are encouraged by increasing asset price volatility, so countries may be more lenient in their approach to globalization.

SWFs are an emerging force in the global economy. They have been accused of being too large to fail and of having a negative impact on host countries. But SWFs can also be beneficial, helping to spur economic growth and development.

In the past, there were concerns that SWFs were too large and powerful, and that they could be used to influence the global economy. However, in recent years, many countries have worked to reduce the size of their SWFs. This has helped to address some of the concerns that had been raised about the impact of SWFs.

But how can SWFs be regulated in a way that balances the interests of the host country and the SWF, and ensures that the SWF is acting in the best interests of its investors?

As SWFs have grown in size and influence, there have been growing concerns about their potential to cause a nationalistic backlash. Some argue that SWFs may be used to influence the global economy, while others believe that they are simply a way for countries to diversify their investment portfolios.

The debate about whether SWFs should be regulated or not is likely to continue in the coming years. Many experts believe that the best way to deal with the concerns raised about SWFs is to regulate them carefully and to ensure that they act in the best interests of the host country.

The issue of SWFs is likely to remain a topic of discussion in the future, as these funds continue to grow in size and influence. It is important for countries to work together to address the concerns that have been raised about SWFs, and to find ways to ensure that they are acting in the best interests of the host country.

The role of SWFs in the global economy

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"You have a situation where we have a sector that is so important and sufficiently few so far they can provide a sector that so incompetently and arrogantly feuded to itself," he said.

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CONTINUED FROM PAGE S8

may not be properly trained to navigate the political economy of emerging markets, where political reforms are advancing in parallel with growing affluence, new political culture, democratisation and impact of the Internet on the society and polity."

But it seems Temasek has also learnt valuable lessons from its recent experiences.

Last November, its chairman, Mr S. Dhanabalan, told The Straits Times of a three-pronged strategy to counter economic nationalism:

» Rule 1: Avoid buying over or taking a controlling stake in companies with "iconic" value to a country;
» Rule 2: Look for good local partners to invest with;
» Rule 3: Opt for a minority stake if investing in a company from a sensitive industry, or in an iconic firm.

Mr Inderjit Singh, who chairs the Government Parliamentary Committee for Finance and Trade and Industry, remains convinced that GIC and Temasek can still sew up deals, both in the region and elsewhere. But he says they also need to realise that they should exercise more sensitivity than other funds.

He suggests they avoid taking very large stakes in companies or taking the lead on investments, especially if they can find a credible private fund to partner them.

"Both Temasek and GIC should perhaps start thinking about not just being big and strong but also friendly and sensitive. Then they might be more welcome. This is a mindset change which might be difficult to do but can be done," he says.

Temasek Holdings has started contributing to the region’s growth through corporate philanthropy.

Last year, it pledged half a billion dollars to help the people of Asia through two new non-profit organisations – the Temasek Trust and Temasek Foundation.

Mr Perera says another key issue is reciprocity, that is, whether Singapore is seen by other countries as practising "give and take".

"Is Singapore allowing foreigners, or even foreign SWFs, to buy into its own large companies, or to benefit from Singapore’s economy? Awarding one of the two IR licenses to Malaysia’s Genting might have been seen as just such an instance of "give and take", he tells Insight.

There is growing global recognition that SWFs are here to stay, and are likely to continue growing in size and influence.

The number of such funds is also set to rise, as more countries look to SWFs as a way to bolster their financial resilience.

So love or loathe them, it seems that countries at the receiving end of such funds’ attention will just have to learn to live with them.

But nationalist feelings will not die out either.

Going forward, SWFs’ toughest challenge could lie in the political realm. They will have to hone their ability to read which way the political winds blow as these could spell the difference between a smooth-sailing billion-dollar deal, and shipwreck.

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