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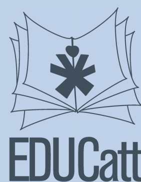

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Sovereign wealth as power multiplier: the Russian Sovereign Wealth Funds experience

Violeta Tymul and Pietro Schioppetto

Nota autore

Violeta Tymul nata e cresciuta a Vilnius, ha studiato Relazioni Internazionali all'Università di Varsavia e perfezionato i suoi studi a S. Pietroburgo e a Xiamen. Ha inoltre lavorato presso il Ministero degli Affari Esteri della Lituania, il Parlamento della Polonia e l'agenzia europea Frontex. Tra le sue pubblicazioni ci sono articoli scientifici sulla politica estera russa e cinese e la storia dell'URSS. Dottoranda all'università di Varsavia, sta completando una tesi di dottorato sulla politica estera russa in Estremo Oriente.

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Abstract

Questo articolo presenta un case study sulle politiche del governo russo nell'utilizzo dei Sovereign Wealth Funds (SWF). La prima parte del paper descrive come i SWF si siano evoluti nel tempo da assetti di un'economia di rendita a strumenti di sviluppo e arma geo-economica, tra i più efficaci nell'ambito delle nuove modalità di intervento statale nell'economia. La seconda parte analizza in profondità l'esperienza russa, descrivendo l'evoluzione e le funzioni dei diversi fondi sviluppati a partire dagli anni '90 e il loro rapporto con la politica interna ed estera della Federazione. In conclusione, si riflette se l'utilizzo dei fondi sia stato congruo con il perseguimento degli obiettivi geopolitici del paese.

Abstract

The article is a case study of the Russian politics involving Sovereign Wealth Funds. The first part introduces the how the SWF became a valuable geo-economical tool in the last 20 years, evolving from rentier economy to instruments of State led economic development. The second part analyses in depth the Russian experience detailing the different roles played by the funds in internal and foreign policy.

Keywords

Sovereign Wealth Fund, Russia, Geo-economics, Geopolitics, Entrepreneurial State, Commodities, Stabilization Fund, Reserve Fund, National Wealth Fund, Russian Direct Investment Fund.

1. Introduction

The aim of this case study is to analyse how Russian SWFs contribute to economic stability and development of Russian Federation as well as how can they serve Russian politics in short and long run.

In 1991 the Russian Federation went through a process of political and economic transformation. Russian economy underwent shock therapy, which included price and trade liberalisation and mass privatisation. It resulted in hyperinflation, which re-appeared again in 1998, during Russian financial crisis. Severe economic crisis and ineffectiveness of the measures taken by the government led to the ruble devaluation and nation's mounting foreign debt. Russian economy was in the need of stable economic rule and could not anymore support the global political aspirations of its political elite.

When Putin came to office, he consolidated the oligarchs under Kremlin guide and strengthened state's control over crucial economic sectors and industries (Harris, 2009). Russia started to look for an alternative economic development model, departing from western liberal economy. What followed was a return to historical Russian authoritarian development model, with extensive state role in the economy. At that moment, stable economic rule was highly needed in order to create attractive environment for foreign investment.

Unlike the Western countries, Russian political elites underline the policy economic growth and nationalism combination which indicated that, thanks to higher economic growth, the country will be able to expand its influence on international arena. To achieve this political results, Russian Federation is making extensive use of a wide array of financial instruments that can be described as Sovereign Welfare Funds. At the moment, there are two functioning SWFs: National Welfare Fund and Russian Direct Investment Fund. Reserve Fund ceased to exist in the beginning of 2018 and therefore will be also reflected in the article.

Mission, objectives and management of the funds are shaped in a way to support Moscow's global ambitions. The political rule in the Russian Federation can be described as semi-authoritarian, which has some serious implications for the state economy that is governed by the influential informal networks of power (Lebedeva, 2013). It will be also reflected in the article that management of Russian SWFs is focused on the satisfaction of the powerful

groups of interest and even the president himself has to balance between these groups in order to stay in power (Sakwa, 2011).

2. The evolution of Sovereign Wealth Funds

Sovereign Wealth Funds are State owned financial institutions that have seen their economic and political role greatly expand in the last decades in connection with the reshaping of world economy.

The twenty years between the fall of the USSR and the advent of the Subprime crisis will probably be remembered as the neoliberalism Golden Age. Starting from 1973, the unilateral suspension of the gold-dollar conversion by President Nixon and the deregulation policies implemented by Reagan and Thatcher drew up a new system in which, at least apparently, the Nation State abandoned its business and welfare functions, reducing itself to the role of regulator of economic and social relations (Basosi, 2006).

In retrospect we can attribute these extremist interpretations to the atmosphere of "end of History" which was widespread in academia and in the media in the last decade of the 20th century: the role of the State, even if weakened, certainly is not dying. However, it is undeniable that, beyond the proclamations, there has been a real and profound change in the material conditions of exchange and production and that until recent times any effort to maintain a State role in economy was labelled as backward looking.

The 2008 crisis was a shock for the neoliberal vision. Several major States intervened in the financial sector, first with huge bailout operations and then with expansive monetary policies of such magnitude that led to widespread debate on the possible beginning of a new currency war reminiscent of the inter war period (Rosa, 2015). Also at the level of public spending, where it remained a margin in the enormous pre-crisis indebtedness, the States have acted with expansive manoeuvres, rescuing companies in difficulty and implementing measures to protect and relaunch their economies. Savona summarized the increased demand for state intervention arising from citizens and other private actors as the "return of the master state" (Savona, Regola, 2009).

What we are dealing with is the pendulum motion between the invisible hand and the visible hand, which, after the market domination phase, has shifting again towards a central role for the State in economy (Mazzei, Volpi, 2010). This cyclical colbertism represents a constitutive element of the global economy-politics relationship. When periodically the credit mechanism spins out of control, the evolution of technological paradigms remixes the cards of competitiveness, the economic theory debates at irrelevant levels of abstraction and laissez faire sinks the economy into crisis, the active colbertist state suddenly comes back in vogue (Reinert, 2016, p. 116).

Even if this movement was particularly perceived in the United States and Europe, we cannot really speak of a return of the state for the BRICS economies, especially for the countries of East Asia which have always defied classical economic categorization: «By the 2000s, Singapore, with 77% of its population ethnically Chinese, was rated top on the free-market index alongside Hong Kong, even though the government continues to control around 60 percent of the total GDP» (Westad, 2012). Despite the low level of regulation of economic activity and massive withdrawals of the public sector from the economy these countries have not liberalized financial exchanges nor abdicated the role of the public sector in the name of neoliberalist dogma.

It is in this complex and unclear context of economic internationalization and renewed State role that the relationship between sovereignty and state interventionism is reconfigured.

Even if a variety of alternative configurations have been proposed over time, the State is still the reference unit within which the political responses to the demand for economic growth are elaborated. Its objective has remained the maximization of national wealth in order to guarantee its position in the system of States, to exercise its sovereignty as a dominion within and independence from the outside. However, in practice there is a dissociation between political logic and economic logic, posing a dilemma between choosing for the efficiency of the economy, linked to specialization and free trade, and sovereignty of the state, connected to self-sufficiency and political independence.

This necessity to balance the logic of politics and the logic of economics is linked to the concept of identity (Andreatta, 2001). According to economists, the concept of identity is empty: firms and consumers behave with no regard for nationality (the economic logic of efficiency would be hindered by the barriers that nations pose). For politics, however, the crucial question is not much the development of resources but their allocation: in the international arena is fundamental to maximise its own nation relative wealth. The distinction set by Schmidt between "us" and "them" remains the fulcrum of political perspective.

This doesn't imply that politics is always conflictual but that it operates distinctions: in contrast to the logic of efficiency, politics does not consider actors and processes as devoid of identity. For example, the idea of protecting of a firm that is considered a national champion is based on the observation that the nationality of a company remains relevant. In this case, the logic of identity (national vs. foreign companies) prevails over the logic of efficiency. In the long run, the economic logic of efficiency and the political logic of competition among States work together in determining an optimal level of openness to international trade that is greater than zero even when there are concerns about military security Andreatta, 2001). As we have seen, this level,

for reasons related to internal politics, technology and international system, has variated during the last century.

At the same time, the increased economic interrelation didn't eliminate the roots and the possibilities of conflicts and so of war among the States. The effectiveness and the possibility of resorting to the war instrument by the States are being progressively reduced by the massive diffusion of cheap but effective military technology and by a cultural shift that makes huge national casualties of war difficult to accept for public opinion. Therefore, conflict has largely shifted from the domain of violence to the economic dimension. This results in a competition among national systems in which States are not limiting themselves to exploit the advantages of globalization but actively seek to seize, direct and strengthen their economic systems in order to seize the maximum of advantages to the detriment of other subjects. The current political and economic landscape is characterized by widespread economic warfare which is eroding but for now not breaking the integrated architecture of the system itself.

This picture is vividly portrayed by the geo-economic approach «the study of how competition between countries or their subsystems takes place in practice» (Savona, 1998). Geo-economics is not an alternative to geopolitics (analysis of the action of State that starts from an analysis of environmental constraints and endowments) but it rather studies how the State should use economic means to achieve national interest.

This perspective proposes to overcome the gap between politics and the economy and to re-establish the economic wealth-territory-state relationship. The geo-economic war is an alternative to both the armed conflict and the traditional instruments of economic war, such as embargoes, competitive devaluations, tariff barriers, etc. It is better a set of activities of active support from the Institutions to their national system in order to achieve advantage in international economic competition and to avoid the blows of its competitors' geo-economic strategies. It is possible to do so by acting on the physical endowments of its own territory and its own populations, in order to increase the competitiveness of the country system itself and to attract the flows of international wealth within it. Since neither a return to protectionism nor military competition is practicable, the State must overcome its previous incarnations of Warfare State and Welfare State and become a geo-economic actor capable of acting in the internationalized economic context and to conduct the so-called geo-economic war: any not primarily military contention for economic and political purposes such as the defence or conquest of certain market segments.

This frame of analysis highlights how the role of the States is being reformulated thanks to a series of theoretical and practical proposals for new modalities of interventionism in the economy.

First it is increasingly evident that holding a productive, technologically advanced and export-oriented secondary sector (Export-Led) is an indispensable requirement for a country that wants to maintain a considerable weight in the International System. Countries like China and South Korea, which represents winning examples of the "developer state" after having dominated the low-cost production sector, have progressively consolidated their success moving on productions with growing added value. Thanks to the strong exports and a policy of favourable exchange rates, they guaranteed themselves a surplus on the balance of trade to be re-invested in foreign assets or public debts (Mazzei, Volpi, 2006, p. 127).

This set of policies refers to the Strategic Commerce Theory that emphasizes the ability of the State and the companies to

> dysfunctional act strategically in imperfect global markets and thereby improve the national trade balance and well-being; it assumes that some markets are characterized by imperfect and oligopolistic competition and that this situation can create a strategic environment in which only a limited number of players act (Gilpin, 2009, p. 128).

These oligopolistic markets comprehends the crucial technological leading sectors, that to contrary to popular belief rarely are born from private initiative and are instead in great need for state intervention in research and development (R&D). In fact

> even if the empirical evidence of the success of industrial policy is doubtful, the support of the State to particular economic sectors has often managed to create technologies in sectors that then pour it into the rest of the economy. [-] it seems instead proven that state support for R&D has a great beneficial effect for the entire economy (Gilpin, 2009, p. 132).

Neoliberism has often labelled the public sector a parasite of the private one, weighed down by bureaucratic approach and adverse to innovation. Both statements are being contested in the wave of 2008 crisis. First, even if bureaucracy has been developed in the first place for public purposes its current manifestation of intrusive monitoring, shifting targets and vast managerial class is a product of fordist inspired private firms. With smaller bodies of operators and keeping in mind their social purposes, public companies and welfare institutions used to operate even in narrow economic terms far more efficiently before neoliberal hegemony then now. The fact that the number of the public servants have expanded rather than shrinking while the quality and quantity of delivered services have decreased thanks to the injection of

market mechanisms into public institutions since the 70's, is a crude but clarifying example (Graeber, 2015).

Public sector may lean towards a dysfunctional bureaucratic attitude but this is more a malfunction of the system rather than its inherent characteristic. On the contrary, public role in the development of innovative technology is often undermined and under-considered but has proved instead crucial for the development of technologies that constitutes the backbone of global economy such as informatics, Web, GPS etc. The analysis of Mariana Mazzucato focused on the Entrepreneurial State model casts light on the fact that the major technological innovations of the '900 are derived from researches stimulated or directly carried out by public bodies.

Stressing this assumption, Mazzucato proposes that the State institutions can be configured in two ways. The Entrepreneurial State (Entrepreneurial) is a public actor aware of its economic mission that explores the "landscape of risk" by creating new markets. Its action focuses on areas where strong capital investments are required in situations of uncertainty and it plays a leading role of risk-taker and market-shaper. In contrast, in the Administrative State, represents a public actor captured and bent by private interests, limited to tasks of ordinary administration, abdicating to his crucial role in long-term development.

The thesis is formulated with an inversion of the terms of the market failure theory:

> The justification for public intervention in research is that the nature of the public good of knowledge reduces the private incentive to investment, due to the structural misalignment between private performance and social performance, which the state should therefore fill with its intervention. Mazzucato's proposal retraces the argument to the contrary: the private performance of innovative companies is today excessively high because they do not pay, if not ex post with the taxation of profits, the knowledge made available by public investment in research (Bonaccorsi, 2014, p. 425).

It seems so possible to identify a middle ground between neoliberal laissez faire and economic prominence of public companies. Dan Brenitz proposed the idea of a "facilitator State" tasked with a coaching role of developing an environment favourable for the proliferation of private firms and guiding them in international competition. The analysis of several European and Asian examples proves that

> with regard to the political process of development, [-] in successful cases of rapid innovation-based industrial development, the state agencies first set up with a set of firms and industrial actors [-] and between firms and the state. The state also helps to embed firms into international financial and produc-

> tion markets and networks. In successful cases of rapid innovation-based industrial development, the state is the initial role of a key actor in the creation of a network. The state at the beginning of a hierarchical network and then in the course of a co-evolution process [-] the network is becoming more and more egalitarian and international, with the. Consequently, the state becomes more of an organizer and less of an overall commander (Brenitz, 2006).

All these formulations reinforce the idea of a leading economic role for the State. Looking in depth is even possible to identify the fallacy of neoliberal theory right at its very primary source, the interpretation of Adam Smith work. Opposing the interpretations of Smith as promoter of minimum government and unshakable faith in the invisible hand, Giovanni Arrighi advocated for a careful reinterpretation of The Wealth of Nations, pointing out how much the Scottish philosopher had stressed the role of the State as a promoter of competition among the private subjects, to avoid the creation of monopolies, creator of infrastructures, leader in education policies. Smith had already identified the contradiction between economic openness and national defence: the division of labour undermining the military readiness of the nation. Overall Smith

> presupposed the existence of a strong state that would create and reproduce the conditions for the existence of the market; that would use the market as an effective instrument of government; that would regulate its operation; and that would actively intervene to correct or counter its socially or politically undesirable outcomes (Arrighi, 2007).

Even if the advantages of returning to industrial policy seems relevant and the role of state in determining the investment priorities in a long-term vision and in "selecting the winner" has been proven with viable examples, it isn't practicable nor maybe desirable a simple return to public ownership of large companies or policies of unconditional support for their national champions. In purely economic terms, the support to national champions always includes direct and indirect costs and opportunity costs exceeding the economic return and is justified only for the defence industry provided that significant economies of scale are created (Macchiati, Prosperetti, 2006).

Furthermore, the material change in the production of financial assets and instruments and the current network of cross-linked obligations of commercial openness, as well as a persistent ideological taboo, don't really allow a policy of explicit public ownership, nor open state aid, nor declared practices of protectionism, not even when menaced by president Trumps' tweets.

In addition to these limits, the imperative of competitiveness intervenes. In the present conditions of free trade and open financial markets, no country is able to maintain uncompetitive productive sectors in the long term. Natio-

nal resources and savings cannot be forcibly conveyed onto these enterprises and the risk of rapid technological obsolescence and loss of profitable business partnerships lurks over incautious policies (Coniglio, 2007).

Squeezed between these constraints and the geo-economical imperative of avoiding the accumulation of unbridgeable gaps of productivity and technological level, states have sought creative solutions. The state intervention avoids rebuilding the large public conglomerates currently privatized. Instead it has increasingly been characterized as middle ground between direct intervention and regulation of private action. It's possible to identify a "grey economy" (not to be understood in the most common sense of economy at the margins of legality), in which entities of the public administration, such as Mail and Healthcare, are managed with business criteria while the State or other public bodies maintain quotas, often of minority but with special powers, in relevant companies, or they act through Foundations, Pension Funds, Development Banks or other private law entities indirectly holding shareholdings and significant powers in a multitude of economic interests (Bortolotti, 2008).

Investments, conducted by the State under the conditions of a private actor but with particular powers of influence, are thus the most effective tools of public action, capable of maximizing the positive effects on safety, the maintenance of nationality and also the profitability of the company. We can think of a path that led from the Producer State, sole owner of a vast industrial apparatus, to the Regulatory State, liberalizer and competition controller and finally to the Investor State, a privileged actor that integrates characteristics of the private sector and the public sector.

Among these instruments and practises the minority shareholding system and SWF are among the most interesting.

The minority shareholding system occurs when the State maintains control of companies by holding a minority share instead of a majority share. It is an increasingly widespread instrument, even prevalent in countries such as India and Brazil. Musacchio and Lazzarini analysed how it developed to overcome the he crisis of the 1970s and early 1980s, when governments were first forced to restructure their firms. States learned that in order to implement a more sustainable model, they needed to involve the private sector in monitoring and funding these companies as well as in sharing their losses, sharing with the State both the management and the rents (Musacchio, Lazzarini, 2014, p. 15). A new variety of state capitalism has thus emerged, characterized by greater efficiency and lower social charges, in which direct control is replaced by influence, guaranteed by the Statutes and by privileged relations between companies and the Government.

On the other hand Sovereign wealth Funds (SWF) represent one of the most innovative tools of the Gray Economy. At the academic level we can speak of Sovereign Wealth Funds as public investment funds that manage portfolios of financial assets in foreign currency, investing financial resources deriving from the revenues of hydrocarbons and other raw materials, commodities SWF, or trade surplus currency surplus, non-commodity SWF (Quadrio Curzio, Miceli, 2009, p. 7). According to the Santiago Principles, a code of conduct for voluntary participation SWFs drawn up under the auspices of the IMF,

> SWFs are defined as special purpose investment funds or arrangements, owned by the general government. Created by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets. The SWFs are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports (Santiago principles, 2008).

The funds are identified on the basis of five characteristics:

1) Ownership by a Sovereign State, by its central and local institutions
2) Presence in their operations of investments in foreign currency, so excluding the Funds that operates only at national level
3) A long-term horizon of the investments guaranteed by low levels of indebtedness, absence of assets withdrawals and distributions of profits
4) Accounting operations separate from those of the Central Banks and the Treasury
5) Investments in activities with returns above the risk-free rate (Quadrio Curzio, Miceli, 2009, p. 25).

As for the purposes of these institutions, they may be the stabilization of fiscal policy, saving to guarantee resources for future generations, pension type, and investment of reserves in particularly profitable sectors or the development, promotion of specific economic sectors.

The huge size reached by the SWFs, over sixty operators with an availability of 7.000 billion dollars, with 75% of the assets concentrated among the top 10 operators (all Asian and Middle Eastern except the Norwegian pension fund) require considerable attention from Western countries monitoring authorities. They are in most case institutions owned by the governments of developing and non-democratic countries, which express a state capitalism whose decision-making mechanisms and whose investment horizons are different from the Western perspectives. The Sovereign Funds are at the same time an economic, financial and political phenomenon

that represents state capitalism with a distinctly geo-economic or better geo-financial nature (Gaiser, 2015, p. 152).

The unique story of these funds can be summarized in three phases. Between 1953 and the mid-90s the first embryonic examples of these entities, mainly from the commodity category, were born and consolidated. The first examples of the category are the Kuwait Investment Board, then Kuwait Investment Authority, founded in 1953 to reinvest the financial surplus of the small state oil revenue and the Revenue Equalization Reverse Fund, created by the British administration of the then Gilbert Islands colony, today Republic of Kiribati, to use the proceeds of phosphate extraction. In the '70s, the increase in the price of petroleum creates huge reserves of foreign currency in the producing countries that begin to resume the model of the funds and invest in foreign securities, mainly US Treasuries. The fall in oil prices of the 1980s confirmed the validity of a strategy of differentiation of investments, while the liberalization of markets in the 1990s opened up new possibilities for foreign investments.

In the second phase, until 2005, several countries, mainly in East Asia, China and South Korea as leaders, responded to the financial crisis of '96 with a strategy of accumulation of foreign reserves. To avoid having to resort to IMF loans, they accompany their export-led industrial strategy with monetary and foreign exchange policies aimed at the accumulation of oversized foreign currency reserves, entrusting management to new institutions modelled on the example of funds. A strategy that had already been anticipated in 1978 by the innovative Temasek, the investment fund of the city-state of Singapore. Having large surpluses of its trade balance and not being able to reinvest them in the economy of its own small state, due to obvious structural limitations, Temasek has placed itself at the head of the strategy of expanding the economy of Singapore in the countries of East Asia, as leader of acquisitions and foreign direct investments (Goldstein, 2008).

The third phase, from 2005 till today, saw two relevant developments linked to the progress of the crisis and to the overall global redistribution of wealth.

On one hand Western countries started to deal with the SWF phenomenon with a confused mix of loathing, courting and imitation. In 2005 Andrew Rozanov created the term Sovereign Wealth fund to distinguish these structures from institutions such as investment banks or pension funds, identifying the specificities of the phenomenon and signalling the rapid growth of their number and the quantity and quality of investments (Rozanov, 2005). At the same time they begin to spread in almost all the so-called BRICS economies and in some Western countries, such as Canada, and they didn't limit any more their activity to investments in low-yield securities but begin to acquire

minority holdings or attempt real and hostile takeovers in important US and European companies with a growing preference for investments in the energy, commodity and utilities sectors (Ciarlone, Miceli, 2013). This activism led to a rather convulsive phase of regulatory intervention in Western countries, but these policies quickly collided with the financial crisis of 2008 (Asutay, 2008, p. 347). In a short time the funds, among the few actors that can still guarantee investments in the shaky Western economies, were promoted from potential predators to courted investment partners, while even countries like France or Italy began the first attempts to imitate the winning characteristics of these institutions to safeguard a heritage of companies considered increasingly at risk (Gaiser, Schioppetto, 2016).

On the other hand some SWFs are evolving their role, from passive and risk-free management of reserves, to the role of hub of industrial policy and planned economic development. The most evident case is the example of Saudi Arabia, which is restructuring its investment funds and listing on stock market the Aramco Company in other to create a paramount reserve of sovereign wealth that will be used to finance the Plan Vison 2050, which seeks to transform Saudi Arabia economy from oil exporter to advanced industry and services provider.

In all the analysed cases the future outcomes of such bold economic and political moves are still to demonstrate their efficiency. Anyway it's interesting to note how strong the SWF activism is and how negative can be the effect on an economic policy that doesn't manage them wisely.

As an example of positive influence, Norway's $1 trillion sovereign wealth fund, still the world's largest, which invests Norway's revenues from oil and gas production in public markets asset such as stocks, bonds and real estate abroad, to provide additional financial resources for the national welfare, is rapidly evolving its range of interests. In 2016, the Norwegian parliament ordered the fund to get rid of shares of firms that derive more than 30% of their activities or revenues from coal. Recently a report from the Norwegian Investment Bank strongly suggested the management to dump the fund's shares in oil and gas companies, due to sector crisis and climate change related risks (Norges Bank, 2017). Several solutions such as investing in renewable energies are in discussion as the Parliament is examining the possibility to remove oil and gas stocks from its equity benchmark index, which would mean cutting investments in those companies over time. Considered the value of its assets, even remaining a traditional SWF, the Norway's Fund may become a significant actor in clean energy technology development worldwide.

On the opposite side of the spectrum the so called "resource curse" and "Dutch disease" can be a disastrous outcome for those raw material export

based economies that don't invest carefully their wealth, as the Venezuela socio-economic disarray easily demonstrates.

The so called Dutch disease is the paradox for whom economies dependant from natural resources tend to grow slower than countries without such endowments. The constant influx of profits generates a real exchange rate appreciation and causes a separation of the economy between resource and non-resource related industry, making other exporting sectors uncompetitive over time. In the long run, this can destroy national production and leave the country extremely vulnerable to the fluctuations of the prices of energy (Dobrynskaya, Turkischb, 2010). To avoid such end States creates so called "rainy day reserves" to counter periods of low revenues and can use SWFs to invest abroad such resources, so lowering exchange rate, or even to stimulate investments in non-energy related industries and small and medium sized enterprises.

Venezuela under Chavez and Maduro presidencies spent the huge oil revenues deriving from the oil boom that began at the end of 2003 on expensive welfare programmes, foreign aid and imports. The government maintained an overvalued exchange rate that distorted Venezuela's trading sector making the country completely dependent on oil. No reserves were constituted, instead the small fund LED, created after the crisis of '90's was depleted of 6 out of 7 billion of its assets. The country was unprepared to the drastic cut of the budget when the oil prices fell to half of its previous value in 2014. For political reasons public sector debt, even the state-owned oil company, kept growing while inflation sky-rocketed. The government response that implemented controls on foreign exchange, on retail price and on labour markets, contributed to a socio-economic disarray that spiralled to the current economic crisis, close to humanitarian disaster.

3. Historical development of Sovereign Welfare Funds in Russia

In the Russian case, the need to establish a sovereign welfare fund was identified already in early 2000s when the rising oil prices at the world market generated enormous revenues from production and export of oil to Russian federal budget. At that time, Russian economic community was split into two camps, liberals and gosudarstvenniki, State supporters (Drobyshevsky, 2011). Both of them recognised the need to institutionalise the federal budget surpluses and bring qualitative change to the economy (Dabrowska, Zweynert 2014).

Russia, as a natural resources exporter, has a budget that is highly dependent on income from export of natural resources and exposed to volatility of global oil and gas prices as well as there is a risk related to the Dutch disease

(Kudrin, 2006). Moreover, the country notably suffered in the 1998 economic crash due to the sudden drop in the oil prices, to 12 USD per barrel. It forced Russia to increase the budget deficit, devaluate the ruble and resort to foreign indebtedness by requiring the assistance of the International Monetary Fund. Hence Russia needed an institution that could guarantee macroeconomic stability. Taking all those reasons into account and under strong influence of the Finance Minister Alexei Kudrin, a new financial instrument, Stabilisation Fund of the Russian Federation, was established in 2004. Since then, the revenues from oil export and production were accumulated in the fund.

Russian Stabilisation Fund was the first sovereign welfare fund in Russia with the following objectives: stabilisation and balance of the federal budget, inflationary pressure reduction and Russian economy protection from the volatility of global oil prices. Due to rising oil prices, the fund exceeded its 500 billion rubles threshold. Using these money, Russian government could easily cover the federal budget and Russian Pension Fund deficit and could also early return Russian international debts. It is interesting to note that this type of practice corresponded with the Soviet economic management when the revenues from natural resources export were transferred to other sectors of the economy (Dabrowska, Zweynert 2014).

In 2008, after the value of accumulated reserves went beyond the amount needed for the macroeconomic stabilisation of the Russian economy, it was decided against the recommendation of the Ministry of Finance, to reorganise Russian Stabilisation Fund into savings funds. Only one fund with considerable amount of reserves was deemed more suitable to ensure macroeconomic stability of the country. Nonetheless, the necessity to inject liquidity into the internal market by guaranteeing the voluntary pension of Russian citizens, whilst also balancing the budget of the pension fund for the Russian Federation, prevailed (Shemirani, 2011, Chapter 6). The consequences of this Russian government approach to the management of its SWFs was also reflected in the increased investment of the National Wealth Fund reserves into the private Russian companies after the deepening economic problems caused by Western sanctions in 2014.

In 2008 two separate funds were established, the Reserve Fund and the National Wealth Fund. President Vladimir Putin officially announced it during his budget message on March 2007, indicating that among the government's priorities are the following: sterilisation of excessive money supply, macroeconomic stabilisation as well as state support for the development of industrial infrastructure and stimulation of innovation.

4. Reserve Fund – commodity fund of Russia

After the rearrangement of the Stabilisation Fund of the Russian Federation, the Reserve Fund became its literal successor, inheriting similar objectives and aims directed to stabilising Russian economy: financing budgetary deficit, contributing to macroeconomic stability through natural resources export revenue retention. However, contrary to Stabilisation fund, Reserve Fund had a wider range of the sources of financing because it compiled the income coming from the taxes and duties imposed by Russian government on production and export of gas, oil and oil products. Nevertheless, it made the fund income dependent on the fluctuations of international oil and gas prices.

The value of the Reserve Fund was established at 7% of the GDP and after reaching this cap, the revenues are transferred to National Wealth Fund, for the implementation of infrastructure and other government priority projects. The initial value of the fund was set up for 156.8 billion dollars. Reserve Fund was established to bear the functions of a classic commodity fund and its assets were managed by the Ministry of Finance of Russian Federation. In addition, the fund has a possibility to invest by purchasing the foreign currencies and financial assets denominated in foreign currencies, like debt securities of foreign governments, foreign state agencies, central banks, supranational debt securities and deposits in foreign banks and depository institutions (Kudrin, 2018).

Western sanctions contributed to the unfavourable macroeconomic situation and in 2014 the ruble fell sharply against the dollar. Throughout all the years of its existence, the fund's savings were used to pay off the federal budget deficit. In addition, low oil and gas prices trend caused the accumulated Reserve Fund funds depletion. In 2017 he fund was almost exhausted and was reaching only 17 billion dollars. Therefore, in July 2017 the government took a decision to unite the funds and the Reserve Fund ceases to exist starting from 1st February 2018. It was consolidated with and its functions were passed over to the National Wealth Fund. Therefore, all the incomes coming in from oil and gas industry are now forwarded to one fund.

Russian government seems to be alarmed by the fact that the money from the reserve fund are starting to deplete. Therefore starting from the beginning of 2018 the new budgetary rule came into force, which indicated that the surplus of the base oil price per barrel which is estimated for 40 dollars will be allocated for the replenishment of the reserves. Nevertheless, it is estimated that without a separate Reserve Fund, balancing the national currency fluctuations and financing the federal budget deficit may pose a challenge.

5. National Wealth Fund – the future generations fund

After the Stabilisation Fund of the Russian Federation was divided into two entities, the National Wealth Fund (NWF) was established as a model of the future generations' fund. Its mission is to support national pension system by guaranteeing its long term functioning. The fund co-finances voluntary pension savings of the citizens and covers pension fund budget deficits (MINFIN, 2018). The fund assets are comprised from the oil and gas production and export after the Reserve Fund reaches its mandatory cap. Initial fund capital was estimated of 32 billion dollars.

Unlike the Reserve Fund, National Wealth Fund has a higher level of diversity when it comes to its investments. It is well seen in its ability to acquire more risky market instruments, involving higher returns (e.g. corporate bonds, stocks), invest into infrastructure projects within domestic market or generate profit by investing into Russian Direct Investment Fund, acquire deposits of national banks or finance debt securities of other states, agencies, central banks and international organisations. This variety of investments leads to the fact that Russian government is increasing the profitability of the reserves and making the right investment decision, the government is raising its influence and achieves particular political goals (Navoy, Shalunova, 2014). According to the data provided by the Russian Ministry of Finance, as of 1 December 2018 the fund accumulated 68,55 billion dollars, which constituted up to 4,6 percent of the GDP.

6. Involvement in the Ukrainian Crisis

The National Wealth Fund involvement in the Ukrainian crisis may not be underestimated because it is a good example of making use of the Fund in the foreign policy by the Russian government. One of the well-known National Wealth Fund investment was a purchase of 3 billion dollars Ukrainian Eurobond on December 2013 (Arkhipov, Krasnolutska Tanas, 2013). Eurobonds do not have to be necessarily denominated in euros and are usually used for commercial transactions. The initial deal announced that Russia will buy 15 billion dollars' worth Ukrainian bonds. In addition to the loan, Russia decided to ease Ukrainian financial problems by offering about one third discount on Ukrainian gas import bill. In order to be able to lend money to Ukraine, Russia had to amend the Budget Code, indicating that the National Wealth Fund reserves can be used to finance other states deficit, reaching up to 10% of the whole value of the fund (Government of the Russian Federation, 2013). This adjustment increased the risk profile of the Russian Natio-

nal Wealth Fund, presenting the SWFs dependence on the Russian political objectives, especially interests of the Russian president.

The political background of this deal was the Moscow's goal to reassure Ukraine not to sign the accession agreement with EU. The deal with Russia resulted in a huge wave of Maidan protests, the largest since 2004 Orange Revolution, expelling the Ukrainian president Viktor Yanukovych and a deepening crisis in Russian-Ukrainian relations.

In 2015 Ukraine announced that it will not repay the debt to Russia as it was taken under duress by the government which did not represent the Ukrainian nation. Therefore, the new government signed IMF loan programme on restructuring Ukrainian sovereign hard currency bonds wishing to restructure its debt to Russia as well. However, Russia objected to it and demanded to treat it as a bilateral debt. Due to the fact that the loan was structured as Eurobond and was governed by English law, exceptionally, English court has to decide on the dispute between the two states. Ukraine argues that the former president Viktor Yanukovych was pressured to sign the deal with Russia and the annexation of Crimea in 2014 reduced Ukrainian possibilities for returning the loan. Presumably, the court will take the decision on the clash between Ukraine and Russian Federation next year.

The case of the Russian National Wealth Fund involvement in the Ukrainian crisis showed that SWFs can be used as a mean of political pressure on another state to reach geopolitical goals and political interests. The legislation related to the management of the fund could be easily changed in order to better serve the interests of the political ruling class. Moreover, the previously established goals of the fund as support for the national pension system were not taken into account and political goals were chosen as the superior ones. This experience shows that Russian Federation is treating its Sovereign Wealth Funds not only as a mean of economic stabilisation but also as a convenient depository of money which could be used to finance political interests and goals.

7. Infrastructure projects

Another relevant are of intervention is the one of the infrastructure projects. According to the Budget Code up to 60% of the NWF reserves can be used for the internal infrastructure projects investment. This amount was recently increased due to the difficulties which Russian economy experienced after the introduction of the international sanctions due to annexation of Crimea during summer 2014. The international sanctions limited the flowing foreign capital into the Russian market and the government decided to support the economy by giving loans to the private Russian companies. The Russian go-

vernment actions aimed at investing into infrastructure projects which are deemed to get the economy out of stagnation and will ensure the economic growth. Russian government approach was highly criticised by the number of experts due to the fact that it increased lobbyism for the access to the funds. Private companies lined up in a long queue to get an access to the state funds and the proposals exceeded the amount of funds to be shared (Netreba, Skorobogatko, Butrin, 2018). It is interesting to note that before 2014 Budget Code of the Russian Federation allowed only for up to 40% of the NWF funds to be invested into internal economy. The Ministry of Finance opposed to the shift in investment reaching up to 60% cap of the fund and Kudrin noted that there are not many infrastructure projects which would meet the requirements and would be profitable enough to invest in. However, the Minister of Economy, Alexei Ulyukayev, was a big proponent of increasing the state spending as a mean of boosting the economic growth. Eventually, due to the economic difficulties that Russia experienced after the annexation of the Crimea, the government decided to further liberalise the use of the fund resources. It was agreed that the final list of the infrastructure projects eligible for receiving the state funding will be approved by the President.

In June 2014 two state institutions such as Russian Direct Investment Fund and Rosatom received around 9 billion dollars each from the fund of the NWF for expanding the infrastructure of roads and railways as well as developing nuclear power stations inside and outside of Russia. Moreover, in the beginning of 2015 seven investment projects were preliminarily discussed for the possible state investment but only four of them were approved by Vladimir Putin. Among the beneficiaries we can find the projects such as reconstruction of Trans-Siberian Railway, development of the production facility for the liquefied gas Yamal-LNG, construction of Rosatom nuclear power plant in Finland and construction of the two Central Ring Road priority sections (Egorova, 2015). In total these projects received up to 525 billion rubles.

The reserves of the NWF were further invested in the following years to the sustainable infrastructure projects like national railways system, development of the airport facilities or construction of motorway, e.g. in September 2018, 2 billion rubles were invested into the obligations of the state company Russian Highways with the aim of expansion and modernisation of the national highway system.

Taking a closer look at the consequent actions of the Russian government, we can say that following the Western sanctions and decreasing economic growth, the government decided to increase the state investments and focused on the low return infrastructure projects which mostly belong to the state-owned or big private companies. It can be justified by the government wish

to keep stable level of employment in those companies as well as partially contribute to the growth in this sector of the economy. In addition, Russian government decision can be perceived as a power play and wish to support powerful national and private interests, in particular as the recipients of the NWF loans are mostly big players in the Russian economy and have close connections with political leadership. That demonstrates very well how authoritarian rule can impact the economy along with the creation of concerns and distrust among the citizens.

Moreover, it also shows how easily the government can decide to use the reserves from the fund in a new way which was never an initial purpose for creating the NWF. In relation to the discussions on the reforming the pension system in Russia, Aleksey Kudrin, Chairman of the Accounts Chamber, underlined that the reserves of the NWF are limited and there will be enough only to go through one more financial crisis comparable to the one from 2008-2009 and there are not enough funds to support the whole national pension system (Trunina, 2018). Although the fund was created with the purpose of supporting national pension system, we can observe that the current management of the fund by Russian government went much beyond its initial purpose and limited the possibility of the fund to prevent and solve the problems for which it was created. Moreover, problems within the NWF occurred as well due to the fact that Russian government invested into low return and state advocated projects which increased fund's vulnerability to the global price changes of the natural resources such as oil and gas. Nevertheless, Russian government expects that the reserves of the fund will be further growing in the upcoming 2019 year due to the strict budget rule and high energy prices.

8. Russian Direct Investment Fund

Russian Direct Investment Fund (RDIF) is the most recent Russian sovereign wealth fund which was founded in 2011 with the capital of 10 billion dollars aiming at attracting foreign direct investments, maximising the return of the invested capital and supporting technological innovation and modernisation of Russian economy, including such branches as transport and logistics. Russian Direct Investment Fund co-invests into Russian companies and projects together with foreign investors as well as purchases shares in the national companies. Due to this fact, Russian government is closely involved into the management of the fund and any important deal (Clark, Monk, 2015). The fund can own up to 50% of the shares of the company which is the subject of its investments and usual investment time varies from 5 to 7 years, while green field infrastructure projects can take up to 15 years. After this time, RDIF will organise a public offering or will sale its shares to other

partners (Hannola, 2013). Moreover, the fund can invest up to 20% of its reserves outside of Russia, if it is advantageous for the Russian economy.

The RDIF was created as a subsidiary of the state owned financial institution Vnesheconombank and was reporting only to this entity. Therefore, it was difficult to monitor the real activity of the fund and establish what its share in the investment deals was. In June 2016 it was announced by the President as a sovereign wealth fund and established that the only shareholder of the fund is the Russian Federation.

The main objective of RDIF is to establish partnerships with SWFs from other countries and attract foreign direct investments to Russian economy. The fund has signed over 20 partnerships with various financial institutions from European, Middle East and Asian countries in the form of co-investment funds. In 2012 we can note a strategic shift in the Russian foreign policy orientation which was named 'turn to the East' and growing importance of Asian vector in Russian strategic discussions. By that time China was already the biggest trading partner of Russia and rapidly growing Chinese economy is perceived as a good partner for common future investments. In October 2011 Russian Vnesheconombank, Russian Direct Investment Fund and China Investment Corporation (CIC) signed a Memorandum of Understanding with an aim of establishing a joint investment fund. Later in June 2012 Putin and Hu Jintao agreed on the implementation of the Russian-Chinese investment cooperation plan with the focus on the expansion of investment between the countries. The cooperation with China regarding the investment in infrastructure projects was institutionalised by establishing a separate Russian-Chinese Investment Fund. The similar ideas were reinforced after the visit of Xi Jinping to Russia when the focus was put on encouraging reciprocal investment. Chinese companies got better access to the sectors of Russian economy such as energy, logistics, automotive and food industries. In 2013 China National Petroleum Corporation acquired 20% of the Yamal LNG project run by NOVATEK while Rosneft attracted Chinese companies' investments by promising the shares in the future Russian oil fields (Mutanga, Simelane 2013). In October 2014 it was also agreed that RDIF will be involved in developing high-tech parts as a part of the plan on Silk Road revival together with Russia-China Investment Fund (RCIF), the Skolkovo Fund, and the local government of northwest China's Shaanxi Province. Moreover, important investments were done by the Russia-China Investment Fund in relation to the equity offering of the Magnit convenience stores chain which is the largest retailer in Russia and invested into the largest Russia's retailer of children goods Detsky Mir.

9. Western sanctions on RDIF

In the beginning of March 2014 US and EU introduced sanctions on Russian economy, politicians, companies and individuals close to the government which included a freeze of the foreign assets and travel bans (Szakonyi, 2017). Moreover, in July 2015 US Treasury Department put RDIF on its Sectoral sanctions identifications list which followed Russia's annexation of Crimea. The succeeding economic problems in Russia decreased the attractiveness of Russian economy for foreign investment and therefore RDIF intensified its efforts in attracting foreign investment to the country, especially from the Middle East region. Protection and promotion of its economic interests in the Middle East is durable objective of Russian government policy in the region. The RDIF signed many contracts on cooperation with the various bodies from countries such as Saudi Arabia, Bahrain, Kuwait, Qatar and the UAE regarding the commercial, agricultural and infrastructural projects (Khozanov, 2018). Saudi Arabia and Qatar are very much involved into investing in Russia. It is expected that Saudi Arabia will join the project on development of Russian liquified natural gas (LNG) and after a series of deals was settled that the common projects will reach to up 10 billion dollars. Nevertheless, it is estimated that Qatar as well invested a lot in Russia, up to 2 billion dollars. Cooperation with Middle Eastern countries is also oriented for creating an economy which can prove to be resistant to sanctions (Sladder, Wasser, Connable, 2017). In March 2017 RDIF established a new partnership with Turkish Wealth Fund and it was agreed that the joint investment fund will reach up to 1 billion dollars. Other significant partners of the RDIF are financial institutions from the UAE with their commitments that together reach up to 7 billion dollars; in 2013 the deals were made with financial institutions from France and Italy with commitments reaching 1 billion dollars each as well as RDIF established cooperation platform with Korea reaching 500 million dollars. Important to note is that UAE not only invested into Russian economy via RDIF but also bought military equipment from Russia (Dorsey, 2017).

As indicated above, RDIF is actively promoting Russia as a place for foreign investment and attracts many partners from abroad to realise joint investment projects in the sectors of economy that usually are closely related to the competence of the state. Therefore, RDIF and its management always had very close ties with the government. In 2017 RDIF received 1 billion dollars from the Russian government to further expand its activities. It is a very positive thing about RDIF is that Russian government is willing to invest into private equity initiatives and projects. It creates a better economic atmosphere and makes it further transform into developed market economy, even thou-

gh some may perceive it as an immense state interference into the economy. The deals with Middle East and Asian counterparts are significant, nevertheless at the moment it is difficult to measure their real effects and influence on Russian economy. Nevertheless, we can see that increased visibility and importance of Gulf States in Russian economy and investment deals are highly driven by political interests and wish to have more influence on Russian foreign policy in the Middle East. In particular, Qatar and Saudi Arabia are interested in collaboration with RDIF in order to regain their influence in the Syrian conflict (Karasik, 2017). Moreover, Russian government knows that Russian companies are in need of innovative approaches and solutions which are available in the Gulf States. It is important to understand that Russian government is using the financial instruments and financial cooperation with Arab and Asian countries in order to strengthen Russia's political position and its influence on the international arena. The sovereign wealth funds became a new tool in the hands of Russian politicians to intensify regional cooperation and seal political cooperation with the Gulf and Asian countries.

10. Conclusions

In the last 20 years Russia creatively adapted the SWF system to its specific needs. Sovereign Wealth Funds were used as a political and economic tool in internal and external policy, with the double objective of legitimizing the power of the elite that expressed President Putin and supporting the foreign policy objectives of Russia in several key geographical areas.

The Federation is a clear example of an entrepreneurial State where the Institutions use the public resources and guide the private ones to achieve the country geo-economical goals. The Russian government enthusiastically adopted this institution, outfit it with considerable resources and employed them in a large variety of roles. It is difficult to identify a specific or original Russian trait: pensions, industrial development, foreign investments and international partnerships. SWF fulfilled all those tasks.This dispersion of resources probably depends from the particular international position of the country: with a huge, scarcely populated and integrated country, fighting for an international role largely superior to its resources. Russia has used the sovereign wealth to reinforce the sectors in which it was weak or that the government deemed crucial. International results have been fluctuating: Ukraine involvement was a clear defeat while the Middle East gamble seems to have played off. The collaboration with China will prove an important test for their efficiency. This partnership is almost a necessity since both countries are strongly opposed by USA but proves to be extremely difficult to pursue in

reality considered the long story of conflicts and the conflicting ambitions in Far East and Central Asia.

All the Funds are extremely dependent from the political guide. This is evident looking to their frequent reorganizations, change of objectives and depletion of financial reserves in the last years. On one hand it constitutes a weakness since there can be no reasonable belief on the Fund commitment to profitability. This may be not a problem inside Russia, where the government can make the private companies comply with its policies, but it creates a problem in the crucial area of international partnership. In that case only the political commitment of the State can overcome the economical limits, proving once again how strongly Russia's SWF are conceived as political tools.

Overall, their seemingly erratic route is more a consequence of the difficulty of Russia in the new millennium rather than coming from a lack of planning or understanding or their potential.

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II.
TERRORISM
& COUNTER-TERRORISM

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La Rivista semestrale *Sicurezza, Terrorismo e Società* intende la *Sicurezza* come una condizione che risulta dallo stabilizzarsi e dal mantenersi di misure proattive capaci di promuovere il benessere e la qualità della vita dei cittadini e la vitalità democratica delle istituzioni; affronta il fenomeno del *Terrorismo* come un processo complesso, di lungo periodo, che affonda le sue radici nelle dimensioni culturale, religiosa, politica ed economica che caratterizzano i sistemi sociali; propone alla *Società* – quella degli studiosi e degli operatori e quella ampia di cittadini e istituzioni – strumenti di comprensione, analisi e scenari di tali fenomeni e indirizzi di gestione delle crisi.

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