

**Practice of State Capitalism:
A Comparative Case Study of Norway and Temasek Sovereign Wealth Funds**

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Wenzao Ursuline University of Languages, 2021

ABSTRACT

This paper aimed to discuss the practice of state capitalism by analyzed the performance of Government Pension Fund Global (GPF) and Temasek (TH) sovereign wealth fund (SWFs).

The research took the approach of comparative case study; the paper shows how is the practice of state capitalism between GPF and Temasek SWFs. Then performance of these funds will be the case for the researcher to investigate.

The finding of the paper were some significance similarities and differences in management strategies. The most important feature of a well- managing fund was built on a clear delegation of duties and delinks the earning from the use. Norway government practice state capitalism by pushing some of the world largest companies to change their corporate policies on many different fronts. Singapore government practice state capitalism by being the largest employer in the country. Practice state capitalism over SWFs would offer a buffer during crisis, prevent monopoly, and use it as political tools which is good in some circumstances.

Overall, state capitalism seems like an unfamiliar and dangerous phenomenon across the world. State capitalism is not dangerous if it is being use appropriately. There must be a set of rules and laws of how much should a state intervene in economic activities. To manage sovereign wealth fund, the state must involve with adequate regulations, fiscal and monetary policies.

Key words: State Capitalism, GPF, TH, SWFs

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INTRODUCTION

Background

In 1990s, along with the collapsed of the Soviet Union, the market power of the Japan and Western countries established the liberal economic model with private wealth, private investment, and private enterprise.¹ Over the past several years, public wealth, investment and enterprise have made the wave of state capitalism to balance the global recession. This led to the rising of the term 'state capitalism'.

State capitalism has become a dreadful force in the international economy with different forms. State capitalism has three primary actors: State-owned enterprises (SOEs), privately owned national champions, national oil corporations (NOCs) and sovereign wealth funds (SWFs). Sovereign wealth funds (SWFs) were established with goals of protect and stabilize the budget and economy from excess volatility, diversify from non-renewable commodity exports, increase savings for future generations and so on. The researcher used Norway and Temasek SWFs to analyze the practice of state capitalism in these countries.

The origins of Norwegians oil fund lie in 1960s. At that time, the Norwegian Prime Minister Einar Gerhardsen and many staffs were laying down the foundation

¹ Ian Bremmer, *The End of the Free Market: Who Wins the War between States and Corporations ?* (New York: Portfolio, 2008).

for a prudent management of petroleum resources. In 1963, international oil companies with resources and experience were awarded exploration licenses but Norway remained in control. In 1969, Norway finally struck oil. Ekofisk became the largest offshore field ever discovered. In the years to come, several bigger fields went into production. Since then, Norway has been a world leader in offshore oil and gas exploration. The revenue from the oil tax and state's direct ownership has had a huge effect of Norwegian economy.

During the first twenty years, the revenue was primarily invested in the oil industry and developing the country, but it became clear that oil revenues would not be sustainable. The Norwegian oil fund was established by law to support the government's long-term management of petroleum revenues. ²The fund is managed by Norges Bank on behalf of the Ministry of Finance. Its mission is to safeguard and create financial wealth for future generations.

Another successful case is Temasek which is rank as ninth of the largest sovereign wealth funds worldwide in 2019. Temasek Holding is a global investment company headquartered in Singapore and is owned by Singapore government. It was established in 1974. Temasek is an investor and shareholder with a forward-looking institution and a trusted steward. Temasek amid to create sustainable value over the

² Magdalena Mosionek-Schweda, *Social Security and Pension Reform* (Kalamazoo: W.E. Upjohn Institute, 2014), 129-30. -

future, and are committed to the pursuit of excellence and strive for the advancement of their communities across generations.³

Motivation

The issue of state capitalism is an unfamiliar concept. Public tend to broadcast two different kinds of opinions toward the practice of state capitalism. Proposition advocates the wave of state capitalism is meant to lessen the pain of current global recession and it is severed for boost domestic economy. An opposing intention lies behind similar interventions in the developing world: there are the states heavy hand in the economy is signaling a strategic rejection of free-market doctrine.⁴

GPFG and TH fit under the Method of Agreement (MDS) which look at why different beginnings produce a similar outcome. The case of GPFG and TH have been a hot issue as an outstanding sovereign wealth funds with well- managing skill and high economy growth (similar outcome). However, GPFG is a commodity SWFs and TH is a non- commodity SWFs with different economic structures (different beginnings). It was interesting to find out how the different ways of management and practice of state capitalism with different SWFs results in similar outcomes.

Management issue is common especially among the oil rich countries. For instance,

³ "Our Purpose," Temasek Holding, accessed May 19, 2020, <https://www.temasek.com.sg/en/who-we-are/our-purpose>.

⁴ Bremmer, *The End of the Free Market*, 134.

GPF, the government only can spend 3 percent on the equivalent of the real return on the fund per year. This way led to two important results. First, oil revenue is gradually into the economy. Second, this way means only the return on the fund is spent, and not the fund's capital.⁵ However, public opinion of a contrast between the growing wealth that cannot be touched, and the demands for more public services and lower taxes, contribute to the policy dissatisfaction.⁶

With the phenomenon of diverse public opinion, it is easily not seeing the fact energy resource is not substantiable resource which it is important to plan ahead and meet citizens' needs. With state control over these kinds of important resources, it could prevent monopolization of private sectors and it is also could be a political gain for a country. Therefore, it was important to find out the difference and the similarity of these well- managed funds and analyze how is state capitalism being practiced differently.

As comparing with the difference between the two sovereign wealth funds, the research can demonstrate what are the characteristics of a well-managed fund and the different in practice of state capitalism. Regarding the similarity, as one of the strategies with two different ideologies are the same; that may be the future trend of

⁵ "About the fund," Norge Bank, accessed May 19, 2020, <https://www.nbim.no/en/the-fund/about-the-fund/>.

⁶ Ola Listhaug, "Oil Wealth Dissatisfaction and Political Trust in Norway: A Resource Curse?," *West European Politics* 28, no. 4 (August 2005):834.

the sovereign wealth fund model worldwide.

Research Purpose

As state capitalism had got a lot of comments and criticisms, the public tend to broadcast their story differently. With two different opinion from two sides of state capitalism, the proposition demonstrated state capitalism is a way to improve domestic economy and the opposition demonstrated a rejection of free-market doctrine from state capitalism. Therefore, the purpose of this study was to investigate how is the practice of state capitalism on different SWFs which led to the core question- should a state have control over SWFs?

Research Question

The research aimed to explore how is the practice of state capitalism on SWFs and discuss how a state should control SWFs. With this research purpose, the researcher set up following four research questions as framework for collecting research data.

Research Question 1: What is the countermeasure for GPFG and TH against the Financial Crisis between 2008-2009?

Research Question 2: What are differences in fund's management of GPFG and TH?

Research Question 3: How is the practice of state capitalism between GPFG and TH?

Research Question 4: Should a state have control over SWFs?

Significance

The research paper clearly assessed the outcome of countermeasure of GPFG and TH against the Financial Crisis. Meanwhile, the researcher found out that there was a diverse public opinion toward the practice of state capitalism and the management of the fund. Thus, the researcher analyzed the resilience of the fund collected from statistic of economy performance of the countries, fiscal and monetary policies, stock market and investment area and responses to it. This could made the readers understand that there is no perfect fund with well management and response accurately under crisis and also how is state capitalism being used on these funds. Likewise, readers received information about the performance of these funds and practice of state capitalism to identify the difference between commodities and non-commodities SWFs.

Limit

First and the biggest challenge for the researcher was the transparency TH since Singapore is a representative democracy (one-party dominant system). It was difficult to find the reliable data and information about these funds. Second limitation was that

the researcher had difficulties accessing the original published articles released by the Norwegian Government due to the language barrier. It was certain that most of the governmental documents and statistics are published in Norwegian. Although there might be an English version of it, the translation or words that were used might not be accurate. The author may therefore had difficulties accessing some of the documents.

Delimit

To confront the the issues addressed above, the author collected documents, research paper or articles that were published in English, as well as some related research done by Taiwanese scholars in Chinese or native speaker scholars in English. It would be possible for the author to recite data from those scholars. Those research papers used documents or statistics which were originally published by the Norwegian Government. As for the transparency of TH, the researcher tried to collect as much data and information as possible and did the comparison to conclude and present more reliable data.

LITERATURE REVIEW

Literature review provided two sections of analysis. The first section studied the theories and the history of state capitalism. The second section provided the discussion of state capitalism and sovereign wealth funds under international economy. Overall, the literature review offered a comprehensive picture of how scholars debated state capitalism, sovereign wealth fund under international economy.

State Capitalism

State capitalism refers to an economic system where the state is the principle actor, and it uses the market for ultimately political gains. There is no in the absence of rule of law. In free market economy, the principle actor is not the government. The principle economic actors are the multinational corporation in the private sectors. There are rules and the government play a role and in a properly regulated free market economy. The government is act like a referee who when there are problems they would penalize.

(1) The rise of state capitalism

The history of state capitalism is long and complicated. State capitalism began to take root long before 1990s. It has developed in four weaves. State capitalism first began to pay dividends for a few resources-rich countries with the formation of OPEC

in 1960.⁷ In late 1973, the world's most important commodity-oil became one of the most potent foreign-policy weapons for oil producing countries. During the period when OPEC cut production to some countries and imposed embargoes on the United States and Netherlands in relations for their support of Yom Kippur War, the oil price had barely increased since World War II. For OPEC member states, the crisis put an end to decades of perceived political and economic importance and the price shock forced the United States into a deep recession.

As oil producers realized that by acting together, they could control international production level and grab a larger share of revenues generated by Western multinationals, that also shifted the balance of market power from consumers to producers. National oil companies came under tighter government control. The conflict had considerable and lasting consequences for international politics and global economy.

The second wave of state capitalism occurred in 1980s and early 1990s with the liberalization and economic expansion of emerging markets such as China, Russia, Mexico, and others. Since the trade liberalization, the global economy has gained hundreds of millions of new participants that most of the emerging markets have a history of relatively direct state involvement in the economic decision making. Their

⁷ Bremmer, *The End of the Free Market*, 152.

political cultures predisposed them to accept that the key economic sectors should remain under government management. Economic liberalization has created growth in several emerging markets without independent courts to protect the rights of the individual. In an emerging – market country, political factors matter at least as much as economic fundamentals like supply and demand for a country’s development and performance of its market.⁸ Western governments and corporations scrambling to adapt to this shift in the global balance of power and ignore any kind of risk for hundreds of millions of new customers and workers.

The Third wave came with the flood of money produced by the expansion of emerging markets and the rise of commodity prices. These forces have drawn large numbers of consumers from South Asia to Eastern Europe to Latin America into an emerging global middle class. These emerging countries generated huge amounts of excess global capital and created the need of sovereign wealth funds.

The fourth wave of state capitalism began in the fall of 2008. Western governments began intervening their economic on a massive scale. Financial crisis in 2008 put state capitalism in the spotlight. The global economic meltdown was blamed on free-market capitalism. The arguments of regulated private- sector competition is essential for long- term growth became more and more popular. But it is important to

⁸ Alex Dupuy, and Barry Truchil, "Problems in the Theory of State Capitalism," *Theory and Society* 8, no. 1 (July 1979):21.

recognize the strengths, weaknesses and how it is likely to change our lives in years to come with state capitalism.

(2) Proponents of State Capitalism

State capitalism consists of three proponents. First, state capitalism in third-world countries. State capitalism has played an increasingly importance role in third-world countries. Alex Dupuy and Barry Truchil, the author of “Problems in the Theory of State Capitalism” pointed out the forms of state intervention in these economies are conditioned by the lack of self-sustained capitalist growth, and these economics over reliant on foreign monopoly capital,⁹ which result in the domestic capital is weaker than foreign capital and these domestic classes can not compete with foreign capital. On the one hand, it also led to an aggravation of the contradictions between the dominant and subordinated ruling classes on the other. The combination of these factors has led to the rise of strong nationalist movements in third world countries which cause the emergence of a strong state sector. The state plays an increasingly important role in the functioning of the Third World economies.

Second proponent of state capitalism is state capitalism in the advanced states. Some scholars labeled the United States and Western European countries as “state monopoly capitalism.” State monopoly capitalism model makes the power of the state

⁹ Ibid.

combined with the power of monopoly capital into a single mechanism. However, private ownership of the means of production still prevails and the essential relations of capitalism remain in state monopoly capitalism.¹⁰

Jack Kurzweil and AI Richmond argue that “a fundamental feature of state monopoly capitalism is the use of the taxing power of the state to guarantee the super profits of monopoly (capital).” This indicates states under state monopoly capitalism not only help to secure natural resources, but it also uses its powers and resources to reproduce capitals to capitalist accumulation.

State monopoly capitalism is another form of state intervention in the economics of advanced capitalist countries such as Britain, France, Norway, and Sweden. State economic planning was introduced during World War II. There is a significantly difference on planning in capitalist and socialist countries. In the capitalist planning, plans are formed within the context of a market economy as Figure1 and 2 shows and the purpose are not to replace them. The plans are a nationwide market survey for the effective demand for all sectors of the economy. On the other hand, the imperative planning is to establish national priorities and goals (such as income policies) and provide financial incentives for private enterprises as well as authorize measures such as wage and price.

¹⁰ Ibid.

Figure 1: Capitalist Planning (planning in the context of a market)

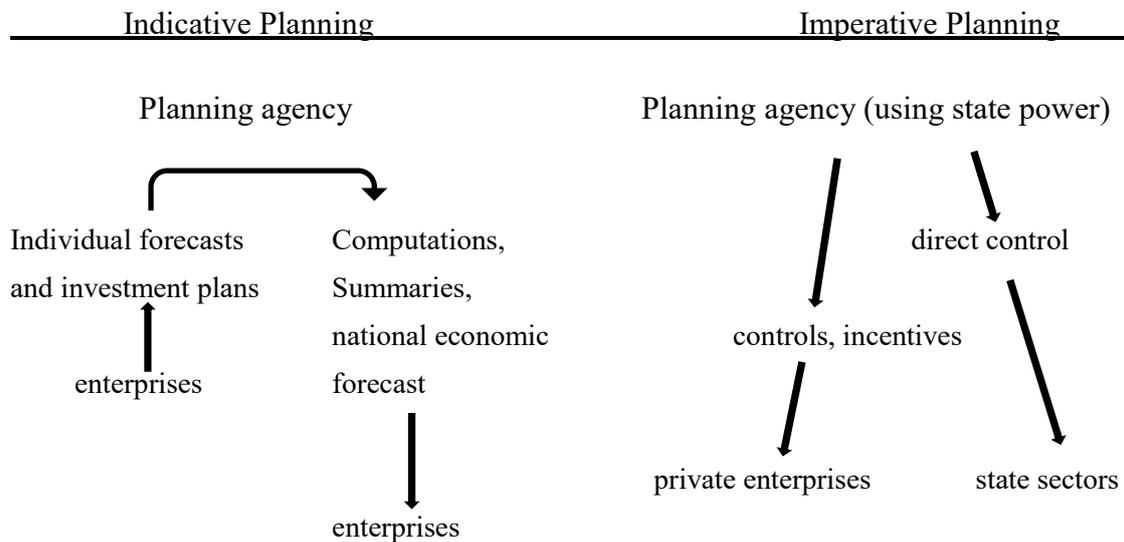


Figure 2: Socialist Planning (market in the context of planning)

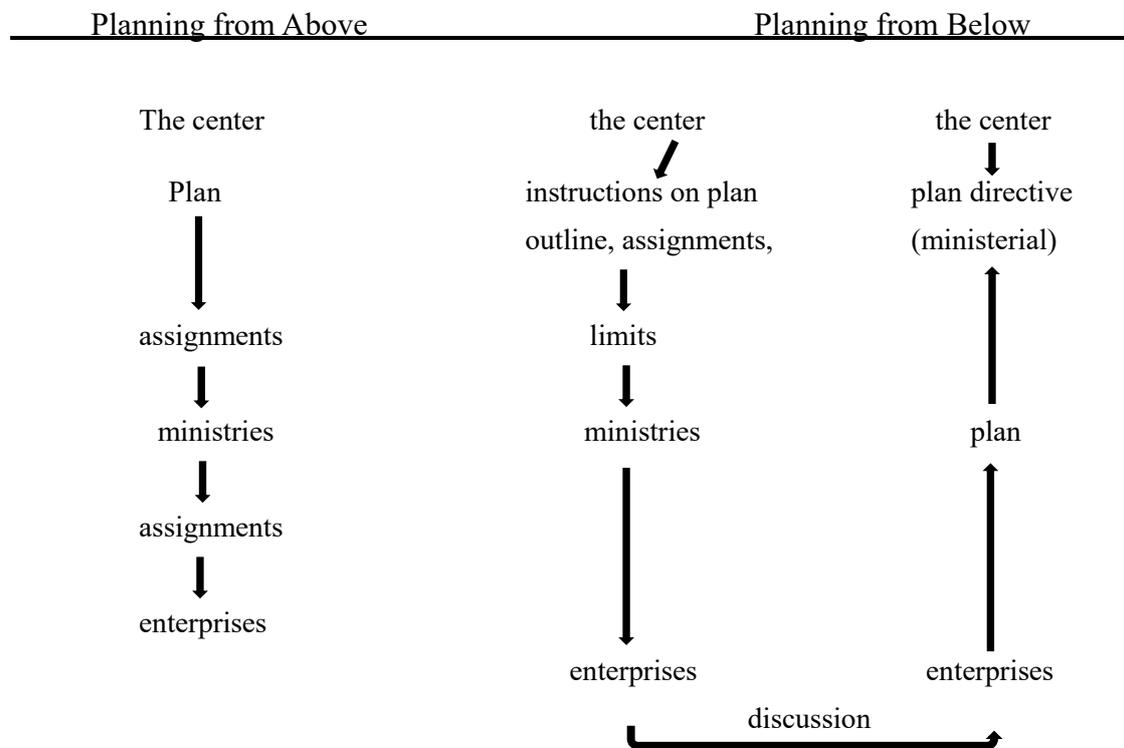


Figure 1 and 2. Capitalist and Socialist Planning

Source: Adapted from Alex Dupuy and Barry Truchil, Problems in the Theory of State

Capitalism (1979)

Third proponent of state capitalism is in the socialist perspective. This is the most controversial area where the concept of state capitalism has been applied in the countries usually referred as “socialist.” Critics from the socialist countries argued that the general conception of state capitalism is that the whole of social capital in a single country is concentrated in the hands of the state. During the monopoly capitalism period, the formation of state capitalism is seen to have emerged following to an anti-capitalist revolution, whereby the ruling private capitalist classes were overthrown. ¹¹These revolutions transferred ownership of the principal means of production from private capital to the state as the representative of the working classes.¹²

After revolutions, the officials who occupied administrative positions in the state apparatuses constituted a new state capitalist ruling class. Ironically, the state bureaucrats correspond to a capitalist class which is performing the same functions as the previous private capitalist classes that were overthrown. Their position grants them direct control over the process of production and distribution, as well as the ideological institutions. Consequently, the state bureaucrats enjoy privileges and a better lifestyle. Furthermore, their position enables them to ensure that these

¹¹ Ibid.

¹² Ibid.

privileges will be readily accessible to their offspring. The characteristics of these social orders as state capitalist instead of socialist is the nature of the universal economic relationships. It is about the presence of a class which has direct control over the production processes, counterposed to a class which offers its labor-power in exchange for wages which is the basis of the conception of these societies as state capitalist.¹³ A planned economy is important not only to remove the anarchy of capitalist production, but also to direct production for state instead of personal intention. The condition for a planned economy is the centralization of production and distribution by the state. This centralization ensures the state to evaluate national priorities and take measures to assign resources.

Although it has not been demonstrated that state capitalism exists in the socialist countries, they are still characterized by both capitalist and socialist forms. However, it is difficult to determine whether a state capitalist class is operating since there is class appropriation and class oppression of some sort by a workers' state during this period. It is not proven that a given society that underwent an anti-capitalist revolution is state capitalist with the consolidation of the bureaucracy. It remains to be demonstrated that the leap back to capitalism is a qualitative leap on the economic and political level, which is where capitalism is primarily defined.

¹³ Ibid.

Proponent/ region	Cause/ Reason	Tools/ Strategies	Problem
Third-world Countries/ Algeria	(1) Weak domestic capital (2) Capital- intensive of foreign sectors (3) Incapacity to absorb the excess labor forces	(1) Nationalization of primary foreign- owned enterprises (2) Centralize weak sectors	(1) SOEs doesn't represent as an autonomous accumulating unit (2) Fails to transform themselves into a new capitalist class
Advanced States/ Norway	(1) Securing natural resources and dominate market (2) Promote national& international development (3) Capitalist accumulation	(1) Taxing power (2) Creation of transportation and communication system (3) Nationalization of certain industries	Fails to capture the dynamism of state intervention is inherently affected by and reflects the "character and 'climate' of the class societies.
Socialist Countries/ China	Anti- capitalist revolution in the epoch of monopoly capitalist	(1) Centralization of the means of production and of capital into one unit (2) The institution of state planning in the economy.	Privilege of state bureaucrats

Table 1. Proponents of State Capitalism

Source: Sorted by the author

The Tools

To manage state capitalism, states use different intermediary institutions and tools that the state has direct influence over. These tools are state- owned enterprises (SOEs), national oil and gas corporations (NOCs), privately owned national champions, and sovereign wealth funds (SWFs).¹⁴ However, the presence of these

¹⁴ Åslund Anders. *Russia's Crony Capitalism: The Path from Market Economy to Kleptocracy*. (London: Yale University Press, 2019), 411.

institutions does not make a country state capitalist. It is not tooling that count; it is how they are used. Countries that have all four of these institutions tend to be state capitalist.

(1) National Oil and Gas corporations (NOCs)

National Oil and Gas Companies (NOCs) produce most of the world's oil and gas. NOCs are companies which are fully or mainly owned and controlled by a State. It often plays a powerful and role in extractive industry sector management which is often being used as instrument of political controls.¹⁵ Many of these companies' manage colossal amount of portfolio of public assets, enforce complex projects across their territories and at sea. There are several ways to formulate NOCs. NOCs may be the subject of separate legislation, such as the Nigerian National Petroleum Corporation Act.¹⁶ They may also emerge from a merger of existing domestic companies, such as Pertamina in Indonesia. NOCs may also emerge because of nationalization, such as Saudi Aramco of Saudi Arabia.¹⁷ NOCs have been established with both commercial and non-commercial objectives. Non-commercial objectives include job creation, development of local capacity, and provision of social,

¹⁵ Carlos Pascual, *Energy Security: Economics, Politics, Strategies, and Implications* (Washington: Institution Press, 2010), 43.

¹⁶ Usman Adamu Kyuka. *Nigerian Oil and Gas Industry Laws: Policies, and Institutions*. (Zaria: Malthouse Press, 2017), 422.

¹⁷ " National Oil Companies (NOCs)," Extractives Hub, accessed July 2, 2020, <https://www.extractiveshub.org/>.

physical infrastructure and income redistribution through the supply of products at subsidized prices for domestic consumption.

(2) State- Owned Enterprise (SOEs)

State-owned enterprise was first found in 1978. SOEs was established for develop national capital and undertake commercial activities on behalf of the government. SOEs have access to cheap financing from state-owned banks, tax breaks from government, and near-monopoly control of entire economic sectors. ¹⁸Creation of these SOEs is to build a reliable competitive advantage both domestically and abroad, especially for political reasons. SOEs help creates jobs and control certain strategic sectors of the economy. ¹⁹There are certain industries which if not monitored and controlled properly could pose serious risks to the public.²⁰ On the other hand, SOEs could cause high levels of corruption and plagued by too much political interference and control.

(3) Sovereign Wealth Funds (SWFs)

Sovereign wealth fund could be divided into two categories: Commodities and Non- Commodities. The means of commodities SWFs are through commodity

¹⁸ Huang Yiping, "State-owned Enterprise Reform." In *China: Twenty Years of Economic Reform*, ed. Garnaut Ross and Song Ligang (Canberra: ANU Press, 2012), 98-100.

¹⁹ Cheng Thomas K, Ioannis Lianos, and D. Daniel Sokol, *Competition and the State* (California: Stanford University Press, 2014), 236-237.

²⁰ Benoit Phillippe, "STATE-OWNED ENTERPRISES: NO CLIMATE SUCCESS WITHOUT THEM," in *Journal of International Affairs*, ed. International Affairs Columbia University (New York: Columbia University, 2019), 135-44.

exports, either taxed or owned by the government. Non-Commodities SWFs is created through transfers of assets from foreign exchange reserves. From the case study of GPF and TH; GPF is belonging to the category of commodities SWFs or oil funds. TH is belonging to the category of non-commodities SWFs. ²¹

There are three main sources that SWFs draw their capital from: first, they earned from the export of natural resources. Second, there is the extra cash left over from a positive balance of trade. Third, SWFs are occasionally bankrolled via direct one-off transfers from a federal budget or foreign- exchange reserves. ²²SWFs generally include a range of financial assets in their portfolios with varies degrees of risk from foreign currency, stocks, government and corporate bonds, real estate and other assets.²³ What makes it different from an ordinary firm and poses challenges for free markets is that SWFs do not answer to shareholders; SWFs only has one stakeholder that is the government.

Correlation Between State Capitalism and SWFs

In the book “Sovereign Wealth Funds: Legitimacy, Governance, and Global Power”, Gordon L. Clark pointed out that SWFs represents a powerful state-led response to sovereignty. It also led to a situation where it is used for the preservation

²¹ Patrick Bolton, Frederic Sanana, and Joseph E. Stiglitz, *Sovereign Wealth Funds and Long-Term Investing* (New York: Columbia University Press, 2012), 129.

²² T. T. Ram Mohan, "Sovereign Wealth Funds: Western Fears," *Economic and Political Weekly* 43, no. 15 (2008): 8.

²³ Gordon L. Clark, Adam D. Dixon, and Ashby H. B. Monk, *Sovereign Wealth Funds, Legitimacy, Governance, and Global Power* (Princeton: Princeton University Press, 2013), 13-29.

of sovereignty and expansion of sovereignty abroad.²⁴ The statement of The Economist's 2012 Special Report pointed out that "It is possible for a country to have any or all of these state capitalist institutions in place without being a member of the state capitalist club." In the article "State Capitalism and Sovereign-Wealth Funds", the author Stephen DeAngelis listed three major criticism of sovereign-wealth funds, first, SWFs are too influential due to the size and power of it. Second, SWFs pose a security risk due to political purpose of investments worldwide. Third, SWFs are not well regulated due to the lack of transparency.²⁵

These indicated that people fear the rise of state capitalism because the government could use state capitalist tool (SWFs) to expand political power due to the economy size of the fund. SWFs are often seen as having a lack of transparency and unsecured organization, however, the case of GPFG is the exception. GPFG is transparent and well regulated; and although they own SWFs and one of the biggest petroleum companies in the world, Norway is not a state capitalist country. This indicated that there is no correlation between state capitalism and SWFs. A country with SWFs is not necessary a state capitalist. The deciding factor whether a country is state capitalist is the governance model (third factor). In the case of GPFG, it clearly

²⁴ Clark, Gordon L., Adam D. Dixon, and Ashby H. B. Monk, "Rethinking the "Sovereign" in Sovereign Wealth Funds," In *Sovereign Wealth Funds: Legitimacy, Governance, and Global Power*, ed. Princeton (Oxford: Princeton University Press, 2013), 30-45.

²⁵ "State Capitalism and Sovereign-Wealth Funds," Enterrasolutions, accessed Dec 19, 2020, <https://www.enterrasolutions.com/blog/state-capitalism-and-sovereign-wealth-funds/>

proves that the triangular causality among state capitalism, SWFs and governance is the result of what determine the type of a country.

Debate of State Capitalism and Sovereign Wealth Fund

(1) State Capitalism

Opponents illustrated the danger of state capitalism when the state takes control over economy, the economy becomes a hostage to political goals. This creates authoritarian political regimes where important resources or companies are control by a small group of people such as elites. Another fact is that the motivation of investment is more of political rather than economic. In the international perspective, a country dominated by state capitalism economy is not anymore, a source for cooperation but a tool for political pressure and conflict.²⁶ State capitalism exists in countries where the rule of laws is weak and corrupted. Supporters argue that state intervention helps market run under regulations with protection of significant natural resources and prevent it from monopoly of private firms.

(2) Sovereign Wealth Fund

Opponents illustrated three main issues about SWFs. First, confusion among

²⁶ Ibid.

policymakers and analysts as to what constitutes a SWF is widespread.²⁷ That makes a discussion about these institutions difficult. Second, SWFs have been seen as lacking in ‘good governance’ practices. There are many SWFs with poor governance like Egypt’ SWFs. Third, a lack of ‘trust’ between SWFs and investment recipient countries is also a popular issue. In many real cases, distrust between those countries that sponsor SWFs and the investment recipient countries is from a contradiction in the norms. For example, nine of the ten largest SWFs are countries lacking full-democratic right. It makes government sponsorship of SWFs more problematic.

However, supporters demonstrate that SWFs help to stabilize the economy through diversification and to create wealth for future generations.

	Pros	Cons
State Capitalism	(1) Market with regulations	(1) Authoritarian political regimes
	(2) Protection of significant natural resources	(2) Political motivation of investment
	(3) Prevention monopoly of private firms.	(1) Corruption
Sovereign Wealth Fund	(1) Stabilize the budget and economy	(1) Confusion of the constitution of SWFs
	(2) Create wealth for future generations	(2) Lack of good governance
	(3) Diversify from non-renewable commodity exports	(3) Lack of ‘trust’ between SWFs and investment recipient countries

²⁷ Daniel W. Drezner, "Sovereign Wealth Funds and the (in)Security of Global Finance," *Journal of International Affairs* 62, no. 1 (2008):127, Journal of International Affairs Editorial Board.

Table 2. Debate of State Capitalism & Sovereign Wealth Fund

Source: Sorted by the author

Debate of Sovereign Wealth Funds under International Political Economy

In the book “Sovereign Wealth Funds and International Political Economy”, the author Manda Shemirani pointed out that there was no evidence indicating that investor states had exercise power over recipient states. In the case of Norway fund whose investment decisions are often guided by a set of guidelines. The targets were corporation not the recipient state directly. Manda uses the terms “benign economic statecraft” to describe the case like Norway which has certainly communicated its intension to foreign states. SWFs in Singapore has acted mainly as an entrepreneurial arm of the state. This book makes serval important points. First, SWFs’ management and operation reflect the Gilpin’s term “the national system of political economy” as well as the political mindset of leadership. Second, the management and operation of SWFs are not static percept but a dynamic process. State also undergo changes over time as the result of changes in the modes of production, demography, political system, technological advancement, and global force. ²⁸

Bryan J. Balin, the author of the journal article “Sovereign Wealth Funds: A Critical Analysis” argued four major criticisms of sovereign wealth fund in international political economy. First, as shown by IMF study on sovereign wealth

²⁸ Gawdat Bahgat, "Sovereign Wealth Funds: Dangers and Opportunities," *International Affairs (Royal Institute of International Affairs 1944-)* 84, no. 6 (November 2008): 1191.

funds in natural resource-exporting countries like Norway. There is little evidence indicate SWFs have managing to smooth out government expenditures and pension obligations of weak natural resource prices. According to IMF, SWFs found it difficult to coordinate fund operations with fiscal policy. IMF also found out that those countries which are more reliant on commodity, the less effective its SWF will be in achieving its goals. Second, in the case of non- commodity SWFs, it can only grow in size through currency intervention, and thus must garner returns higher than the bonds it disbursed.²⁹ Third, Balin argued that it is better to diversify a country's economy and against possible shocks than to create an "endowment" to rebuild an economy once a shock occurs. ³⁰However, the author disagrees with this argument, diversification of country's economy can not against possible shocks. The COVUD-19 is the best proof of it, there is hardly any sector surviving from the recession which indicates that diversification will not help as much as a fund with high capital. However, a country with diversity sectors and a high capital SWFs could help it against shocks and recession like the case of Norway and Singapore with the pandemic or financial crisis. Fourth, international observers criticize sovereign wealth funds for their secrecy and lack of transparency. Some scholars worry that SWFs

²⁹ Bryan Balin, "Sovereign Wealth Funds: A Critical Analysis," SSRN Electronic Journal (September 2009): 13.

³⁰ Ibid.

might use third party proxies to disguise their holdings in major corporations.³¹

On the other hand, Richard C. Wilson demonstrate that SWFs is a way for countries to invest excess capital into markets or other investments as well to accumulate profit for the benefit of the country's economy and its citizens. It helps to protect and stabilize the budget and economy from excess volatility in revenues, increase saving for the future generations, diversify from non-renewable commodity exports, sustainable long term capital growth for target countries, and use as political tools.

Standpoint	Against	Neutral	Support
Scholars	Bryan J. Balin	Manda Shemirani	Richard C. Wilson
Debate of sovereign wealth fund	(1) Little evidence of funds manage “smoothing out” liquidity and government expenditures.	No evidence indicate that investor states had exercise power of states	(1) Protect and stabilize the budget
	(2) Only grow through sterilized currency intervention		(2) Prevent economy from volatility in revenues
	(3) Diversity economy is more effective than an endowment to rebuild on economy against recession		(4) Increase saving for long term management
	(4) Lack of transparency and it might use third party to disguise their holdings in major corporations		(5) As political tools

Table 3. Debate of Sovereign Wealth Funds under International Political Economy

Source: Sorted by the author

³¹ Aldo Musacchio, and Sergio G. Lazzarini, ed., *Reinventing State Capitalism* (Cambridge: Harvard University Press, 2014), 63.

METHODOLOGY

The research took the approach of comparative case study under the method of Agreement (MDS); the paper showed how is the practice of state capitalism between GPFG and Temasek SWFs. Then performance of these funds were the cases for the researcher to investigate. The purpose of the study was to know should a state have control over SWFs. The most important step was the data collection when doing a research. To collect needed data, the researcher must clearly understand the topic, research purposes and problems. Therefore, the topic was “Practice of State Capitalism: A Comparative Case Study of Norway and Temasek Sovereign Wealth Funds”

The study aimed to investigate the right of practice state capitalism on SWFs. With the information above, the data was collected to answer the research problem and links with the research purpose. To answer the research problem, the researcher created four research questions.

1. What is the countermeasure for GPFG and TH against the Financial Crisis between 2008-2009?
2. What are differences in fund’s management of GPFG and TH?
3. How is the practice of state capitalism between c GPFG and TH?

4. Should a state have control over SWFs?

Source of Data

The data needed for the research was the performance of these funds from other scholars' study, published official documents and news articles. The researcher accessed these studies from JSTOR, Z-library and official website of these funds. Scholars' studies and journal articles can give the researcher an overview on how the real performance of these funds is. On the other hand, the official documents published by the governments tend to embellish the reality. These resources hold expectation and real performance of these funds and to analyze how state capitalism is being practice in these funds. The research was also able to do a comparative study of data between official documents, scholars' studies, and news articles.

Data collection

The researcher used the case study methodology to collect economy performances, management of these funds and how is state capitalism being practice on sovereign wealth funds.

In the data collection process, the three different data resources illustrated different ideology are the database of this research. Scholars' studies and journal articles illustrated the downside and negative impacts of state capitalism. Published official documents illustrated an embellish of reality.

The researcher had collected journal articles by the keywords of “state capitalism sovereign wealth fund”, “practice of state capitalism” and “performances of Norway and Temasek sovereign wealth funds”

Data Collection

The researcher used the content analysis methodology. In the data collection process, all articles related to management and data about GPFC and TH; SWFs and state capitalism are the database of this research. The key words for accessing the data were “State capitalism” “Sovereign Wealth Fund” “Norway oil fund” and “Temasek”.

The researcher also studied on “The End of the Free Market” written by Ian Arthur Bremmer to analyze the application of state capitalism nowadays.

In the data collection, this research took the purposive sampling method to collect data.

Data Collection				
Key Word	State Capitalism	SWFs	GPFC	TH
Data Source/ Results	JSTOR/ 193 articles	JSTOR/ 130 articles	JSTOR/ 445 articles	JSTOR/ 152 articles
Data Source/ Results	Z-library / 500 articles	Z-library / 322 articles	Z-library / 58 articles	Z-library / 17 articles
Sampling Method	Purposive Sampling	Purposive Sampling	Purposive Sampling	Purposive Sampling
Total	1822 articles			

Table 4: Process and Information of Data Collection

Source: Edited by the Author

The total amount of collection of articles was 1822 articles. After collecting all data from scholars' researchers, the authors coded and edited those data by a priori approach. The first code was the concept of practice of state capitalism; the second code was the practice of state capitalism on GPFC; the third code was the practice of state capitalism on TH.

Category One	Practice of State Capitalism on Sovereign Wealth Funds
Category Two	Practice of State Capitalism on GPFC
Category Three	Practice of State Capitalism on TH

Table 5: Data Preparation

Source: Edited by the Author

Ways of Data Analysis

The way of data analysis was carried out via qualitative research approach- case study. At first, the collected data had been categorized into two groups: “related to state capitalism and sovereign wealth funds” and “unrelated to state capitalism and sovereign wealth funds”. Secondly, it was to classify the data. As the data is related to the target, then the data will be issued as category one. The data related to management of these funds will be issued as category two and so on. Finally, the researcher could figure out should state-owned enterprises have control over sovereign wealth funds.

DATA ANALYSIS

The result of the data searching contains several parts: journal article, editorial and opinion. The section also includes state capitalism, funds' performance, market value, return, annule reports, management reviews etc. As the author used state capitalism as a keyword and the time zone of the research was set from 4.19, 2020 till 9.28, 2020, within the period, 72 articles in JSTOR and 61 articles in Z-library had been collected. The other keyword used for searching data was GPFC and TH' SWFs; the result of the articles in JSTOR was 54 articles and 32 articles in Z-library.

After using the keyword state capitalism and GPFC and TH' SWFs to collect the research data, the researcher gathered 219 pieces news articles totally. There were 126 pieces of articles were gathered from JSTOR and 93 pieces from Z-library. As the author categorized the data into "related to GPFC and TH' SWFs" and "unrelated to GPFC and TH'SWFs", there were 634 pieces of news article referred to GPFC and TH' SWFs and 423 pieces were unrelated. Due to using four keywords to search for the articles, some articles were repeated. Therefore, in the sort of related data, the total amount of news articles was 634 pieces; and after subtracting 146 pieces of repeated articles, the result was 488 pieces of articles. Regarding the part of unrelated data, there were 215 articles totally, and 69 repeated articles. Thus, after the subtraction,

there were 146 articles sorted as unrelated.

Total Data Collection: 219 pieces of news				
Key word: State Capitalism and GPFC and TH' SWFs				
Time zone: 2020/04/19-2020/09/28				
JSTOR	126 pieces			
Z-library	93 pieces			
Repeated news	215 pieces			
After Sorting				
Related Data	488	Repeated	146	Total: 634
Unrelated Data	423	Repeated	69	Total: 291

Table 6: Number of Data Collection from Journal Article and Sorting

Source: Edited by the Author

In the data analysis section, the researcher used the coded journal articles from government documents, JSTOR and Z-library to answer the research questions and found out practice of state capitalism on sovereignty wealth funds. The research questions were as follow:

Research Question1: What is the countermeasure for GPFG and TH against the Financial Crisis between 2008-2009?

Research Question 2: What are differences in fund's management of GPFG and TH?

Research Question 3: How is practice of state capitalism between GPFG and TH?

Research Question 4: Should a state have control over SWFs?

The codes were divided into three sections, including counties' economy performance, fiscal and monetary policy of these countries, stock market and investment area of the fund. Via evaluated these three economic indicators, the

researcher found out the practice of state capitalism on sovereign wealth fund which led to the final question- should a state has control over SWFs.

In the process of interpreting those textual from the journal articles, the researcher applied the method of triangulation to inspect those data. The researcher also consulted the assessment of GPFG and TH's SWFs by conducting literature reviews and applied the theory of business cycles to analyze the journal articles. As the purpose to evaluate the countermeasure for GPFG and TH against the financial crisis between 2006-2009, the researcher focused on the period between 2006-2009.

Comparative Case Study

The Assessment of GPFG

The Norwegian oil fund is now the world's largest fund of its kind representing almost 1.1 trillion U.S. dollars in 2019. ³²The purpose of the fund was to ensure a long-term management of revenue from their oil and gas resources.

An oil rich country like Norway usually faces several challenges. One of these challenges was to avoid resource curse and Dutch disease. Resource curse refers to countries with abundant natural resources which tend to record slower economy growth than countries with fewer natural resources. Dutch disease refers to a situation

³² Thomas Princen, Jack P. Manno, and Pamela L. Martin, eds., *Ending the Fossil Fuel Era* (Cambridge: MIT Press, 2015), 251-252.

where a country is overdependent on natural resources sectors compared to other domestic economy sectors.³³

As an outstanding fund of success against ‘resource curse’ or ‘Dutch disease’, Norway has been a lesson for other countries to learn. In 1970s, the Norwegian government was aware of the risk of oil production to domestic economy. In the beginning, the government tried to find a way that would allow the sustainable management petroleum revenue, and also creating an oil fund that would outlive the period of oil production.³⁴ According to the official website of Norges Bank Investment Management (NBIM) the fund was set up to serve as a long-term savings plan so that citizens get to benefit from their oil wealth. Apart from fisheries and forestry, the country had developed industrial capabilities around hydroelectricity. Therefore, with this “luck”, the country already had well-developed economy which limited the chances of experiencing “Dutch Disease”.

(1) Governance Model

The fund’s governance model was built on a clear delegation of duties and supervision between Norwegian parliament, Ministry of Finance, Norges Bank

³³ Haideh Salehi-Esfahani, "Informationally Imperfect Labour Markets and the 'Dutch Disease' Problem," *The Canadian Journal of Economics / Revue canadienne d'Economique* 21, no. 3 (August 1988): 620.

³⁴ Erling Røed Larsen, "Escaping the Resource Curse and the Dutch Disease? When and Why Norway Caught up with and Forged Ahead of Its Neighbors," *The American Journal of Economics and Sociology* 65, no. 3 (July 2006): 619-622.

Executive Board, CEO of Norges Bank Investment Management and Leader group at Norges Bank Investment Management. A clear-cut job description and duty assignment for each employee ensures that the fund could performance better and strive to produce maximum benefit.

(2) Economy Performance

To analyze the economic performance of sovereign wealth fund, it was important to observe the microeconomic like Norway by analyzing inflation rate, GDP growth rate and unemployment rate. Inflation was the average price index of goods and services in an economy increases over a period. There were both negative and positive effects of inflation. Negative effects of inflation would result in an increasing opportunity cost and uncertainty over future inflation. If inflation were rapid constantly, shortages of goods as concern that prices will increase in the future. Positive effects include reducing unemployment due to nominal wage rigidity, encouraging loans and investment instead of money hoarding. Policymakers generally believe that an acceptable inflation rate was around 2 percent or a bit below.³⁵

³⁵ Charles Kluepfel, "Meaning of Inflation Rate?," *The Mathematics Teacher* 96, no. 6 (September 2003): 388.

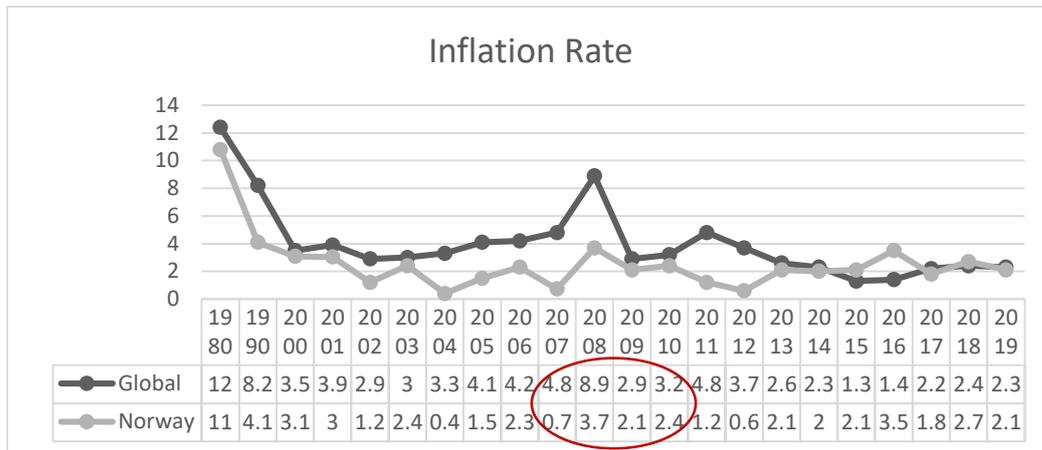


Figure 3. Inflation rate of Norway (1980-2019)

Source: Edited by the author

There were some notable significant about this statistic. First, as mentioned above, general believe 2 percent or a bit below of inflation rate is acceptable.

Although Norway's inflation rate was not always about or a bit below 2 percent but still it was quite close the number compare to many countries. Inflation rate between 2006 to 2009 was lower than the global average. Inflation rate of Norway has been more stable since the fund was established (1990s) which is the sign of a stable economy. The essential to have a low and stable inflation rate was to promote the efficient use of productive resources, reduces uncertainty of negative effects on expected profits from investment, prevent arbitrary redistribution of income and

wealth particularly the poorest sectors of society.³⁶

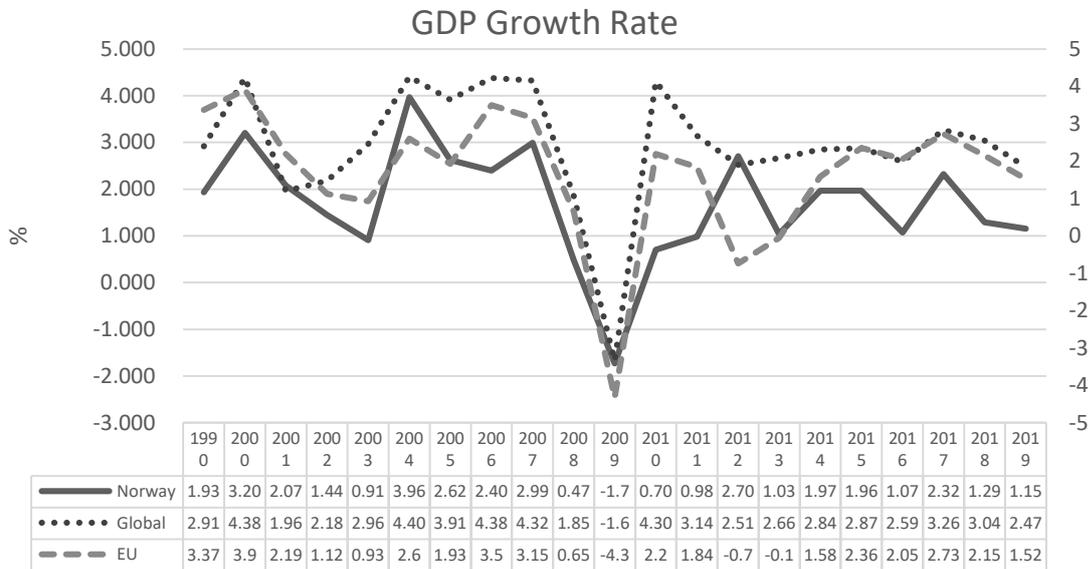


Figure 4. GDP growth rate of Norway, European Union and Global

Source: The World Bank (Edited by the author)

Gross domestic product (GDP) refers to a market value of all the goods and services produced within a country' in a specific time. Observe GDP growth rate was a way to compare countries economy grow. As figure 4 shows clearly that the comparison of GDP growth rate between Norway, European Union and global. There was a dramatic decline of GDP growth rate drop from 2.994% to minus 1.727% from 2007 to 2009 in Norway due to financial crisis. Although that was a substantial decline, and it gave Norway's economy huge impact as well as the world. Norway recovered from it fast being a small country, GDP growth rate increases from minus 1.727% to 0.702%. For Norway as a country that is dependent on oil, gas and other

³⁶ R. Nymoer, "A Small Linear Model of Wage- and Price-Inflation in the Norwegian Economy," *Journal of Applied Econometrics* 6, no. 3 (July 1991): 260.

commodities, government revenues were reduced. GPFG invested in almost 7900 equities and bonds from 2200 different issuers all over the world. Thus, annual return of GPFG decrease to from 4.26% to minus 23.32% as figure 5 shown, however, the fund managed to rise from the dead with increase annual return by 48.93%. In next section, the author illustrated the strategies for it.



Figure 5. Annual Return of GPFG

Source: Norge Bank Investment Management (Edited by the author)

Last but not least was the unemployment rate, unemployment leads to higher payments from governments for unemployment benefits as well as receiving less tax revenue which might force governments to borrow money. It was also proven that unemployment would reduce GDP and moves the country away from the efficient allocation of its resources. Figure 6 shows the unemployment rate and benefit in Norway as well as comparing it to the global average. Experts suggested the ideal unemployment rate was 4% to 6%.³⁷ Norway has been performing within the range

³⁷ Jennifer Roback, "Determinants of the Local Unemployment Rate," *Southern Economic Journal* 53,

of number most of time which is a sign of a healthy economy. The unemployment rate was also a lagging indicator which is the measurement of the effect of economic events such as a recession. According to Kimberly Amadeo, the experts of economic analysis and business strategy, the unemployment rate does not rise until the beginning of recession.³⁸ It also indicated that the unemployment rate will continue to rise even economy has begun to recover. Reason was that the companies are not willing to hire people until they are sure the economy is stable. During the 2008 financial crisis, when GDP fell 0.4%. The unemployment rate did not reach 3.1% until 2009. It reached a peak of 3.52% in 2010, after the recession ended. The unemployment rate was a powerful confirmation of what the other indicators are already showing, and it was also a great way of measure a country's economy.

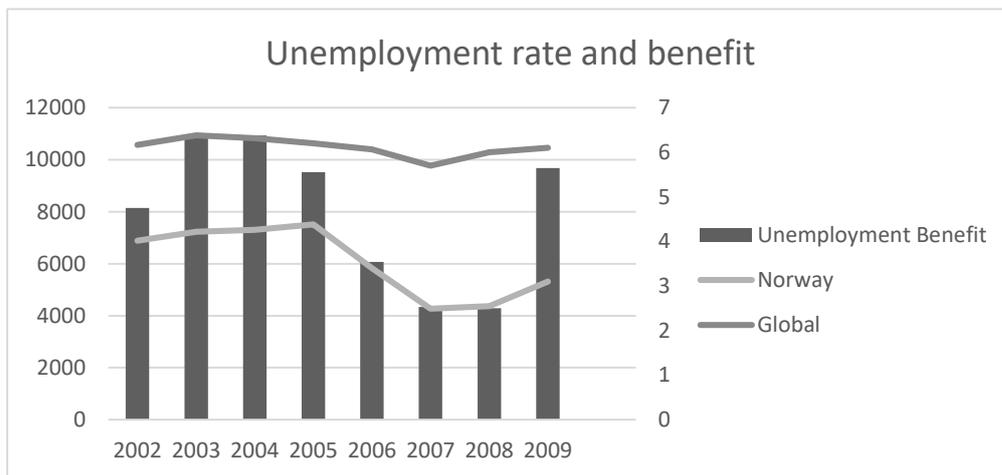


Figure 6. Comparison of Unemployment and Unemployment Benefit between Norway and Global from 2000 to 2019

Source: Statistic Norway (Edited by the author)

no. 3 (January 1987): 743.

³⁸ "Unemployment Rate, Effect, and Trends," the balance, accessed July 29, 2020, <https://www.thebalance.com/unemployment-rate-3305744>

(3) Performance on fiscal and monetary policy

As mentioned above, the economy of Norway was stable in the long term even during recession. The key feature of it was for fiscal and monetary policy to regulate the fund and government budget. Norway's fiscal policy framework was especially designed for their situation as a large petroleum producer. Framework of fiscal rules were the use of oil and fund revenues support a stable economic development in both long and short term. In addition to the direct returns from the fund itself, the state's net cash flow from the petroleum sector was transferred to the fund in full. The rule specifies that the transfers from the fund to the government budget shall be equal to the expected real return on the fund which was estimated at 3 percent.³⁹ The core of framework was to delinks the earning from the use of petroleum revenue for the substantial purpose. The framework also shielded the budget from oil price volatility and lessens the risk of over depending by providing guideline for policymakers. The function of fiscal policy was to smooth out economic fluctuations to contribute to good capacity utilization and low unemployment. Spending of petroleum income was measured by the non- oil structural fiscal deficit. It meant that fiscal rules were using so- called automatic stabilizers to function. Automatic stabilizers helped to temper the

³⁹ Magdalena Mosionek-Schweda, "The Norwegian Government Pension Fund as an Investor in Global Markets," in *Social Security and Pension Reform*, ed. Marek Szczepański and John A. Turner (Kalamazoo: W.E. Upjohn Institute, 2014).

economy when it overheats and stimulate the economy when it slumps without any intervention from the policy makers. The automatic stabilizers in the budget was estimated to be stronger in Norway than other countries due to its comprehensive welfare systems. ⁴⁰

(NOK Billion)	2008	2009
Overall revenue of the Fiscal Budget	1036,8	1194,6
Revenue from petroleum	328,1	421,5
Revenue excluding petroleum revenue	708,1	773,1
Overall expenditure of Fiscal Budget	771,4	848,4
Expenditure on petroleum activity	26,3	26,7
= Fiscal Budget surplus before transfers to the pension fund-global	265,4	346,1
-Net cash flow from petroleum actives	301,8	394,8
= Petroleum adjusted surplus	-36,4	-48,6
+ Transferred from the pension fund- global	36,4	48,6
= Fiscal Budget surplus	0	0
+ Net allocated to the pension fund- global	265,4	346,1
+Fund revenue from interest and dividends	78,6	87,2
= Overall surplus of the Fiscal Budget and the pension fund	344,0	433,3

Table 7. Fiscal budget and pension fund- excluding borrowing and transaction from 2008 to 2009

Source: Ministry of Norway (Sorted and calculated by the author)

To get better picture of the basic concept of fiscal policy and the correlation with pension fund, it was sensible to listed out the composition of fiscal budget and pension fund. As table 7 shows, government spending was broken down into three

⁴⁰ Malte Rieth, Cristina Checherita-Westphal, and Maria-Grazia Attinasi, "Personal Income Tax Progressivity and Output Volatility: Evidence from Oecd Countries," *The Canadian Journal of Economics / Revue canadienne d'Economie* 49, no. 3 (August 2016): 983.

categories; Fiscal budget surplus before transferred to the pension fund; petroleum adjusted surplus; and overall surplus of the fiscal budget and the pension fund.

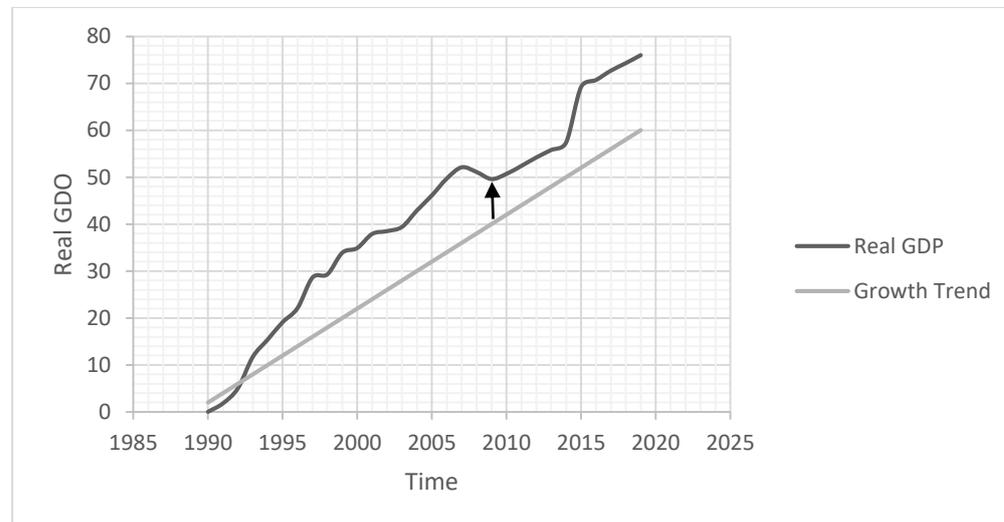


Figure 7. Norway's Business cycle

Source: Calculated by the author

Business cycles were important because it determined whether a business succeeds and evaluate a country's economy. It also provided an overview of the fluctuation of an economy. There were both positive and negative output in business cycle. When a country is facing a positive output gap, a government might be afraid that things are overheating and inflation. Governments might have contractionary fiscal policy to bring the close to the gap a little bit. When there are a negative output gap and people are put of work, the government would stimulate the economy to close gap by lower taxes and increase government's spending.⁴¹ On the other hand, automatic stabilizer indicated that government did not have to take special action

⁴¹ Francis X. Diebold, and Glenn D. Rudebusch, ed., *Business Cycles, Durations, Dynamics, and Forecasting* (Princeton: Princeton University Press, 1999), 274-275.

based on circumstance in order to smoothed out the business cycle. There were several examples of automatic stabilizer. First, taxes. In the positive output gap, people's income was getting higher as well as enterprises. Change in taxes was going to be positive and probably going to grow at a faster rate than the economy. In the negative output gap like during a recession, cooperate profits were going to be lower even unprofitable that they won't pay corporate taxes. ⁴²The tax multiplier was negative which it might smooth out the curve a little bit. Another example of an automatic stabilizer was welfare and unemployment benefit. In the positive output, fewer people are going to need welfare and unemployment payments which decrease government spending. ⁴³Decreasing government spending might help to smooth the curve a little bit. In the negative output, more people need welfare and unemployment benefit so it would increase government's spending. With multiplier, it might smooth out the curve a little bit. During recession between 2007 to 2008, tax rate decline to 21.48% of personal income which was one of the lowest tax rates since 1990s.⁴⁴ This was how Norwegian government use fiscal policy as an automatic stabilizer during recession to stimulate the economy.

Economists view monetary policy as the first line of defense against economic

⁴² Robert Solow, "Fiscal Policy," in *In the Wake of the Crisis*, ed. Olivier J. Blanchard (Massachusetts: The MIT Press, 2012), 74.

⁴³ Lawrence J. Christiano, Martin S. Eichenbaum, and Mathias Trabandt, "UNEMPLOYMENT AND BUSINESS CYCLES," *Econometrica* 84, no. 4 (July 2016): 1547.

⁴⁴ "Norway Personal Income Tax Rate," Trading Economics, accessed August 17, 2020 , <https://tradingeconomics.com/norway/personal-income-tax-rate>.

slowdowns. It was also an adjustment to interest rates and the money supply which play an important role in combating economic slowdowns or recessions. ⁴⁵Monetary authorities used considerable resources to monitor and analyzing the economy. It was enough to keep short-term money market rates close to the key policy rate. Norges Bank had provided enough liquidity which bring bank deposits in Norges Bank were above NOK 100 billion in end of 2008. ⁴⁶It was necessary for the substantial supply to prevent short-term money market rates from rising too high above the key policy rate.⁴⁷ One of the coping strategy was under Norwegian kroner were offered in exchange for US dollars or euros, the purpose was to attract participants who were active in Norwegian kroner but who did not have access to loans from Norges Bank through the currency swap agreements. ⁴⁸The currency swap agreements helped to limit the risk premiums in Norwegian interest rates. Banks' access to funding at has been very limited. The problem was that the fund was heavily reliant on international market funding. Consequently, the Norwegian authorities had to intervene when that source of funding seized up.

There were three ways of facing it. First, loans have been offered at longer

⁴⁵ John Grant, ed., *A Handbook of Economic Indicators* (Toronto: University of Toronto Press, 1999), 78-80.

⁴⁶ "Banks' Assessment of Norges Bank's Liquidity Management System," NORGES BANK, accessed August 26, 2020, https://static.norges-bank.no/contentassets/6026164fa0c944208c1ab0eb5536b2f1/norges_bank_papers_2014_4.pdf?v=03/09/2017123522&ft=.pdf.

⁴⁷ Ibid.

⁴⁸ Hilde C. Bjørnland, "Monetary Policy and Exchange Rate Interactions in a Small Open Economy," *The Scandinavian Journal of Economics* 110, no. 1 (March 2008): 198.

maturities up to 2 and 3 years. Second, bank-owned mortgage can be swap with government covered bonds. Third, the government eased money market conditions in order to reduce the money market premiums.⁴⁹ The Norwegian measures were designed so the Norges Bank's balance sheet has not increased as much as other countries' central banks. However, these measures led to a gradual improvement in Norwegian banks' funding that the covered bond swap line have amounted to NOK 225 billion.⁵⁰ This led to a restraint in the tightening of bank lending standards. Despite the Norwegian authority managed to bring domestic economy back to normal, the economy had been exposed to major shocks during financial crisis. Oil prices and price of export goods rose dramatically, and the liquidity crisis hit the banking sector as growth started to slow. The impact on unemployment increased to 3.52% in 2010 and inflation has remained low and fairly stable compared to global average.⁵¹ Fiscal and monetary policy had been effective to help Norwegian economy during crisis. But it also clearly showed some weaknesses of Norwegian economy such as household behavior in the housing market.

⁴⁹ Jordi Gal, and Luca Gambetti, "The Effects of Monetary Policy on Stock Market Bubbles: Some Evidence," *American Economic Journal: Macroeconomics* 7, no. 1 (January 2015): 249.

⁵⁰ Sigbjørn Atle Berg, and Øyvind Eitrheim, "Lessons from the World Financial Crisis for the Central Bank of Norway the Approach to Monetary Policy and Financial Stability," in *The Great Recession*, ed. Jacob Braude (Massachusetts: The MIT Press, 2013), 276-278.

⁵¹ Kristian Heggebø, "Health Effects of Unemployment in Denmark, Norway and Sweden 2007–2010 Differing Economic Conditions, Differing Results?," *International Journal of Health Services* 46, no. 3 (July 2016): 412.

(4) Stock Market and Investment Area

There were three different investment areas: equity, real estate, and fixed income. The fund was investing equity in different countries and sectors for the purpose of seize global value and diversify risk. The fund was investing in around 9,000 corporations. The fund holds around 15 percent of the global listed company.

Norges Bank Investment Management (NBIM) have invested 1 percent of the fund every year in real estates and will continue to invest at the same rate going forward. ⁵²Real estate fits well with their long- term investment plan and delivers stable cash flow to the portfolio. The strategy was to invest global cities that will continue to play a key role in the global economy. They invested in offices and retail buildings as well as logistics facilities. Offices represent the largest and most accessible real estate sector and form the backbones of the fund's real estate strategy. GPFC target modern high-quality buildings with potential for long- term sustainable income. The global financial center- New York was one of the largest markets in the world which the fund owns buildings throughout the city. The fund also owns logistics facilities with the globalization of products of supply chains comes an increase in the need of warehouse space. GPFC invested facilities near cities, port,

⁵² "Investing in Real Estate the 10-Year History," Norges Bank Investment Management, accessed September 2, 2020 , https://www.nbim.no/contentassets/5e6fa39b89564c33b54935780416172d/investing-in-real-estate_the-10-year-history.pdf .

and transportation hubs across the world.

The fund's fixed-income investments were consisting of 70 percent of governments bonds and related institutions and 30 percent of securities issued by the corporate sector. Largest bond holdings own by GPFC such as investing 70,1616 million NOK(around 82 billion US dollars) in United States of America, 244195 million NOK (around 24 billion US dollars) in Japanese government and 98548 million NOK (around 11 billion US dollars) in Federal Republic of Germany.

The fund's largest equity holdings were in Apple, Microsoft, Google-parent Alphabet and Amazon continues to target a real return in excess of the global economy's growth. According to Norges Bank, those tech stocks were the area of the strongest-performing sector for the fund, returning 17.6% in growth during the quarter. Table 9 showed largest equity holdings of GPFPG's investing 116,976 million NOK (around 13 billion US dollars) in Apple and 104,640 million NOK (around 12 billion US dollars) in Microsoft.

With the size of the fund and the fact it had stakes in more 9,000 companies across the world which gave it a significant voice and it was one that used to good effect. This was core concept of state capitalism of using SWFs for political gains. Norway has a voice world-wide since it owns 1.5% of global stocks and shares.

⁵³NBIM exercised of ownership that forms part of its responsible investment activities through “seven expectations documents” published NBIM. These seven documents include children's rights, climate change, water management, human rights, tax and transparency, anti-corruption and ocean sustainability. This meant that NBIM direct these expectations at their portfolio companies. They used these documents in the company dialog that operates in tandem with their voting at share at the annual shareholder meeting and together the dialogue and the voting constitute their primary and prioritized means for the exercise of ownership.

Company	Country	Holding
Apple Inc	US	116,967
Microsoft Corp	US	104,640
Alphabet	US	77,831
Nestle SA	Switzerland	71,686
Amazon.com Inc	US	68,613
Roche Holding AG	Switzerland	55,297
Royal Dutch Shell PLC	UK	52,193
Alibaba Group Holding Ltd	China	51,992
Facebook Inc	US	46,241
Novartis AG	Switzerland	44,604
Berkshire Hathaway Inc	US	39,717
Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	38,238
Samsung Electronics Co Ltd	South Korea	36,257

Table 9. GPFC’s Largest Equity Holdings

Source: Norges Bank Investment Management

⁵³ "About the Fund," Norges Bank Investment Management, accessed September 11, 2020 , <https://www.nbim.no/en/the-fund/about-the-fund/>.

(5) Practice of State Capitalism in Norway

Norway is considered as a hedge fund country. According to the laws, the fund can not invest in the local economy, only in foreign companies. That was the reason for the fund holding 1.5 % of all the stocks existing in the world. According to many analysts, the management of the fund was relatively conservative and does not make as much as it could. But Norwegian government did not only use this for diversification but as a political weapon as well. For example, every year the Norwegian central bank pushed a blacklist with companies that they did not invest in for various ethical reasons including weapons manufacturers, tobacco producers and firms involved in corruption. By having stocks in publicly traded companies gave Norway right to participate in the shareholders meetings. They can vote on corporate decisions and even suggested topics for discussion. An example of Norway intervening in such corporations is when Facebook started a new algorithm to filter fake news and took wage gap seriously in 2008. These two decisions were the outcome of a shareholder meeting. Norway was the one who added these topics during that meeting. Another example happened in Alphabet's meeting. Alphabet is the conglomerate that owns Google and YouTube. A small group of shareholders wanted Google to refine the fake news filter and having the support of Norway's fund helps them win very crucial votes. Norway is pushing some of the world largest companies

to change their corporate policies on many different fronts. Many countries try to control the world with militaries, other countries try to sway foreign governments with diplomacy. Norway expand their power through influence on the biggest global companies.

The Assessment of Temasek

Temasek is a global investment company headquartered in Singapore. They were seeking to make a difference always with a substantial goal. Temasek has 11 offices globally with a portfolio value of 213 billion US dollars.⁵⁴ Temasek held accounts for 47% of the entire Singapore stock market, which can be seen as almost dominate the lifeline of Singapore's economy. Temasek is owned by the Minister for Finance. It was neither a government agency nor a statutory board. Like any other commercial company, Temasek pays taxes that contributes to government revenue.

Temasek was an interesting case from different perspectives. First, unlike other SWFs, Temasek was endowed with a portfolio of companies that were transferred to it by Ministry of Finance. Second, Temasek has acted as a company for privatization for the government and it was tasked to improve the efficiency of GLCs.

⁵⁴ Kwa Chong Guan, Benjamin J. Q. Khoo, and Xu Shengwei, "From Temasek to Singapore Locating a Global City-State in the Cycles of Melaka Straits History," in *Studying Singapore before 1800*, ed. Kwa Chong Guan and Peter Borschberg (Singapore: NUS Press, 2018), 201.

(1) Governance Model

Governance framework provided for accountability and a robust balance between empowerment and compliance. The works' structure could be divided into two part in Temasek: Board of directors and management team with three board committees. Board of directors provide overall guidance and policy directions to our management.

(2) Economy Performance

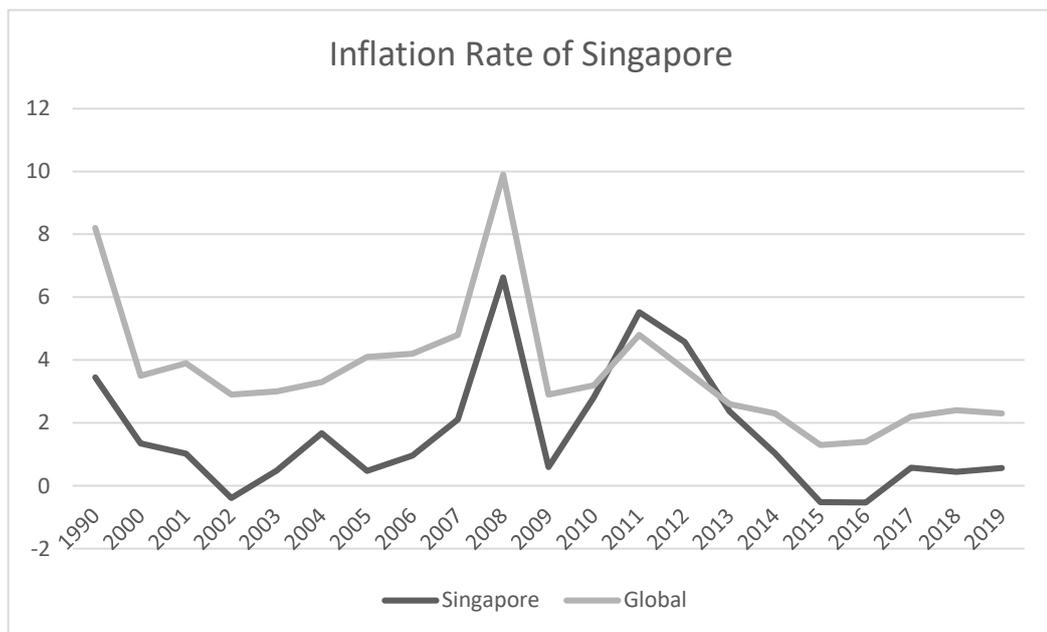


Figure 8. Inflation Rate of Singapore

Source: The World Bank (Edited by the author)

Singapore has relatively high economic growth and low inflation rate. As mentioned above, policymakers believe ideal inflation rate of 2% percent or a bit below. Singapore's inflation rate was within the range most years which was a sign of

stable economy. The episode of negative inflation was generally associated with weak overall economic conditions or recession. ⁵⁵During financial crisis, inflation rate had a dramatic fluctuation. Inflation rate increase from 2.11% to 6.63% and decrease to 0.6% between 2008 to 2010. That was the time when Singapore economy entered a phase of robust GDP growth of close to 9%. Consequently, limitation of sharp increases in wages and rental emerged for domestic supply-side. On the external front, global oil, food and other commodity markets experienced a boom. The government introduced countermeasures to relieve wage and price pressures such as to re-entry of resident workers into the labor market for strong demand. Inflation subsequently eased in 2009 within the aftermath of the global recession.⁵⁶



Figure 9. Comparative GDP Growth Rate of Singapore and Global

⁵⁵ Manu Bhaskaran, "Challenges Facing the Singapore Economy," *Southeast Asian Affairs* (2014): 299, Yusof Ishak Institute.

⁵⁶ Augustine H. H. Tan, "Singapore's Economy: Growth and Structural Change," *Southeast Asian Affairs* (2014): 281, Yusof Ishak Institute.

Source: The World Bank (Edited by the author)

Since the economy was heavily dependent on exports, it was the first in Asia to be hit by financial crisis which led to 7.164% falling in GDP growth rate. When demand for goods and services declined sharply, rising of unemployment rate became an issue and problem for Singapore.

As figure 10 showed that the unemployment rate raises from 2.2% to 3% between 2008 to 2009. It was the highest unemployment rate since 2003. To decrease the unemployment rate, the government facilitated the re-entry of resident workers into the labor market for strong demand. Singapore did not implement any unemployment benefits because the government was considered the best way to assist individuals who are unemployed was to help them re-employment instead of handing out financial support such as unemployment benefits.⁵⁷ They believe unemployment benefit would only cause problems like in West, as well as encourage people not applying for jobs.

⁵⁷ Katalin Völgyi, "A Successful Model of State Capitalism Singapore," in *Seeking the Best Master*, ed. Miklós Szanyi (Budapest: Central European University Press, 2019), 281-283.

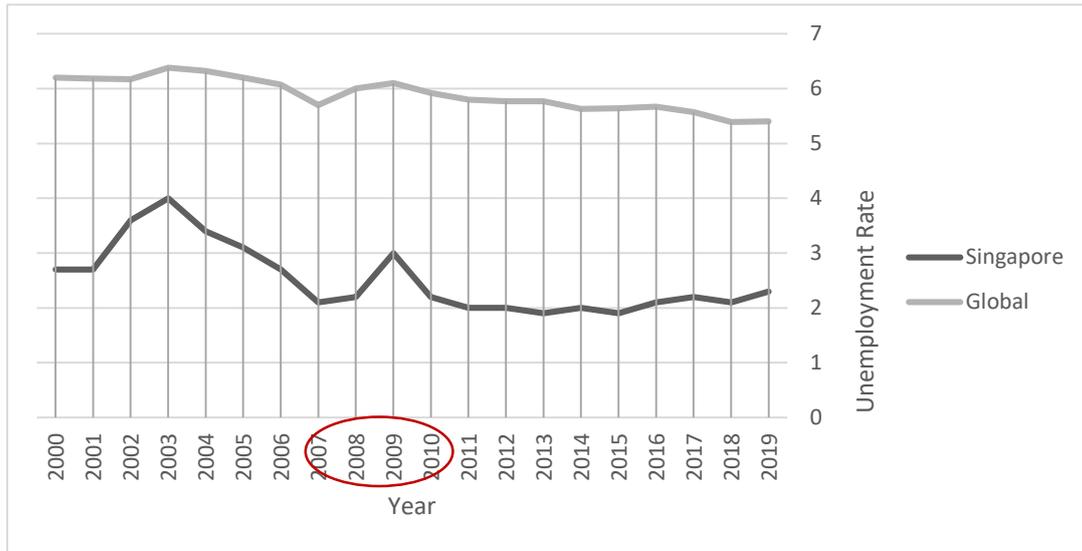


Figure 10. Unemployment rate of Singapore and Global

Source: Statics Singapore (Edited by the author)

(3) Performance of fiscal and monetary policy

Objective of fiscal policy was financial discipline, pursue growth, redistribute with minimal distortions, and manage reserves as an endowment. There were four major principles of fiscal policy. Singapore government relied heavily on markets and on market-based mechanisms in its interventions. It used fiscal policy in an activist manner and tried to harness the market. For example, tax incentives benefit profitable companies rather than subsidizing loss-making ones. First, the government used user charges or co-payment to limit over-consumption and to encourage users to economic by using price incentives. Second, each term of government must “earn its own keep” and not draw on past reserves which retrain the size of the budget deficits. This meant there were no universal social welfare programs or entitlements in Singapore.

Fourth, each department received a “block budget” that was determined as a percentage for the purpose of smoothed GDP in multi-year. With expenditure limitation, ministry of financial allowed ministries of finance the freedom in deciding what to spend on and how to allocate resources among competing needs. Table 10 showed a clear fiscal budget of Singapore. Special transfers indicated the transfers to meet the current and future needs of Singaporeans. The amount of special transfer was based on government's long-term plans and economic and social needs.

(SGD million)	2007	2008	2009
Operating Revenue	40,375	41,086	39,547
+Net Investment Income>Returns Contribution	2,405	4343	7,006
-Total Expenditure	32,982	38,091	41,891
-Special Transfers Excluding Top-ups to Endowment and Trust Funds	1,342	4,089	4,071
-Top-ups to Endowment and Trust Funds	800	3,010	1,410
= Overall Balance	7,656	239	-819

Table 10. Singapore Fiscal Budget

Source: Data. gov.sg (Sorted by the author)

Monetary policy in Singapore was centered on the exchange rate. With gross exports and imports of goods and services were more than 300 percent of GDP, the exchange rate had a much stronger influence on inflation than the interest rate.

Monetary Authority of Singapore (MAS) believe the exchange rate was more effective tool for maintaining price stability which was in turn crucial to Singapore’s economic growth. Thus, the framework was centered on managing the Singapore

dollar against a trade-weighted basket of currencies. This was also known as the Singapore dollar nominal effective exchange rate (S\$NEER). It was an unadjusted weighted average rate which the Singapore dollar exchanges from its major trading partners and competitors. ⁵⁸MAS revised the basket of currencies regularly to keep up with the changes in trade patterns. MAS will intervene by buying up or selling SGD when the value of SGD exceeds this band.⁵⁹ As figure 11 showed, the SGD will be indicated in blue and the policy band in red. MAS will adjust the slope, center, and width of the band for the purpose of adjusting the speed of appreciation or depreciation of SGD. However, the exact composition of this was undisclosed. The S\$NEER impacts both inflation and prices in economy. This includes export and import prices, rental and wages, consumer goods prices and output prices.

⁵⁸ Tony Cavoli, and Ramkishan S. Rajan, ed., *Exchange Rate Regimes and Macroeconomic Management in Asia* (Hong Kong: Hong Kong University Press, 2009), 80-81.

⁵⁹ "Getting Singapore in Shape Economic Challenges and How to Meet Them," Lowy Institute for International Policy, accessed September 16, 2020, <https://www.straitstimes.com/opinion/this-is-how-singapore-will-face-its-challenges>.

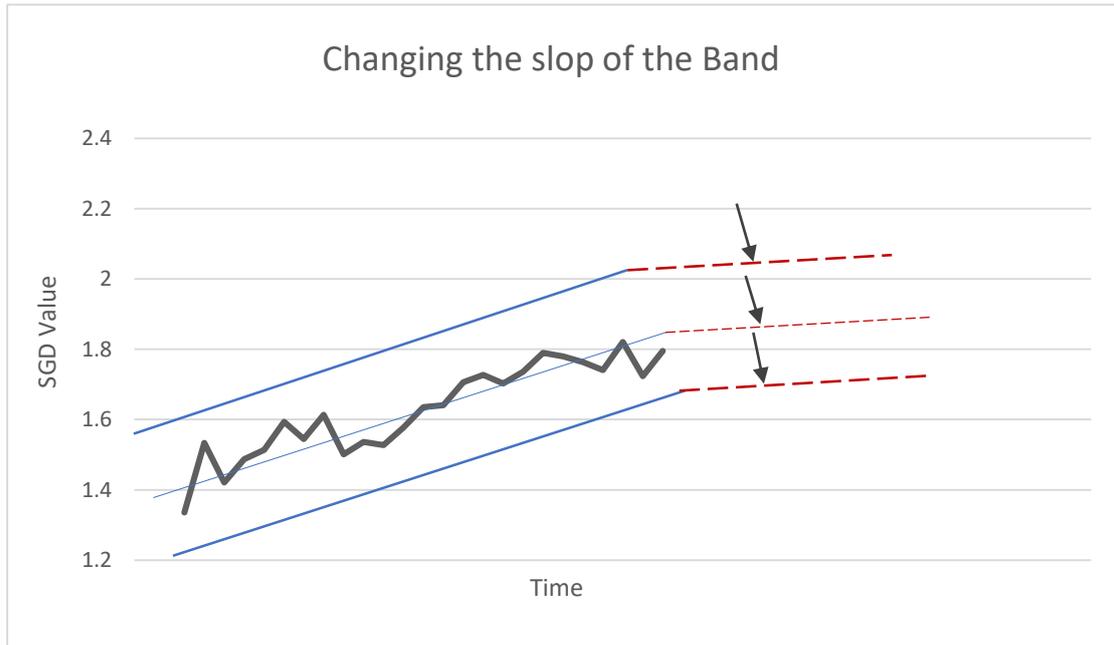


Figure 11. S\$NEER of changing the slop of the band

Source: Seedly Reads (Edited by the author)

The diagram above showed MAS reducing the slope to make the SGD depreciate and make export more competitiveness. However, when the economy was well and stable, MAS will make SGD to appreciate to combat imported inflation.

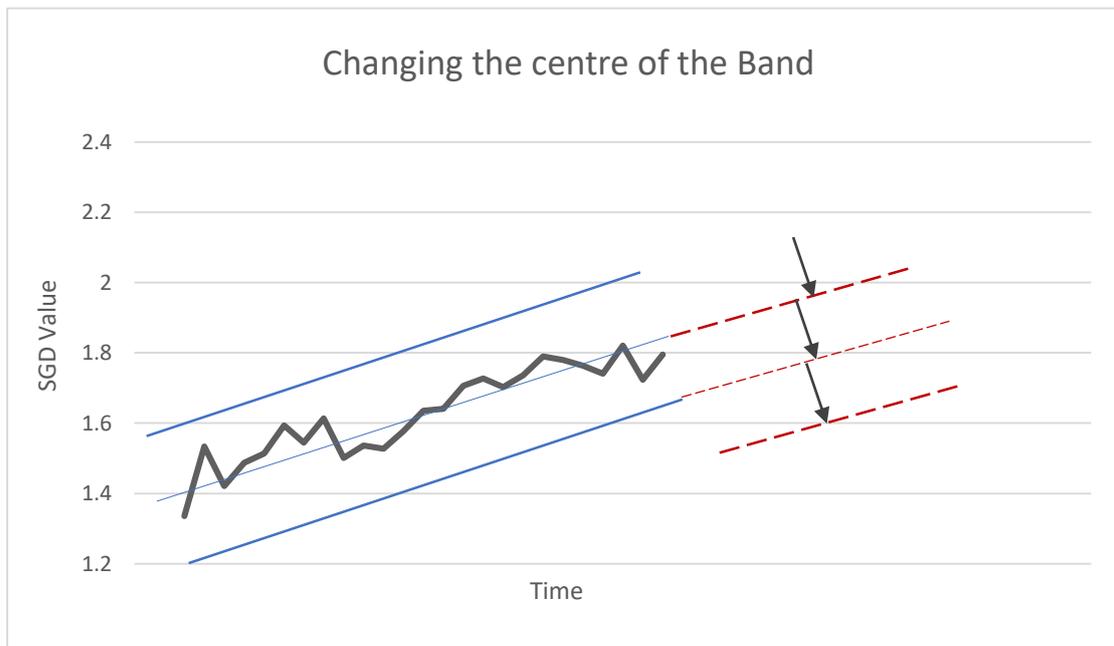


Figure 12. S\$NEER of changing the Centre of the band

Source: Seedly Reads (Edited by the author)

MAS used the go- to SGD devaluation method when faced with tough economic challenges such as financial crisis. ⁶⁰MAS will buy up SGD which make currency depreciate and make exports more price competitive.

To manage the exchange rate to widen the band to increased volatility in the Foreign Exchange market to make sure that MAS won't intervene too much.

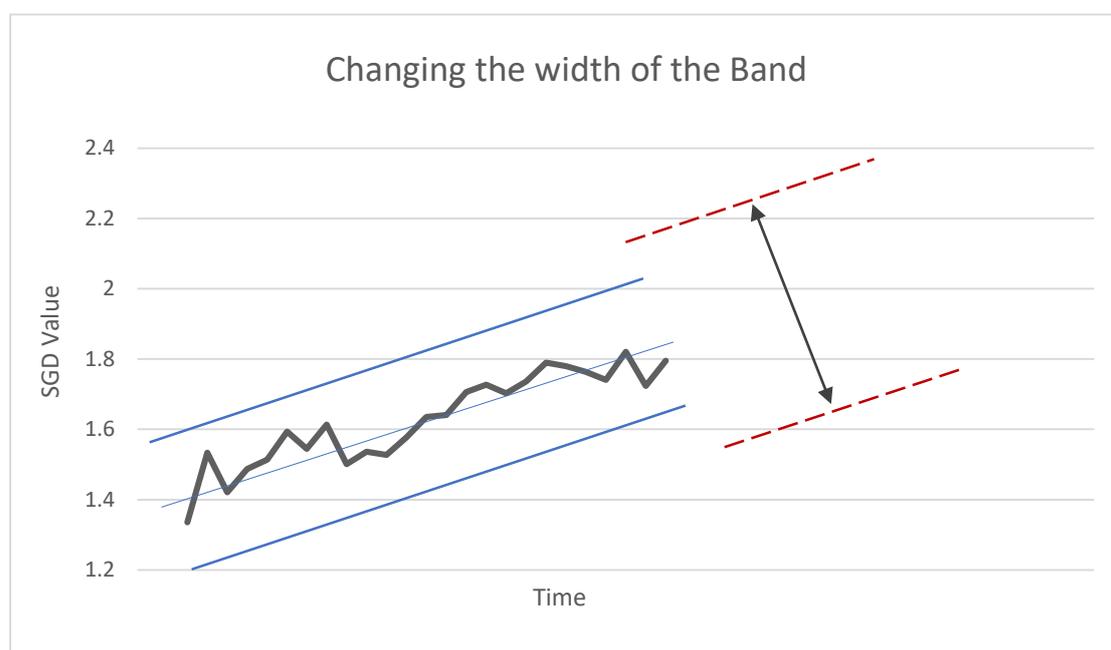


Figure 13. S\$NEER of changing the Centre of the band

Source: Seedly Reads (Edited by the author)

(4) Investment Area and Stocks Market

There were four basis investment subjects, including transforming economies, growing middle income populations, deepening comparative advantages, emerging champions. Six major investments of Temasek consisted of financial services;

⁶⁰ Ibid.

telecommunications, media, and technology; consumer and real estate; transportation and industrial; life sciences agribusiness and energy and resources. Table 11 gave an example of which companies they were investing in financial service. Temasek's portfolio remained anchored in Asia. Based on their underlying assets, Singapore and China each constitute 26% of their portfolio. ⁶¹The USA constitute 15% and Europe constitute 10% of their portfolio. Temasek had control over several major domestic corporations including Singapore Telecommunications Ltd (Singtel), Singapore Airline, DBS Bank Ltd, SBS Transit, PSA International, Singapore Power Ltd (SP), Keppel Corporation and Raffles Hotel. These are considered as the most important corporations in Singapore. Keppel Corporation is the biggest multinational corporation in Singapore that specializes in offshore and marine, property, infrastructure and asset management businesses. It also plays a role as the world's largest oil rig builder. Figure 14 clearly showed how Singapore government built a network through different sectors which create enough jobs for the market. The government can also better control all resources.

⁶¹ Kent E. Calder, ed., *Singapore, Smart City, Smart State* (Washington: Brookings Institution Press, 2016), 140-142.

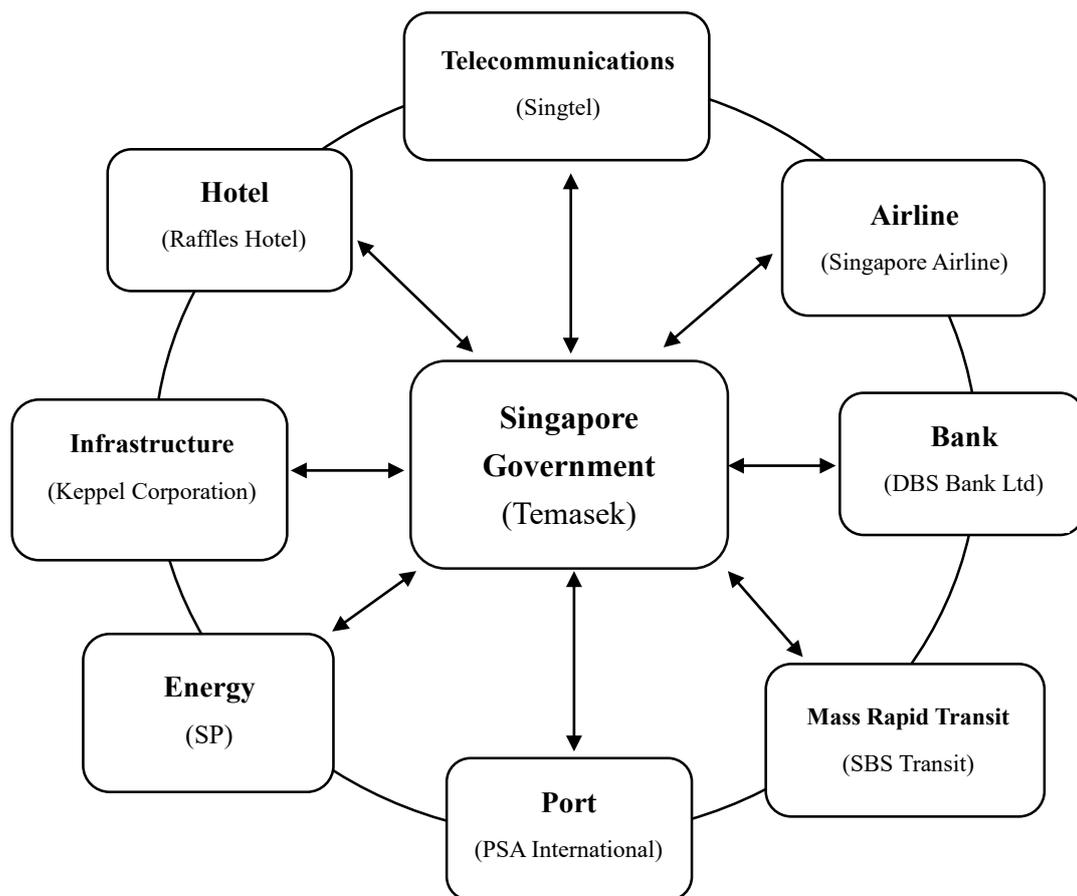


Figure 14. Singapore Business Network

Source: Created by the author

Figure 15 showed Temasek net portfolio value since Inception. The total market value and shareholder equity decrease alarmingly between 2008-009 due to the global financial crisis, however, shareholder equity excluding market movement remain almost the same.

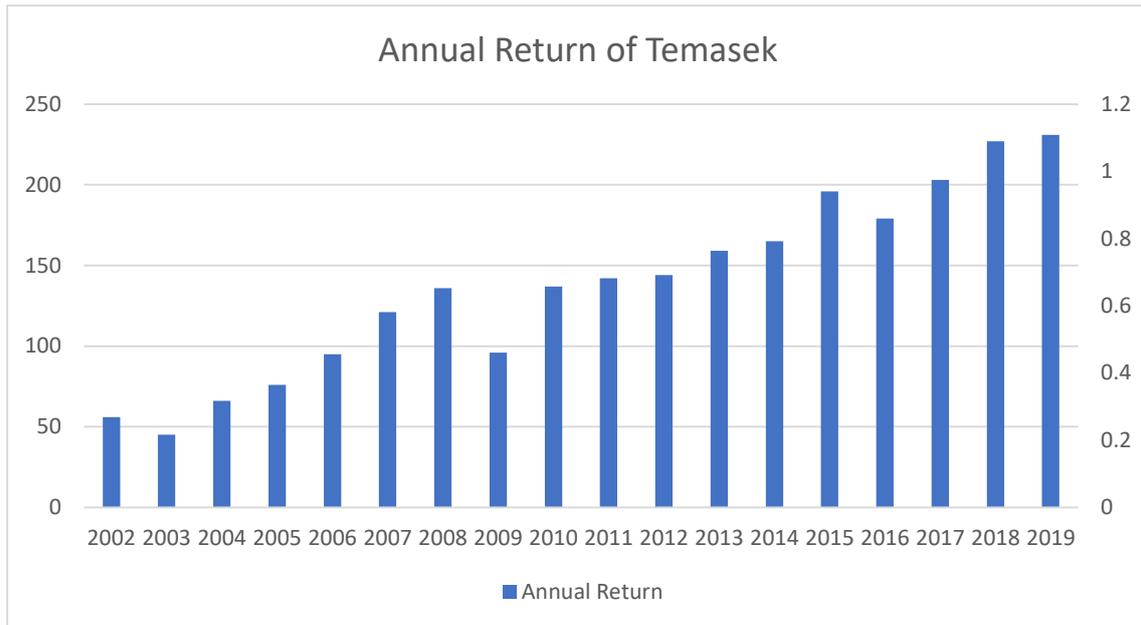


Figure 15. Annual Return of Temasek

Source: Temasek.com (Edited by the author)

Financial Services	Country	Holding (million/US Dollars)
HDFC BANK Limited	India	472,6045
Industrial and Commercial Bank of China Limited	China	198,0593
China Construction Bank Corporation	China	159,0817
Ping An Insurance Company of China	China	138,7237
AIA Group Limited	Hong Kong	84,8041
Mastercard Incorporated	United State	23,9869
Pay pal Holding. Inc	United State	10,1484
DBS Group Holding	Singapore	47,151
Adyen N.V.	Nederland	23,262
Visa Inc.	United State	22,977
Standard Chartered	United Kingdom	14,030
Virtu Financial	United State	3,966

Table 11. Investment of Temasek in Financial Service

Source: Temasek. com (Sorted by the author)

(5) Practice of State Capitalism in Singapore

Singapore's government has created a network and bureaucracy in approach to national building where the business enters business to create benefit and general profits. The government of Singapore had successfully restructured the economy from direct intervention to indirect through diversification of industrial sectors. Internationally choosing interventionist and state capitalist measures through a strategy of dynamic economic policy planning. The indicator of Singapore practice Singapore style of managing the country in business-like manner by using public sector to intervene and participate in most sectors of the economy. Singapore owns 90 % of the country's land, 20 % of total employment. ⁶²This indicated that the government is the largest employer in Singapore. The government is a large player in domestic financial market. It controls Central Provident Fund (CPF) and is the largest shareholder of the major commercial bank in Singapore. Infrastructure, social service, public service, telephone and postal service, port and airport service, industrial estates and radio and television, are provided from government- related companies. Government participate in these sectors to generate enough jobs for the market and to better control all these resources. That is why unemployment rate is relatively low and

⁶² Beng Huat Chua, ed., *Liberalism Disavowed, Communitarianism and State Capitalism in Singapore* (New York: Cornell University Press, 2017), 117-119.

stable in Singapore most years.

Several factors facilitated the success of Singapore's economic planning and practice of state capitalism policy over such a long time. First, as a small country like Singapore, it was conducive setting for a highly interventionist government. It is easier for government to control and manage such a small market. Second, Singapore is considered to have a stable political environment with People's Action Party (PAP) as the dominant party. These factors provided a good environment for Singapore to easier practice state capitalism.

Implication

GPFM and Temasek were considered as successful SWFs, and after comparing these funds, the author discovered that there were both some significant similarities and differences. Management of commodity and non-commodity fund was not only determined by the types of it but also the economic pattern. There was no certain model that works for sovereign wealth fund. Norway, as a wealthy state with their commodity goods- oil, shielded impact from oil price volatility and long-term management of revenues are their primary goal. Norway implied automatic stabilizer as the core of fiscal policy to offset fluctuations in economic activity without direct intervention to shield impact of oil price volatility. For the substantial and long-term management and to delink the earning from the use, GPFM set the restriction of

3% of revenue withdrew of the fund and invest abroad. Reasons for investing abroad was to use the petroleum fund as a buffer, domestic investment might result in a lower fund turn and for varied industry structure. Also, the author discovered the most important reason; they use it for expansion of political power.

On the other hand, Singapore, as a city- state with non- commodity, being the biggest employer in a small country, the government took economy growth and unemployment rate under control. As the result, there was no unemployment benefit for the society. No unemployment benefit will encourage apply for jobs and save public spending for the government. At the same time, it was also dangerous to not have unemployment benefit; because it is not only a safety for citizens but as well a tool to stimulate the economy during recession. However, Singapore created S\$NEER to protect against recession. Singapore use the fund to create a network and bureaucracy in approach to national building where the business enters business to create benefit and general profits.

Table 12 clearly showed how does the practice of state capitalism effect SWFs. Management of the fund is based on how the government want to practice the state capitalism. Norwegian government want to expand political power globally, which result in the fund is investing in largest companies in the world. Singapore government want to better control all the resources domestically, which result in the

government use the fund to create a network in approach to national building where business enter business to create benefits for Singapore.

Countries	Norway	Singapore
Indicators		
Governance Model	Clear delegation	Clear delegation
Economy Performance/ perspective	(1) Focus on stabilize the inflation rate (due to the importance of oil price)	(1) Focus on stabilize the inflation rate (due to highly import and export goods)
	(2) Recovered fast from GDP decline	(2) Recovered fast from GDP decline
	(3) High unemployment benefit	(3) No unemployment benefit
Fiscal Policy	(1) Can not use more than 3% from the fund	(1) Block budget for government departments
	(2) To delinks the earning from the use (shields from oil price violating)	(2) No universal of social welfare program
	(3) Automatic Stabilizer	(3) Earn its own keep
Monetary Policy	Exchange for US dollars (heavily rely on international market funding)	S\$NEER (focus on exchange rate)
Investment Area & Stocks Market	Only invest in foreign market	Invest in both domestic and foreign markets
Practice of State Capitalism	Expand power through influence on the biggest global companies	Make the government as the largest employer
Countermeasure of Financial Crisis	(1) Longer maturities of loans	(1) Go-to SGD devaluation
	(2) Swap covered bonds for government security	(2) Facilitate the re- entry of workers into labor market
	(3) Eased money market condition	

Table 12. Comparison of GPF and TH

Source: Sorted by the author

CONCLUSION

As the researcher collected statistics of the inflation rate, unemployment rate, GDP growth, and performance of investment and stocks market, the author assessed the failure and successful part of practice of state capitalism on these funds. The researcher applies economic theories on the assessment of these funds. The failure part of the practice of state capitalism on these funds was the efficiency and outcome might not be as it could and not for the best interest of citizens. For instance, there is no unemployment benefit in Singapore. Nonetheless, still, via the economic measurement, the economy is growing and recovering from the recession. Compared data from previous years, it was obvious that the economy had been stable for GPFG and TH.

After collected the different economic perspectives of GPFG and TH, the researcher investigated practice of state capitalism on these funds and further discussed whether state should have control over SWFs. The analysis indicated that Norwegian government practice state capitalism by holding 1.5 % of all the stocks in stock markets in the world to expand their power, and influence decisions in some of the largest companies in the world, and investing in offices and retail buildings in some of the most important financial and political centers in the world like New York,

Washington DC and London. On the other hand, Singapore practice state capitalism by being the largest employer in domestic market. It has power to control unemployment which was one of the reasons why Singapore government can make unemployment decline so much after financial crisis by re- entry workers to labor market. As mentioned above, there were some advantages and disadvantages with SWFs. It could stabilized the budget and economy, increase saving for the future generations, diversify from non- renewable commodity exports and use it as a political tool. In general, there was also a concern about the transparency and trust issues of SWFs. As the result of the data analysis, both GPF and TH have a relatively stable and high growth economy with the capacity of boosting the economy during recession. It means that these funds are mostly giving positive impacts on domestic economy, although, some might argue that it could perform better without intervention from the state. Without intervention from the state, there might be monopoly of important natural resources and assets. Last but not least, from the case of Norway and Singapore, it illustrates a significant point- mutual cooperation between the government and citizens was an important feature for state capitalism to function. The success of these funds was built on adequate management with trust between the government and citizens.

In conclusion, for state capitalism to work, it took trust between the government

and citizens. State capitalism is not dangerous for countries if being used appropriately. To manage a pool of money like sovereign wealth fund, the state must be involved in it with adequate regulations, fiscal and monetary policies. From lesson of GDPG and TH, with adequate regulations and management, and trust between the government and citizens would only bring benefit and prosperity for a country. People should not fear the rise of state capitalism; people should drive state capitalism.

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