



Authoritarian Capitalism

After the Second World War, the liberal-democratic model of capitalism spread across the globe, ultimately prevailing over communism. Over the past two decades, a new statist-authoritarian model has begun diffusing across Asia. Rather than rejecting capitalism, authoritarian leaders harness it to uphold their rule.

Based on extensive research about East Asia's largest corporations and sovereign wealth funds, this book argues that the most aggressive version of this model does not belong to China; rather, it can be found in Malaysia and Singapore. Although these countries are small, the implications are profound because one-third of all countries in the world possess the same type of regime. With an increasing number of these authoritarian regimes establishing sovereign wealth funds, their ability to intervene in the corporate sectors of other countries is rapidly expanding.

RICHARD W. CARNEY is a faculty member of the China Europe International Business School (CEIBS). His articles have appeared in journals such as the *Journal of Financial Economics*, *Business and Politics*, and the *Review of International Political Economy*. He is also the author of *Contested Capitalism: The Political Origins of Financial Systems* (2009) and editor of *Lessons from the Asian Financial Crisis* (2009). Prior to CEIBS, he held faculty positions at the Australian National University and the Nanyang Technological University in Singapore. He was also a Jean Monnet Fellow at the European University Institute in Florence, Italy.

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Authoritarian Capitalism

Sovereign Wealth Funds and State-Owned
Enterprises in East Asia and Beyond

RICHARD W. CARNEY
China Europe International Business School



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Preface

The global balance of power is shifting. Emerging economies, many of which host authoritarian regimes, are benefiting from their economic and political ties with China to rapidly develop while bolstering the stability of their political rulers. In contrast to the liberal-democratic world order that has persisted since 1945, a new statist-authoritarian world order is on the rise. The sudden retreat of the United States from globalization has accelerated this transition and amplified the need to make sense of how authoritarian regimes work with their state-infused corporate sectors.

Singapore is a fascinating example of how these two systems can coexist. The city-state embraces many of the liberal economic arrangements advocated by the West while maintaining strong ties with China and a highly stable, semicompetitive authoritarian regime. Next door is Malaysia, which manifests a variation of the Singaporean liberal market–authoritarian model. But Malaysia’s Borneo neighbor, Brunei, is different. It has a strongly authoritarian political system with an economy dominated by the state – even more than China. Just as democracies vary both in the structure of their political arrangements and in their market economies, authoritarian systems vary. This book offers fresh insights into this variation and draws implications for how these authoritarian regimes intervene in foreign markets and thereby propagate a state-infused economic model.

The origins of this book can be traced to a workshop I organized in Singapore just as the global financial crisis began riveting the world economy. The workshop brought together a distinguished group of academics alongside senior government and business leaders, many of whom were directly involved with the crisis that jolted the East Asian region ten years earlier, such as Soedradjad Djiwandono (Central Bank Governor for Indonesia during the crisis), Hubert Neiss (Director of the Asia-Pacific for the IMF during the crisis), and Anwar Ibrahim (Finance

Minister and Deputy Prime Minister of Malaysia at the start of the crisis).¹ During the workshop, it became clear that one of the challenges with identifying the consequences of the crisis was the lack of data about who exactly wound up owning the region's biggest corporations in the years afterwards.

Not long after the workshop, Temasek, one of Singapore's sovereign wealth funds (SWFs), announced that it had lost US\$4.5 billion on its 3.8 percent stake in Bank of America when it sold its position in March 2009. On a per capita basis, this was equivalent to every Singaporean losing US\$1,500. To put this in perspective, a comparable loss in the United States would amount to US\$450 billion if we assume that every US citizen were to lose the same amount (300 million population × US\$1,500). But this financial hit came on the heels of another significant loss of US\$1.5 billion when Temasek sold its near 2 percent stake in Barclays just a couple of months earlier (December 2008 and January 2009). Despite these staggering losses, Singapore's political system remained stable, and the economy quickly rebounded, mirroring its spectacular performance during the Asian financial crisis.

These events revealed not only the carefully calibrated control that Singapore's ruling party maintained but also the enormous power that SWFs and, by extension, the governments that control them can wield. Indeed, SWFs can dramatically magnify the global reach and power of otherwise nonthreatening nation-states. In 2010, this potential was further manifested when Khazanah, Malaysia's SWF, successfully completed a hostile takeover of a Singapore-based firm, Parkway, as detailed in the opening section of Chapter 1. This event did not make headlines in the West, but it marked a first clear demonstration of the aggressive power that these financial titans could wield on behalf of their political masters.

The need to map how corporate ownership had changed across East Asia, coupled with the rise of SWFs, provided strong motivation to spend the time and resources necessary to identify exactly who owned the region's major corporations and how the landscape had changed since 1996. The frequent desire for opacity on the part of the owners made it all the more compelling. Anecdotes about the rise of foreign

¹ The contributions of many of the participants were published in an edited volume, *Lessons from the Asian Financial Crisis* (Carney 2009).

state ownership suggested that there was the potential to unveil an important new trend, with SWFs playing an outsized role. Moreover, understanding these phenomena could yield important insights into the transition of power between the West and East and the emergence of a new statist-authoritarian order. This led to a multiyear effort compiling ultimate ownership data about the region's largest companies, culminating in a paper that was published in the *Journal of Financial Economics*.² The paper was the first to systematically document the prevalence of foreign state ownership of listed corporations across East Asia in addition to detailing how corporate ownership had changed within individual economies.

The paper argued that the most significant changes to corporate ownership within specific countries were attributable to whether those countries experienced regime change. This formed the beginnings of the argument for this book. Some of the early ideas linking the structure of political regimes to state ownership arrangements were developed in a follow-up paper that was published in the *Review of International Political Economy*.³ I am grateful to have had the opportunity to present that paper to University of California San Diego's Graduate School of International Relations and Pacific Studies (now known as the School of Global Policy and Strategy), Stanford's Asia-Pacific Research Center, the Balsillie School of International Affairs, the Institute for Advanced Studies in Vienna, and the Manchester Business School. Constructive criticism at this early stage was very valuable to the development of this book's argument, and I would especially like to thank Miles Kahler, Stephan Haggard, Takeo Hoshi, John Ravenhill, Eric Helleiner, Johannes Pollak, and Xiaoke Zhang.

Subsequent work relating to corporate governance in China took shape through a chapter that appears in an edited volume about China's business-government relations.⁴ I am grateful to Xiaoke Zhang and Zhu Tianbiao for the opportunity to present my ideas to workshops at Peking and Zhejiang Universities and for their thorough and insightful comments. These workshops proved to be excellent forums for thinking about China in relation to the political economies of the other East Asian states that I focused on in my aforementioned papers.

² Carney and Child (2013). ³ Carney (2014). ⁴ Carney (2017).

To have the time to think about, refine, and turn these ideas into a book, I am grateful to the Crawford School of Public Policy. I thank Llewelyn Hughes, who gave me the opportunity to present some of the early ideas at Crawford's Research Seminar series, where I received valuable feedback. For their support and encouragement at various stages in the development of this project, I also thank Andrew MacIntyre, Veronica Taylor, Jenny Corbett, Fariborz Moshirian, and Dave McKendrick.

I am especially grateful to Travers Barclay Child, my coauthor for the *Journal of Financial Economics* paper, who provided insightful comments on several chapters of this book at different stages of their development. Many other individuals generously took time out of their busy schedules to read early (and sometimes later) versions of some of the chapters, and their constructive criticism was particularly helpful to the project's final form. I especially thank Terence Gomez, Krislert Samphantharak, Natasha Hamilton-Hart, Stephen Howes, Jong-Sung You, Andy Kennedy, and John Ravenhill.

Comments during presentations at the China Europe International Business School (CEIBS) pushed my thinking about how SWFs influence target firms and led me to further refine the theoretical model. I am particularly grateful to Sam Park and Daniel Chng for their helpful suggestions. A presentation at the Institute of Asian Research at the University of British Columbia offered a valuable opportunity to present an updated version of the project to East Asia experts. I especially thank Yves Tiberghien for hosting my visit and Kai Ostwald for chairing the session. In the latter stages of this book's development, CEIBS proved to be a very supportive environment, and I am grateful to the terrific group of faculty members in the Strategy and Entrepreneurship Department for welcoming me.

At Cambridge University Press, I have been very fortunate to work with an excellent and supportive editor, Sara Doskow, who consistently offered prompt and thorough answers to my numerous queries throughout the entire process. I also thank the two anonymous reviewers who offered extensive and incisive comments.

Finally, I owe those closest to me special acknowledgment. My parents have maintained amazingly steadfast support and encouragement despite the numerous time zones that frequently separated us. My father also offered particularly helpful ideas that drew on his own professional background working with a large

Chinese state-owned enterprise. I also owe a special debt of gratitude to my partner, Michelle Zheng Xue. Despite numerous speed bumps that appeared on the path to the project's completion, she maintained unwavering support, offered extremely valuable suggestions, and was remarkably generous with her time. I am very fortunate to have her by my side. For these reasons, this book is dedicated to her.

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