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Armed with trade windfalls, sovereign funds swoop in, lend cash to US top-shelf names

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NEW YORK: These days, when Wall Street runs short of money, it turns to countries such as China and the United Arab Emirates to help replenish its coffers.

And where does their money come from? All the stuff you buy with the "Made in China" label and every time you fill up your car gas tank.

These huge funds are the investment arms of governments that have newfound wealth thanks to big trade surpluses, as in the case of China, or because of surging worldwide demand for resources such as oil, as in the case of the UAE. The governments are looking for ways to expand some of their holdings beyond traditional safe investments like U.S. Treasury notes into areas with bigger returns.

Morgan Stanley on Wednesday reported big losses from debt tied to mortgages and said the Chinese government through its China Investment Corp. would provide the company with $5 billion (€3.48 billion) in return for what will become up to a 9.9 percent stake by 2010.

Vikas Agarwal, a finance professor at Georgia State University's Robinson College of Business, contends the investments can benefit borrowers and lenders alike. Funds can spell relief for companies like Morgan Stanley and Citigroup Inc. that have been troubled by souring investments in mortgages. The companies can sidestep the unwelcome prospect of selling off assets to raise money, he said. Meanwhile, the sovereign funds can afford to park their money for several years until the investments would pay off.

"These banks are clearly in trouble right now and they are looking for somebody to actually bail them out in some sense," he said. "If they had to sell their assets right now then it would be like a fire sale. Given that these banks are in trouble these sovereign wealth funds might be able to extract more rent from them."

By taking even a portion of their revenue and plowing it into investments like corporations, stock exchanges and real estate, these funds wield significant power in any market they enter.

To avoid any political uproar over the notion of a foreign government owning too much of a single company, officials connected with China Investment Corp. have said they plan to buy minority stakes in companies and avoid airlines, telecommunications companies and oil companies.

Beyond the Chinese government's investment in Morgan Stanley, sovereign funds such as The Abu Dhabi Investment Authority have poured billions into marquee names like Citigroup and the London Stock Exchange.

The holdings generally are not sizable enough to merit official control of the companies. Morgan Stanley and U.S. private equity firm Blackstone Group LP have investments of less than 10 percent from China and have said China Investment Corp. won't exert control over management.

Still, it is unlikely management of any company would not at least be mindful of any single investor holding billions in the company.

Notes: