

# Beyond Borders, Beyond Certainty: A Critical Analysis of Legal Frameworks for Sovereign Wealth Fund Investments

Ahmad Swaiss

## Abstract:

Sovereign Wealth Funds (SWFs), currently wielding over \$10 trillion in assets, navigate a complex legal landscape during cross-border investments (International Monetary Fund (IMF), 2023). This intricate tapestry, lacking explicit treaty protections and riddled with diverse domestic frameworks, exposes them to unique challenges (Deutser & Kotsch, 2022). This Article delves into this labyrinth, offering a critical analysis interwoven with practical solutions, sophisticated legal considerations, and an exploration of emerging technologies' impact. Recognizing the multifaceted nature of SWFs and the legal tapestry surrounding them, the analysis dissects existing frameworks' limitations (Fidler, 2019), proposes potential legal reforms and harmonized investment treaties (Drezner, 2022), and examines dispute resolution mechanisms for fostering trust (Schmitthoff, 2018). Exploring the applicability of customary international law (Cassese, 2010), emerging legal doctrines (Miles & Rajwani, 2023), and investor-state arbitration (Shearer & Grimmer, 2020), the Article navigates the evolving legal landscape. Further, it examines the impact of blockchain and artificial intelligence on SWF investments and legal frameworks (Chen & Lu, 2023). Ultimately, this Article aims to weave a more resilient tapestry of international investment protection for SWFs, promoting responsible investment, and economic growth, and safeguarding the interests of both SWFs and host countries.

## Introduction:

SWFs, wielding significant influence with their vast asset pools, occupy a unique space within the international financial landscape (Brunnermeier, 2019). While their cross-border investments contribute to economic growth and diversification (Ghemawat, 2010), they often confront intricate legal challenges stemming from their distinct nature and limited legal protection (Fidler, 2019). Unlike private investors, SWFs lack explicit treaty protections (Deutser & Kotsch, 2022), navigate diverse domestic legal frameworks (Goldstein & Hale, 2013), and operate within an environment where political considerations intertwine with commercial interests (Rodrik, 2007). This intricate legal labyrinth breeds uncertainty and hinders efficient investment flows.

This Article delves into the complex legal tapestry surrounding SWFs, offering a critical analysis interwoven with practical solutions and sophisticated legal considerations. Moving beyond mere description, the analysis dissects existing frameworks' limitations (Fidler, 2019), explores potential loopholes, and exposes the underlying economic and political dynamics influencing legal interpretations (Deutser & Kotsch, 2022). Recognizing the diverse motivations and strategies of SWFs (Clemens, 2011), the Article proposes tailored solutions, including potential legal reforms (Drezner, 2022), harmonized investment treaties (Brunnermeier, 2019), and effective dispute resolution mechanisms (Schmitthoff, 2018). Further, it delves into the potential implications of emerging technologies, such as blockchain and artificial intelligence on SWF investments and the legal landscape (Chen & Lu, 2023).

Ultimately, this Article aims to contribute to a more resilient tapestry of international investment protection for SWFs. By understanding the intricate legal landscape, proposing practical solutions, and considering the evolving technological landscape, a framework that fosters responsible investment, promotes economic growth, and safeguards the interests of both SWFs and host countries can be created.

## **I. A Labyrinth Untangled: Delving into the Interplay between SWFs and Sovereign Immunity**

The legal terrain surrounding SWFs resembles a maze, with their classification and interaction with customary international law (CIL) sparking fervent debate. This ambiguity creates a precarious limbo for both investors and host states, leaving them unsure of their rights and obligations. This analysis takes a deeper dive into the labyrinth, exploring landmark cases, contrasting interpretations, and potential solutions.

### **1. Demystifying the Classification Conundrum: SWFs at the Crossroads of Commerce and Statehood**

The concept of SWFs presents a unique challenge in international law and finance, often referred to as the "classification conundrum" (Clark, 2014). This stems from the inherent complexity and multifaceted nature of these entities. On one hand, SWFs generate revenue through investments, potentially operating like commercial actors subject to customary international law (CIL) principles such as non-discrimination and expropriation (Sachs, 2004). On the other hand, they are often established and controlled by governments, potentially granting them sovereign immunity, a legal shield traditionally reserved for states (Baker & Howell, 2008).

This ambiguity surrounding the classification of SWFs arises from their diverse structures, functions, and investment strategies (Fattal, 2013). Some SWFs, like the Singapore Investment Corporation (GIC), operate primarily as passive investors, managing the nation's foreign reserves and adhering to a strict mandate focused on financial returns (SIC, 2023). In this sense, they arguably resemble private investment funds and potentially fall under the purview of CIL. Conversely, other SWFs, like the China Investment Corporation (CIC), actively engage in commercial ventures, acquiring strategic stakes in foreign companies and potentially influencing markets (CIC, 2023). This level of economic engagement brings them closer to state-owned enterprises, potentially granting them sovereign immunity.

A lack of clear classification can lead to uncertainty and potential legal challenges. For instance, if a SWF engages in a commercial dispute, the applicable legal framework and principles might be unclear, leading to difficulties in resolving the issue (IMF, 2008). Additionally, concerns arise regarding the potential misuse of sovereign immunity by SWFs to shield themselves from accountability for their actions (Doh, 2008).

To address these challenges, various proposals have been put forward, including the development of international guidelines or a specific legal regime for SWFs (Drezner, 2009). However, reaching a consensus on such frameworks proves

difficult due to the diverse interests of different stakeholders, including SWF-holding countries, host countries, and private investors (Kol, 2010).

As a result, the classification conundrum surrounding SWFs highlights the complex interplay between commerce and statehood in the global financial landscape. Addressing this ambiguity requires careful consideration of the diverse nature of SWFs and their activities while balancing the interests of all involved parties to ensure a stable and predictable legal environment.

## 2. Sovereign Immunity: Balancing Statehood with Accountability

The intricate doctrine of sovereign immunity, shielding states from lawsuits in foreign courts, sparks fiery legal debates rooted in competing principles. While granting immunity upholds a state's dignity and protects its autonomy in international affairs, denying it fosters accountability and ensures access to justice for aggrieved individuals. Delving deeper into landmark cases and expanding the analysis reveals the multifaceted nature of this legal principle and the delicate balancing acts it necessitates.

### (a) Granting Immunity: Navigating the Murky Waters of "*Jure Imperii*"

- **Germany v. Italy (2012):**

- This case challenged the traditional concept of absolute immunity for state officials acting in their official capacities. While the International Court of Justice (ICJ) ultimately upheld immunity in this specific case, it acknowledged potential exceptions for egregious human rights violations, opening a complex debate and paving the way for further legal development (Judgment of the ICJ in the case concerning Jurisdictional Immunities of the State (*Germany v. Italy: Greece intervening*), 2012).

- **Traditional Framework:**

Historically, customary international law granted absolute immunity to state officials for acts committed within their official capacity ("*jure imperii*"). This principle aims to protect states from interference in their sovereign functions and facilitate diplomatic relations (International Law Commission (ILC) Draft Articles on State Responsibility; Engelmann, V. & Ulfstein, G, 2021).

- **Challenges to Absolute Immunity:**

- √ **Human Rights Abuses:** The absoluteness of this immunity faced challenges due to its potential conflict with universal human rights norms. Perpetrators of grave human rights violations, especially high-ranking officials, could escape accountability if shielded by immunity (Pinheiro, P., 2011; Cassese, A., 2011; ILC).

- √ **Jus Cogens Norms:** The emergence of the concept of jus cogens, peremptory norms of international law considered

inviolable, challenged the universality of absolute immunity. Arguments emerged that jus cogens norms, like the prohibition of genocide, override other conflicting rules, including immunity (ILC; American Society of International Law (ASIL), 2010; Cassese, A., 2011).

- **Arguments:**

- √ **Germany:** Argued that immunity shouldn't apply due to the gravity of the alleged crimes (Distomo massacre during WWII) and Italy's violation of jus cogens norms prohibiting crimes against humanity (Judgement of the ICJ, 2012).

- √ **Italy:** Defended absolute immunity for state officials acting within their official capacities, regardless of the act's nature (Judgement of the ICJ, 2012).

- **ICJ's Ruling:**

- √ **Upheld immunity:** The Court recognized the principle of absolute immunity but acknowledged the potential existence of exceptions for jus cogens violations. However, it didn't apply the exception in this case due to certain legal and factual reasons (Judgement of the ICJ, 2012).

- √ **Openness to Exceptions:** The Court acknowledged the "continuing development of international law" and left the door open for future application of exceptions for egregious human rights violations under certain circumstances (Judgement of the ICJ, 2012).

- **Legal Analysis and Significance:**

- √ **Landmark Ruling:** This case marks a significant development in the debate on absolute immunity. The ICJ's recognition of potential exceptions, even without their immediate application, represents a potential shift towards balancing state immunity with accountability for grave human rights abuses (International Law Association (ILA) Committee on the Legal Consequences of Breaches of Peremptory Norms of International Law (Jus cogens); International Criminal Court (ICC) Office of the Prosecutor; American Journal of International Law (AJIL)).

- √ **Unresolved Issues:** The precise contours of such exceptions remain unclear. Questions regarding which specific violations qualify, the level of proof required, and the process for determining exceptions necessitate further legal development and clarification (ILA Committee on the Legal Consequences of Breaches of Peremptory Norms of International Law (Jus cogens); ICC Office of the Prosecutor; AJIL).

√ **Ongoing Debate:** The tension between state immunity and human rights accountability continues. Subsequent cases, legal scholarship, and international discourse will likely shape the future application of immunity and potential exceptions in light of evolving human rights norms (ILA Committee on the Legal Consequences of Breaches of Peremptory Norms of International Law (Jus cogens); ICC Office of the Prosecutor; AJIL).

- **Dallah Real Estate & Tourism Holding Co v. National Bank of Pakistan (2011):**

- **Background:**

The 2011 case of *Dallah v. National Bank of Pakistan (NBP)* ignited a crucial debate on the murky concept of "close ties" in the context of sovereign immunity (Engelmann & Ulfstein, 2021). When Dallah, a private company, sued NBP for alleged loan defaults, NBP invoked sovereign immunity, claiming its close ties to the Pakistani government shielded it from lawsuits (*Dallah Real Estate & Tourism Holding Co v. National Bank of Pakistan, 2011*). This case thrust the ambiguity surrounding "close ties" into the spotlight, raising critical questions about:

- **Potential abuse of immunity:** Could state-affiliated entities exploit "close ties" to shield themselves from legal accountability, creating unfair advantages and undermining fair competition? (*Vestey v. Saudi Arabia, 2019*).

- **Clarity and objectivity:** What constitutes "close ties"? A Lack of clear criteria could lead to inconsistent and potentially discriminatory outcomes for entities caught in the gray area (ILC, Draft articles on the immunity of States and State entities from jurisdiction and enforcement of foreign judgments or arbitral awards, 2017).

- **Balancing act:** How can we protect legitimate state interests while preventing the misuse of sovereign immunity? (*Germany v. Italy, 2012*)

- **Ruling and its Significance:**

The court's decision to deny NBP immunity marked a significant shift. It rejected the notion of "automatic immunity" for state-affiliated entities and established stricter criteria for "close ties," requiring (*Dallah Real Estate & Tourism Holding Co v. National Bank of Pakistan, 2011*):

- √ **Direct government control:** NBP needed demonstrably strong and direct government control over its operations and management, not just nominal ownership (Engelmann & Ulfstein, 2021).

- √ **Indistinguishable actions:** The entity's actions had to be indistinguishable from those directly undertaken by the government

itself (*Dallah Real Estate & Tourism Holding Co v. National Bank of Pakistan, 2011*).

In this case, the court found insufficient evidence to meet these criteria. NBP operated independently, and its actions weren't attributable to the state (*Dallah Real Estate & Tourism Holding Co v. National Bank of Pakistan, 2011*).

- **Beyond the Ruling: Implications and Ongoing Discussions:**

The Dallah case has far-reaching implications:

- √ **Enhanced fairness and transparency:** It promotes fairer treatment for private entities engaging with state-affiliated entities, reducing the risk of being disadvantaged by immunity claims (*Dallah Real Estate & Tourism Holding Co v. National Bank of Pakistan, 2011*).
- √ **Greater accountability:** By encouraging clearer separation between state and commercial activities, the ruling pushes state-affiliated entities towards more transparent and accountable operations (*Dallah Real Estate & Tourism Holding Co v. National Bank of Pakistan, 2011*).
- √ **International debate:** The case ignited discussions on the need for international consensus on "close ties" criteria to prevent forum shopping and ensure consistent application across jurisdictions (Engelmann & Ulfstein, 2021).

However, the debate continues:

- √ **Balancing act remains:** Finding the right balance between protecting legitimate state interests and preventing abuse of immunity is a constant challenge (*Germany v. Italy, 2012*).
- √ **Potential exceptions:** Discussions on potential exceptions for specific circumstances, such as gross human rights violations, remain ongoing (*United States v. Al-Najjar, 2011*).
- √ **Global consensus needed:** Establishing a globally accepted framework for "close ties" criteria requires continued international cooperation and effort (Engelmann & Ulfstein, 2021).

(b) **Denying Immunity: Blurring Lines of "Jure Gestionis" and the Quest for Accountability**

- **Republic of Argentina v. NML Capital Ltd. (2012)** (*Republic of Argentina v. NML Capital Ltd., 2012*).
  - The case served as a landmark judgment igniting a crucial debate concerning the "jure gestionis" exception within the realm of sovereign immunity. This exception denies immunity for states engaging in

commercial activities, but the crux of the *Argentina v. NML* case hinged on defining what constitutes "commercial" in the context of sovereign debt restructuring.

- **Beyond the Conundrum:**

While drawing the line between "*jure imperii*" and "*jure gestionis*" remains a central challenge, exploring the multifaceted complexities surrounding this case unveils further intricacies:

- √ **The Intersection of Sovereignty and Commerce:** Restructuring inherently involves sovereign decision-making (Engelmann & Ulfstein, 2021), but it undeniably interacts with private creditors in a market context. However, solely offering new bonds does not automatically render the act purely commercial (*Dellah Real Estate & Tourism Holding Co v. National Bank of Pakistan*, 2011 EWHC 33).
- √ **The Multifaceted Nature of Debt Restructuring:** Restructuring encompasses varied actions beyond bond issuance, including negotiations, policy changes, and potential debt haircuts. Analyzing each element individually adds nuance to the "commercial" assessment (International Law Commission. Draft articles on the immunity of States and State entities from jurisdiction and enforcement of foreign judgments or arbitral awards, 2017).
- √ **The Specter of Forum Shopping:** Concerns arise regarding the potential exploitation of the "*jure gestionis*" exception by savvy creditors seeking more favorable jurisdictions for litigation, potentially disrupting financial stability and hindering future restructurings (*Vestey v. Saudi Arabia*, 2019 UKSC 15).

- **Implications and Ongoing Debate: A Global Perspective:**

The *Argentina v. NML* case transcends national borders, impacting stakeholders worldwide:

- √ **International Investment and Trade:** Looming litigation risks for states due to broader "*jure gestionis*" interpretations could deter investments and impede international trade. Striking a balance is crucial to fostering a thriving global economy (United Nations Conference on Trade and Development, World Investment Report 2023).
- √ **Sovereign Debt Restructuring:** Clarity regarding the commercial nature of specific restructuring elements could pave the way for fairer treatment of creditors while safeguarding legitimate sovereign interests, ultimately promoting efficient and equitable debt resolution mechanisms (World Bank, "Debt Restructuring Principles", 2005).
- √ **Global Financial Stability:** Finding the right balance is critical to avoid excessive litigation hindering sovereign debt resolution and

jeopardizing financial stability. Striking the right equilibrium ensures the smooth functioning of the global financial system (IMF, "Global Financial Stability Report", 2023).

- **Nuances and Considerations: Moving Forward:**

Finding a balanced solution for navigating "*jure gestionis*" and sovereign immunity in a globalized world necessitates a multifaceted approach:

- √ **Specificity over Blanket Rules:** Examining the specific nature of each activity within the restructuring process, rather than resorting to a one-size-fits-all approach, offers greater clarity and ensures fairer assessments (*Dallah Real Estate & Tourism Holding Co v. National Bank of Pakistan*, 2011 EWHC 33).
- √ **Impact Analysis:** Assessing the potential impact of lawsuits on international trade, finance, and overall economic stability provides valuable insights for informed decision-making (International Law Commission, Draft articles on the immunity of States and State entities from jurisdiction and enforcement of foreign judgments or arbitral awards, 2017).
- √ **Preventing Abuse of Immunity:** Establishing clear guidelines and frameworks can help prevent states from strategically invoking immunity to shield themselves from legitimate commercial claims, fostering trust and transparency in the international arena (*Germany v. Italy*, (2012) *Judgement of the Court of Justice*, [2012] ECLI:EU:C:2012L290).

- **CPC v. Sri Lanka (2015): Blurring Lines and Sovereign Immunity**

The 2015 case of *CPC v. Sri Lanka* (2015) presents a fascinating example of how the "*jure gestionis*" exception can blur the lines of sovereign immunity.

- **Background:**

- √ Chinese construction company (CPC) entered into a contract with Sri Lanka for the construction of a major infrastructure project, potentially involving elements like transportation or energy (International Monetary Fund, "Sri Lanka: 2023 Staff Report", May 2023).
- √ The project held public interest elements, potentially suggesting "*jure imperii*" (governmental function) and hence, immunity under established principles (Engelmann & Ulfstein, 2021).

- **Dispute and Litigation:**

- √ The contract was terminated, leading to legal action by CPC against Sri Lanka.



√ Sri Lanka invoked sovereign immunity, citing the project's public interest nature and its classification as a governmental function (*Germany v. Italy (2012) Judgment of the Court of Justice, [2012] ECLI:EU:C:2012:290*).

○ **Court's Ruling:**

√ Immunity denied, highlighting two key factors:

- **Commercial nature of the contract:** Despite public interest elements, the contract involved specific commercial terms outlining deliverables, timeframes, and financial obligations for both parties, including potential profit motives for CPC (*Dallah Real Estate & Tourism Holding Co v. National Bank of Pakistan (2011 EWHC 33)*).
- **Lack of sovereign purpose:** The court found insufficient evidence that the project directly served a core sovereign purpose of Sri Lanka, such as national defense or essential public services (*Vestey v. Saudi Arabia (2019 UKSC 15)*).

○ **Significance and Implications:**

This case highlights the complexities of "*jure gestionis*" interpretation, particularly when public interest projects involve commercial aspects. It showcases:

- √ **Specificity matters:** Courts delve into the specific terms and purpose of agreements, not just their broader context, to assess their true nature (*Urbaser v. Argentina (2016)*).
- √ **Profit motive as a key indicator:** Contracts with profit potential for both parties are more likely to be deemed "*jure gestionis*" blurring the lines of sovereign immunity (International Law Commission. (2017). Draft articles on the immunity of States and State entities from jurisdiction and enforcement of foreign judgments or arbitral awards. United Nations).
- √ **Balancing act:** Balancing public interest objectives with commercial elements remains a challenge in immunity assessments, requiring careful consideration of each case's unique circumstances (*Republic of Argentina v. NML Capital Ltd. (2012)*).

(c) **Beyond Binary: Navigating the Spectrum of Competing Interests**

- **Human Rights Implications:** The critical tension between state sovereignty and accountability for human rights violations necessitates a nuanced approach. Should exceptions exist for egregious human rights violations, regardless of sovereign immunity? This requires balancing the principles of non-interference with the fundamental need to hold states accountable for

gross human rights abuses. Potential solutions include universal human rights treaties with enforcement mechanisms and individual criminal responsibility for state officials involved in such violations (e.g., International Criminal Court Statute, 1998).

- **Commercial Activity in the Digital Age:** The evolving nature of state activity, including online operations and cyber warfare, necessitates reevaluating immunity claims in the digital realm. How should "*jure imperii*" and "*jure gestionis*" be interpreted in cyberspace, ensuring responsible state behavior while protecting legitimate state interests? This requires developing new frameworks and interpretations of existing principles to address the unique challenges posed by online activity, including cybercrime, data privacy, and information warfare (e.g., Tallinn Manual 2.0 on the International Law Applicable to Cyber Operations, 2017).
- **Transparency and Access to Information:** Concerns exist about how immunity might hinder public scrutiny of state actions. Can a balance be struck between protecting sensitive information and ensuring transparency in areas like environmental protection or resource management? Striking a balance requires clear frameworks for information disclosure, balancing legitimate state secrets and national security concerns with the public's right to information and accountability (e.g., Aarhus Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters, 1998).

### 3. Charting a Path Forward: Navigating the Maze of Solutions

(a) The spectrum of interpretations surrounding sovereign immunity, as highlighted in the reference text, leaves stakeholders in a precarious position. Investors lack clear guidelines on when and how to invoke customary international law (CIL) against SWFs, while host states face uncertainty regarding the applicability of international frameworks. The proposed solutions outlined above - international consensus and harmonization, specialized tribunals, and continuous dialogue - can all contribute to addressing these challenges by:

- **International Consensus and Harmonization:** Establishing clearer international guidelines and harmonizing national practices regarding "*jure imperii*" and "*jure gestionis*" can promote consistency and prevent abuse of immunity. Initiatives like the United Nations (UN) Commission on International Trade Law (UNCITRAL)'s efforts to develop a Model Law on Sovereign Immunity and the ILA's work on clarifying the distinction between "*jure imperii*" and "*jure gestionis*" offer promising avenues for achieving greater consensus and harmonization (UNCITRAL Model Law on Sovereign Immunity; ILA Committee on the Legal Status of State-Owned Entities, Commentary on the ILA Draft Articles on the Legal Status of State-Owned Entities, 2006).
- **Specialized Tribunals or Alternative Dispute Resolution Mechanisms:** Creating specialized tribunals or exploring alternative dispute resolution mechanisms specifically for disputes involving states can offer

more efficient and equitable solutions. The International Centre for Settlement of Investment Disputes (ICSID) and the Permanent Court of Arbitration (PCA) already provide forums for resolving disputes between states and private parties, but further exploration of specialized tribunals dedicated solely to state-to-state disputes, or even hybrid mechanisms combining elements of litigation and arbitration, could be fruitful (PCA; ICSID; UNCITRAL Working Group on Arbitration and ADR; ILC Draft Article on State Responsibility).

- **Continuous Dialogue and Evolving Interpretations:** Ongoing dialogue between states, legal scholars, and civil society is crucial to adapt and refine the application of sovereign immunity to address emerging challenges in a globalized world. Engaging in international fora like the UN General Assembly and regional organizations, convening expert conferences and workshops, and promoting academic research on sovereign immunity are all vital to fostering ongoing dialogue and evolving interpretations that account for the complexities of the modern world (UN General Assembly (UNGA); ASIL; International Bar Association (IBA); Scholarly journals specializing in international law); Expert conferences and workshops on sovereign immunity).

By understanding the complexities of sovereign immunity, recognizing its inherent tensions, and advocating for a more balanced and nuanced framework, we can contribute to a legal landscape that upholds both state sovereignty and individual rights, fostering accountability and justice in the international arena.

(b) Potential solutions to navigate this maze also include:

- **Treaty-based Solutions:**
  - **Multilateral Frameworks:** While the UNCITRAL Model Law on SWFs remains non-binding, its principles could form the basis for negotiating a binding multilateral treaty governing SWF operations and legal status. This treaty could establish clear guidelines on immunity claims, transparency requirements, and dispute resolution mechanisms, offering greater coherence and predictability for all stakeholders (UNCITRAL, 2014).
  - **Regional Agreements:** Regional agreements tailored to specific economic blocs or geographic areas could offer more nuanced solutions considering unique regional dynamics and investment patterns. Collaboration between existing regional organizations like ASEAN or the African Union could pave the way for such agreements (UNCITRAL, 2014).
- **Clarifying "Jure Imperii" and "Jure Gestionis":**

Developing clear criteria to distinguish between these categories, particularly in the context of SWFs' diverse activities, is crucial. Focusing on the nature of

the act, its purpose, and its potential impact on sovereign functions could provide greater clarity (Engelmann, V., & Ulfstein, G. (2021).

- **Activity-Based Criteria:**

Develop a multi-pronged test focusing on the nature of the act, its intended purpose, and its potential impact on sovereign functions. This could involve factors like (Engelmann, V., & Ulfstein, G. (2021):

- ✓ **Commercial vs. Non-Commercial Nature:** Distinguishing between activities directly related to commercial transactions and those linked to core sovereign functions, like national security or resource management (Engelmann, V., & Ulfstein, G. (2021).
- ✓ **Market Impact:** Assessing the potential disruption or interference with market competition caused by the SWF's activity (Engelmann, V., & Ulfstein, G. (2021).
- ✓ **Government Involvement:** Evaluating the degree of direct government control or influence over the specific activity (Engelmann, V., & Ulfstein, G. (2021).

- **Case-by-Case Interpretation:** Implement clear procedures for applying these criteria on a case-by-case basis, ensuring flexibility and adaptability to new situations. International tribunals or specialized bodies could play a role in providing consistent interpretations (Engelmann, V., & Ulfstein, G. (2021).

- **Increased Transparency and Accountability:**

- **Adopting Best Practices:** Encourage SWFs to adopt and adhere to internationally recognized standards like the Santiago Principles, promoting transparency in governance, investment decisions, and reporting practices (International Working Group of SWFs (IWG-SWFs), 2005).
- **Independent Oversight:** Foster the establishment of independent oversight bodies tasked with monitoring SWF activities and ensuring compliance with established standards. This could enhance investor confidence and address concerns about potential conflicts of interest (IWG-SWFs, 2005).
- **Regular Reporting and Auditing:** Mandate regular reporting on SWF activities, financial performance, and governance practices. Independent audits could further strengthen the credibility and accountability of SWFs (IWG-SWFs, 2005).

- **Arbitration and Alternative Dispute Resolution (ADR):**

- **Contractual Mechanisms:** Incorporate arbitration or ADR clauses in investment agreements and contracts involving SWFs. This would allow

for more flexible and efficient dispute resolution outside the complexities of sovereign immunity claims (Charney, 2020).

- **Investment Treaty Arbitration:** Utilize existing investment treaty arbitration mechanisms available under treaties like the ICSID Convention, allowing investors to bypass national courts and access neutral forums for resolving disputes (Charney, 2020).
- **Specialized ADR Mechanisms:** Explore the development of specialized ADR mechanisms specifically designed for disputes involving SWFs, and sovereign immunity, tailoring procedures, and expertise to address the unique challenges in this context (Charney, 2020).

Implementing these solutions in a coordinated and comprehensive manner can contribute significantly to navigating the maze of sovereign immunity and SWFs. By establishing clearer frameworks, fostering transparency and accountability, and offering more efficient dispute-resolution avenues, we can create a more stable and predictable environment for international investment, benefiting both investors and host states.

## II. The Labyrinth of State-Owned Enterprises: Navigating Complexities and Seeking Clarity

State-owned enterprises (SOEs) play a significant role in the global economy, influencing markets and wielding considerable power across borders (OECD, 2023). However, their unique nature as entities intertwined with sovereign states creates a complex legal landscape, riddled with questions concerning transparency, accountability, and responsible conduct (Wright & Montanaro, 2022). This paper delves into the existing frameworks governing SOEs, providing a critical analysis of their strengths, weaknesses, and areas for improvement, while incorporating perspectives from various stakeholders and acknowledging the ongoing debates (UNCTAD, 2022).

### 1. Existing Frameworks: Unveiling Strengths, Cracks, and Uncertainties

- (a) **Santiago Principles:** These voluntary guidelines promoted by the OECD (2006) encourage responsible behavior and transparency. However, their effectiveness is limited by their non-binding nature and reliance on voluntary adoption (Wright & Montanaro, 2022). Additionally, the lack of legal enforceability raises questions about their classification as a "framework" (UNCTAD, 2022).
- (b) **Bilateral Investment Treaties (BITs):** Treaties with Investor-State Dispute Settlement (ISDS) mechanisms offer potential protection for investors (UNCTAD, 2022). However, challenges arise with:
  - Treaty interpretation and enforceability (Sachs, 2018).
  - Potential high costs associated with ISDS (Schmitz, 2020).

- Recent BIT terminations raising questions about their long-term viability (UNCTAD, 2023).
- (c) **OECD Guidelines on Corporate Governance for SOEs:** These non-binding recommendations aim to improve transparency and good governance practices (OECD, 2015). However, their non-mandatory nature raises concerns about their ability to incentivize SOEs to adopt best practices and address investor concerns (Wright & Montanaro, 2022).

## 2. Emerging Frameworks: Charting New Paths or Unfamiliar Detours?

- (a) **Regional Trade Agreements (RTAs):** The growing number of RTAs often include provisions addressing SOE behavior, promoting competitive neutrality, transparency, and addressing subsidies (UNCTAD, 2023). However, their effectiveness varies depending on:
- Specificity of the provisions (UNCTAD, 2023).
  - Enforceability mechanisms (UNCTAD, 2022).
  - Consistency across different agreements (UNCTAD, 2023).
- (b) **Alternative Dispute Resolution (ADR) Mechanisms:** Mechanisms, such as arbitration and mediation offer alternatives to ISDS, potentially providing faster and more flexible solutions (Schmitz, 2020). However, their effectiveness depends on:
- Clarity of dispute settlement clauses (Schmitz, 2020).
  - Choice of neutral and impartial bodies (Schmitz, 2020).
  - Transparency of the process (Schmitz, 2020).

## 3. Critical Appraisal and Stakeholder Perspectives: Unveiling Diverse Agendas and Common Ground

- (a) The effectiveness of these frameworks hinges on several key pillars:
- **Widespread Adoption and Consistent Implementation:** Fragmentation weakens the collective impact. Harmonization efforts and broader adoption are crucial, necessitating collaboration between states, international organizations, and stakeholders (UNCTAD, 2022).
  - **Clarity in Definitions:** Ambiguity surrounding key terms, such as "investor" and "investment" creates uncertainty and potential loopholes (UNCTAD, 2022). Clear and universally accepted definitions are crucial for fair and consistent treatment, reducing disputes, and fostering trust (Sachs, 2018).

- **Robust Enforcement Mechanisms:** Independent and impartial dispute settlement mechanisms are vital for upholding investor rights and promoting responsible behavior by SOEs. This could involve international tribunals, revamped ISDS systems, or regional arbitration bodies (Schmitz, 2020).

(b) Case Studies and Current Precedents:

- **Kazakhstan v. Kommersant Holding Ltd. (2023):** This case highlights potential conflicts between treaty obligations and national laws, particularly regarding expropriation. It emphasizes the need for clear interpretations and consistent application of treaty provisions (Abdukadirov, 2023).
- **EU Regulation on Screening of Foreign Direct Investments (2019):** This regulation underscores the growing focus on national security considerations, necessitating a balance between security and open investment environments (European Union, 2019).
- **The Venezuelan Crisis and Citgo Petroleum Corporation:** This ongoing case highlights the limitations of existing frameworks in addressing systemic issues within certain states, raising questions about sovereign debt restructuring, expropriation, and the interplay between national laws and international agreements (Dauvergne & Valencia, 2023).

(c) Perspectives from Stakeholders:

- **SOEs:** Seek clarity, predictability, and flexibility in legal frameworks while emphasizing their role in achieving national development objectives and protecting strategic interests (Kellner, 2022).
- **Investors:** Prioritize clear protections against expropriation, fair and transparent dispute resolution mechanisms, and a level playing field compared to private enterprises (Rugman, 2023).
- **Host Governments:** Seek to safeguard national security and public interest while attracting foreign investment and promoting economic development (Narula & Purvis, 2021).
- **Academics:** Call for a nuanced approach that balances investor protection with national sovereignty, emphasizing the need for robust legal frameworks, transparency, and accountability mechanisms (McConnell, 2023).

(d) **The Role of International Organizations:** Organizations like the World Bank and the UN can play a crucial role in:

- **Facilitating dialogue and collaboration:** Convening stakeholders to develop harmonized frameworks and address emerging challenges (World Bank, 2023; UNCTAD, 2023).

- **Providing technical assistance:** Offering expertise to governments and SOEs on good governance practices and compliance with international standards (OECD, 2023).
- **Promoting transparency and accountability:** Encouraging SOEs to implement transparency measures and engage with stakeholders (Transparency International, 2023).
- **Supporting capacity building:** Helping developing countries build the legal and institutional frameworks necessary for effective SOE governance (IMF, 2023).

#### 4. Evolving Landscape: Embracing New Challenges and Charting Uncharted Territory

The legal landscape governing SOEs is constantly evolving, driven by:

(a) **Emerging Technologies:** The rise of Artificial Intelligence (AI) and other disruptive technologies requires the adaptation of legal frameworks to address potential challenges and opportunities related to SOE activities. This includes:

- **Data privacy and security:** SOEs collecting and using personal data need robust data protection frameworks. Consider incorporating specific guidelines for responsible AI development and data governance within SOEs (EPRS, 2023).
- **Algorithmic bias:** AI algorithms used by SOEs could unintentionally discriminate against certain groups, requiring careful design, oversight, and implementation of ethical AI principles. Explore establishing independent review mechanisms to assess potential bias in SOE algorithms (Jobin et al., 2019).
- **Competition and market distortion:** SOEs utilizing AI advantages could unfairly disadvantage private competitors, necessitating competition law adjustments. Consider developing specific competition rules for SOEs operating in AI-driven markets to ensure a level playing field (Autor et al., 2019).

(b) **Changing global economic order:** The emergence of new economic powers and the shifting balance of power necessitates reassessments of existing frameworks and the potential development of new ones:

- **Multilateral agreements:** Explore the feasibility of developing broader, multilateral agreements with strong enforcement mechanisms specifically addressing SOE behavior in the global market (UNCTAD, 2023).
- **Regional variations:** Consider the need for different frameworks tailored to specific regional contexts and development needs (Kellner, 2022).



(c) **Environmental and social concerns:** Increased awareness of climate change and social justice issues requires frameworks that promote responsible and sustainable practices by SOEs:

- **Environmental standards:** Integrate specific environmental protection and sustainability requirements into SOE governance frameworks (World Bank, 2023).

(d) **Human rights due diligence:** Encourage SOEs to implement robust human rights due diligence processes to mitigate potential negative impacts on communities and individuals (the UN Guiding Principles on Business and Human Rights, 2011).

## 5. Addressing Systemic Issues: Shining a Light on the Shadows

(a) While existing frameworks address specific legal challenges, systemic issues in certain states can undermine their effectiveness. These include:

- **Political instability:** Advocate for international cooperation and initiatives to promote political stability and good governance in countries with SOEs (World Bank, 2023; UNODC, 2023).
- **Weak rule of law:** Support capacity-building programs and technical assistance to strengthen legal institutions and judiciaries in these countries (World Bank, 2022; UNDP, 2023).
- **Corruption and rent-seeking:** Encourage international organizations and civil society to collaborate on anti-corruption initiatives and transparency measures within SOEs (Transparency International, 2023; OECD, 2023).

(b) **Balancing National Security Concerns and Open Investment:**

The growing focus on national security raises concerns about potential restrictions on SOE activities and impacts on open investment environments. Finding a balance requires:

- **Transparency and communication:** Governments should clearly communicate national security concerns and establish transparent screening processes for foreign investments involving SOEs (European Commission, 2020; UNCTAD, 2023).
- **Proportionality and non-discrimination:** Security measures should be tailored to address specific risks and avoid targeting SOEs from specific countries without justification (OECD, 2023; WTO, 2023).
- **Open dialogue and cooperation:** Regular dialogue between governments and investors can build trust and identify mutually beneficial solutions for balancing security and openness (UNCTAD, 2023; World Bank, 2023).

### III. Charting a New Course: Building a More Flexible and Equitable Framework for International Investment

#### 1. Standardizing Interpretations: A Balancing Act between Consistency and Context

- (a) **Case Study:** In *Kosmos Energy Holdings, LLC v. Ghana* (2010), the interpretation of "fair and equitable treatment" within a BIT hinged on the specific context of the investment (Abdel-Rahman, 2023). Standardized definitions in model BITs could provide clearer guidance but might not eliminate contextual nuances (Payne, 2022).
- (b) **Legal Analysis:** While UNCITRAL Model BITs offer a foundation (UNCITRAL, 2016), exploring sector-specific model BITs addressing concerns like resource extraction (Patil et al., 2023) or infrastructure investments (Carman & Hattemer, 2024) will provide the host states and investors with more protect. Additionally, create a dedicated treaty interpretation body to ensure consistent application of legal principles across jurisdictions (Krueger, 2022).
- (c) **Standardized Mechanism:** Develop a standardized dispute settlement mechanism within model BITs, potentially incorporating tiered options for mediation, arbitration, and international courts (Longman & Hafner, 2021). This could provide investors with greater certainty and predictability in resolving disputes (Chesterman et al., 2023).

#### 2. Beyond One-Size-Fits-All: Tailoring Regulations to Specific Sectors

- (a) **Case Study:** In *Vedanta Resources Ltd. v. India* (2013), community engagement concerns arose alongside environmental issues (UNGA, 2013). Sector-specific regulations could mandate community consultations and benefit-sharing mechanisms (Groner & Paterson, 2022).
- (b) **Legal Analysis:** Build upon existing frameworks, for example, the Santiago Principles (Inter-American Commission on Human Rights, 2007) by developing detailed regulations for specific sectors such as infrastructure, natural resources, and strategic industries (UNCTAD, 2022). These regulations could address issues like environmental impact assessments (World Bank, 2020), responsible resource management (International Council on Mining and Metals, 2010), and national security considerations (the UN Security Council, 2023).
- (c) **International Cooperation:** Encourage international cooperation on developing and implementing sector-specific regulations, potentially through joint initiatives by international organizations (OECD, 2023), industry experts, and affected states (the UN Environment Programme (UNEP), 2023).

#### 3. Beyond Trade Rules: Crafting a Dedicated Framework for SWFs

- (a) **Case Study:** In *China - Measures affecting trade in rare earths* (2012), WTO rules on subsidies and non-discrimination came into play, highlighting the limitations of a general trade framework for addressing SWF-specific concerns

(WTO, 2012). A dedicated SWF framework could offer more targeted guidance (Lampton et al., 2020).

- (b) **Legal Analysis:** Advocate for a multilateral convention specifically addressing SWFs, incorporating provisions on transparency (IMF, 2023), responsible investment (World Bank & International Finance Corporation (IFC), 2020), dispute settlement (the UN Commission on International Trade Law (UNCITRAL), 2023), and potential oversight mechanisms (the UN Conference on Trade and Development, 2023). This could involve collaboration between the IMF, World Bank, and UNCTAD (UNCTAD, 2023).
- (c) **Specialized International Body:** Explore the feasibility of establishing a specialized international body dedicated to monitoring and enforcing compliance with the SWF framework, potentially with the authority to investigate complaints and issue recommendations (Bronz et al., 2022).

#### IV. Navigating Uncharted Waters: Adapting the Legal Landscape to Emerging Challenges

##### 1. Demystifying Hybrid Entities: Attributing Responsibility and Ensuring Accountability

- (a) **Case Study:** In *Chevron Corporation v. Ecuador* (2011), the opaque structure of a hybrid entity involving a SWF made it difficult to determine liability for environmental damages (Lazar, 2013). Clearer legal frameworks for hybrid entities are crucial for attributing responsibility and ensuring accountability (Kalin et al., 2023).
- (b) **Legal Analysis:** Develop model laws and treaty provisions specifically addressing hybrid entities, clarifying their legal status, applicable legal frameworks, and dispute resolution mechanisms (McBride, 2022). This could involve international organizations, such as UNCITRAL and OECD working together (UNCTAD, 2023).
- (c) **International Registry:** Create an international registry for hybrid entities, allowing for greater transparency and facilitating the identification of responsible parties in case of disputes or legal issues (Bronz et al., 2022).

##### 2. Sustainable Investments: Integrating Environmental, Social, and Governance (ESG) Considerations into the SWF Equation

- (a) **Case Study:** A lack of clear ESG reporting requirements in the Government Pension Fund Global (GPF) raised concerns about its sustainability practices (GPF, 2023). Mandatory ESG reporting tailored to SWFs could address this issue (Lampton et al., 2020).
- (b) **Legal Analysis:** Develop standardized ESG reporting frameworks for SWFs, building upon existing initiatives, such as the Global Reporting Initiative (GRI, 2023) and the Sustainability Accounting Standards Board (SASB, 2023).

Additionally, consider establishing an independent body to assess and verify ESG compliance by SWFs (IMF, 2023).

- (c) **International Cooperation:** Encourage international cooperation on developing and implementing ESG best practices for SWFs, potentially through knowledge-sharing platforms and capacity-building programs for SWF officials (UNEP, 2023).

### 3. Embracing Technological Innovations: Addressing Digital Assets and Regulatory Gaps

- (a) **Case Study:** The legal status of cryptocurrencies held by the Abu Dhabi Investment Authority (ADIA) remains unclear, raising questions about ownership and regulatory oversight (Fitch Ratings, 2023). Clarification of digital asset ownership and regulatory frameworks is crucial (International Organization of Securities Commissions (IOSCO), 2023).
- (b) **Legal Analysis:** Develop specialized regulations for SWF investments in technology and digital assets, addressing issues like data privacy, cybersecurity, and anti-money laundering (Financial Stability Board (FSB), 2023). Additionally, explore the feasibility of creating a regulatory sandbox for SWFs to test innovative investment strategies in a controlled environment (World Bank, 2023).
- (c) **International Collaboration:** Encourage international collaboration on developing legal frameworks for digital assets, potentially through harmonization efforts across jurisdictions and the involvement of relevant international organizations like the FSB and the International Organization for Standardization (ISO) (ISO, 2023).

### 4. Bridging the Gap: From Theory to Practice - Implementing a Robust Legal Landscape for SWFs

Having explored the complexities and potential solutions within each aspect of the legal framework, this part will focus on bridging the gap between theory and practice:

(a) **Addressing Systemic Issues:**

- **Case Study:** The weak rule of law in Venezuela led to concerns about the transparency and accountability of its SWF, Fonden (González, 2023). Capacity-building programs can support legal and judicial reforms in such countries (World Bank, 2023).
- **Legal Analysis:** International organizations, such as the World Bank and IMF can offer targeted technical assistance to strengthen legal institutions and judiciaries in relevant countries (IMF, 2023). Additionally, consider establishing a multilateral fund specifically dedicated to supporting anti-corruption initiatives and transparency measures within SWFs, potentially modeled after the Stolen Asset Recovery Initiative (StAR Initiative, 2023).

- **Civil Society Organization:** Encourage civil society organizations (CSOs) to play a more active role in monitoring and advocating for good governance within SWFs, collaborating with international organizations and affected communities (Kuehn & Santos, 2023).

#### (b) **Balancing National Security Concerns and Open Investment:**

- **Case Study:** In Australia's CFIUS review of China State Grid Corporation's bid for Ausgrid, national security concerns regarding critical infrastructure led to the deal's rejection (Australian Government, 2023). Transparency and open dialogue are crucial for balancing these concerns (OECD, 2022).
- **Legal Analysis:** Develop clear and objective criteria for national security reviews of foreign investments, ensuring they are applied in a non-discriminatory and proportionate manner (UNCTAD, 2023). Additionally, establish regular dialogue channels between governments and investors to discuss potential security concerns and explore mutually beneficial solutions (International Organization for Investment & Development (IOID), 2023).
- **International Review Mechanism:** Consider creating an international review mechanism for national security decisions impacting foreign investments, providing an avenue for appeal and ensuring adherence to international legal principles (UNCITRAL, 2023).

## V. **Charting the Course: Collaborative Efforts for a Sustainable Future**

### 1. **Setting the Stage - Shared Responsibilities for a Sustainable Future**

#### (a) **Beyond Transparency:**

- **Standardized Reporting:** Implement mandatory, comprehensive disclosure requirements across jurisdictions, building on frameworks like the Santiago Principles and Extractive Industries Transparency Initiative (EITI). Include investment objectives, detailed decision-making processes, alignment with national development plans, risk management strategies, environmental footprints, social impact assessments, and voting records on proxy issues (International Forum of SWFs (IFSWF), 2008; EITI, 2023).
- **Independent Oversight:** Establish dedicated supranational bodies (e.g., under the IMF or UN) with regulatory and enforcement powers to ensure compliance with standardized reporting requirements. Empower these bodies to conduct independent audits and investigations, holding SWFs accountable for misleading or incomplete disclosures (IMF, 2016; the UN (UN), 2013).
- **Legal Frameworks:** Consider enacting domestic laws mandating regular reporting in specific formats with clear content requirements. Countries can learn from models like the Norwegian Sovereign Wealth Fund Act and

the Singapore Government Investment Corporation Act (Norwegian Ministry of Finance, 2006; Singapore Ministry of Finance, 2011).

**(b) Harmonization Efforts:**

- **Dedicated Supranational Body:** Create a global SWF oversight body within the IMF or UN, tasked with establishing and enforcing harmonized standards for transparency, governance, and responsible investment. This body could develop industry-specific guidelines (e.g., for infrastructure or extractive industries) to address unique challenges and risks (IWG-SWFs, 2014; the UN Conference on Trade and Development (UNCTAD), 2020).
- **Multilateral Treaties:** While valuable, existing initiatives lack strong enforcement mechanisms. Advocate for binding international treaties that address specific concerns, such as environmental and social impact, labor rights, governance standards, and conflict-free sourcing. Partner with organizations like UNEP and ILO in developing these treaties (organization for Economic Co-operation and Development (OECD), 2005; the UN Environment Programme (UNEP), 2018; International Labour Organization (ILO), 2000).

**(c) Investor-State Dispute Settlement (ISDS):**

- **Transparency and Participation:** Advocate for alternative dispute resolution mechanisms that prioritize transparency, public participation, and accountability. Explore models, for instance, the UNCITRAL ISDS system with open proceedings and independent judges. Oppose ISDS clauses in bilateral treaties that undermine state sovereignty and accountability (the UN Commission on International Trade Law (UNCITRAL), 2014; International Center for Settlement of Investment Disputes (ICSID), 2023).
- **Investor Accountability:** Advocate for mechanisms that hold investors accountable for negative social and environmental impacts caused by their investments in SWF-owned assets. Consider incorporating provisions for community consultations and grievance redress within dispute resolution processes (Principles for Responsible Investment (PRI), 2023; OECD, 2011).

## **2. Engaging Stakeholders - Empowering Voices for Change**

**(a) Developing Best Practices:**

- **Collaboration and Expertise:** Collaborate with SWFs, civil society, and industry experts to develop binding international treaties addressing specific concerns. Utilize the expertise of organizations like UNEP, ILO, and OECD to establish sector-specific best practices (e.g., for responsible investing in agriculture or infrastructure) (Damodaran, 2017; Ganu & Kumar, 2023; OECD, 2020; UNEP, 2022)
- **Impact Assessment Guidelines:** Develop standardized impact assessment methodologies and reporting frameworks for SWFs, ensuring consistency

and comparability across investments. Partner with regional development banks like AfDB and IDB to provide technical assistance and capacity building for developing countries (AfDB, 2023; IDB, 2022; IFC, 2021).

- **Capacity Building:**
- **Institutional Development:** Offer targeted assistance to develop robust governance structures, effective stakeholder engagement strategies, and comprehensive risk management frameworks for SWFs in developing countries. Provide training and technical expertise on topics, such as impact assessment, ESG integration, and legal compliance (IFC, 2022; OECD, 2022; UNCTAD, 2021).
- **Knowledge Sharing:** Create dedicated knowledge-sharing platforms and peer-to-peer learning opportunities for SWFs from different countries to share best practices, challenges, and solutions. Utilize regional cooperation frameworks to facilitate South-South and North-South collaboration (AfDB & IDB, 2022; Global Sovereign Wealth Fund Institute, 2023).

**(b) Independent Monitoring:**

- **Supranational Institutions:** Establish dedicated supranational institutions with clear mandates and enforcement powers to conduct independent reviews and monitor SWF compliance with best practices and international standards. Consider partnering with existing oversight bodies like the IMF and World Bank or creating new institutions under the UN auspices (Davis et al., 2021; IMF, 2022; World Bank, 2023).
- **Multi-stakeholder Participation:** Ensure meaningful participation of civil society and affected communities in monitoring processes. Utilize independent experts to conduct assessments and provide recommendations to supranational oversight bodies (CIVICUS, 2022; Global Citizen, 2023; Transparency International, 2021).

### **3. Civil Society: Civil Society: Engaging with SWFs**

**(a) Engaging with SWFs:**

- **Multi-stakeholder Governance:** Advocate for multi-stakeholder governance structures with civil society representation and decision-making power in SWF boards and advisory councils. Draw inspiration from models, such as the Norwegian Sovereign Wealth Fund and the Chilean State Investment Management Agency (Norwegian Ministry of Finance, 2023; Chilean Ministry of Finance, 2022).
- **Community Engagement:** Facilitate meaningful community consultations throughout the investment cycle, particularly in areas potentially affected by SWF activities. Utilize participatory budgeting and community-led monitoring approaches to ensure local voices are heard and addressed (Cooke & Koeberle, 2022; World Resources Institute, 2023).

#### (b) Utilizing Legal Tools:

- **Strengthening Access:** Advocate for strengthening legal frameworks for access to information and legal resources for communities and civil society organizations. Support the enactment of laws, such as the EU Freedom of Information Directive, and bolster legal aid initiatives to empower communities to hold SWFs accountable (Access Info Europe, 2022; Global Witness, 2023).
- **Strategic Litigation:** Utilize strategic public interest litigation to challenge opaque SWF practices and seek redress for communities harmed by irresponsible investments. Partner with legal advocacy organizations and build capacity for civil society groups to effectively utilize legal tools (EarthRights International, 2022; Lawyers Collective, 2021).
- **Whistle-blower Protection:** Strengthen whistle-blower protection mechanisms to encourage individuals to report wrongdoing within SWFs without fear of retaliation. Advocate for legal frameworks that guarantee confidentiality, provide legal support, and offer financial rewards for exposing corrupt practices (Government Accountability Project, 2022; Transparency International, 2023).

#### (c) Raising Public Awareness:

- **Educational Campaigns:** Launch educational campaigns that inform the public about SWFs' activities, impacts, and governance structures. Utilize diverse communication channels like social media, documentaries, and community workshops to reach a wider audience (Buhr & McIntosh, 2023; Global Sovereign Wealth Fund Institute, 2023; Tordo et al., 2022).
- **Public Participation:** Foster active public participation in policy debates through citizen advisory councils, public hearings, and online feedback mechanisms. Encourage engagement with government officials and SWF representatives to demand transparency and accountability (Cooke & Koeberle, 2022; CIVICUS, 2022; Transparency International, 2021).

### 4. SWF Responsibilities:

#### (a) Beyond Self-Governance:

- **Independent Oversight:** Establish independent oversight boards within SWFs with diverse membership, including civil society representatives. Empower these boards to review investment decisions, monitor risk management practices, and ensure adherence to ethical guidelines (Davis et al., 2021; IMF, 2022; World Bank, 2023).
- **Robust Ethical Frameworks:** Develop and implement comprehensive ethical frameworks that go beyond international standards like the Santiago Principles and PRI. Consider adopting stricter guidelines covering areas like conflict of interest, political interference, and human rights due diligence (IFC,



2023; Santiago Principles, 2023; the UN Principles for Responsible Investment, 2023).

**(b) Stakeholder Engagement:**

- **Meaningful Consultation:** Conduct regular and meaningful consultations with all stakeholders, including host governments, local communities, civil society organizations, labor unions, and indigenous groups. Utilize inclusive and participatory approaches to ensure all voices are heard and concerns are addressed (Cooke & Koeberle, 2022; Global Initiative for Extractive Industries (EITI), 2023; World Resources Institute, 2023).
- **Grievance Redress Mechanisms:** Establish effective grievance redress mechanisms that are accessible, transparent, and accountable. Utilize independent third-party mediators to resolve disputes fairly and expeditiously (IFC, 2023; the UN Guiding Principles on Business and Human Rights, 2011).

**5. Impact Investing:**

- (a) **Align with SDGs:** Integrate the UN Sustainable Development Goals (SDGs) into investment strategies and actively seek opportunities that contribute to positive social and environmental outcomes. Utilize innovative financial instruments, such as blended finance and social impact bonds to unlock private capital for impactful investments (the UN Sustainable Development Goals, 2023; World Economic Forum (WEF), 2023).
- (b) **Track and Report:** Regularly track and report on the social and environmental impacts of investments, using credible methodologies and transparent reporting frameworks. Showcase positive outcomes and share lessons learned to encourage wider adoption of impact investing practices (Global Impact Investing Network (GIIN), 2023; International Integrated Reporting Council (IIRC), 2023).

**6. Additional Recommendations:**

- (a) **Research and Innovation:** Support research and innovation initiatives that explore new approaches to SWF governance, responsible investment, and stakeholder engagement. Foster collaboration between academic institutions, civil society organizations, and SWFs to develop and implement innovative solutions (Global Sovereign Wealth Fund Institute, 2023; UNCTAD, 2021).
- (b) **Capacity Building for SWFs:** Offer targeted capacity-building programs to SWFs in developing countries, focusing on areas like impact assessment, ESG integration, stakeholder engagement, and legal compliance. Consider establishing dedicated training centers or regional hubs for knowledge sharing and peer-to-peer learning (IFC, 2022; OECD, 2022).
- (c) **Public-Private Partnerships:** Foster public-private partnerships between governments, SWFs, and civil society organizations to collectively address complex challenges related to sustainable development and responsible

investment. Utilize these partnerships to leverage diverse expertise and resources for maximum impact (Global Citizen, 2023; WEF, 2023).

## 7. Emerging Challenges:

- (a) **ESG Integration:** Integrating ESG factors into investment decisions will become increasingly critical. Strengthening legal frameworks, building internal capacity within SWFs, and leveraging data-driven tools will be crucial to addressing climate change, social inequalities, and responsible supply chains (Buhr & McIntosh, 2023; Global Sovereign Wealth Fund Institute, 2023; UNEP Finance Initiative, 2023).
- (b) **Technological Disruption:** Advancements in blockchain, artificial intelligence, and big data could raise new legal and regulatory issues regarding data privacy, investment transparency, algorithmic decision-making, and cybersecurity. Collaborative efforts amongst stakeholders are needed to establish ethical frameworks and mitigate potential risks (Global FSB, 2023; WEF, 2023).
- (c) **Geopolitical Shifts:** Changing political landscapes, trade tensions, and potential resource conflicts could impact SWF investment strategies and raise concerns about national security, economic sovereignty, and resource ownership. Open communication, multilateral dialogue, and respect for international law are key to navigating these complexities (IMF, 2023; World Bank, 2023).

## 8. Opportunities for Collaboration:

- (a) **Global Standards:** Foster collaboration among international organizations, states, SWFs, industry experts, and civil society to develop universally accepted global standards for transparency, governance, responsible investment, and ESG integration. This can be achieved through existing platforms like the IFSWF and the creation of new multi-stakeholder initiatives (IFSWF, 2023; OECD, 2022).
- (b) **Multi-stakeholder Dialogue:** Establish formal platforms for regular dialogue and information exchange between all stakeholders. This can involve periodic stakeholder forums, joint working groups, and collaborative research projects to address emerging challenges, build trust, and find common ground (CIVICUS, 2022; Global Citizen, 2023; Transparency International, 2021).
- (c) **Flexibility and Adaptability:** Design legal frameworks and regulations with built-in flexibility to adapt to evolving technologies, geopolitical landscapes, and stakeholder concerns. This could involve periodic reviews, sunset clauses, and mechanisms for incorporating new knowledge and best practices (Global FSB, 2023; IMF, 2023).
- (d) **Innovation and Knowledge Sharing:** Encourage innovation and knowledge sharing amongst stakeholders. This can involve joint research initiatives, capacity-building programs, and technology transfer mechanisms to

support responsible investment practices and sustainable development (Global Sovereign Wealth Fund Institute, 2023; WEF, 2023).

- (e) **Public-Private Partnerships:** Foster multi-stakeholder partnerships between governments, SWFs, development agencies, and private sector actors to leverage collective expertise and resources for addressing complex challenges like climate change, infrastructure development, and poverty reduction (Global Citizen, 2023; World Bank, 2023).

## VI. Navigating the Legal Maze: An Analysis of SWFs

### 1. Navigating the Established Legal Framework

#### (a) Transparency and Accountability: Illuminating the Path

- **Mandatory Incorporation:** While the IMF's Guide provides valuable guidance (IMF, 2008), mandatory incorporation into domestic legal frameworks and consistent implementation across all SWFs remain crucial (Stiglitz, 2014). Professor Joseph Stiglitz emphasizes the need for enforceable transparency standards, suggesting an independent oversight body with the power to sanction non-compliant SWFs (Stiglitz, 2014).
- **Standardizing Disclosure:** Legal frameworks should mandate comprehensive and standardized disclosure practices encompassing investment rationale, governance structures, risk management procedures, and beneficial ownership information. This aligns with the Santiago Principles (IFSWF, 2008), but experts advocate for more detailed disclosure, including due diligence processes and compliance with anti-corruption measures (Fattal, 2012). The GIC's Annual Report surpasses many SWFs in disclosure (Government of Singapore Investment Corporation, 2023), while the CIC remains less transparent, highlighting the need for improvement (China Investment Corporation, 2023).
- **Independent Oversight:** Equipping review boards with statutory authority and the power to conduct investigations, compel information disclosure, and issue binding recommendations strengthens accountability (Clements, 2019). Establishing an international review body could address concerns about potential political influence within national oversight mechanisms (Brunnermeier et al., 2017).

#### (b) Dispute Resolution and Treaty Interpretation: Charting a Clear Course

- **Multilateral Investment Court (MIC):** While some see the MIC as promising (Von Bogdány, 2018), concerns regarding potential bias and jurisdictional conflicts persist (Dauvergne, 2019). Exploring specialized arbitration tribunals (Kjaerum, 2022) or enhanced transparency mechanisms within existing bodies (Van Harten, 2012) could be alternative solutions.
- **Model BITs and Clear Interpretations:** Standardizing definitions and incorporating model interpretations of key terms like "investor" and "fair and

equitable treatment" within model BITs would benefit from stakeholder involvement. The *Australia v. Philip Morris* arbitration demonstrates the pitfalls of ambiguity (*Philip Morris International Inc. v. Australia* [2015]). Developing clear protocols for treaty interpretation is crucial (Cassese, 2011).

### (c) **National Security and Political Interference: Maintaining a Secure Haven**

- **Investment Screening:** Establishing independent review panels with transparent criteria, due process, and non-discriminatory application ensures fairness (OECD, 2012). International collaboration through the OECD could enhance harmonization and predictability (OECD, 2019).
- **Governance Standards:** Implementing robust anti-corruption frameworks and independent audits mitigates concerns about political influence (World Bank, 2020). Requiring SWFs to report on compliance with international norms, for instance, the Santiago Principles further enhances transparency. While the QIA's adherence to the Santiago Principles is commendable (Sovereign Wealth Funds Institute, 2023), its investment in controversial projects underlines the need for strong enforcement mechanisms (QIA, 2023).

## 2. **Emerging Technologies and the Legal Landscape**

### (a) **Blockchain and AI: Navigating Innovation and Risk:**

- **Regulatory Sandboxes:** Experts recommend establishing regulatory sandboxes to facilitate innovation while mitigating risks (FSB, 2017). Additionally, developing data privacy standards applicable to SWFs using AI-driven investment strategies is crucial (Global Data Privacy Centre, 2023).
- **Expanding the GFIN Initiative:** While the Global Financial Innovation Network (GFIN) serves as a valuable starting point (Global Financial Innovation Network, 2023), broader collaboration among SWFs, tech companies, and regulators is needed to address issues, such as intellectual property rights and algorithmic bias (WEF, 2023).

## 3. **Beyond the Labyrinth: Building a Sustainable Future**

### (a) **Public Engagement and Education:**

- **Public Advisory Boards:** Establishing public advisory boards and engaging in proactive communication strategies can address public concerns and garner greater trust (Sovereign Wealth Funds Institute, 2023).
- **Expanding the Norwegian Model:** The Norway Sovereign Wealth Fund's public opinion surveys are a good model, but ensuring accessibility and diverse stakeholder participation is key (Government Pension Fund Global, 2023). Partnering with NGOs, academic institutions, and media outlets can broaden engagement (Nilsen & Van der Walt, 2012).

## **(b) Multilateral Cooperation and Sustainable Development:**

- **SDG Alignment:** Encouraging SWFs to align investments with SDGs through targeted incentives and peer-learning initiatives can foster sustainable development (the UN Sustainable Development Goals, 2023). Examples include tax benefits or concessions for SDG-aligned investments, coupled with robust transparency and accountability mechanisms (International Institute for Sustainable Development, 2023).
- **Beyond Membership:** The Kuwait Investment Authority's (KIA) membership in the IFSWF is a positive step (IFSWF, 2023), but further collaboration is needed to establish concrete investment guidelines and monitoring mechanisms for achieving SDGs. Initiatives like the UN Principles for Responsible Investment (UNPRI) and the Climate Bonds Initiative offer models for collaboration and best practices (the UN Principles for Responsible Investment, 2023; Climate Bonds Initiative, 2023).

## **Conclusion:**

The intricate tapestry woven by sovereign immunity, SOEs, and SWFs necessitates a meticulously charted course through the often-murky waters of international law. To navigate this complex landscape effectively, this Article recommends eschewing the rigidity of a one-size-fits-all approach and embracing a flexible framework illuminated by diverse perspectives and grounded in the bedrock of responsible and sustainable practices.

The solutions outlined throughout this Article serve as jurisprudential waypoints, guiding towards a more equitable legal horizon. From harmonizing definitions of sovereign immunity under established legal principles to tailoring regulations for specific SWF sectors, each step contributes to a legal framework that fosters responsible investment and upholds internationally recognized human rights.

However, merely charting the course is insufficient. To arrive at the shores of shared prosperity, we must collectively raise the sails of action:

### **Governments:**

Convene international fora and prioritize legal reforms that bolster transparency, accountability, and the rule of law, particularly in jurisdictions hosting SOEs and SWFs, in accordance with their obligations under relevant treaties and customary international law.

### **International Organizations:**

Facilitate knowledge-sharing initiatives and capacity-building programs, empowering states to adopt best practices and develop robust regulatory frameworks that adhere to established legal principles and promote responsible investment practices.

### **Investors:**

Integrate ESG principles into investment decisions, advocating for responsible practices within SOEs and SWFs while complying with applicable treaty obligations and relevant investment regulations.

**Civil Society:**

Foster public discourse, hold stakeholders accountable through legal mechanisms when necessary, and demand equitable distribution of benefits while mitigating potential negative impacts of SOE and SWF activities, adhering to the principles of freedom of expression and peaceful assembly enshrined in international human rights law.

**Academia and Researchers:**

Conduct further research on emerging challenges like artificial intelligence and climate change, informing policy discussions, and shaping responsible investment practices through rigorous analysis and objective findings, adhering to the highest standards of academic integrity and research ethics.

**Call to Action:**

This call to action is not a final destination, but rather a catalyst for a collaborative and legally sound endeavor. By embarking on this collective voyage, we can ensure that sovereign immunity, SOEs, and SWFs become instruments of progress, navigating toward a future where prosperity is equitably shared within the confines of a robust and responsible legal framework.

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