



المركز العربي للأبحاث ودراسة السياسات
Arab Center for Research & Policy Studies

The Seventh Gulf Studies Forum

29 November - 3 December 2020

Background Paper

The seventh 'Gulf Studies Forum' will be held from 29 November to 3 December 2020 and will consider the issue of sovereign wealth funds and the investment policies of the GCC states (domestic track) and the GCC's cooperation with Iran (international relations track).

Track 1: Sovereign Wealth Funds and Investment Policies of the GCC States

Today's international economic order, with its liberal capitalist character, has a history of economic and financial crises which tend to recur roughly every two decades. As a result, countries vulnerable to international economic crises because of globalization and information technology have been forced to develop plans and strategies to curb the risks.

Sovereign wealth funds are among the most important of these strategies, especially in economic settings where huge financial surplus arises from returns on raw materials, such as the GCC states. Countries whose economies depend primarily on oil have also been keen to invest in future generations who may well confront a depletion of their countries' oil resources, or turn to the development of alternative energy sources, especially in developed oil-consuming countries.

The IMF has defined sovereign wealth funds (SWF) as "a group of financial assets owned or managed directly or indirectly by the government to achieve national goals, and funded either by foreign exchange reserves or exports of natural resources, the general revenues of the state, or any other income."⁽¹⁾ IMF experts identify five types of sovereign wealth funds⁽²⁾:

- 1) Stabilization funds, which aim to isolate national economies from the volatility of associated foreign economies, shocks to the international economic environment, and commodity price fluctuations on global markets.
- 2) Savings funds, whose goals revolve around sustaining well-being and creating cross-generational development fairness by converting non-renewable assets into diversified wealth-producing assets. Experts place the SWFs of the GCC within this framework.
- 3) Development funds directed at funding priority socio-economic projects, most significantly construction and infrastructure.
- 4) Pension reserve funds, which control the outflow and investment of pension funds. The Norwegian SWF is the most important example of this model.
- 5) Reserve funds of major investment companies, which aim to reduce costs and maintain reserves or earn a higher return on reserves. In the opinion of some experts, reserve funds and pension reserves are not counted as SWFs.

1 Nabil Bufalih and Mohamed Tarshi, *Sanadiq al-tharwah al-siyadiyah: al-waqi' wal-afaq* [Sovereign Wealth Funds: Reality and Prospects] (Doha/Beirut: ACRPS, 2019), pp. 23 - 4.

2 Abdullah Al-Hassan et al. "Sovereign Wealth Funds: Aspects of Governance Structures and Investment Management," IMF Working paper, WP/13/231, November 2013, pp. 5-6, accessed on February 6, 2020, at: <http://bit.ly/2UAst3z>

According to the SWF Institute's annual ranking of the largest 88 sovereign funds by total assets,⁽³⁾ in 2019 the world's largest sovereign fund was Norway's GPF (Government Pension Fund of Norway) with total assets equal to approximately USD 1.1 trillion, followed by the China Investment Corporation, with an estimated total of USD 940 billion. The dominant presence of GCC states' SWFs in this ranking is noteworthy. The Abu Dhabi Investment Authority ranked third in the world with total assets of USD 696 billion, followed by the Kuwait Investment Authority with total assets of USD 592 billion. The Qatar Investment Authority ranked ninth with total assets of USD 328 billion; Saudi Arabia ranked tenth with an SWF valued at approximately USD 320 billion; and Oman's SWF ranked 55th (without stating total assets). Some Gulf countries, such as the UAE, have more than one SWF under various names.

Based on the above taxonomy we see how sovereign wealth funds have strategic importance for Gulf states. In the Gulf region, SWFs convert the proceeds of natural resources into investment resources with the aim of diversifying sources of income and help avoid global economic shocks. In addition to this, they provide opportunities to raise rates of return on foreign exchange, protect government budgets and local economies from fluctuations in oil and natural gas prices on the international market, and transfer financial returns from natural resources into a diversified asset portfolio to serve future generations.⁽⁴⁾ This is especially the case in high-income countries, such as Qatar, the UAE, and Kuwait.

That the GCC states have very large SWFs raises many interesting topics for research such as the type, source, and governance of these funds; the role of the private sector; the issue of sustainability and strategies for managing economic crises; how to avert the risks from crises in the international economic system and how to prevent the exposure of the national economy.

Sovereign wealth funds in the Gulf are directly linked to investment policies, both at home and abroad. The relatively recent independence of most of the GCC states and their huge revenues from energy resources since the mid-1970s, have made this region attractive for investment, be it governmental or non-governmental, given the security stability in these countries, their need to develop infrastructure and economic institutions that meet the needs of society in times of rapid development, and the focus on local development. In addition, huge financial surpluses have prompted investment abroad to increase returns and diversify sources of income.

Today, GCC countries have deeply penetrated foreign markets in wide-ranging fields that include real estate, property development, energy, communications, technology, services, and financial derivatives, such that Gulf capital has become a major player in both European and North American economies. GCC states have also invested in Arab countries, Asia, Africa, and some Latin American countries. Yet, while foreign investment by the GCC countries has witnessed a strong expansion, foreign direct investment inflows have remained limited, despite all the efforts to reduce administrative and bureaucratic barriers and provide incentives to attract foreign direct investment, such as removing restrictions on foreign ownership of companies and real estate.⁽⁵⁾

3 SWFI, "Top 88 Largest Sovereign Wealth Fund Rankings by Total Assets," SWFI, accessed on February 6, 2020, at: <http://bit.ly/2tyUvRP>

4 Maha Alandejani, "The Development of GCC Sovereign Wealth Funds," Global Risk Intel, November 19, 2018, accessed on February 6, 2020, at: <http://bit.ly/39bj6q3>

5 IMF, "Trade and Foreign Investment—Keys to Diversification and Growth in the GCC," Prepared by Staff of the International Monetary Fund, accessed on 6/2/2020, at: <http://bit.ly/2UAE02R>.

The recent crises of the GCC states, exemplified by the blockade of Qatar since 2017, demonstrated the importance of foreign investments to achieve food and medicine security, but also revealed the shortcomings and fragility of some investments and pro-investment policies. These limitations require a comprehensive review of investment policies in the GCC countries, especially with regard to residency and citizenship laws, the requirement to have a local partner as an investor, and amendments to real estate and company ownership laws. International financial institutions have recommended that the Gulf states look at these issues in order to lessen reliance on foreign trade and build up foreign direct investment by removing structural obstacles in their economies.

The question of investment policies in the GCC states also raises the issue of the private sector and its role in the national economy, in the context of rentier economies in which the state controls and distributes money with no or low taxes on revenues. It brings up topics such as easing access for the private sector to markets, free competition, free trade, and restricting state intervention in economic life and its control of both wealth and power.

In light of the above and given the importance and topicality of this issue, the Gulf Studies Forum has chosen to discuss the topic of SWFs and investment policies in the GCC countries in their local, regional, and international contexts. The topic will be considered from various perspectives, including:

- The structure and sources of SWFs in the GCC states.
- SWFs and Gulf economic diversification policies.
- Map of SWFs in the Gulf according to types.
- The impact of regional and international changes on investment policies of SWFs in the Gulf.
- Governance and oversight of SWFs.
- Government control of SWFs, and the role of the private sector.
- The roles of sovereign development and investment funds inside and outside the Gulf states.
- SWFs and Gulf national visions.
- Investment policies of Gulf SWFs between politics and the economy.
- Investment policies of Gulf SWFs: value and rate of return.
- Map of foreign investments in the Gulf.
- Map of Gulf investments abroad.
- SWFs and self-sufficiency policies.
- SWFs and Gulf economic integration.
- Gulf investment legislations, laws and policies.

Track II: The GCC's Relations with Iran

In the current climate, the Gulf states' relations with Iran is provoking considerable research and debate. By virtue of its size, demographic weight, revolutionary system, and activist foreign and

regional policies, Iran poses a strategic and structural challenge to the Gulf states, regardless of the nature of these states' bilateral relations with Iran. Iranian policy towards the Gulf states and other countries across the world is determined by its interests as a major regional state seeking to maximize its power and influence in the Gulf region and beyond. In its self-image as an authority for the world's Shiites, Iran poses an additional domestic challenge to the Gulf states and their local societies when it attempts to build transnational relations with the Shiite communities scattered in its strategic sphere. We should also not overlook Iranian nationalism and the image it has of itself as a great power in terms of size, wealth and civilization, and a bulwark against US policy in the region.

In contrast with the coherence of Iranian strategy in the region, those of the respective Gulf states and their relations with Iran appear to be governed by bilateral arrangements on the one hand, and rivalries between the GCC states on the other, thus lacking a unified regional position. Iran, meanwhile, has taken advantage of such divisions which have only increased since the Qatar blockade crisis. Iranian strategy and the absence of a Gulf strategy with clear priorities have enabled Tehran to protect itself from the isolation and containment efforts led by Saudi Arabia regionally, and the United States internationally. Even when the P5 + 1 group of countries engaged in dialogue with Iran over the nuclear issue, the GCC states were not at the table. Likewise, the Gulf states have failed to formulate a strategy for dialogue based on the fact that Iran is part of the region's history and geography, and on the basis of coexistence and good neighborliness despite differences, and respect for sovereignty and non-interference in the internal affairs of states.

While Iran's relations with Saudi Arabia and Bahrain are currently very tense, the Emirati position on Iran is variable. Iran occupies some Emirati territory (Tunb al-Soghra, Tunb al-Kubra, and Abu Musa), yet the UAE has important commercial and economic relations with Iran. Trade exchange between the two nations before the re-imposition of US sanctions on Tehran was worth more than USD 16 billion in 2018, even before taking into account the use of Dubai's ports and its banks for financial and commercial transfers. Oman, Kuwait, and Qatar have normal relations with Iran, due to geographical proximity and national interests.

Current Gulf-Iranian relations cannot be understood in isolation from political developments in the region since the Iranian revolution and the active role played by Iraq in balancing Iranian influence prior to the American invasion in 2003. The fall of Baghdad caused the regional balance of power between Iraq and Iran to collapse and rendered the Gulf states strategically exposed to Iran and more dependent on the United States. After the invasion of Kuwait in 1990, the Gulf states tried to rely on regional allies such as Syria and Egypt, who played a central role in the coalition against Iraq, but for various reasons, they went on to favor a relationship with the West (the United States, Britain, and France), and to increase their defense spending and arms purchases.

Regionally, Iranian–Gulf relations are fraught with rivalry and conflict. Saudi Arabia and Iran are rivals in Yemen, Syria, Lebanon and Iraq. Globally, Saudi Arabia is taking advantage of Iran's tense relations with the West, the United States in particular, to increase pressure on Iran to change

its regional approaches. Saudi Arabia has benefited from Donald Trump's ascent to power, the subsequent withdrawal from the Iranian nuclear agreement, and renewed international interest in Iran's regional policies to increase these pressures. Whether this situation continues depends on the results of the upcoming US presidential elections, given that it has been demonstrated that neither the United States nor anyone else will go to war with Iran should it target the UAE or Saudi Arabia.

Rivalry and mutual fear are not essential features of GCC states' relations with Iran. From 1997 to 2005, during a period of reformist administrations in Iran, President Muhammad Khatami adopted reconciliatory policies through which he managed to reduce the tension between Iran and the Gulf countries. This policy however failed in the long run for a number of reasons, including domestic ones but also regional and international dynamics.

As illustrated above, this complex relationship between Iran and the respective GCC states has a decisive impact on the policies of the GCC states, not to mention the relationship between Washington and Tehran. It is for this reason that this round of the Gulf Studies Forum will consider GCC states' relations with Iran from a number of perspectives, mainly:

- Iranian–Gulf relations in historical perspective.
- Determinants of GCC states' foreign policy towards Iran.
- Determinants of Iranian policy towards the Arab Gulf states.
- The American factor in Gulf–Iranian relations.
- US–Iranian tension and its implications for the policies of the Arab Gulf states.
- Regional security initiatives in the Gulf.
- Iran's regional policies and their repercussions on the relationship with the GCC states.
- Border disputes between Iran and the GCC states.
- The economic dimension in Gulf–Iranian relations.
- The Iranian nuclear dossier and its implications for relations with the Arab Gulf states.
- Saudi–Iranian competition and its implications for the Gulf region.
- Normalization with Israel against Iran and its dangerous effects in the region.
- The future of Gulf–Iranian relations.