

Political economy of the Gulf sovereign wealth funds:

A case study of Iran, Kuwait, Saudi Arabia and United Arab Emirates

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(Sara Bazoobandi)

Abstract

Using as case studies three GCC commodity-based sovereign wealth funds – Saudi Arabia, Kuwait, and the UAE – and the SWFs of Iran and Norway for comparison, this study examines and analyses their history, governance and structure, and investment strategies, in the context of on-going debates about their transparency.

Most Gulf CSWFs, were established under colonial rule. Now owned by the region's Arab states they have operated in the global financial system since the 1960s. Since the 1970s and the enormous inflow of oil revenues, the funds have broadened their asset classes and their institutional development. Iran's SWF, one of the youngest funds in the Gulf, differs from its Arab neighbours in terms of structure and operation, and is less active internationally. Characterised by lack of transparency and corruption, Iran's sovereign wealth investments and management also lag behind those of its neighbours.

Debate over the transparency of SWFs has highlighted various global practices. Norway's SWF is reputedly the most transparent in the world; its CSWF provides an operational and structural comparison for the Gulf cases. Recently, organisational measures have been introduced for calculating possible risks from non-commercial investment incentives of SWFs, whose politically-driven investment strategies are viewed as potentially a major threat to the national security of their host countries.

An international working group of 25 countries that sponsor sovereign wealth funds, plus the IMF, has introduced a set of principles and practices for SWF operation, in order to minimise their possible risk of impacting negatively on global financial and political stability. Most western governments are also introducing regulatory codes to identify threats and protect their own strategic economic sectors from certain SWF investments. This study reviews certain incidents that triggered the transparency debate, and scrutinises the reaction of some of the Gulf CSWFs to these recent regulatory codes and strategies.

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