THE POLITICAL ECONOMY OF GULF-BASED SWFs:

KIA, PIF AND ADIA AS AUTONOMY-MAXIMIZER AND COUP-PROOFER

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THE POLITICAL ECONOMY OF GULF-BASED SWFs:

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ABSTRACT

The Political Economy of Gulf-based SWFs:

KIA, PIF and ADIA as Autonomy-Maximizer and Coup-Proofer

Every Gulf state has its own unique domestic drivers such as domestic political settlement, political history, institutional changes, and state-business relations that affect the establishments and actions of the Sovereign Wealth Funds (SWFs). Given the economic, fiscal, and historical similarities between the Gulf countries and their SWFs, the domestic drivers of Gulf-based SWFs and the differences between SWF's domestic utilizations presents itself as an interesting research topic. In this study, by focusing on Gulf-based SWFs' differences in their political and economic utilization, I argue that Gulf-based SWFs serve common domestic goals of 'coup-proofing' and 'regime autonomy-maximization', yet they pursue these goals through varying utilization methods reflective of the political settlements and institutional capacities in their respective countries. The thesis will discuss KIA, ADIA and PIF in terms of their role as autonomy-maximizer and coup-proofer. Saudi Arabia, Kuwait and Abu Dhabi are selected as key cases as these three countries showcase critical dissimilarities in terms of domestic settlements and wealth management methods. Kuwait with democratic tendencies, Saudi Arabia as the main economic and political power and Abu Dhabi with multiple SWFs as the playground for strong princes seems appropriate choices for a fruitful comparison in the Gulf region. The thesis argues that the differences between the three Gulf-based wealth funds reveals a common end goal which is to keep the ruler and close circles in power.

ÖZET

Körfez Merkezli Varlık Fonlarının Ekonomi Politiği:
Özerklik Arttırıcı ve Darbe Önleyici Olarak KIA, PIF ve ADIA

Her Körfez ülkesinin, varlık fonlarının kuruluşlarını ve eylemlerini yakından etkileyen iç siyasi dinamikleri, siyasi tarihi, kurumsal değişiklikleri ve devlet-özel sektör ilişkileri gibi kendine özgü yerel dinamikleri bulunur. Körfez ülkeleri ve bu ülkelerin varlık fonları arasındaki ekonomik, mali ve tarihsel benzerlikler göz önüne alındığında, bu fonların yerelde oynadığı rollerin Körfez ülkeleri arasında önemli farklılıklar göstermesi ilginç bir araştırma konusu olarak karşımıza çıkıyor. Bu çalışmada, bu varlık fonlarının siyasi ve ekonomik kullanımlarındaki farklılıklara odaklanarak, Körfez merkezli varlık fonlarının 'darbeyi önleme' ve 'rejim özerkliğini maksimize etme' gibi ortak iç hedeflere hizmet ettiğini, ancak bu hedefte farklı kullanım yöntemlerini işlevsel hale getirdiğini savunuyorum. Tez, KIA, ADIA ve PIF'i özerkliği maksimize eden ve darbeyi önleyen rolleri açısından tartışacaktır. Bu çalışmada, Suudi Arabistan, Kuveyt ve Abu Dabi ülke ve varlık yönetimi konusunda önemli farklılıklar gösterdikleri için ana vakalar olarak seçildi. Demokratik eğilimleriyle Kuveyt, ana ekonomik ve siyasi güç olarak Suudi Arabistan ve varlık fonlarının güçlü prenslere hareket sahası sağladığı Abu Dabi faydalı karşılaştırma alanları olarak görüldü. Bu çalışma, Körfez merkezli üç varlık fonu arasındaki farklılıkların, iktidardaki yöneticiyi ve yakın çevresini görevde tutmak olan ortak nihai hedefi günyüzüne çıkardığını ileri sürüyor.

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This thesis has been a long and rewarding journey. The topic has continued to captivate me since I first proposed it during my admission interview with two Boğaziçi professors. I am immensely satisfied to have accomplished this goal.

TABLE OF CONTENTS

CHAPTER 1: INTRODUCTION 1

1.1 Methodology 8

CHAPTER 2: LITERATURE REVIEW 11

2.1 Definition of SWF 11

2.2 Commodity-based SWFs and state-society relations 13

2.3 Gulf-based SWFs: Trojan horse of life saver for Western economies? ... 21

2.4 The most serious initiative ever: Santiago process 26

CHAPTER 3: SWFs' ROLE AS A COUP-PROOFING MEASURE AND AUTONOMY-MAXIMIZER 29

3.1 Coup-proofing 29

3.2 Autonomy-maximization 35

CHAPTER 4: SWFS IN GULF REGION 38

4.1 Domestic drivers for SWFs in Gulf 42

CHAPTER 5: WHAT ARE COMMON AND UNIQUE DOMESTIC DRIVERS FOR PIF, KIA and ADIA 66

5.1 The PIF 66

5.2 KIA 76

5.3 ADIA 78

CHAPTER 6: PIF, KIA AND ADIA'S BOARDS AND SHARES IN FIVE LARGEST COMPANIES 83

6.1 PIF 83

6.2 KIA 91

6.3 ADIA 96

CHAPTER 7: DISCUSSIONS AND CONCLUSION 101

REFERENCES..... 106

LIST OF TABLES

Table 1. Domination of Bani Yas Tribe in Abu Dhabi-based SWF Boards in 2019 16

Table 2. Domination of Bani Yas Tribe in Abu Dhabi-based SWF Boards in 2024 17

Table 3. Five Common Characteristics of SWFs 20

Table 4. Board Members and Official Posts in PIF 85

Table 5. Board Members and Official Posts in KIA 93

Table 6. Board Members and Official Posts in ADIA 97

Table 7. A Broader Comparison of Gulf-based SWFs 102

ABBREVIATIONS

ADIA: Abu Dhabi Investment Authority

ADIC: Abu Dhabi Investment Council

ADQ: Abu Dhabi Developmental Holding Company

AUM: Asset Under Management

BCCI: Bank of Credit and Commerce International

CEDA: Council of Economic and Development Affairs

CSWF: Commodity-based Sovereign Wealth Fund

FDI: Foreign Direct Investment

FGF: Future Generations Fund

FSC: Federal Supreme Council of the UAE

GDP: Gross Domestic Product

GRF: General Reserve Fund

IFSWF: International Forum of Sovereign Wealth Funds

IMF: International Monetary Fund

LIA: Libya Investment Authority

KIA: Kuwait Investment Authority

KIB: Kuwait Investment Board

OECD: Organization for Economic Co-operation and Development

OPEC: Organization of the Petroleum Exporting Countries

PIF: Public Investment Fund

SAMA: Saudi Arabian Monetary Authority

SME: Small and medium enterprises

SOE: State-Owned companies

SWF: Sovereign Wealth Fund

SWFI: Sovereign Wealth Fund Institute

UAE: United Arab Emirates

UK: United Kingdom

US: United States

CHAPTER 1

INTRODUCTION

Gulf-based sovereign wealth funds (SWFs) brought about many controversies in the past since their financial decisions in international markets are always considered a smoking gun for a suspicious political agenda. Such a smoke cloud hanging on SWFs was the most dominant factor in terms of their reputation in the last decades. This reputation led to the accumulation of academic attention in SWFs action in international politics and finance. With that, SWF's highly crucial role in countries' political economy and state-society relations was overlooked.

One crucial factor that attracted academic attention in the last two decades was SWFs increasing importance in world finance and their macroeconomic role. According to Global SWF, a consultancy firm tracking global SWF investments, the wealth that SWFs manage globally was worth 11.2 trillion dollars in 2023. While the 20 largest SWFs own 89 percent of these assets, eight of the top 20 SWFs are from the Gulf region (Kuwait, Saudi Arabia, Qatar, and the UAE). Along with the opaqueness of Gulf-based SWFs and their macroeconomic role, the investment decisions and potential political and economic risks posed by the Gulf-based SWFs have been regularly evaluated with their foreign policy targets, security risks, their continued rivalry with other regional actors and their security relations with the U.S., China-led multipolar world order, and the rivalry between Gulf states. Having said that, the focus of this thesis is the fact that every Gulf state has its own unique domestic drivers such as domestic political settlement, institutional changes, state-society, and state-business relations that affect the establishments and actions of the SWFs. Despite economic, fiscal and historical similarities between the Gulf-based

SWFs, which have been the main focus in the literature so far, the political and economic role and actions of the Gulf-based SWFs vary greatly due to the uniqueness of each Gulf countries' domestic political settlement. The differences and domestic political role of the Gulf-based SWFs will be examined in terms of their differences in domestic political settlement as a part of 'coup-proofing' and 'autonomy-maximization' measures.

Coup-proofing measures are important part of political, military and economic decision-making in the Middle East as the region's history is rife with coup d'etats. Quinlivan (1999) argues that the coup-proofing is 'a set of actions including economic actions by a regime to prevent a military coup or popular rebellion that takes place as a result of ruler's weak control of military and economic institutions. As one of the most stable regimes in the region, Abu Dhabi have been through a major coup d'etat against Abu Dhabi's former Sheikh Shakhbout (1928-1966) partly due to his unpopular economy policies including his resistance to share the oil income with local allies including his own family. As there were 55 coup attempts in the Middle East between 1949 and 1980, the regimes in the region inevitably learned how to be coup-proof militarily, politically, economically. SWFs in Gulf are very functional for the rulers to recruit new allies, maintain old allies and sustain the oil-era rentier economy.

SWFs are also very functional in maximizing the regime authority in Gulf region. Hatton and Piston (2011) analyse the political structures of Gulf regimes and their utilization of SWFs as economic powerhouses that help the rulers buy loyalties and pacify their rivals in an institutional way. For the authors, had Gulf-based regimes does not possess SWFs for wealth distribution by having the oil income in ruling family members' bank accounts, it would shave created a big alienation for

their allies, inner circles and their subjects. Gulf SWFs provide an excellent opportunity for Gulf rulers as they signal the rulers' willingness to establish well-organized financial institutions that will continue providing wealth distribution to the ruler's inner circle, allies, and subjects.

There are academic disputes as to accepting SWFs as inherently political or economic organizations. Braunstein (2019) defines SWF choices as inherently political since 'the choices create [political] losers and winners.' Similarly, this thesis accepts Gulf-based SWFs as inherent political institutions. Aside from Gulf-based SWF's, there is an overwhelming agreement among scholars over the inherent political nature of SWFs. Norway's wealth fund, which is always shown as the pole star of SWFs, invests in green energy and stays away from oil-driven companies as a part of its political stance, without focusing on the sole profitability of a possible investment. As it is not always the case, SWFs occasionally prioritise policy choices over profitability.

Apart from the political objectives, Gulf-based SWFs' main financial aims are, in principle, to protect their own economies from the commodity market volatility and to provide intergenerational income for the next generations. By using the surplus income from the oil revenues, Gulf countries aim to diversify their source of income for future scenarios where oil is not the most dominant economic catalyst. While there is a genuine intention towards economic diversification, Gulf regimes' risk perception and domestic drivers affect the action and utilization of SWFs during the economic transformation.

According to another view which similarly focuses on the similarities of Gulf-based SWFs, the establishment of SWFs in the Gulf region is also accepted as a 'fashion and fad' (Chwieroth, 2014) since many Gulf governments facing similar

macroeconomic challenges established SWFs by emulating similar 'policies because [these policies] were fashionable among their peers.' While this approach focuses on the similarities of Gulf countries, it risks ignoring great domestic, institutional and political differences of the Gulf-based SWFs. For instance, Chwieroth's argument does not explain why Saudi Arabia did not have a conventional SWF in an era other Gulf states established many SWFs with different mandates during the oil boom between 2003-2013. This thesis aims to address the differences the domestic political settlement creates in the actions of SWFs in the Gulf region.

Therefore, this thesis digs deeper into the political systems, and business-state relations in Gulf countries to focus on the differences between three largest SWFs in the Gulf region. As Hatton and Pistor (2011) argues, the focus on the macroeconomic aspects of SWFs overlooks the fact that SWFs, especially in non-democratic countries, 'are deeply embedded in the political economy of the sovereign sponsor.'

At the beginning, I will brifly touch upon the dominant literature on Gulf-based SWFs, mostly explaining their actions with a macroeconomic view. As Bazoobandi (2017) argues, commodity-based SWFs (CSWFs)[1], especially those that depend on oil sales, have a higher risk appetite. Apart from the concerns about reckless and politicised investments, the other main ethical concern against Gulf-based SWFs is 'promoting a new concept of state capitalism at the expense of global free market principles' (Behrendt, 2010). Similarly, the rise of non-OECD SWFs refers to the 'reassertion of the state authority in the markets, not as regulators but as major investors.' (Helleiner, 2009). With the lack of supranational or international

[1] Junghanns and Kornert (2022) wrote that 55 of the world's 89 SWFs, the capital comes from the country's production and export of commodities. The 34 non-commodity SWFs' source comes from their 'foreign exchange transactions and privatisation steps. Even though one-third of SWFs were established in the last century, most SWFs were established after 2000, which, of course, drew the world's attention to them.

institutions regulating the SWFs with binding rules, Gulf-based SWFs act based on the will of their 'sovereign' and the ruling elite whose main goal is to stay in power. The word 'sovereign' also refers to a situation where a country's sovereign rights and goals clash with the international law which is ambiguous in the case of SWFs. Xu Yi-Chong (2012, p. 195) argued that the 'S' is the most problematic letter for the majority as a response to Jonathan Kirshner's (2009, p.311) question 'What is the problem: S, W, or F?'

In my search, I will focus on the Saudi, Abu Dhabi[2], and Kuwaiti wealth funds and examine in what ways they are acting dissimilar in terms of their domestic drivers. I will also focus on how the board members are selected and appointed, and SWFs' holdings in 5 national flagship companies to figure out the uniqueness of each case. Although the literature focusing on macroeconomic dynamics emphasizes the similarities between Gulf states due to their oil-based, state-dominated economies, I will prove that the better way to understand Gulf-based SWFs is to take a close look at each country's unique political settlements. Focusing on dissimilarities provides us with the opportunity to prove that domestic settlements dominate the SWF behaviour.

As a brief and striking example, Kuwait, a country with a historic merchant class due to its location at a strategic route to Aleppo and Baghdat, has a wealth fund (Kuwait Investment Authority) which does not play a significant role in the country's domestic economy in order not to alienate its merchant class which holds a sizable power in domestic politics, parliament, and economy via Kuwait Chamber of

[2] Due to the UAE's confederation structure, which I will mention in the coming sections, I will accept Abu-Dhabi as a state-like entity. Similarly, Braunstein, in his 2019 comparative study, compares Abu Dhabi's SWFs with Bahrain, Kuwait and Qatar-based SWFs. The UAE's 1971 constitution highlights that the resource and wealth of an emirate is the respective emirate's property. Therefore, with full control of its own wealth, it is justified to regard Abu Dhabi as a state-like entity.

Commerce. Even though the country does not have a highly mobilized private finance sector, Kuwait's merchant class is an important player in the country's economic and political settlement. More interestingly, two members of the chamber's board of directors sit on KIA's board. (Braunstein, 2019) This, however, is not the case in Abu Dhabi and Saudi Arabia where local businesspeople outside of the royal family have limited political power. As opposed to Kuwait, I observe that Saudi Arabia's PIF is located at the centre of the economy dominating both domestic economy by creating and supporting local champions, giving incentives to companies owned by allied tribes and carrying out short-term international investments. In Abu Dhabi, there are multiple SWFs controlled by different senior princes dominating the local economy along with big private companies that are owned by royal family members. Despite similarities in ruling family's hold on local economy in Abu Dhabi and Saudi Arabia through local SWFs, there are visible differences of the ways they utilize SWFs to maximize their authority and become coup-proof.

As these countries have multiple SWFs which operate in different investment methods, I will mainly focus on their flagship SWFs that have the largest wealth. Those are Saudi Arabia's Public Investment Fund (PIF), Kuwait Investment Authority (KIA), and Abu Dhabi Investment Authority (ADIA). By discussing three wealth funds, which are the three biggest wealth funds of the Middle East, I firmly believe that I understand Gulf-based wealth funds.

Below you can find Figure 1 explaining the focus of the thesis. By focusing on the differences between KIA, PIF and ADIA, my main aim is to showcase that Gulf-based SWF's main goal is to act autonomy-maximizer and coup-proofers even though they act dissimilar in many instances.

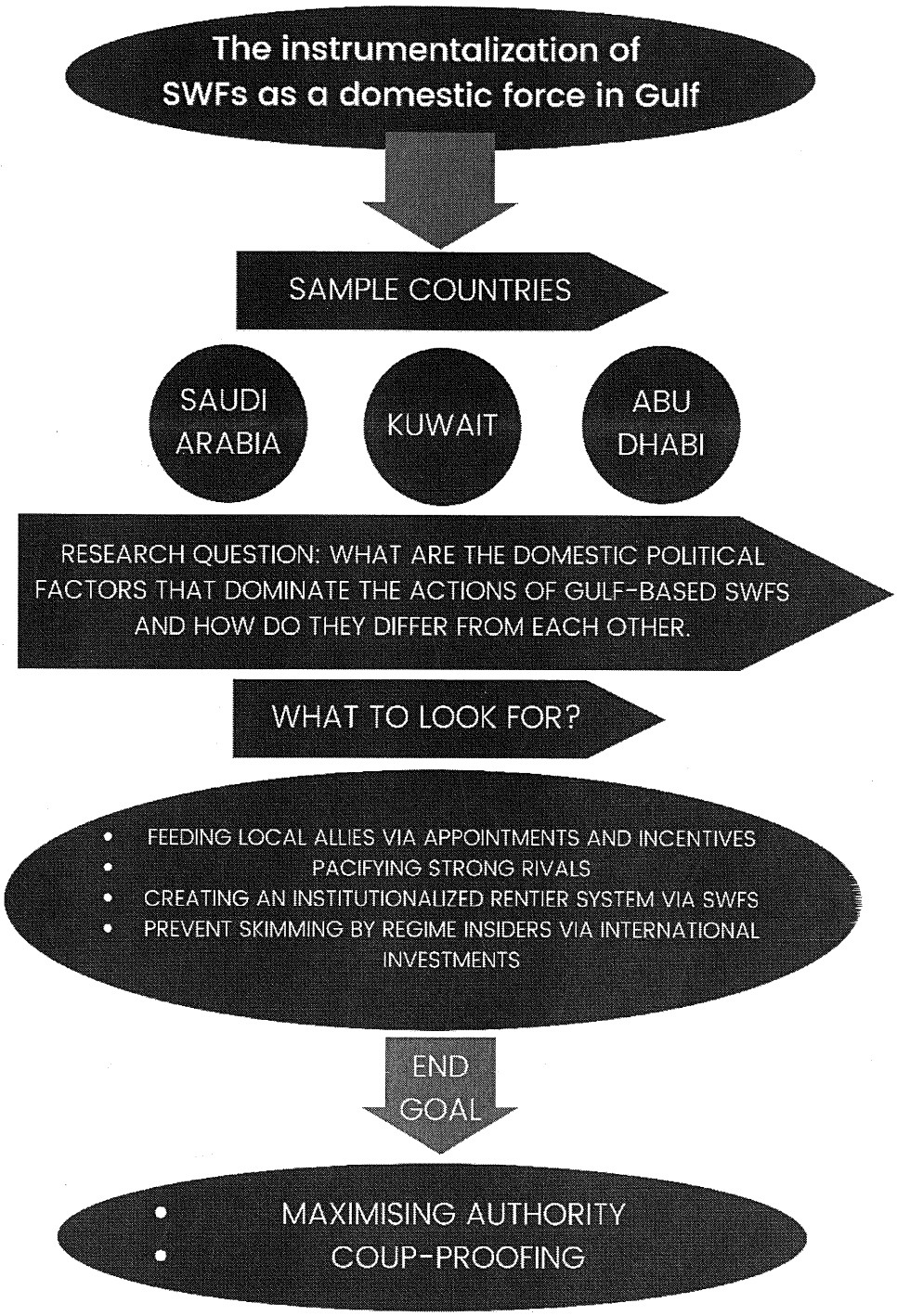

Figure 1. The thesis structure

1.1 Methodology

This thesis is an attempt to understand and analyse the political economy of the Gulf-based sovereign wealth funds. First and foremost, the core research question is the following**:** What are the domestic political factors that dominate the actions of Gulf-based SWFs and how do they differ from their peers in the region? In my thesis, I argue that the domestic arrangements, institutional changes due to coup-proofing measures and 'the ruling bargain' have been the main reasons why SWFs have been established and managed in a way that they are today.

In this study, I follow 'most similar' design that intends to 'reduce variation in the context to the barest possible minimum' for the identical cases. I compare identical cases by focusing on their different units. In this study, while comparing Saudi Arabia, Kuwait, and Abu Dshabi, which shares similar economic and political structure, culture and history, I solely focus on their differences of how they utilize their SWFs, their involvement in five biggest compasnies by market cap, and their board structures which give me a clear indication about their delegation of power and wealth. (Pennings, Keman, Kleinnijenhuis, 2006, P:35)

Before I started my thesis, a few fundamental questions triggered my curiosity to discover more about Gulf SWFs: While the mainstream academic approach is to accept Gulf-countries almost as a single entity, how do they differ in their domestic political settlement and how is it reflected in their approach towards the management of wealth funds? While Kuwait enjoys a relatively strong parliament in the country, how does Kuwait's parliament affect Kuwait's sovereign wealth management? In addition, while Abu Dhabi had a coup d'etat in its past partly because of the mismanagement of the oil income and the negligence of sharing the

oil income inside the ruling family, how does this historical event affect the management of country's wealth funds?

As Grigoryan (2016) argues, SWFs are long-term[3] oriented and strongly institutionalised instruments for UAE's rulers by which the ruler transfers the resources rents in order to get rid of any power dissent from the country's elite. Similarly, as Eldredge and Fails (2022) argues, SWFs 'offer the promise of sizable financial returns on a recurring basis' which, in case of a well-managed SWF, lead to a situation where an autocrat has significant rents to distribute to the loyal elite. Carney (2018) argues that 'a new statist authoritarian world order is on rise' and in that, SWF's will play a significant role as nine of the top ten SWFs are from authoritarian countries.[4]

Additionally, I want to explore how SWF managements are structured and whether there are common characteristics of the board of the investment funds in Gulf countries. One of the points I want to explore is whether there are any relations between the boards filled with technocrats and the boards filled with political leaders. Bernstein (2013) draws attention to the number of political figures on boards when they evaluate if a SWF is politically motivated.

This thesis required different sources. First, to obtain background information about SWF' historical evolution, I arranged private meetings with formal officials and academics such as former IMF Deputy Adnan Marazei who played a significant role in the preparation phase of the Santiago Principles, Ted Truman, former

[3] In a letter the ADIA sent to the US Treasury Secretary Henry Paulson in 2008 as a response to the scepticism to ADIA's activities in the US markets, the institution noted that the ADIA aims at 'taking a long-term view; avoiding leverage; and investing in a well-diversified portfolio across asset classes, geographies, and sectors.'

[4] The only democratic SWF in the top 10 list of SWFs is Norway's Government Pension Fund. Nine other funds are owned by six countries: China, Kuwait, the UAE, Singapore, Saudi Arabia and Qatar.

assistant secretary for international affairs at the U.S. Treasury and Arab Gulf States Institute in Washington (AGSIW) researcher Robert Mogielnicki.

With open-source data, I aimed at tracking the visible investment tendencies, patterns, and institutional changes of the Gulf-based SWFs. Having said that, the research is mostly based on qualitative research methods. To conduct this study, I relied on books, academic papers, and newspapers as well as financial reports from Gulf-based SWFs, international investment institutions and Gulf-based large companies.

CHAPTER 2

LITERATURE REVIEW

2.1 Definition of SWF

To understand how Gulf countries utilize SWFs to maximize their regimes' authority and become coup-proof, it is necessary to clarify the definition of the term sovereign wealth fund. The term SWF is a relatively new one as London-based financial analyst Andrew Rozanov coined it in 2005. In his article "*Who Holds the Wealth of Nations"*, Rozanov (2005) explained the difference between wealth funds and central banks and offered a short list for the main usages of SWFs: "insulate the budget and economy from excess volatility in revenues, help monetary authorities sterilise unwanted liquidity, build up savings for future generations, or use the money for economic and social development." In addition, the IMF defined SWFs in 2008 as, "special purpose investment funds or arrangements that are owned by the general government. Created by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies that include investing in foreign financial assets." In a shorter fashion, Clark defines SWFs as, 'government-owned or controlled funds operated as the government's investment tools, to achieve a series of economic and political objectives.'

Ouni, Bernard and Plaisent (2020) assert that hybrid nature of SWFs (1) [referring to their state-ownership and private-sector alike investment strategies], high heterogeneity (2) [referring to their different wealth sources], lack of transparency (3), and similarities with other sovereign and private investors (4) are the reasons that made a standard and common definition of SWFs difficult. Ouni, Bernard and

Plaisent (2020) contend that there is no single SWF model, and 'geopolitical heritage and local characteristics' of the owner countries substantially affect SWFs. As a heterogeneous group, SWFs have a large variety of main objectives such as stabilising the economy from fluctuations in commodity markets, saving for future generations and investing in local economies. Therefore, the IMF classifies funds according to their objectives. Those are stabilisation funds, reserve investment funds, development funds or pension reserve funds. In terms of the sources of wealth and their investment strategies, it is difficult to make a clear-cut distinction between state-enterprises, central banks and SWFs. (Ouni, Bernard and Plaisent, 2020) Bazoobandi (2017) makes a distinction between commodity SWFs and non-commodity SWFs by highlighting that SWFs that depend on oil revenues have a higher risk appetite than other SWFs. In this study, commodity SWFs will be the focus.

Comparing different definitions and pointing at the vogue, shady sides of the literature is important to understand the nature of sovereign wealth funds in Gulf region. It is also important to point out that ambitious global or domestic political targets, such as large development projects as in Saudi Arabia, do not tend to coexist with intergenerational wealth transfer targets in the long term and protect the economy against the likely volatilities in commodity markets for midterm. The reason is that SWFs that are utilised for ambitious political, geostrategic and development goals, intend to have short-term results, and this leads to high-risk investment strategies. However, protecting the economy from volatilities and creating intergenerational wealth transfer needs long-term investment strategies.[5]

[5] Turkey's Wealth Fund can be seen as an anomaly by looking at the afore-mentioned definition since Turkey has neither commodity income nor surplus income from trade. Questioning the economic rationale behind the establishment of Turkey's SWF, Ormeci (2021) argues, "Ultimately, the Turkish

Gulf-based SWFs do not follow a single investment path. Young (2020) contends that some SWFs in Gulf region 'change their practices of holding wealth to 'more experimental and high-risk strategies' with the goal of diversifying their local economies.' This thesis argues that while SWFs in Gulf are heavily used for economic transformation and diversification, Gulf states are also transforming their SWFs to locate them at the centre of their economies in a way that will keep them in power and make them coup-proof.

2.2 Commodity-based SWFs and state-society relations

Rentier State Theory (RTS) has been the most used theory to explain state-society relations in Gulf states. The theory[6] (Beblawi, Luciani, 1987) holds that Gulf-states that receive an external income with natural resources distribute wealth to society and impose no taxation with the expectation that the public should not demand any political change. Even though the theory is still widely used to explain the state-society relations in the Gulf region, some scholars (Gray, 2011) find it overly simplistic to explain more complex economic and political conditions in the Gulf region due to globalisation.

Gray (2011) argues that GCC states are economically and socially not in the same situation 'when RTS was first developed' in late 80s. According to Gray's 'late-rentierism' approach, although not being democratic, Gulf states must be more responsive to the demands of people such as providing opportunity and employment through economic diversification. Since Gulf-states increased their economic policies

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case among other SWFs is an example of a political keystone of an ongoing regime transformation. TWF has not only become a consequence of authoritarian transformation but also served as a tool of the transformation."

[6] 'Rentierism was firstly discussed by Karl Marx to define a situation where the 'decadent' class that earns income by renting property without producing a value for the society and the economy.

for diversification especially after the oil prices hit bottom in 2014 and since the SWFs are used as the economic drivers of diversification, it is safe to assume that SWFs play an important role in Gray's 'late-rentierism' approach. As an example, Saudi Arabia's Public Investment Fund (PIF) is the main economic power behind Vision 2030 which aims to diversify the country's economy. In addition, as many Gulf states began imposing income tax on citizens and businesses, RTS theory is considered old-fashioned.

Having said that, commodity SWFs have been playing a major role for the Gulf autocrats to remain in power and ensure loyalty of the Gulf elite and people for dsecades. This is independent from the pressure that globalisation has created and economic diversification policies that were mostly adopted after 2014. Trudelle (2024) defines SWFs as 'tools of regime stability' as the economic diversification process forces GCC countries 'to redraw their rentier social bargains.'

Throughout the study, many examples will be highlighted to explain the critical role SWFs play in terms of survival of Gulf regimes. Abu Dhabi is the strongest and wealthiest part of the United Arab Emirates with ambitious political and geostrategic goals in the region. In his essay, Grigoryan (2016) briefly touches upon the existing literature on SWFs, along with resource curse, Dutch disease, and oil market volatility. Beside much-talked-about issues, Grigoryan provides a different perspective for the instrumentalization of SWFs in elite-dominated entities such as Abu Dhabi. As an additional motive[7] to establish a SWF, he argues that in Gulf countries, where the loyalty of the influential elite is so crucial for the ruler, SWFs enable the rulers to 'maximise their autonomy against domestic opponents.' Abu Dhabi, the largest emirate representing the 86 percent of the land areas and most

[7] Apart from providing intergenerational income and protecting the economy from oil market volatility.

of the coastline of the UAE, has four large SWFs[8], and combined they are worth more than 1 trillion dollars. Providing more local context for the case of the UAE, Gregoryan points out that Abu Dhabi, which has the biggest chunk of oil and gas reserves, therefore the biggest political and economic power in the UAE, is ruled by Al Nahyan family which 'originates from the al-Bu Falah group of the greatest Bani Yas tribe.' Many equally powerful branches of the Bani Yas tribe create an atmosphere where the small ruling Bani Fatima group buys the loyalty of the influential sub-groups through financial incentives. Such a wide family connections inside and outside al-Bu Falah group also leads to a situation where providing intergenerational wealth is highly important. That results in a case where political and economic ambitions are intertwined.

[8] The biggest SWF among the UAE's large SWFs is Abu Dhabi Investment Authority (ADIA). According to SWF Institute's 2022 ranking, it is the fourth biggest SWF after Norway, China and Kuwait's wealth funds with an asset over 700 billion dollars. ADIA is called the flagship SWF of the country as it was established in 1976 by the first president. Having said that, according to Grigoryan, Mubadala, the youngest SWF is the one focused on the diversification of the economy through investing in mid or small sized companies and different sectors including green energy. Mubadala was established in 2011, and it is worth more than 211 billion dollars. Source: https://www.mubadala.com/en/what-we-do/capital

Table 1. The Domination of Bani Yas Tribe Members in Abu Dhabi-based Boards in 2019

Leading Bani Yas Tribes	Abu Dhabi Executive Council (ADEC)	Abu Dhabi Investment Authority (ADIA)	Abu Dhabi Investment Council (ADIC)	Petroleum Investment Company (IPIC)	Mubadala
Al Nahyan	4	4	5	1	1
Al Mazrouei	1				
Al Suwaidi	2	2	1		1
Al Romaithi	1				
Al Qubaisi	1			1	
Total	9	6	6	2	2
Total Memberships (including Bani Yas)	13	8	8	2	7

(Braunstein, 2019: p.206)

As Braunstein's figures are based on data from 2019, I researched the board members and their tribe as of 2024 May.

Table 2. The Domination of Bani Yas Tribe Members in Abu Dhabi-based Boards in 2024

Leading Bani Yas Tribes	Abu Dhabi Executive Council (ADEC)	Abu Dhabi Investment Authority (ADIA)	Abu Dhabi Investment Council (ADIC)	Petroleum Investment Company (IPIC)	Mubadala
Al Nahyan	6	4			2
Al Mazrouei	1				1
Al Suwaidi		1			
Al Romaithi	1				
Al Qubaisi					
Total	8	5			3
Total Memberships (including Bani Yas)	18	7			7

Eldredge and Fails (2022), similarly, focus on why establishing and running a SWF may be tempting for an autocrat. The authors hint that although establishing a SWF is a risky adventure for autocrats with low level of decision-making autonomy, for stronger autocrats, it brings certain benefits such as the following: ‘Managing a wealth overseas can make skimming by regime insiders more difficult (1), SWFs may offer the promise of sizable returns on a recurring basis (2), SWFs offer geopolitical benefits to their sovereign sponsors (3), a SWF can help an autocrat to

garner respect by signalling their intention to manage national wealth in a prudent manner (4).

The authors argue that autocrats with a high level of decision-making autonomy can easily prevent the resistance of regime insiders to establish a new SWF. As UAE has established multiple SWFs in the near history and Saudi Arabia's Mohammed bin Salman created a fundamental transformation in PIF, I argue that in Gulf autocracies, the level of decision-making autonomy is high.

As the case of Kuwait, where the ruling Al Sabah family has been in charge in the last two centuries without any serious competitors or confusion to challenge their rule, the situation on the level of decision-making autonomy, the situation is much more complex. Although the country's flagship SWF Kuwait Investment Authority (KIA) is designed to allocate the oil rent and keep the Al Sabah family in power, compared to the board of Abu Dhabi's wealth funds, KIA's board of directors are not closely associated with the ruling family. In addition, while Kuwait's ruling family does not have constant fear of 'coup d'etat', Kuwait's parliament, the most powerful elected body in the entire Gulf, has the right to question the activities of Kuwait's only sovereign wealth fund KIA (Kinninmont, 2012). Having said that, in the coming parts, Kuwait's unique approach to utilize KIA as the autonomy maximizer will be highlighted.

It would be appropriate to mention the 'selectorate theory' (Mesquita, 1993). According to the theory, in a functioning democracy, the factors that constraints a leader includes nominal selectorate, real selectorate and winning coalition. While the two selectorate groups are considered as the main factor in bringing a leader into power, the winning coalition that has concrete benefits from the leader's election is more important for the ruler to stay in power. In contrast to democracies, winning

coalition, which greatly benefits from the status quo, is smaller in autocracies and selectorate has much less importance to Gulf rulers. Therefore, the political survival of the current ruler or even the ruling family depends on the financially and politically support of winning coalition members. Gulf autocracies are a good example of a case where the rulers need to pay winning coalition members so that they do not consider changing the rule and overthrowing him. My argument is that Gulf SWFs is crucial for the winning coalition to maintain their loyalty to the current regime as it offers a path to the ruler to deliver the oil income in an institutional and calibrated way.

According to Hatton and Pistor (2011), who shed light on the importance of domestic allies, the winning coalition and autonomy-maximization in running institutional SWFs in Gulf, theories such as 'mercantilism, imperialist-capitalism and market investor' cannot explain the roles of SWFs in each point seen in the table below. However, the authors argue that the authority maximising theory explains all the points below. According to the chart below, there are five common characteristics of SWFs, especially in autocratic countries such as Kuwait and China. Those are 'passive outward investments, extraordinary outward investments, dollar recycling, revenues used to pacify domestic constituencies, and politicized domestic investments.' While 'dollar recycling' can be explained by 'imperialist-capitalist' approach, market investor approach which accepts SWFs as rational market actors can only explain SWFs' passive outward investments.

Table 3. Five Common Characteristics of SWFs

	Mercantilism	Imperialist-Capitalism	Market Investor
Passive outward investments	No	No	Yes
Extraordinary outward investments	No	No	No
Dollar recycling	No	Yes	No
Revenues used to pacify domestic constituencies	No	No	No
Politicized domestic investments	No	No	No

Hatton and Pistor (2011)

Like Hatton and Pistor, I argue that Gulf rulers' risk perception and fear of being overthrown is the core factor that dominates the SWF behaviour. However, while staying in power is the main driver for the establishment and utilization of SWFs, Gulf rulers' methods towards this goal vary depending on the domestic political and economic conditions.

2.3 Gulf-based SWFs: Trojan horse or life saver for Western economies?

Before digging deeper on the different usage of SWFs by Gulf autocrats for political survival, the previous literature which mostly focuses on SWF's role in international politics and finance should be mentioned. In 2007-2008, SWFs were under intense attack in the international community. As Xu (2012) points out, the main concern in the OECD countries was that non-OECD wealth funds including Gulf countries were threatening the national interests by investing 'too much' in national strategic companies. The fear was that the non-OECD SWFs will 'hollow out their economies, destroy their national flag companies, take over their national resources, and control their national infrastructure.' (Xu, 2012) In 2008, French President Nicolas Sarkozy explicitly urged French national banks to take responsibility and help defend the French national economy against SWFs. Sarkozy was not alone: During his presidential campaign, Obama said he was concerned about funds that are controlled by foreign governments in 2008.[9]

That said, there were opinions that define non-OECD SWFs as the 'lender of the last resort' which have a positive effect in the national economies especially during a liquidity crisis. The harsh public criticism about SWFs in 2007-2008 was replaced by the 'hospitality' since Western economies needed fresh sources of capital during the economic crisis in 2008. The FED had a pragmatic approach towards SWF investments into US markets in 2008 seeing SWFs as a valuable source of capital despite the US Treasury Department's previous statement about SWFs cautioning the US markets about SWFs possible political intentions. (Freeman, 2017). Despite these dichotomies about SWFs' intentions and effects in national

[9] Reuters quoted Obama as saying, "If they are buying big chunks of financial institutions and their board(s) of directors influence how credit flows in this country and they may be swayed by political considerations or foreign policy considerations, I think that is ... a concern" https://www.reuters.com/article/us-usa-sovereignwealth-obama-idUSN0742347120080208

economies, non-OECD SWFs became more cautious while investing in Western economies since they have lost significant amounts of money while ‘rescuing old Western financial institutions.’ (Xu, 2012: p.194) In an inexperienced manner, many SWFs' investment in Western economies began at the beginning of the financial crisis in 2008 which brought about significant financial losses for SWFs. According to estimations, ADIA’s value fell by 40 percent while KIA lost 36 percent due to the financial crisis in 2008. (WLC, 2010:5)

Even though the reactions were vocal in this period, it was not the first instance where the investments of SWFs caused panic. It can be argued that SWFs inherently cause problems due to the unavoidable conflict and dichotomy of state ownership and profit maximisation targets.

2.3.1 Reactions from Western states

One very visible example was KIA’s acquisition of large amounts of British Petroleum’s stocks in the late 80’s and the action that the British government has taken to reverse the acquisitions. Although Thatcher's aggressive privatisation actions did not legally prevent foreign-owned funds from acquiring large stocks, the British government gave an one-year ultimatum to Kuwait in 1988 after diplomatic requests which Kuwait did not respond. Time Magazine reported on October 17, 1988,

> “When the Kuwait Investment Office began putting money into British Petroleum stock last October, Britain gratefully welcomed the new shareholder. The Thatcher government's ill-timed $12 billion public offering of BP shares had run smack into the worldwide stock crash, and the Kuwaitis were among the few investors willing to buy. Britain's relief turned to discomfort, though, as Kuwait's stake in the oil company kept growing, from 10% last November to a current level of 21.6%, making the Arab country by far BP's largest stockholder.”

By owning 21.6 % shares, KIA was able to exercise power as a major shareholder in a top British firm. British concerns to let a Gulf country with autocratic administrations to have a large stake in the country's flagship company was a very visible sign of the future concerns. The threshold that the Thatcher government put for KIA was 9.9 percent of BP's shares. Before the British government's ultimatom, the British Monopolies and Mergers Commission had declared that 'allowing a OPEC member to have a major voice in BP's affairs is not in Britain's best interests' (Time, 1988). Interestingly, in 1997, after the Black Monday stock market collapse, KIA bought an 'excessive number of shares' which made the fund own almost 22 percent of the shares once again. KIA had to sell its shares upon the request of the British government.[10]

Similarly, in 2006, DP World, owned by Dubai-based SWF Dubai World, bought the ownership of six US port facilities in New York, New Jersey, Philadelphia, Baltimore, New Orleans and Miami as a part of British firm Peninsula and Orient (P&O) deal.[11] Although former President Bush strongly supported the deal, there was a huge public backlash against the acquisition with the dominant public perception arguing that this would endanger US homeland security.[12] Although the Committee on Foreign Investment gave a green light for the deal, the US House voted for legislation that would veto the DP World deal. After that, DP World sold its US operations to a US-based company.

[10] The fact that KIA or any other investment fund cooperates with the requests of local governments shows the willingness of the funds to comply with local rules. This mostly alleviates the concerns of Western nations which suspect the supposed political intentions of Gulf-based funds by buying large stakes especially from the companies in strategic sectors.
[11] Interesting fact to note that the previous owner of mentioned six US ports was the P&O, a British firm, not a US firm.
[12] The main narrative was the fact that two of September 11 attackers were Emirati nationals.

There is a large group of academic studies that aimed at defining the political risks posed by SWFs.[13] Those are as follow:

- Large investments into strategic sectors such as defence, communications, and transportation, and threatening the commercial competition.[14] (Hsu, 2015)
- Controlling the board of directors and deciding major investments in the investee country.
- The risk of relocations of manufacturing companies abroad, (Rose, 2009) forcing local companies to invest in their national economy.
- The risk of rapid divestment that may financially affect the host country (Barbary and Bortolotti, 2013)
- The ability of using soft power in the host country's domestic politics through SWFs relations with lawmakers and bureaucrats. (Rose, 2009)
- Using their investment as a bargaining chip against the national governments (Sandor, 2015)
- Creating financial volatility in an investee country's stock exchange and creating financial bubbles in some sectors due to reckless investment.

[13] All the political risks referenced by the SWF literature emanates from the lack of transparency. Transparency is the core issue that created real or perceived political risks for the investee country.
[14] It is noteworthy that US Congresspeople took action against Dubai Ports World's management of many US ports after the company bought British company Peninsula and Orient. The reason for this action was the scepticism about the 'wisdom of letting a state-owned company from an Arab country run sensitive parts of the American economy.' (Abdelal, 2009) However, in the same year, Abu Dhabi-owned ADIA purchased 4.9 percent of Citigroup. US Senator Charles Schumer, who harshly criticised Dubai Ports Worlds deal, stated that he is comfortable with the 4,9 percent acquisition of Citigroup. This may represent a picture of how the states act when it comes to their strategic preferences. Despite the comfort that US Congress has with the City Group deal, Wall Street Journal's editorial with the headline reading, 'Citi of Arabia' revealed the unease that deal has led to.

2.3.2 Sanctions

Above-mentioned examples can be diversified with historical references. For example, KIA has to pull out investment worth 3.6 billion dollars from Western countries in order to inject cash in Kuwait's stock exchange after the stock exchange fell by 50 percent due to the financial crisis in 2008 (Bazoobandi, 2017.) This sort of domestic economic crisis or political turmoil can lead to major divestments from Western nations which will eventually hurt their economies.

As another example of how the politicisation of SWFs and a domestic turmoil may have bad side effects for both the investor and the investee, the fate of the Libyan Investment Authority[15] (LIA) can be mentioned. Behrendt (2011) opines that the quality of political institutions in the country that owns a sovereign wealth fund is hugely effective on whether a wealth fund is opaque or transparent. Even though the LIA, established in 2006, a late comer compared to its Gulf peers, was officially aimed at diversifying Libya's income and preparing the country for the post-oil era, the fund was under tight control of the Gadhafi family. During the Libyan War, the UNSC sanctions on LIA was the first case where an SWF was sanctioned due to its political intentions. Although a different geography and historical context, the West collectively acted against the LIA. Shan and Shen (2018) contend that international law has loopholes on SWFs because the state's sovereign rights and interests clash with the free-market rules and principles. After the fall of Gadhafi regime in 2011, Western countries along with the local political powers who are against Gadhafi and international financial institutions froze the LIA's investments outside of the country to prevent the misuse of the wealth fund by Gadhafi's family members. Critics argue

[15] The Libyan Investment Authority still exists and is a member of the International Forum of Sovereign Wealth Funds (IFSWG). According to IFSWG's website, LIA has more than 67 billion dollars under its management.

that Gulf-countries instrumentalization of wealth funds is similar to Libya although geopolitics, Gulf countries West-friendly policies and GCC SWFs' calibrated investments into the Western economies are the main reason to understand the precaution and inactivity from Western countries to establish a regulating body to oversee the SWFs' steps. Yaman, Yereli (2019) reminds those sanctions on LIA also affected companies that LIA has invested in such as Unicredit, Person and Finmeccanica and 'increased the tension among such companies.'

2.4 The most serious initiative ever: Santiago process

There was collective yet weak efforts to prevent the politicisation of the sovereign wealth funds. Before and after the crisis in 2008, SWFs were in the spotlight and the concerns about their political intentions were being voiced by the Western public. Reisen (2008) contends that the Western public was afraid of 'industrial espionage and geopolitical threats,' and it emboldened protectionist arguments inside OECD countries. Reisen posits that if the Western countries apply protectionist policies against oil-producing Gulf countries, this will hurt Gulf economies, therefore it would increase the prices in global oil markets.

Also, this is the reason why the number of publications on SWFs has increased after 2008. The rise of the SWFs before the 2008 crisis was widely criticised for being a part of state capitalism and they were against the global free-market principles (Behrendt, 2010). The investment spree from the SWFs was both necessary and a concern for the global markets.[16] Especially after major financial crises, Western countries were not able to decline investments for GCC SWFs as

[16] In order to reflect the popular rhetoric during the financial crisis and increasing investment from non-OECD SWFs into OECD economies, I will remind popular TV pundit Jim Cramer's comment on CNBC on January 18, 2008. Cramer asked, "Do we want communists to own the banks, or the terrorists? I will take any of it, I guess, we are so desperate."

their markets needed urgent liquidity.[17] In order to respond to the increasing global criticism, 26 SWFs convened in Santiago in October 2008 and signed a document on the principles of transparency and good governance of SWFs. 26 SWFs, including 4 Gulf-based SWFs, formed the International Working Group of Sovereign Funds (IWGSF). Behrendt (2010) contends that 'Santiago Principles, the document signed by 26 members, provided guidance for SWFs, ensuring that investment decisions are on economic and financial risk-return related considerations.'

Truman (2010) questions whether SWFs are a threat or a salvation in his book that is published after Gulf SWFs investment spree after 2008. In addition, Santiago Principles require funds to disclose investment decisions that are subject to non-economic and non-financial decisions. Gulf SWFs are certainly familiar and knowledgeable with the entire Santiago process as Hamal al Suweidi, who is an important figure in Abu Dhabi's finance department, co-chaired the IWG and Bader Al-Saad, the managing director of Kuwait Investment Authority (KIA) between 2003-2017 has co-chaired the IFSWF which was established by IWG. (Bazoobandi, 2017)

Far from being a supranational body, IWG left the process of overseeing the companies on whether they comply with the rules of the Santiago Principle to the companies themselves. Edwin Truman, former assistant secretary of the US Treasury for International Affairs said the world goes through a similar period where financial markets need liquidity. Therefore, Truman doesn't expect any concern to be loudly expressed at the beginning of the post-pandemic period due to the need for large investments. In May 2010, eighteen months after the publication of the Santiago

[17] Similar to the 2008 crisis, the economic crisis after the pandemic and high oil prices led to another shopping spree by the Gulf based GCC. The governor of PIF, Yasir Othman Al-Rumayyan said in an event on April 23, 2020, "You don't want to waste a crisis… So for us, definitely we are looking into any opportunities."

Principles, Behrendt set up a Santiago Compliance Index to understand how many SWFs comply with the accepted rules. While Gulf's SWFs such as Abu Dhabi Investment Authority, Kuwait Investment Authority, and Qatar Investment Authority performed poorly in the index, smaller, West-based SWFs performed well. It should be noted that Saudi Arabia's Public Investment Fund, a fund that the study will focus on, did not take part in the Santiago talks.[18]

As mentioned in my research question, Junghanns and Kornert (2022) researched about the possibility of non-democratic SWFs to acquire the control of Eurozone banks. According to their study, authoritarian states or flawed democracies have much bigger financial capacity to 'gain power and exercise potential through eurozone banks.

[18] It is important to touch upon the peculiar approach from some states towards Santiago Principles. None of Saudi Arabia's SWFs took part in the process of Santiago Principles, as some states, such as China, allowed some of its SWFs to take part, while not allowing some of its strongest funds. Bazoobandi (2017) asserts that Saudi Arabia did not want to introduce its own central bank SAMA as a SWF. As of 2022, although Saudi Arabia's Public Investment Fund has been an active investor in the foreign markets apart from SAMA, the fund is still not an IFSWF member.

CHAPTER 3

SWFs' ROLE AS A COUP-PROOFING MEASURE AND AUTONOMY MAXIMIZER

This thesis highlights and discusses the importance of domestic factors in the utilization of Gulf-based SWFs. Before digging deeper on the domestic factors, the coup-proofing and autonomy-maximising theories should be explained. While two theories might seem interchangeable in some cases, there are noticeable differences. As coup-proofing measures are intended to protect the ruling class from possible dangers, autonomy-maximization is important to continue the regime's rule in a healthy and continuous manner. Rulers may not be able to establish SWFs if their autonomy is low as the winning coalition may resist the usage of big financial resources for SWFs instead of giving incentives to local companies and public projects. Despite differences, two theories help us explain the end goal that Gulf rulers aim to reach via utilization of SWFs.

3.1 Coup-proofing

The modern history of the Middle East is rife with coups as between March 1949 and the end of 1980, 55 coups have been launched in Arab states of the Middle East. (Quinlivan, 1999) Although almost half of the coup attempts were unsuccessful in these years, the amount of coup attempts has taught Middle Eastern rules to learn and prioritise coup-proofing measures. The most striking coup attempt in Saudi Arabia took place in 1969 in which high-ranking members of the Saudi Air Force played the major role. After the failed attempt, hundreds of military officers including many generals were arrested with the orders of King Faisal. In the 80's, launching a coup

attempt was less popular in the region mainly due to the fact that the governments, many of which seized power by coup, learned how to become coup-proof by taking various measures. (Be'eri, 1982)

Before 80's, one successful coup attempt changed Abu Dhabi's modern history. The coup that overthrew Abu Dhabi's former Sheikh Shakhbout (1928-1966) impacted the country for several reasons. According to Rabi (2006), Sheikh Shakhbout was overwhelmed by major political and financial chances at the end of his reign due to the discovery of oil and British withdrawal from the Gulf. Sheikh Shakhbout was able to last long in power due to exercising less control on the tribal leaders and leaving day-to-day control of internal affairs to the tribe chiefs in the pre-oil era. After 1958, when the oil was discovered both off the coast and on the mainland Abu Dhabi, Sheikh Shakhbout faced a situation that none of Abu Dhabi rulers had faced before. He had to manage Abu Dhabi's growing wealth and keep himself in power. His refusal to spend money on public projects and even on his own family members and allied tribe chiefs created a big discontent among Abu Dhabi's ruling elite. Shakhbout was stockpiling the oil income in gold in his residences and defending the idea that this income should be used during a financial emergency in the future. As the first oil shipment left Abu Dhabi's shores in 1962, Sheikh showed no intention to share his wealth with his family, tribe, and his subjects and there was no sign of administrative and economic development until the coup in 1966 (Rabi, 2006.) His resistance to share oil income even with his family members led to a raid on his palace by his own family members and he was removed from his throne due to a bloodless but violent coup.

This very telling historical event that is related to wealth distribution inside the ruling family has left an impact in Abu Dhabi's current wealth management. In

modern Abu Dhabi, there are multiple SWFs and dozens of financial institutions that pacify strong princes inside ruling family. Mubadala Development Company, a SWF, was established in 2002, to pacify ambitious then-Crown Prince Mohammed bin Zayed who has big goals towards developing Abu Dhabi. Similarly, multiple SWFs and dozens of smaller financial organizations provides Abu Dhabi rulers with the opportunities to deliver board positions to the winning coalition. These measures make the ruler coup-proof while maintaining his high autonomy.

Quinlivan (1999) defines the coup-proofing as 'a set of actions by a regime to prevent a military coup.' As Quinlivan and many other scholars (i.e Gassebner, Gutmann, Voigt: 2016,) focuses widely on loyalty-building measures inside the armed forces and internal security agencies, this thesis's argument is that Gulf-based SWFs, each of which hold hundreds of billions of dollars AUM, are a highly crucial instrument as a coup-proofing measure.

Quinlivan dubs 'money' as one of the most crucial coup-proofing assets and, according to his description, the 'money' does not refer to only buying weapons, training military units and providing wealth for parallel military structures. Money is important to create long-lasting stability by gaining the support of entire groups. As noted in Quinlivan's article, before the discovery of oil in Saudi Arabia, King Saud used to reward the loyal tribes with rifles and golds as a way of keeping their consistent loyalty at play. Some of the pre-oil alliances in Saudi Arabia are still alive today.

Investigating the domestic investment patterns of Saudi Arabia's PIF, Trudelle (2022) finds that some families such as Alirezas, which financially helped the Saudi royal family's war against Hashemetis over the Hejaz region in 1920s, still continue to receive lucrative investments and subsidies from state-owned PIF.

Trudelle (2022) notes that even though the dominance of family-owned businesses is not unique to Saudi Arabia, family businesses make up around 90 percent of the total companies in Saudi Arabia despite the fact that the global average is 65 percent. (Samara, 2021) With the exponential oil income, Saudi Arabia's leadership did not opt to create and feed its own merchant class. Saudi leadership kept its relations with the former merchant class as well as aimed at integrating a new wealth class from its stronghold, Najd, to the Saudi economy. This issue will be detailed more in the coming sections.

Many studies (Galetovic and Sanhueza, 2000) on the reasons of the coup attempts agree that economic growth and other financial signs play an important role in the coups. With this approach, SWFs do play an important role as they may boost the economic growth domestically as well as SWFs can provide consistent, and long-lasting income sources for the ruling elite through their international investments. Grigoryan (2015) argues that 'long-term oriented, and strongly institutionalised' investment vehicles such as Gulf-based SWFs can help the ruler solve their commitment problem since the country's political systems are not highly institutionalised and a consistent source of income through an institutionalised investment vehicle might please the ruling elite. As Grigoryan argues, it would be costly for the ruler to withdraw large sums of funds from the SWFs, although a promise of much bigger and consistent income serves for the ruler's image that he would be compensating the elite if remains in power. With that, the ruler's presence in the system gains more importance. The fact that any sort of coup might lead the non-elite to take power would endanger the consistent and promising income from institutionalised SWFs which serves both the ruler's and the ruling elite's interests. (Grigoryan, 2015)

As a coup is only a military attempt by a small armed group at the beginning, the continuing parts of a coup includes the loyalty seeking process from the other parts of the society, from the rest of the regular military and other state institutions. As Gassebner, Gutmann, and Voight (2016) notes, whether the coup stagers hold on to power for 7 days is important to distinguish a successful coup attempt from an unsuccessful one. The loyalty-seeking process would be easier if the regime which was exposed to a coup attempt was not able or did not manage well the distribution of wealth among the ruling elite or the strong clans in the society. During the planning stage of a coup attempt, the coup plotter has to expect the loyalty of the majority of the population or the ruling elite of the newly installed regime. (Gassebner, Gutmann, and Voight, 2016). In case of a well-functioning, institutionalised SWF, the ruling elite is expected to protect the current status-quo since the coup-plotters might represent instability and inconsistency for them. As Christopher Davidson notes in his 'From Sheikhs to Sultanism (2021)', nearly all major economic institutions including SWFs in Saudi Arabia and in the UAE are controlled by the inner circles of Mohammed bin Salman and Mohammed bin Zayed. He contends that SWFs are controlled as the second most important economic institutions after national oil companies. The close circle controls both oil companies and SWFs meanwhile MBS and MBZ's personal grip over financial institutions looks looser as both leaders aim to keep their countries as legitimate destinations for the international business community. As Saudi political analyst Suleiman al Oqaily calls SWFs as 'alternative oil field[19]', both Saudi and Emirati leadership attach a huge importance to SWFs for the survival of the regime and for the survival of the county itself.

[19] AFP's report: https://www.barrons.com/news/the-saudi-fund-trying-to-build-a-post-oil-economy-58c73dee

The coup-proofing measures in the Gulf countries are applied not only in the armed forces but also many other crucial institutions to prevent a group of people from staging a military takeover. Focusing on the structure of the armed forces in the Gulf region as the main coup-proofing measure, Hertog (2011) suggests that there are two main reasons why the armed forces in the Gulf are mostly fragmented. The first reason is the establishment of rival security forces by the ruling elite to prevent any military actions by letting 'an army to watch the army.' The second reason Hertog suggests is that the ruling elite creates multiple army institutions to satisfy the needs and the ambitions of different members and factions among the monarchy. Hertog notes that the latter is more specific to the Gulf region while the first reason is common in the entire Middle East, especially in Syria where fifteen successful coup attempts took place between 1949 and 1970. This also allows the ruling elite to create new posts, institutions, and sources of patronage in order to build strong alliances inside the royal families and strong local allies. In general, the goal of military employment (Hertog, 2011) has been the creation of a tool for patronage rather than a genuine capacity building. Gulf countries, especially Saudi Arabia, are the first Middle East countries which established parallel armies along with the regular forces. Hertog (2011) argues that regular armies in the Gulf region are neither 'vanguards' nor 'people's armies.' Instead, he describes the regular armies as 'large, passive, and dependent clienteles of individual regime figures.' The fact that the Saudi Royal Guard was established and managed as a separate entity than the regular army might indicate that Saudi Arabia historically followed a balancing act and took a preventive act to prevent any takeover by strong armed figures much earlier than other Middle Eastern states.

My argument is, like armed forces and state security institutions, sovereign wealth funds do play a rather important role, to varying degrees, as a coup-proofing tool to protect the ruling elite in the Gulf region. In shaping the institutional and economic role of the SWFs in Gulf countries, the ruling elite acts in the same way as the army: building alliances, strengthening long-standing alliances, considering state-business relations, and creating posts for the sources of patronage.

3.2 Autonomy-maximization

SWFs in non-democratic regimes are inherently political tools for maximizing the autonomy of the sovereign as SWFs have no liability beyond the ruling elite itself. Without any responsibility for the public as in democratic regimes, the government's interests are tied to 'personal interests' of ruling circle and its clientelist network as Hatton and Pistor (2011) contend. As seen in the structure of internal SWF management, it is safe to accept that SWF managements are accountable to the ruling elite directly instead of being accountable to an independent governmental body. In that regard, autonomy-maximization in SWFs can be accepted as various measures and methods in the management of SWFs that would maintain and embolden the regime itself including small elite and its clientelist network.

As Hatton and Pistor (2011) argue, there are five main functions of SWFs. Those are passive outward investments, extraordinary outward investments, dollar recycling, revenues used to pacify domestic constituencies, and politicized domestic investments. Authors assert that only autonomy-maximization theory is able to cover each point meanwhile 'mercantilism, imperial capitalism and market investor' theories cannot explain many functions of Gulf-based SWFs. While dollar recycling and outward investments do seem like purely financial functions, recycling dollars

and outward investments are welcomed by the international markets which maximizes ruler's authority in international arena. A weakened ruler in the international arena might be a factor that feeds the ruler's potential partners domestically. In addition, if a ruler chooses not to recycle the dollar and do international investments, it will hurt the global economy in a way that erodes the purchase power of its customers, inevitably hurting the oil exporter country itself. (Hatton, Pistor, 2011) However, as we focus on the domestic political factors that dominate the actions of Gulf-based SWFs, we will not dig deeper in the roles of dollar recycling and outward investments in maximizing a ruler's autonomy.

When Hatton and Pistor published their article in 2011, the Western countries were terrified from the possible negative effects of Gulf-based SWFs huge investments into Western markets. While the main arguments were that Gulf-based SWFs were aiming to take advantage of West's major financial crisis after 2008, authors asserted that Gulf states' main motivations are to maximize their domestic and external autonomy instead of implementing sinister plans against the Western countries.

In terms of two main functions of SWFs that Hatton and Pistor touches upon, politicized domestic investments and revenues used to pacify domestic constituencies are highly crucial for a Gulf rulers' survival. SWFs, as institutional financial giants, provides a large pool of financial and political positions for the ruler to pacify potential rivals within or outside their ruling family. Financial tools that SWFs provide for Gulf rulers include 'favourable loans and large minority investments 'for the companies owned by potential rivals or allied tribe members.

Eldredge and Fails (2022) highlights the importance of the high decision-making autonomy during the establishment of SWFs. Even though there are well-

established SWFs in the region such as KIA, Gulf monarchies, especially Abu Dhabi, continues to establish new SWFs. According to the authors, establishing new SWFs creates crucial benefits for the ruler's survival if the ruler has high autonomy level. Some of the opportunities include those: making skimming by regime insiders much harder via international investments, garnering respect by regime allies by establishing a well-organized institution that get sizable returns on a recurring basis. (Eldredge and Fails, 2022)

As Saudi Arabia's MBS has transformed PIF from a domestic investment body into a modern SWF that carries out both domestic and international investments, I can argue that it was a step toward autonomy-maximisation as PIF's transformation was intended to centralize the economy decision making in line with MBS's efforts to pacify his rivals. Similarly, Abu Dhabi, a country with high state autonomy and weak private sector power as Braunstein (2019) notes, SWFs are used as instruments for interventionist state strategies in the local economy.

CHAPTER 4

SWFS IN SAUDI ARABIA, KUWAIT, AND ABU DHABI

As we focus on the domestic political factors of Gulf-based SWFs and their differences from their peers in Gulf region, widely used terms such as 'Gulf region' and 'GCC countries' urges us to focus more on the overwhelming similarities between the countries instead of the political, economic, bureaucratic, and historical differences. Previous literature mostly focuses on the macroeconomic conditions, oil-based rentier economy and resource curse in Gulf countries without elaborating on the noticeable and striking differences between the countries in the region. In our study, we focus on the differences in Gulf-countries' SWF utilization to prove the fact that domestic drivers dominate SWF behaviour rather than international or financial reasons.

For example, Chwieroth (2014) suggests that 'the policy of fashions and fads plays an important role in the establishment of the SWFs' among the countries which face similar macroeconomic challenges such as the Gulf countries. He opines that 'SWF fad' was followed by other countries in the region as a primary way of managing their wealth because Gulf countries are looking for a viable alternative to invest the surplus income in the domestic economy. Such actions are called 'competitive mimicry' (Henizsz, 2005:872) since the countries in similar situations do not want to fall behind their peers which follow a particular policy. According to Chwieroth, this is a common case in an uncertain situation since there is no proven or well-tested method of confronting a 'budget surplus problem' or oil markets volatility. As there is no empirically proven point where a state must establish a SWF, Chwieroth (2014) calls the establishment of SWFs as a reaction to uncertainty.

According to the author, countries of similar economic conditions would emulate the similar steps from their peers as they think that similar steps that work for their peers would also work for themselves.

Establishing a SWF is a highly critical trade-off for the countries as large sums of money which can be used for domestic infrastructure and for public services. Ross (2012:242) calls it 'altruistic, even suicidal behaviour' for a politician since citizens mostly do not tend to make sacrifices during a strong economic performance. Chwieroth's 'fashion and fads' argument is one of the examples that focuses on the similarities of Gulf countries instead of the differences. I argue that this approach falls short to explain why Gulf's biggest economy Saudi Arabia did not establish a modern sovereign wealth fund for decades as countries such as Kuwait and the UAE focused on cross-border and domestic investments via their wealth funds since as early as 1950s. Saudi Arabia's slow moving bureaucracy and consultation-based management style was the biggest obstacle to launch a modern SWF meanwhile Kuwait's SWFs was established by the name of Kuwait Investment Office (KIO – later named as Kuwait Investment Authority) in London by British officials in 1952 before Kuwait's independence. Chwieroth's argument clearly refers to the establishment of multiple SWFs in the region during the oil boom in late 2000s. However, his argument clearly falls short as Saudi Arabia and Kuwait did not establish any SWF during this period. Even though Gulf countries' economies are based on oil, many economic, political and historical variables affect their SWF policies. For instance, sovereign wealth per person in 2017 was $422 in Kuwait, $1,043 in Qatar and $1,085 in the UAE while it is $42 dollar per citizen in Saudi Arabia. (Gross and Ghafar, 2019)

To briefly mention the similarities before focusing on the differences, Gulf countries have striking resemblances that are crowned with an intergovernmental organisation called Gulf Cooperation Council. GCC member countries show indisputable closeness in their culture, language, religion and most importantly their governance and economic style. As an example, these similarities in terms of Gulf countries' governance and economic style can be observed in the synchronised steps Gulf's rentier states take while facing similar fiscal problems. As the state revenues shrunk in 2015, all six members of GCC 'moved to curb public spending and within one year, they ended 'tens of billions of dollars' worth of subsidies on fuel, electricity, water and even meat and fish.' (Gengler, Lambert, 2016) When the United Arab Emirates eliminated transport subsidies in 2015 following the low oil income, Saudi Arabia, Bahrain, Oman and Qatar followed suit and increased gasoline prices between 25 and 60 percent.[20] SWFs are crucial but not only instruments to cope with Gulf's fiscal problems. As the Gulf nations face similar problems and produce similar answers, their instrumentalization of the SWFs show similarities. Other instruments apart from SWFs that Gulf countries use to prepare for the doomsday scenario without oil income are as follows: labour market reforms, economic diversification, gradual usage of green energy, introducing new taxes etc.

Inside GCC, Saudi Arabia, and Oman are governed by absolute monarchy, Qatar, Kuwait, and Bahrain are governed by a constitutional monarchy, and the United Arab Emirates consists of seven states that are governed by an absolute monarchy. Founded in 1981, some of GCC's declared goals include a customs union,

[20] The only exception was Kuwait. The country's parliament rejected a similar offer. Kuwait's parliament and its effects on the SWF management will be discussed later.

common market, and common currency.[21] Oil was discovered in Gulf countries in similar decades. Relatedly, their political systems evolved into a similar set of systems which the political economy literature calls 'Social Contract' and 'Authoritarian Bargain.' In this system, the rules make sure that 'the citizenry have their basic needs and aspirations satisfied' (Nugent, Bazoobandi, 2017) through fiscal policies and political and economic privileges to key allies. Even in Kuwait which has the strongest parliament in the Gulf, the KIA was established before the parliament, even before the country itself was established. Therefore, in the Gulf, the establishment of SWFs does not involve any demand from citizenry. Despite these similarities, there are overwhelming yet unnoticed differences between Gulf SWFs due to institutional characteristics of the states, a case my thesis aims to examine.

Helleiner (2009) suggests comparative research as a fruitful way to understand the domestic political side of the SWFs. Braunstein, in his 2019 study, where he focuses on the domestic drivers in SWFs based in Kuwait, Abu Dhabi, Qatar and Bahrain, argues that 'the development and uses of SWFs differed greatly.' There are substantial differences between some Gulf countries in terms of their SWF structure or capabilities. For example, Kuwait, Qatar and the UAE have small populations and have large hydrocarbon resources which enables them to save more and have a huge focus on their SWFs. Similarly, the Gulf countries differ on the percentage of their non-oil income. While the UAE's non-oil revenue is about 60 percent, Kuwait, Qatar, and Bahrain's economy is not diversified, and oil revenues are much more critical for their well-being. Despite these economic differences

[21] GCC aims to increase the economic and social integration among the Gulf states. A goal of a single currency is one of the proposed steps for the future. Article 22 of the GCCl's Unified Economic Agreement of June 1982, states, "The member states shall seek to coordinate their financial, monetary and banking policies and enhance cooperation between monetary agencies and central banks, including an endeavour to establish a common currency in order to further their desired economic integration."

between Gulf states, I argue that risk perception by rulers and autonomy-maximization efforts creates the substantial differences in the utilization of SWFs.

I will study the largest commodity sovereign wealth funds of Saudi Arabia (Public Investment Fund), Kuwait (Kuwait Investment Authority) and the United Arab Emirates (Abu Dhabi Investment Authority) and look at what kind of domestic drivers shape their structures.

4.1 Domestic drivers for the SWFs in Gulf

As the main argument of the thesis is to highlight and discuss the importance of domestic factors in the utilization of SWFs for rulers to stay in power, this thesis is against the main SWF literature that overestimate the role of international relations and finance in the management of Gulf-based SWFs. Due to the past academic attention, there is an overwhelming literature on the fact that a SWF's establishment, its structure and management style is highly related to the geopolitics, oil price booms and macro-economic conditions. That said, there is certainly less academic energy spent on the domestic causes of the establishment and current structures of SWFs. (Braunstein, 2017, 2019, Schwartz, 2012, McPherson-Smith, 2021). In recent years, there has been increasing attention to the domestic causes of SWFs. (Helleiner, 2009, Reinsberg, 2009, Braunstein, 2017, 2019). As the SWFs are more beneficial for some parts of society than others according to their nature, it has a huge effect over the society as a 'source of allocation of wealth.' (Braunstein, 2017) Similarly, Eaton and Ming (2008) assert that the creation of SWFs, the governance model and its domestic investment strategy is highly related to the country's domestic arrangement.

Braunstein (2017), with his ‘inside-out’ approach, where he paid particular attention to state-private sector relations, argues that a situation of conflicting interests between the public and private sector hardens the way for SWFs establishment. Similarly, Braunstein points in his 2019 work that in case SWF is established in a country where the private sector is financially and politically powerful, private sector’s persistent lobbying efforts will reduce the likelihood of a SWF to carry out domestic investments not to become a rival to local merchants. Thus, different state-society relations lead to varying changes in SWF choices. As an example, Abu Dhabi, a centralized state where there is very weak private finance and the state autonomy is high, SWFs are used as instruments for interventionist state strategies in the local economy. (Braunstein, 2019). On the contrary, in Kuwait where the local merchant groups hold significant political and economic power, the country’s SWF is not heavily investing in sectors dominated by local merchants. In line with Braunstein’s argument, I contend that power balance between private and public sector, state’s domination in the economy and other domestic causes dominates the actions of SWFs instead of purely financial causes.

While Abu Dhabi’s flagship SWF ADIA’s board is dominated by royals or strong clan members, Kuwait’s KIA’s board is much more diverse with, for example, two members of the board being also the members of Kuwait Chamber of Commerce. While ADIA is regarded as a SWF with a development mandate, KIA does not carry a development mandate as observed from KIA’s investment actions. Kuwait’s government enters a sector where the private sector has little interest. (Crystal, 1990). Despite these differences, the motivation behind establishing a sovereign wealth fund was similar in both Abu Dhabi and Kuwait. Both entities were

aimed at gaining independence from Britain in terms of financial independence at managing the savings.

A country's domestic political structure is highly important for international investments. Schwartz (2012) calls the Gulf SWFs 'personal investment vehicles for politically powerful actors in patrimonial regimes and Schwartz's description argues that there is no political risk for Gulf's royal families in case large investments from a SWF turns sour. This argument may be more relevant for the SWFs in Saudi Arabia and Abu Dhabi although it may not be a right argument to explain Kuwait's SWF KIA.

The domestic political arrangement plays an impactful role in SWFs' foreign investments, as well. Whether or not a domestic constraint exists for the investments of SWFs determines the risk appetite of a SWF. One 'extreme' example is KIA's huge financial loss in 1992 after investment in Spain's giant company Grupo Torras.[22] When revealed, the scandal created a big public reaction in Kuwait since the country was invaded by Iraq in 1991 and the country needed urgent financial resources for the country's reconstruction process. Such a domestic outcry especially after the invasion led to political and financial reforms. New York Times correspondent Roger Cohen reported on September 28, 1993:

> "During the late 1980's, when Spain was booming, Kuwait came shopping for corporations and investments, got a little carried away and plowed $5 billion into paper, chemical and fertilizer companies, as well as two leaning office towers whose bizarre silhouette dominates the Madrid skyline. But now Spain's boom has turned to bust, the Kuwaiti corporate flagship here is in receivership, many of its businesses have closed, more than 20,000 jobs have been lost and the office towers are not even completed, much less occupied."

That said, similar scandals in Abu Dhabi's wealth funds did not lead to such reforms on the SWFs. This is an indication that a country's domestic political structure and

[22] The Grupo Torras Affair will be mentioned in detail in the coming sections.

leadership plays a huge role in the structure of the respective country's SWF and its possible reformation process. As a major stakeholder (77 percent) in Bank of Credit and Commerce International (BCCI), ADIA has reportedly lost[23] hundreds of millions of dollars in the 1990s. However, this has neither led to a public outcry nor a legal reform in Abu Dhabi.

Shih (2009) emphasises the issue of political survivals and SWFs instrumentalization towards this goal as he contends that in case of a unified leadership where there is no threat perception towards a leadership change or a coup, the investments tends to be stable and long-term whereas in case there is a vagueness on the case of political survival and stability, SWFs might be preferred to be used for short term advantages 'as a way to pay off a politically powerful actor.' (Shih, 2009, p. 331)

In addition to state-society relations, and autonomy-maximization role of SWFs, these financial institutions in the Gulf region can also be instrumentalized to create an atmosphere for a smooth transfer of power. In Abu Dhabi's case, whose history is rife with internal succession rivalries including a coup d'etat in 1966, SWFs may play a role to pacify strong princes and can be used to give more financial and political leverage for the next successor.

4.1.1 Saudi Arabia

Before we touch upon how each SWF is utilized to maximize authority and for coup-proofing, we will look at the political structures in Saudi Arabia, Kuwait, and Abu Dhabi to portray domestic differences between countries.

[23] New York Times article: https://www.nytimes.com/2008/02/28/business/worldbusiness/28fund.html

As the biggest economy of the Gulf, the political structure of the region is deeply affected by Saudi Arabia. Saudi Arabia has no parliament and electoral process. The consultative council Majlis ash-Shura's main duty is to propose laws to the Saudi cabinet, yet the King has sole power in passing or enforcing them. According to Saudi Arabia's Consultative Council's Article 3, Saudi Arabia's only consultative council Majlis Ash-Shura 'shall consist of a chairman and 150 members[24] chosen by the King from amongst scholars and men of knowledge, expertise, and specialisation. Their rights, duties and all other affairs shall be defined by Royal Decree.'[25] In article 15, the law defines one of Majlis Ash-Shura's duties as 'discuss general plan for economic and social development,' by only expressing its opinion about such issues.

Even though both King Faysal (1964-1975) and King Khalid (1975-1982) expressed willingness to form a consultative council during their tenure, they were not successful or willing in their stated aims. It was King Fahd (1982-2005) who formed Saudi Arabia's first consultative council in 1993. According to Dekmejian, the real purpose of Saudi leadership by establishing a council was to pacify political groups that demanded political reforms in the 80s and 90s. King Fahd's royal decree states the role of the council as following: 'providing *nasiha* (advice) to the King in the kingdom's legal matters, issues related to economic and social development, annual reports by the ministries and international matters such as treaties and agreements.' Even though a group of 10 members of the council has the right to

[24] The number of council members was increased to 90 in 1997 in its second term by Saudi King Fahd which was then thought as a 'major broadening of the Saudi consultative process'. (Dekmejian, 1998) In its third term, the number of members became 120, and in the fourth term, the number became 150.
[25] Saudi Arabia's Law of the Consultative Council: https://www.saudiembassy.net/law-consultative-council-majlis-al-shura#Majlis%20Ash-Shura%20Law

propose a new law or an amendment to an existing law, the chairman of the council has to submit it to the King who takes the final decision.

There is extensive literature arguing that the interplay among small numbers of princes and commoners near the royal family shaped the current form of the Saudi state. What the political scientists discuss the most in Saudi Arabia in the era of dual management of King Salman and Crown Prince Mohammed bin Salman is centralization of power instead of traditional consultation-based management that the Kingdom enjoyed since its founding. Trudelle (2022a) notes that pre-Selman era of Saudi politics was mainly portrayed as, 'a system of segmented and hierarchical centres of power.' This system allowed many senior princes to establish their own autonomy within the system, to establish their own clientelist networks which lead to slow bureaucratic processes due to their veto power and similarly slow and detailed decision-making process at the highest level of the Saudi management. Senior princes with their own influence and power base were replaced by young, inexperienced princes who had no power base and who totally owed their positions to the King himself. In terms of the country's sovereign wealth fund PIF's actions, it is legitimate to ask how the consultation-based decision making, and slow bureaucracy was affecting the country's wealth management.

Trudelle (2022a) extensively discusses with a historical-institutional approach how the changes in Saudi Arabia's domestic politics after 2015 affected the PIF. He points out that once-powerful senior princes and their loyal non-royal bureaucrats have been purged from the state after King Salman came into power. One notable example is once-Crown Prince and Interior Minister Mohammed bin Nayef, also known as MBN, who was replaced by Mohammed bin Salman in 2017 as the crown prince. Nayef was the interior minister between 2012-2017, and his father Nayef bin

Abdulazez bin Saud was in the same post between 1975 to 2012, yet this chain was broken by the King Salman, which effectively wiped out the political power of a once-powerful senior prince. Al Rasheed (2018) asserts that MBS has been the most powerful crown prince at his young age, and one of the country's strongest Kings, King Faisal did not have so many powerful portfolios under his management.

More examples can be provided how the start of King Salman's tenure affected Saudi ministers and their clientelist networks as many senior princes with their loyalists have been a major player and took place in decision-making mechanisms. After the passing of Suud bin Faisal al Saud, the longest serving foreign minister in the world between 1975-2015, Adel al Jubair was appointed as the foreign minister in 2015 as the second non-royal foreign minister in the country's history. He was replaced by Ibrahim Abdulaziz al Assaf in 2018 who was replaced by Faisal bin Farhan al Saud. The frequent changes compared to the history of the Saudi foreign ministry represents a pattern in other ministries, as well. Before 2015, in the last 53 years, only two foreign ministers served in the country. While Saudi Arabia's crucial energy ministry was led by three ministers in the last 54 years, Ali Naimi, who held the position since 1995 was replaced by Khalid Al-Falih in 2016, who was replaced by Abdulaziz bin Salman al Saud in 2019.

Mohammed bin Salman's transformation of Saudi Arabia's wealth fund can be understood with the Eldredge and Fails (2022) article explaining the establishment of SWFs in autocratic states. Even though PIF was not established recently, it was not legally allowed to carry out cross-border investments until 2014.[26] PIF started to invest internationally after the Royal Decree in 2014 right before the reign of King

[26] Although PIF started to carry out cross-border investments after 2015, PIF's domination in the Saudi economy continues. According to Capital IQ figures from November 2021, 60 percent of PIF's investments are domestic. This issue will be touched upon in the PIF section.

Salman. The second institutional change in PIF's activities, which resulted in taking the control of PIF from the Council of Ministers took place in 2015. As the PIF's 2021-2025 plan states, "In a stepping-stone that transformed PIF into an investment powerhouse, the Council of Ministers issued Resolution no. 270 in 2015, transferring oversight of PIF from the Ministry of Finance to the Council Economic and Development Affairs (CEDA)." These two developments led to the beginning of PIF's cross-border operations.

CEDA's establishment can be counted as one of the most crucial institutional changes in the country. In Public Investment Fund's official website[27], it is explicitly defining CEDA as the major reason it states:

> "PIF was "reborn" in March 2015, when the Kingdom's Council of Ministers issued Resolution 270, which placed the Fund under the direction of the newly formed Council of Economic and Development Affairs (CEDA), with the Crown Prince, HRH Mohammed bin Salman bin Abdulaziz as chairman. This major step gave PIF greater autonomy and better-defined national strategic responsibilities. This change enabled Saudi Arabia's economy to progress at an accelerated pace and positioned PIF to be a key driver for Vision 2030, achieving positive, sustainable economic and social change. "

The start of PIF's cross-border investment activities can be accepted as PIF's establishment as a modern SWF as PIF was not regarded as a SWF before in many prominent academic studies (Bazoobandi, 2013). In that case, the benefits of cross-border investments for autocratic leaders by establishing new SWFs can be mentioned. Eldredge and Fails (2022) suggests that the transfer of wealth across borders provides significant benefits for autocratic rulers. For example, 'maintaining wealth overseas can make skimming by regime insiders more difficult.' Apart from keeping wealth outside of the country, holding the country's wealth under PIF increases the political dominance of the ruler over state resources. As PIF's 2021-2025 report argues, 'PIF endeavours to expand its portfolio of international assets and

[27] https://www.pif.gov.sa/en/Pages/About-Timeline.aspx

aims at maximising sustainable returns for the national economy," along with supporting the national economy.

With the end of the consultation-based management in Saudi Arabia, there have been concerns over how the new power politics would affect the economic management. For Prince Salman, due to the recent reshuffles and centralizations of power, there is no legal restriction that would prevent him buying political support both in the country and abroad. Ben Hubbard, the author of only biographic book on Mohammed Bin Salman by 2023 and a New York Times reporter wrote about the first institutional changes in the Saudi Arabia:

> "After King Abdullah died, MBS pulled together four advisers, who worked through the night to come up with a plan to restructure the government—and begin centralizing power under MBS. The next day, MBS ordered up a royal decree that abolished a range of government bodies and replaced them with two supreme councils, one for economic development [CEDA], the other for security. MBS took charge of the first, giving him vast powers over the kingdom's economy. He would later take over the second. "From the first twelve hours, decisions were issued," MBS said later. "In the first ten days, the entire government was restructured."

Germany-based Stiftung Wissenschaft und Politik (SWP)[28] analysed the political motivations behind PIF's recent economic expansion. Calling PIF as an institution 'tailored to Mohammad bin Salman', SWP finds that by merging old institutions and creating new state institutions, the decision-making process was centralised, and existing bureaucratic hurdles were overcome. One of the striking examples of institutional change in PIF is the change in PIF's board of directors. The decree 270/2015 merely stipulated that the chair of the board of directors had to be the head of the CEDA, whereas in the past, the board of directors had consisted of various state officials and their representatives. Through this change, the chair of the board and the King decides the appointments at the board of directors without having any

[28] https://www.swp-berlin.org/10.18449/2019RP08/

legal responsibility to appoint a state official to the board. For example, compared to the past, the governor of the Saudi Central Bank, SAMA, is no longer at the PIF board. SWP suggests that even though the board of directors of PIF has 8 members, and 6 of them are ministers, it is not because of a legal necessity, yet it is because of their close relations with MBS. By such a change to centralise the decision-making, Mohammed bin Salman has a free hand to carry out his political and economic agenda.

SWP shows three main reasons why Vision 2030 and PIF are of immense importance for MBS, but not for ailing and old King Salman: 'high-population-growth of two percent in the last years, high unemployment among young people (38,8 percent in the 20-24 age group by 2017), and possible decline in global demand for oil.' Such domestic reasons that are likely to threaten Saudi Arabia's public finances in the long run can put Saudi Arabia's political elite under public pressure.

It is also worth mentioning that new hyper-nationalism in Saudi Arabia is also instrumentalized in favour of PIF's actions. Although nationalism has been incompatible with the country's dominant religious establishment, recent steps toward moderate Islam has paved the way for the new nationalist wave especially after King Salman and his younger son Crown Prince Mohammed bin Salman took the power after 2015. Nationalist rhetoric was effectively used by the new Saudi leadership to weaken the clerical class. It is important to note that King Abdullah (2005-2015) took a few steps towards social reforms that weakened the country's religious establishment and that emboldened nationalist ideas such as declaring the declaring the day of establishment of Saudi Arabia as the national holiday which was protested by clerics as they thought it was incompatible with the religion. Alhussein

(2019) calls the new nationalism wave as a ‘top-down nationalist mobilization initiated by MBS.’

As the new nationalism wave was adopted by the country's huge young population who were worried about the lack of diversification and lack of employment opportunities in the country, PIF, the financial force behind the Vision 2030, was also praised and welcomed by the young, new Saudi nationalists. Alhussein (2019) draws attention to the possible dangers of the new system. As the Saudi leadership demands more contribution from the citizenry, it needs to assure the youth about the long-term benefits of the new economic model and the actions of PIF.

4.1.2 Kuwait

Kuwait was chosen as one of the case studies instead of Qatar as its Gulf-model democracy and previous usage of SWF for the country’s reconstruction after the first Gulf War presented itself as an interesting topic to discuss.

Kuwait is a country where the political dissimilarities to other Gulf countries are most visible. Historically, being a strategic route to Baghdat and Aleppo, it has always been a country with a strong domestic merchant elite. Chay (2020) argues that in pre-oil times, Kuwait’s governance relied on the merchant-ruler equation where the merchants supported the ruling Al Sabah family with taxes and helped the Kuwaiti city prosper. Salame (1994) calls pre-oil Kuwait as city ruled through ‘republican oligarchic traditions.’ Although the discovery of oil strengthened Al Sabah family’s rule over the local merchants due to the increase in Al Sabah family’s financial strength, the establishment of the parliament helped local merchants gain more political leverage over the management of the country.

Kuwait's first consultative council, Majlis al Shura, consisting of 12 appointed members was established in 1921 by Kuwait's Emir Ahmad al Jabir after the people of Kuwait demanded their participation in the rule of al Sabah family following the rule of Emir Mubarak al Sabah who violated Kuwait's unofficial consultation-based decision-making mechanisms that has been in effect in previous decades (Albloshi, 2019). In 1938, the Legislative Council was established, and its members were chosen with 'limited elections.' New council wrote Kuwait's first constitution and was able to challenge the Emir's decisions. (Albloshi, 2019). However, the legislative council was forcibly shut down by the Emir soon after its establishment. After gaining its independence in 1961, Kuwait's ruling family established the Constitutional Assembly which was entitled to write the country's new constitution. The attempts to establish a healthy council that would restrict the ruling family's power and the ruling family's attempts to diminish the councils over the years led to the appearance of opposition groups which oppose the ruling family's total control over Kuwait's institutions. According to Kuwait's current constitution, Article 80 states, 'The National Assembly is composed of fifty members elected directly by universal suffrage and secret ballot in accordance with the provisions prescribed by the electoral law.'

Compared to Saudi Arabia and Abu Dhabi, Kuwait is a country with democratic tendencies, although the Kuwaiti democracy, which is dominated by the absolute power of the Emir, is not close to Western democracies. The supporters of democratic freedoms inside Kuwait request a 'genuine' constitutional monarchy. In addition, Kuwait's recent political developments lead to small but steady political wins for the country's people who demand concrete political reforms. Similar to other Gulf countries, political parties are outlawed in Kuwait, although political

groupings ‘around policies and personalities’ (Chay, 2020) are acknowledged in the country. Opposing the Al Sabah family’s ‘absolutist tendencies and its constitutional rights (i.e. cancelling the parliament, and elections) unifies the political groupings. The common understanding among scholars is that Kuwaiti leadership tolerates the establishment of political groupings but does not acknowledge them officially as political parties as in the Western democracies. This is not the case in Saudi Arabia and Abu Dhabi.

Kuwait’s current parliament was established in 1963, and it is the oldest and the most powerful parliament inside the GCC territory. According to Kinninmont (2012), the parliament traditionally seeks to scrutinise public spending, questions the government's budget, and state sovereign wealth fund. The main ways the parliament can exert power is to block a resolution, questioning the government's fiscal moves and voting no confidence in ministers who are appointed by the royal family. The Kuwaiti parliament can declare the parliament’s inability to cooperate with the prime minister which can lead to the removal and the resignation of the prime minister, a post that has traditionally been hold by an Al Sabah family member.

To provide a striking example on how the law and the parliament plays a role in KIA’s management, Bazoobandi (2013) highlights that ‘no asset can be withdrawn by the funds (referring to KIA) unless sanctioned by law.’ Having said that, all these steps are towards blocking a move, not implementing, or facilitating a new policy. Kuwait’s parliament does not hold power to initiate new policies, a situation where the parliament lacks the power the most. The Emir has the power to appoint a prime minister and he can veto any legislation passed by Kuwait’s parliament. Due to such anomalies, Kuwait experts had difficulties to describe Kuwait’s political system. While Salame contends that the country’s political system is between a ‘tribal

authoritarianism' and 'oligarchic republicanism', Alterkait calls it a middle path between the parliamentary and presidential systems.

To shed more light on the contrast between Kuwait democratic tendencies compared to the rest of the Gulf countries, granting Kuwaiti women the right to vote was a genuine progress in Kuwait's political history. Although the first election in 1963 after the country's establishment granted the right to vote only to 19,000 all-male, over 21-year-old voters, in 2006, the number of voters was 340,248 with the participation of women in the elections.

Like women's right to vote, the Iraqi War was a milestone for the country's democracy struggle. After the invasion, which pushed the Kuwaiti royal family out of the country, the parliaments were never dissolved unconstitutionally as it was the case in 1976 and 1986. Judith Miller, a New York Times reporter, wrote in 1991 that Kuwaiti exiled royal family members promised for 'greater democratisation in front of 1,200 people' which demanded democratic reforms at a meeting held in Jeddah in which Kuwait's post-liberalization plans were discussed. To many, this represents a drastic change in terms of the Emir's rule over the country. Other critical achievements towards the democratisation of Kuwait after Iraq's invasion include the separation of the office of Crown Prince and Prime Minister (2003) and the right to vote for the sons of naturalised Kuwaiti citizens. As Chay (2020) notes, these changes cannot be attributed to the parliament alone since these changes totally depend on the approval and the goodwill of the ruling monarch.

During the protests due to the public outcry for political reforms in 2012, Kuwait's emir dismissed the Prime Minister Sheikh Nasser Al Sabah, although he is a member of the royal Al Sabah family. Traditionally, prime ministry posts in the Gulf area are held by the royal family members and dismissing them due to popular

pressure is a unique step. However, Kinninmont (2012) argues that such steps towards democratizations can be worrying for the other ruling families inside the GCC as it can set a precedent for their countries, as well.

The power of the Kuwaiti parliament has brought about political deadlock in recent years which resulted in multiple parliamentary elections, prime minister resignations, and the dissolvement of the parliament by the Crown Prince. [29] As the disputes over public finance policies, social services and corruption allegations were not addressed, Crown Prince referred to the dissolvement of the parliament as a step taken after 'practices and behaviours that threaten national unity.' After a new parliamentary election in September 2022, the first cabinet that was formed by the prime minister resigned after facing harsh criticism from members of parliament claiming that cabinet's leadership did not go through a major change. After consultations, a new cabinet was formed in mid-October which did not last long, as well. During the mentioned crisis, the Crown Prince Sheikh Meshal assured the members of parliament that Kuwait's leadership 'will not interfere in the people's choices for their representatives, nor they will interfere with the choices of the National Assembly in choosing its speaker or its committees.'[30]

In addition to the historical parliamentary process in Kuwait's recent history, Hatton and Pistor (2011) highlights the historical rent-based relations between the royal family and merchants and tribal leaders and notes that Sabah family had privately sent gifts to tribal allies and merchants to secure their loyalty in the 19th century. While the royal family was more concerned about loyalty-seeking measures to increase their autonomy in pre-oil and pre-SWF times, the discovery of oil and the

[29] https://www.aljazeera.com/news/2022/8/2/kuwait-formally-dissolves-parliament-state-news-agency
[30] https://www.aljazeera.com/news/2022/9/29/what-you-need-to-know-about-kuwaits-parliament-explainer

establishment of SWF increased the autonomy of the al Sabah family. Hatton and Pistor (2011) defend that the usage of KIA during the Iraqi invasion, KIA's domestic investments and KIA's investments in huge financial institutions such as Citigroup and Merrill Lynch are all aimed at increasing Al Sabah's family's autonomy in the country. The establishment of KIA, Kuwait's current SWF, was due to a need to save large local companies from Kuwait's stock market Souk al Manakh's crash in 1982. Future Generations Fund (FGF) was focused mostly on international investments in 1982. Therefore, an umbrella entity, KIA, was established to manage the stakes that Kuwaiti state has bought from local companies to save them from the financial collapse. With that, we can safely assume that the well-being of local large companies is highly crucial for the survival of Kuwait's ruling family.

According to Hatton and Pistor (2011), the presence of SWF both emboldens and legitimizes the rule of the al Sabah family. Firstly, had the oil revenues been deposited to the private bank accounts of the royal family, this would have created an unavoidable public and international discontent which would put the royal family's legitimization in question. Secondly, in the absence of a SWF, if oil revenues were directly transferred to the royal family's subjects, it would not be acceptable for royal family members. Thirdly, Hatton and Pistor (2011) opine that public spending which is aimed at creating large bureaucracy for rent transfer is not an affordable and suitable option for royal families in Kuwait and royal families in the Gulf, without a presence of a SWF. Lastly, the presence of a SWF historically played an important role to please Western powers due to the role it played to ease the concerns of the Western countries about their balance of payments. According to the authors, Kuwaiti Investment Board (KIB) played an important role in the Eurodollar market as early as the 1950s.

Kuwait also differentiates from other Gulf countries as it has only one sovereign wealth fund, Kuwait Investment Authority (KIA) as opposed to other Gulf countries that have multiple large wealth funds. KIA was established in 1982 by law as an independent legal entity and by law 47 of 1982, it operates under the umbrella of Kuwait's Ministry of Finance. Before KIA, Kuwait Investment Board (KIB), which is accepted as the world's first SWF[31], was established by the British mandate[32] in Kuwait in 1953 to use the excessive income in an efficient way. The reason why KIA was established was the need for a better organised body that can single-handedly manage Kuwait's all state funds that dramatically increased especially after the Iranian revolution 1979 where the oil revenues exponentially jumped up.

Bazoobandi (2017) points out that Kuwait's foreign investment through the investment fund generated more income for the country than the direct sale of oil by the early 1980s. All investment income of KIA is reinvested as required by law No. 106 of 1976.

According to the International Forum of Sovereign Wealth Fund's Santiago Principles Self-Assessment report, KIA provides regular reports to the following: The Minister of Finance, the Council of Ministers, the National Assembly (Parliament), KIA's Boards of Directors, and the Independent State Audit Bureau. In addition, senior representatives of KIA report periodically to the parliamentary

[31] Saudi Arabia's Central Bank SAMA was established in 1952. Due to the fact that PIF was not active international investor before 2015, and SAMA was carrying out the foreign investments, there are sources that accepts SAMA as Saudi Arabia's SWF. Having said that, the literature accepts KIA as the first SWF established since KIA was established to execute conventional SWF goals without Central Bank duties.

[32] KIA was established as an investment board (KIB)which consisted of five British bankers. According to Bazoobandi (2017), the director of the investment board was the Bank of England's director of the Middle East Department. The Kuwaiti SWF

committees such as the Finance and Economic Committee, Budgetary and Closing Accounts Committee, and Public Funds Protection Committee.

Bazoobandi (2013) points out ‘From 2003, none of the chairman or managing directors of the KIA has been appointed from the royal family.’ The government of Kuwait reduced its effect and involvement in the KIA gradually, especially after the Torras scandal that was revealed in 1992 shortly after the Iraqi invasion. In short, Torras scandal refers to a series of bad investment decisions and fraudulent cases that led to a loss of 2 billion dollars in Kuwait’s investments in Spain due to the arbitrary investment methods without any checks or balances. Revealed right after the invasion, it led to a big public reaction due the fact that the country was in dire need of financial sources due to the reconstruction projects. Torras' case is a good example to understand why Gulf-based SWFs are opaque institutions. Nugent and Bazoobandi (2017) argues that the first reason why Gulf-based SWFs are not transparent is ‘the sovereign may not wish any corruption or even any investment failures to be detected.’ Controlling and filtering the information about the SWFs help the ruler protect himself against the threats as well as inform the elites with certain, filtered information to ‘assure them that their interests are also being attended to.’ (Nugent and Bazoobandi, 2017)

Kuwait’s more democratic traits compared to Saudi Arabia and Abu Dhabi does not mean that Kuwait’s ruling family and political elite shy away from using KIA for political purposes. Grigoryan (2014) argues that in contrast to SWFs of Abu Dhabi, the KIA’s board of directors is not characterised by a significant representation of the ruling family but the fund’s institutional structure is designed to support the Al Sabah family in power. Moreover, KIA invested historically in businesses of prominent merchant families and presently plays a pivotal role in the

domestic economy. In the aftermath of the financial crisis, KIA started to invest heavily in the domestic private sector to support the local stock market. Braunstein (2019) notes that the Kuwait Chamber of Commerce, dominated by well-organised merchant families without the presence of royal family members which is the case in other Gulf countries, is highly effective in the country. Braunstein writes, according to his personal communication with sources, Kuwait's Chamber of Commerce is represented in all major economic policy bodies and 'is deeply integrated in KIA's governance framework'. Compared to Saudi Arabia's PIF, the KIA does not have a development mandate due to the presence of a well-represented and organised merchant class. While the merchant class is mainly effective in the construction and logistics sector, such as owning Kuwait Airways and some other major profitable companies, KAI and the government are involved in sectors where the private sector showed little attention.

4.1.3 Abu Dhabi

Abu Dhabi is the most wealthy and powerful emirate inside the UAE. Abu Dhabi's Emir Muhammed bin Zayed is the president of the UAE since 2022. Muhammed bin Zayed replaced his half-brother Khalifa bin Zayed after his passing. As the country's biggest oil producing state, Abu Dhabi has the biggest political power in the country although the Emir of Dubai holds the post of vice president and prime minister. Founded in 1971, the UAE presents itself as one of the most liberal countries in the Middle East, albeit with no political reform progress. UAE's highest political authority is Federal Supreme Council (FSC) consisting of seven emirs of UAE's each state. FSC selects the country's president and cabinet. The Federal National Council (FNC), consisting of 40 members, has the power of passing and rejecting

federal bills, although, since the country consists of seven different states, emirs of each state run their territory as independent territories which diminishes the importance of federal bills. For example, a country's FNC has no power to question the investments of the UAE-based SWFs.

Michael Herb (2009) quotes a survey in his 'A Nation of Bureaucrats' involving 40 members of FNC in which 30 members of the council opined that 'the power of FNC is insignificant.' Although it is regarded as the UAE's national parliament, the power of FSC does not match the power of Kuwait's parliament which, for instance, is able to vote no confidence in ministers which causes Kuwaiti leadership not to vote unpopular individuals who can be voted out by Kuwait's parliament. (Herb, 2009) However, there has been a cosmetic progress in the election of FSC's members. While all 40 members were appointed by seven emirs until 2006, 20 members of FSC are now being elected by the voters. Herb notes that the UAE did not face a great security threat to its existence which did not force the leadership to grant political rights to its subjects while the author mentioned the Iraqi invasion of Kuwait that forced Kuwait's leadership to grant more rights to political groupings during the restoration process. Compared to Kuwait and Saudi Arabia, the UAE and Abu Dhabi have been the most stable entities which did not face any foreign invasion or rebellion in its young history. Having said that, the fact that Kuwait's parliament holds power mainly to veto, reject or oversee policies creates deadlock most of the time which draws criticism from Kuwait's politicians. The newspaper Al Rai quoted a Kuwaiti businessman in 2007 saying that 'what takes one year to accomplish in Dubai in one year takes 10 years in Kuwait.' Although the Emirates did not face invasion or rebellion in its young history, the most powerful emirate, Abu Dhabi, witnessed a coup d'etat in 1966 which resulted in the overthrow of Sheikh Shakhbout

who ruled Abu Dhabi for 38 years. The main reason for the coup d'etat was his highly mercantilist way of handling the rising oil income. The year after the coup d'etat, Abu Dhabi established a SWF-alike investment institution.

The effect of the competition between emirates on Abu Dhabi's economy and social contract is important to mention. As the emirate holding most of the oil wealth, Abu Dhabi did not see the need to diversify its economy as much as Dubai and other five emirates since emirates intended to avoid from the patronage of Abu Dhabi in their budgets. Although other emirates actively supported the growth of the private sector in their territories, Abu Dhabi followed a different path.

One remarkable distinction that the Abu Dhabi emirate has compared to the Saudi Arabia and Kuwait is the number of wealth funds that was created after establishment of ADIA in 1976. Abu Dhabi Investment Corporation (ADIC), half owned by ADNOC - half owned by ADIA, was established in 1982 by Shaikh Khalifa bin Zayed al Nahyan. As Nugent and Bazoobandi (2017) noted, the ADIC only focused on oil and chemicals investment. In 1984, International Petroleum Investment Company (IPIC) was established to focus on the investment in the energy sector. Similarly, Mubadala (2002), Abu Dhabi Investment Council (2007), and Emirates Investment Authority (2007) were established. Nugent and Bazoobandi (2017) assert that two factors contributing to the establishment of multiple numbers of SWFs in both Abu Dhabi and Dubai is 'the federal and even confederation character of the UAE (1), and that the ability to manage has often been deemed as an important asset in the eternal selection of the incumbent monarchs.' (2)

Apart from ADIA, Abu Dhabi's other major sovereign wealth funds were established after the 2000. Therefore, Eldredge and Fails (2022) article explaining the domestic drivers of the establishment of SWFs can be appropriately mentioned in

explaining UAE's domestic dynamics. Firstly, the authors suggest that the money allocated for a SWF means that regime insiders, or the country's elite, competes for a 'smaller pool of resources.' Secondly, establishment of a SWF leads to a situation where regime insiders have less financial leeway to distribute money for their supporters and people who are loyal to them. Thirdly, such a big amount of money allocated to SWF and foreign investments 'limits the immediate resources available for a future leader should political circumstances change.'[33] Due to these three reasons, the authors argue that the autocrats with a limited amount of policy-making autonomy are less likely to establish SWFs due to the strong opposition of the internal elite to the establishment of SWFs. In such situations, the internal elite may urge the leader of the country to spend the existing money into government projects and public spendings which are more prone to financial misuse. Braunstein (2019) argues that since Abu Dhabi is a centralised state, it leads to interventionist use of SWFs that dominate the domestic sectors. The establishment of multiple SWFs also allows Abu Dhabi's rulers to distribute the wealth among tribe members including potential rivals within their own tribe. Hatton and Pistor (2011) argue that by appointing senior tribe members, including senior tribe members, to the boards of Abu Dhabi's SWFs and other financial institutions, the Emir can pacify rivals by not letting them 'accumulate enough financial and political power.' The authors argue that by appointing many SWFs with distinct specialization, the Emir aims to keep the board members with limited responsibilities. This is in line with the Emir's ambitions to use the SWFs as autonomy-maximization and coop-proofing tools.

[33] In Eldredge and Fail's article, the authors do not specify the establishment of the SWFs in Abu Dhabi. Instead, the article focuses on general principles and reasons for establishing SWFs in autocratic nations.

Mohammed bin Zayed, the third president of the UAE since 2022, and the ruler of Abu Dhabi, was known as the de facto ruler of the country long before he was declared as the president. Similar to MBS, MBZ weakened Emirates' 'consensus-based' decision making mechanism. Onley and Khalaf (2006) argues in their study 'Sheikhly Authority in the Pre-Oil Gulf' that rulers in the UAE usually 'included relatives who were their potential rivals in the [court] and consulted them before taking major decisions.' Similarly, Luciani (2006) highlights that most decisions have traditionally been taken with an extensive consensus. Davidson (2021) contends that MBS along with MBS suspended or even destroyed 'all serious consensus-based political mechanisms.' Focusing on centralization of power during the MBZ era in the UAE and MBS era in Saudi Arabia, Davidson argues that the rule of 'sheiks' has evolved into 'sultanism' referring to the consensus-based rule of sheiks in the region and to the one-man show of sultans. While explaining his argument of how MBZ personalized the control over economic institutions, Davidson notes that as the second most important economic institution after the oil company, the tight control of MBZ over SWFs is obvious due to appointments of very close circle to the management of SWFs in Abu Dhabi.

As MBZ's personal control over Abu Dhabi's economic institutions is crystal clear, his actions to control the entire country's economic institutions and economic policy should not be underestimated. Even though article 23 of the UAE constitution states 'the natural resources and wealth in each emirate shall be considered the public property of that emirate,' it was revealed that MBZ is involved in significant and sensitive decisions that were supposed to be made by each emirate. As was seen in a

US diplomatic cable[34], MBZ assured the US ambassador in 2005 that Abu Dhabi will not allow any of the emirates to strike an energy deal with Iran that may provoke US sanctions against the UAE.

[34] Davidson (2021) cites a US cable (Page 150) that was revealed in the leaks and writes "a more substantial agreement signed by the Sharjah Petroleum Council and the National Iranian Oil Company, which would have allowed Sharjah's Crescent Gas Corporation to begin purchasing Iranian gas from December 2005, appears to have run aground due to significant pressure from MBZ's team. Shortly before supplies were due to commence, a US diplomatic cable records Hamdan bin Zayed Al-Nahyan telling the US ambassador to the UAE that Abu Dhabi would not allow any pending Iranian gas deals to provoke US sanctions under the US's Iran and Libya Sanctions Act, and that 'no company in the UAE would move forward without the explicit consent of Abu Dhabi'".

CHAPTER 5

WHAT ARE COMMON AND UNIQUE DOMESTIC DRIVERS FOR PIF, KIA AND ADIA

In Chapter 5, Saudi Arabia, Kuwait and Abu Dhabi's political structure and history were explained. In this chapter, I will focus how domestic structures affect countries' SWF utilization for coup-proofing and autonomy maximization as this thesis argue that both theories play the most dominant role in the actions of SWFs in the region.

5.1 The PIF

5.1.1 Scholarly debate about SAMA and PIF

Before the PIF was given the legal right to carry out cross-border investments in 2014, SAMA Foreign Holdings was the only powerful financial institution with a currency stabilisation and cross-border investment mandate in Saudi Arabia. Despite being a Central Bank that was tasked with managing the liquidity requirements and the banking system, SAMA Foreign Holdings had different responsibilities resembling that of SWFs. That said, SAMA was never officially referred to as a SWF by the Saudi government.

Although it was established in 1952, 1973 was the onset for SAMA to execute its SWF duties given the high oil prices during this period. SAMA's activities as a SWF and Saudi Arabia's economic anomalies have led to a scholarly debate on whether SAMA can be counted as a SWF. Noting that Saudi Arabia has experienced budget deficits in many years even though other Gulf countries had budget surpluses, Diwan (2009) defends that SAMA cannot be considered as a SWF since 'there cannot be a sovereign wealth fund without a sovereign wealth,'

(Diwan,2009) arguing that Saudi Arabia was not able to accumulate a sovereign wealth as its Gulf peers. Although Kuwait and the UAE were able to invest their surplus income in various foreign assets, Saudi Arabia focused on high government expenditure with the oil income.

However, Bazoobandi (2013) accepts SAMA as Saudi Arabia's SWF in her book "Political Economy of the Gulf Sovereign Wealth Funds: A Case Study of Iran, Kuwait, Saudi Arabia and the United Arab Emirates." According to Bazoobandi, SAMA is a SWF due to two major reasons. Firstly, commodity export income is the main source of income as it is a common case in other SWFs. Secondly, SAMA's main purpose is to protect the country from volatile oil markets by stabilizing the Saudi economy. It should be noted that Bazoobandi's focus on SAMA was prior to the date when PIF was granted legal right to carry out international investments and become the major financial player in the international and domestic scene.

SAMA had widely invested in low-risk assets, mainly focusing on the US Treasury Bonds and bank deposits in Western economies with a conservative approach in using Saudi Arabia's sovereign wealth in contrast to PIF after 2015.[35] (Bazoobandi, 2017). It is important to note that SAMA's conservative approach and the non-existence of a modern SWF was the result of consultation-based management style in the country.

Along with SAMA Foreign Holding, there were investment activities under different ministries which created a fragmentation in the Kingdom's investment strategy. Divan (2009) points out that there has been a debate since 2009 to establish a different SWF which would focus more on the typical targets of a SWF such as diversifying the economy, saving for future generations, and having a broad

[35] Trudelle (2022a) describes the shift as, 'from buying bonds to buying the dip.'

investment spectrum apart from US bonds. Another reason to create another body apart from SAMA was the financial crisis in 2007-2008 which increased the importance of SWFs in world politics.

5.1.2 PIF

The transformation of the PIF in 2015 is not the first attempt to establish a modern sovereign wealth fund like its peers in the Gulf region. King Abdullah has tried to establish a large wealth fund with Sanabil Al Saudia owned by the Public Investment Fund that was planned to manage the country's foreign currency surplus and investment portfolio. Having said that, due to the disputes inside Saudi bureaucracy, the fund did not play such a role as planned and rapidly fell from grace. Trudelle (2022a, P:9)

The Public Investment Fund was established by a royal decree in 1971. Like its regional peers, the PIF was and still is instrumental in domestic investments in state-owned enterprises (SOEs) in order to spur growth and trigger development in the country's domestic strategic sectors by granting loans. McPherson-Smith (2021) points out that PIF's existence was crucial for the country's first Five Year Development Plan between 1970-1975.

PIF's real success story has been the Saudi Basic Industry Corporation (SABIC), which is a state-owned enterprise which was funded by the PIF from the beginning and is now the world's most valuable chemical company. Abbas (2013) noted that the political elite directed the fund at their preferred destinations at the expense of other projects and despite a few major successes, and therefore there have been many failed investments. PIF acted as an angel investor for many local

companies during their first years without investing for the long-term[36]. (SWP, 2019).

McPherson-Smith argues that PIF was 'a coveted institution among Saudi elites, and the fund was used to support economic national champions and to foster stability in the domestic economy.' Building a strong bond between Saudi Arabia's domestic political landscape and PIF's investments, Hertog (2010b) argues that private sector and businesses historically tend to act as a policy-taker and a client where PIF plays a big financial role in the country. In addition to that, Trudelle (2022a) highlights the private interest in Saudi Arabia is represented by institutions that are tightly controlled by the administration such as Saudi Chamber of Commerce and Industry and Majlis Ash-Shura. As Abbas (2013) notes, the weak side of policy of high state involvement was highly visible during the first years of PIF when the fund spend money in construction industry and the industry became addicted to public money which is an economically and politically dangerous situation due to its risk of popular unrest and economic unproductivity.

The PIF's international importance has substantially increased due to two crucial developments in the last decade. While the Fund was only investing domestically, it was given the right to invest internationally in 2014. Until then, Saudi Arabia's Monetary Authority (SAMA) was the only authority which managed the country's foreign currency surplus.[37] In only 5 years, the share of international

[36] Having said that, PIF still holds the majority shares of many important domestic companies. According to the SWP Berlin report in 2019, in the food sector, PIF holds the majority shares of prominent companies such as Savola, Almaria, and Nadec. In the banking sector, PIF is the most important shareholder in the 4 biggest banks. In the mining sector, PIF has the majority shares of the Saudi Arabian Mining Company that dominates the market. Such heavy involvement of the state in the economy leads to questions about PIF's alleged goals of strengthening the private sector in Saudi Arabia.

[37] In her much-cited book published in 2017, Sara Bazoobandi understandably does not mention PIF, but she focuses on SAMA which she considers as the Saudi Arabia's main SWF as SAMA was the main institute that had been managing Saudi Arabia's foreign surplus. In contrast to Bazoobandi's

investment in PIF's portfolio reached 10 percent, an important jump given the fact that the PIF's AUM reached 620 billion dollars as of Q1 in 2022. (PIF's own sources). The PIF had only 40 employees in 2016, although the fund announced that it hired more than 1000 employees in 5 years until 2021.[38]

KSA's Crown Prince Muhammed bin Salman's sudden political rise after his father became the King in 2015 was a turning point in PIF's recent history as the Fund was placed under the Council of Economic and Development Affairs (CEDA) which was established same year as an 'economic sub-cabinet,' as McPherson-Smith calls it. With that, the control of the PIF was moved from the Finance Ministry to the council, which is led by Mohammed bin Salman, who became the Crown Prince in 2017. CEDA's establishment made PIF a separate investment company which owns the assets under its management which is contrary to its previous situation where the PIF was only a branch of a ministry which was run by a manager. With this step, MBS became the ultimate decisionmaker in the PIF which maximized his autonomy in a period where he was aiming to pacify his rivals.

With King Salman's era, the vertical decision-making process (Dazi-Heni, 2021) became the new core of Saudi leadership, replacing the consultation based decision-making process. Although Crown Prince MBS said in an interview with the Economist[39] in 2016 said that he imagines a country where every citizen's

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choice, PIF deserves to replace SAMA as the country's primary SWF since PIF's AUM grew from 150 billion to 620 billion dollars since 2015. (SWFI, 2022)

[38] The story on the number of employees who are working at PIF. https://economictimes.indiatimes.com/news/international/saudi-arabia/saudi-sovereign-fund-pif-says-total-staff-count-crossed-1000-in-december/articleshow/79773983.cms

[39] https://www.economist.com/middle-east-and-africa/2016/01/06/transcript-interview-with-muhammad-bin-salman?utm_medium=cpc.adword.pd&utm_source=google&ppccampaignID=18151738051&ppcadID=&utm_campaign=a.22brand_pmax&utm_content=conversion.direct-response.anonymous&gad_source=1&gclid=Cj0KCQjwzZmwBhD8ARIsAH4v1gXBQbijSvRnhELrAcAo7xIZzxBAvM1aNWQ7BOrtLTMP4Dd-M7kF0S8aAty3EALw_wcB&gclsrc=aw.ds

participation in decision making is guaranteed by the country, his track record since 2015 contradicts this very claim.

As Trudelle asserts, between 1971 and 2015, related to the 'fragmented regime structure,' and 'veto powers in decision-making', PIF's investments and development projects were uncoordinated and did not display a visible investment method. The dramatic change in PIF's investment references reminds us of the Eldredge and Falls (2022) article where they question 'when do autocrats create SWFs'. If PIF's drastic changes can be assumed as the establishment of a new fund due to its decision to invest abroad after 2015, the opportunity costs that such investment creates can be brought into discussion. Eldredge and Fail comment that all money that SWFs spend, in fact, can be used at the service of people such as spending on social service and infrastructure. PIF's cross-border investments, similarly, mean that Saudi Arabia makes a similar choice apart from SAMA's conventional cross-border investments. Even though PIF recently launched its cross-border investments, PIF's role in the domestic economy remains unchallenged. PIF continues to be instrumentalized as providing capital and incentives for larges Saudi tribes that own large companies and that continue to pledge loyalty to the royal Saudi family. PIF's recent outward investment craze might be considered problematic as the Saudi youth faces unemployment and uncertainty. However, with the nationalist rhetoric referring to PIF as the engine of nation building, PIF has remained untouchable in the public debate. As Eldredge and Falls note, establishing a SWF increases the autonomy of an autocrat as cross-border investments prevents skimming by regime insiders and help ruler garner respect as these investments promises sizable returns for the countries' future that will provide more resources for wealth distribution.

PIF's recent short-term investments created a distinction between other Gulf-based investment funds.[40] According to US Securities and Exchange Commission's (SEC) filings, although PIF increased its portfolio in U.S. listed assets in the first quarter of 2020 from 2.2 billion dollars to 10.1 billion dollars, it sold most of its shares at the second quarter of 2020 after the U.S. stock exchanges rebounded to its pre-covid levels. (Trudelle, 2022a) This move proves that PIF, in some of its investments, expects immediate returns as opposed to other well-established and conventional SWFs. As Mohammed bin Salman, as the sole decider in PIF's action, faces no domestic pressure on how he handles PIF, such unusual financial acts from a Gulf-based SWF can be very well connected to MBS's willingness to create a 'quick success story' with possible lucrative returns. As PIF's actions receive a broad international and local publication, such short-term, big returns can be instrumentalized in convincing the Saudi youth who believe that PIF is the biggest solution to drive a new, diversified economy apart from oil. Despite the major focus being PIF's high-stake investments, the majority of PIF's investments focus on long-term domestic and cross-border investments that are aimed to diversify the Saudi economy and the country's investment portfolio. As the driver of the new nation-building agenda, PIF's actions and existence are charactarized by 'a centralization of royal authority around Mohammed bin Salman.' (Trudelle, 2022a)

Trudelle (2022b) argues that PIF's actions and investments are indisputably affected by Saudi Arabia's socio-political relations with non-state actors such as strong clans with which the Saudi royal family had been allied since decades, even before the country's establishment. Even though PIF started its cross-border

[40] Since PIF was able to invest globally after 2014, we cannot compare PIF's historical investment style with the current one. However, PIF's recent speculative, short-term investment style can be compared with its Gulf-based peers such as ADIA and KIA.

investments after 2015, domestic investments continue to be the dominant part of PIF's portfolio. According to Capital IQ figures from November 2021, 60 percent of PIF's investment is domestic although PIF's foreign investments make headlines and garner attention in the press. Trudelle (2022b) defends that Saudi SWF plays an important role in state-society relations and it can also be an 'alternative mechanism to sustain institutions and alliances built on rent-based distributive structures.' This judgement leads to a question: 'Since Saudi Arabia does not implement any concrete political and democratic reform, and does not show any sign to redefine its social contract, does Saudi Arabia plan to replace its oil-driven rent-based structures to SWF-driven rent-based distributive structures in the future?

According to Trudelle's research based on social network analysis, the institution publicly announced 83 direct investments from which 49 were centred in Saudi Arabia. Based on the information of the owners and board members of the companies which PIF invested in, Trudelle opines that PIF's major investments were allocated to wealthy families who had been Al Saud's allies. As an example, the Al Rajhi family, one of the richest in Saudi Arabia, received PIF investments. Similarly, Alireza family, which was one of the families who financed Saudi's during their war with Hashemites in the Hejaz region, received PIF's investment. As Hertog (2013) notes, family-owned large businesses play a huge role in the country's economy.

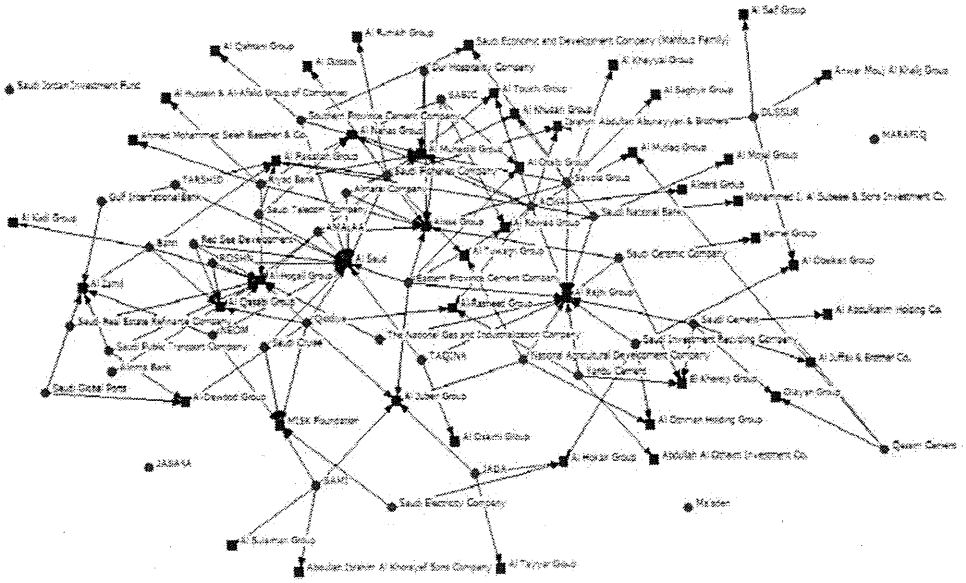

Figure 2. The network of PIF investments
Data collected by Trudelle. The figure above is taken from Trudelle's study.

Although large family businesses play an important role in the economy, these families do not demand political power in the country in a way Kuwaiti merchants do. Despite PIF was transformed into a modern SWF after MBS era, its historical utilization as a financial body that provide incentives and investments for local allies did not change. These incentives include favourable loans and minority stake investments in companies that are owned by allied tribes. Despite MBS's major changes, PIF had been acting as an autonomy-maximizer in the country for decades. As the Saudi family rule historical rule depended on the tribal alliances, I can argue that PIF was instrumental in Saudi government's coup-proofing efforts.

5.1.3 Vision 2030

As mentioned in the previous section, PIF plays a significant role in Crown Prince Salman's Vision 2030. In line with the country's 2030 goals, the PIF plans to achieve 1.07 trillion dollars AUM by 2025, and 2 trillion dollars in 2030. McPherson-Smith

argues that PIF is steered by the ambitious political considerations of Crown Prince Salman instead of market considerations as this was the case after the establishment of the PIF when the country's ruling elite took wrongful decisions with political considerations. The biggest indication of political considerations in Crown Prince Salman's era are the giga projects. As can be seen in PIF's website, PIF is the responsible entity to run and carry out Crown Prince Salman's ambitious Neom City Project. Another ambitious project is the establishment of King Abdullah Financial District in Riyad. As Rashad (2018) notes, Saudi Arabia's Public Pension Agency transferred the operating rights of the King Abdullah Financial District project to PIF in May 2018. PIF is also responsible for Saudi Arabia's Red Sea Project, which aims at establishing a large holiday resort and Sudair Solar project, which is the world's one of the biggest solar plants. After 2015, the PIF has been the biggest investor in Saudi Arabia's exchange market Tadawul.

As PIF historically has been utilized as an autonomy-maximizer even before MBS era via lucrative incentives to the allied tribes, and Saudi family circles, PIF, during MBS era, has been at the very centre of the Saudi economy in a way that has no close competitor in the domestic economy including Saudi Aramco. PIF's investments are praised publicly, and it is seen as the saviour of country's future as the country intends to move away from oil-based economy. The political rhetoric to protect and support PIF's investments is intended to create a public support around MBS's ambitious economic steps. With that, PIF's new transformation including running ambitious projects, and carrying out cross-border investments are clearly intended to increase MBS's autonomy and make him coup-proof.

5.2 The KIA

KIA is the only sovereign wealth fund that manages Kuwait's commodity revenues. Bazoobandi (2013) dubs KIA as the only SWF in the Gulf with a clear saving policy. According to SWFI's 2023 figures, KIA is the world's 5th biggest wealth fund with AUM amounting to 803 billion dollars. Historically, KIA has played an unprecedented role in Kuwait's sovereignty, possibly more than other wealth funds in the Gulf region. KIA spent around 85 billion dollars after Iraq's invasion of the country.[41] Much of the money was spent for the military response led by the US, and for the reconstruction world. Although the cabinet requested[42] the ability to withdraw 5 billion dinars (around billion 16.5 dollars) from the KIA annually during the coronavirus pandemic in February 2021, Kuwait's The National Assembly financial and economic affairs committee rejected the request. The Kuwaiti cabinet's request did not even reach parliament's agenda.[43] Kuwait's cabinet requested withdrawal from the Future Generation Fund (FRG), a wing of KIA, which is called a 'nest egg for oil runs out.'

The success of KIA's investments was especially visible during the low oil prices when Kuwait's oil revenues were more than the country's income from the KIA investments, especially by the early 1980s. Although Kuwait shows more democratic tendencies compared to Saudi Arabia and Abu Dhabi, opaqueness problems remain. Law No. 47 of 1982 regarding the establishment of KIA has select clauses related to dissemination of information. While Clause 8 prohibits the

[41] According to IFSWF, all amounts of funds which were withdrawn from KIA's FGF wing was repaid to the wealth fund.
[42] Reuters: Kuwait Requests Ability to Withdraw From Sovereign Wealth Fund: https://www.reuters.com/article/kuwait-economy-int-idUSKBN2AM1E7
[43] Kuwait Times article: https://storage.kuwaittimes.com/pdf/2021/mar/02/p01.pdf

disclosure to the public of any information related to KIA's work, Clause 9 states the penalties for unauthorised disclosure of information to the public.

As stated in previous sections, KIA does not disturb Kuwait's strong merchant class and does not compete with them. KIA's managing director Bader as Saad stated one of the main principles of KIA as 'KIA is committed to the excellence of the private sector in Kuwait while ensuring that it does not compete with or substitute it in any field.' However, KIA increases its domestic holdings depending on the economic situation in the country. Even though it has used its financial capacities to bail out many domestic companies and financial institutions, KIA does not intend to increase its power against the local private companies. It is worth noting that KIA increased its domestic investments after 2011 due to the Arab Spring. Bazoobandi (2013) argues that the increase in local holding is due to the lower risk of 'political and social unrest' which may be caused by an economic crisis. KIA's economic policy towards staying away from local economy except for financial crisis increases the autonomy of the ruling family as KIA has been seen as a saviour of the country in times of economic distress. It should be noted that KIA was quite functional during Kuwait's reconstruction process as the country needed vast resources after Iraq's invasion.

5.2.1 General Reserve Fund (GRF) and Future Generations Fund (FGF)

KIA has two major wings. According to IFSWF, 'The General Reserve Fund (GRF) is the main treasurer for the government and receives all the revenues including the oil revenues.' GRF receives all government revenues and holds government assets. The Future Generations Fund (FGF) was established in 1976 by transferring half of GRF's AUM and it receives 10 percent of all revenues and 10 percent of net income

of GRF on an annual basis. In the 2012-2013 fiscal year, the deposit amount was raised to 25 per cent. No assets can be withdrawn from the FGF unless sanctioned by law and all investment income is reinvested as required by Law No. 106 of 1976."

Bazoobandi (2013) notes that FGF is composed of investments outside of Kuwait in different asset classes. Although it is not often revealed by KIA, in 2007, the institution stated that its total holdings amounted to 213 billion dollars and FGF is the 'big brother' with holdings amounting to 174 billion dollars. According to Congressional Research Centre's (CRS) Kuwait report[44] in 2023, out of KIA's total $770 billion assets in 2022, FGF single handedly holds more than $700 billion.

5.3 The ADIA

Before the establishment of ADIA in 1976, Abu Dhabi's rulers established Abu Dhabi Investment Administration in 1971 as a parallel structure to the British-run Abu Dhabi Investment Board to manage the budget surplus and to gain financial independence from Britain in terms of managing Abu Dhabi's surplus income by a local institution. Abu Dhabi's motivation of creating a SWF is very close to that of Kuwait, which also aimed at limiting British control and increasing influence in managing the local economy and budget surplus. Because of their unique historical conditions, the motivation behind the establishment of pioneer SWFs in the Gulf region does not show resemblance to the motivation of newly established SWFs in the Gulf and in many other parts of the world. In their article touching upon the motivation of establishing SWFs in autocratic countries, Eldredge and Fails (2022) highlights that newly established SWFs by autocrats mainly focus at 'funding current patronage' and 'other regime-stabilising public and private goods.' Although the

[44] https://crsreports.congress.gov - R47390

establishment motivation of older Gulf-based SWFs has shown a great difference, their importance in maintaining the current regime, keeping their policy-making autonomy, and funding the current patronage has stayed the same. A similarity can be drawn between two cases: SWFs are important for the autocratic rulers and their close circles in order to gain independence, increase decision-making autonomy and maintain their regime's tight control. In other words, SWFs helped Gulf monarchies further strengthen their monopoly over oil wells and by providing them with the monopoly over the capital.

The ADIA was established in 1976 by Abu Dhabi's ruler Al Nahyan family. After the large quantities of oil was discovered in 1963 around the shores of Abu Dhabi, Sheikh Shakhbout bin Sultan Al Nahyan, the Sheikh of the emirate at that time, feared the disruption in Abu Dhabi's social and traditional fabric if large amounts of money entered the emirate's market. The sheikh followed an extreme mercantilist approach and chose to keep all oil revenues in gold. As a result, Hatton and Pistor note that the development spending was only 1.75 million pound out of 200-million-pound income while the sheikh preferred to keep large amounts of gold in his personal properties. His ideas were quite unpopular by the other family members, and he was forced to step down because of the discontent. The sheikh who replaced him was his younger brother Sheikh ayen bin Sultan al Nahyan, who established the emirate's most important state-owned enterprise Abu Dhabi National Oil Company (ADNOC) in 1971, and ADIA in 1976. Like SAMA's start investing abroad and executing SWF duties for the first time after the 1973 oil crisis, it is widely accepted that the oil crisis of 1973 caused the establishment of ADIA due to the large revenues. Abdelal (2009) defines ADIA as the result of 'the American appetite for oil and several decades' worth of American current-account deficits.'

The establishment of ADIA helped Al Nahyan family to protect their domestic autonomy by recycling their oil income to the West by the help of a SWF.

Abdelal (2009) notes that ADIA's investment strategy was 'extremely conservative' until the 1990s. That said, the change in investment strategy led to a drastic change in ADIA's targets. In 2000s, ADIA's portfolio target was as follows: Stocks in developed markets (45–55%); stocks in emerging markets (8–12%); small-cap stocks (1–4%); government bonds (12–18%); corporate and other bonds (4–8%); alternative investments (5–10%); real estate (5–10%); private equity (2–8%); infrastructure (0–4%); and cash (0–5%).

Braunstein (2017) asserts that ADIA has a savings mandate in a country with a politically very weak private finance sector. Even though ADIA is formally defined as an independent body, all its leadership consists of senior government officials, and they are appointed by an Amiri decree. Although not being a rule, half of the board members are from the ruling Al Nahyan tribe. Abu Dhabi, where no pressure from a well-organized private sector exists, can implement long-term investment strategies without an expectation of high returns in a short period of time. As Kuwait's parliament has a power to veto major investment decisions from KIA, ADIA faces no opposition from such a body like Saudi Arabia's PIF. This difference between the management of Kuwait and Abu Dhabi was visible in the aftermath of a major economic scandal involving ADIA-financed, Luxembourg-based banking institution 'Bank of Credit and Commerce International' (BCCI).

In his study digging deeper into the BCCI scandal that led to its closure in 1991, Nikos Passas (1996) notes that such scandals 'represent opportunities for reform', yet this was not the case in the BCCI. As a bank that was established in 1972 with the capital from the ruler of Abu Dhabi Sheikh Zayed and the Bank of

America, it gained importance firstly due to the fact that it was used by Westerners to reach powerful people in Gulf monarchies before it became a popular bank in the US with dozens of branches.

5.3.1 Mubadala

ADIA, whose primary mandate is to manage a giant financial portfolio, was not instrumental in developing a new economy and a land. On the contrary to PIF and KIA, ADIA has always stayed as an institutional investment mechanism while Abu Dhabi's other SWF, Mubadala, was tasked with diversifying the local economy and investing locally for development purposes. While Abu Dhabi leadership decided to establish Mubadala in the 2000s, which has a development mandate, interestingly, Kuwait decided against creating a similar structure which will focus on the local, post-oil economy due to the existence of its already strong merchant class. Saudi Arabia already had a sovereign wealth fund that had a development mandate without carrying out any cross-border investment. It is observed that while these countries share many similarities in the economy, region, language, and culture, each country developed a unique strategy depending on the domestic economies, state-society relations and most importantly depending on their survival strategies. Given the fact that Abu Dhabi, and in general the United Arab Emirate, has no competitive advantage in any other industry other than energy, and the local population lacks labour skills and high-education, Mubadala has been focusing on 'low-labour, high-tech and high-energy' sectors to develop a new core for Abu Dhabi's economy. Abdelal (2009)

Despite the development mandate, Hatton, and Piston (2011 takes a step further in their autonomy-maximization argument and suggest that the core reason of

the establishment of Mubadala in 2002 was to pacify Abu Dhabi's then-Crown Prince Mohammed bin Zayed and let him pursue his dreams to develop Abu Dhabi. The authors assert that the creation of Mubadala was a move for a smooth succession and transfer of power after the era of Emir Khalifa bin Zayed. It can be concluded that a smooth transfer of power in the future was an important autonomy-maximizing factor for Emir Khalifa. As an entity that does not face any serious external threat or popular demand from the public, rivalries inside tribes are the major political threat for chaos as the inner family rivalries have brought about chaos in the past. Sheikh Khalifa bin Zayed's (2004-2022) succession to power was the first uncontested transfer of power since 1909 as Abu Dhabi's political history is rife with political rivalries and competition.

CHAPTER 6

PIF, KIA AND ADIA'S BOARDS AND SHARES IN FIVE LARGEST COMPANIES

6.1 PIF

As we discussed the domestic drivers in Gulf as the main determinant of SWFs' action in Chapter 6, in this chapter, we will focus on SWFs' board structures and their role in each domestic economy in Saudi Arabia, Kuwait and Abu Dhabi. The board structures and SWFs' role in domestic economy reveal very visible differences. These differences prove that Gulf dynasties deploy different methods to stay in power, which is the end goal for each royal family.

6.1.1 PIF's board

MBS is the chairman of the Public Investment Fund and has the ultimate power as the Crown Prince in overruling board's decisions. Yasir Othman Al-Rumayyan, the governor of PIF, was an unknown figure before he took the post in 2015 as an outsider for such a highly critical role. As a non-royal, Al-Rumayyan's previous accomplishments in private sector is neither the sole reason for his appointment, nor an indication of MBS's appreciation for private sector to liberalize the Saudi economy. I argue that Al-Rumayyan's appointment as the governor took place due to the fact that he is an outsider technocrat which does not have ties to other centers of power that MBS has been aiming to contain since 2015.

By appointing a yes-man on the driver of Saudi Arabia's Vision 2030, MBS's intention was to centralize his power among Saudi family similar to his other steps in other state institutions. Al-Rumayyan was appointed as the chairman of Saudi

Aramco in 2019 replacing the Energy Minister Khalid Al-Falih. Al-Rumayyan is also a member of Council of Economic and Development Affairs (CEDA). As Rundell (2021) notes, King Salman replaced many senior princes with technocrats and young princes who does have their own 'power base.'

As seen in the table below, the board of PIF mostly consists of ministers and other statesman. PIF Governor al-Rumayyan is the only member of the board who did not hold an official post in the state. Mohamed Mazyed Altwaijri, who is the advisor at the Royal Court without any current role as a minister, was the Minister of Economy and Planning between 2017-2020.

Davidson (2021) highlights that crucial names in PIF's board are considered among MBS's tight decision-making circle including Mohammed Abdullah Al Jadaan, the Finance Minister, Mohammad Abdul Malek Al Shaikh, Minister of State, and Mohamed Mazyed Altwaijri, former Minister of Economy and Planning mentioned above.

Table 4. Board Members and Official Posts in PIF

BOARD MEMBERS	OFFICIAL POST
Ibrahim Abdulaziz Al-Assaf	Minister of State and member of the Saudi Council of Ministers
Majid Abdullah Al Qasabi	Minister of Commerce
Mohammad Abdul Malek Al Shaikh	Minister of State and member of the Saudi Council of Ministers
Mohammed Abdullah Al-Jadaan	Minister of Finance
Ahmed Aqeel Al-Khateeb	Minister of Tourism
Khalid Abdulaziz Al-Falih	Minister of Investment
Faisal Fadhil Alibrahim	Minister of Economy and Planning
Yasir Othman Al-Rumayyan	Governor of the Public Investment Fund
Mohamed Mazyed Altwaijri	Advisor at the Royal Court

PIF Board members as of March 2024.

6.1.2 PIF's holdings in Saudi Arabia's five biggest companies

Below are the five biggest public companies in Saudi Arabia according to their market cap in the first quarter of 2024. We are not including privately-owned companies or state companies that are not public. Saudi Aramco is also not included in the list as the company is the biggest source of income for PIF and the country itself. That said, consecutively, in 2022 and 2023, Mohammed bin Salman

announced the transfer of Aramco's 4% share to Public Investment Fund which, as of 2024, holds 8% of Aramco's ownership.[45] After these consequent steps toward strengthening the PIF's financial status, Saudi state owns 90.18% of Aramco.

It is crucial to note that each five companies in their annual reports highlight their commitment to Vision 2030 and their effort in realising Saudi Arabia's economic goals. Apart from the five biggest companies by market cap, PIF's hold on the domestic economy is visible in other big companies. The PIF owns 50 percent[46] of Acwa Power, sixth biggest company by market cap.

- Al Rajhi Bank

Al Rajhi Bank was established by the richest non-royal family in Saudi Arabia. According to Bank's annual report, more than 75% percent of the company is owned publicly. Although being a family company, no individual or institution owns more than 5 percent of the shares.

To provide one example how largest companies must position their economic outlook in line with Saudi leaderships economy policies, the company stated in their annual report in 2022, "The Bank remains one of the Kingdom's main contributors towards the three themes of Vision 2030: a vibrant society, a thriving economy, and an ambitious nation. With a significant number of the goals of Vision 2030 either directly or indirectly connected with finance, the Bank is ideally placed to further the Kingdom's aspirations, policies, and plans in its journey towards realizing Vision 2030 in the coming years."[47]

- The Saudi National Bank (SNB)

[45] Financial Times report on the transfer of Aramco's 8 per cent share to Public Investment Fund.: https://www.ft.com/content/dee5d6c5-1a39-4cb2-bd20-4319826fafef

[46] https://www.acwapower.com/news/the-public-investment-fund-announces-increase-in-stake-in-acwa-power/

[47] https://www.alrajhibank.com.sa/ir22/download/pdf/Al_Rajhi_Bank_AR2022_English.pdf Page 13

PIF holds 37.23 percent of the shares according to company's annual financial report in 2022.[48]

While Al Rajhi Bank publicly announces that it takes an active role in the implementation of Saudi Arabia's Vision 2030 as a company with no PIF ownership, other companies such as SNB that the PIF holds significant ownership are also declare their commitment and contributions for Vision 2030. The company wrote in their annual report in 2022, "SNB is already engaged in meeting many of the central objectives of the Kingdom's far-reaching Vision 2030 blueprint, such as increasing home ownership, helping Saudi companies address global markets, supporting micro, small and medium enterprises (MSMEs), and financing Saudi Arabia's visionary giga projects. In response to the call for 70% of Saudi families to own their homes by 2030, SNB has simplified the home loan process with its highly popular residential finance offerings, refining the mortgage process and offering a competitive product range to make the customer experience as swift and seamless as possible."

- Sabic

Sabic is considered as PIF's first and foremost success story as PIF's initial role had been to establish and foster national flagship companies. PIF used to hold 70% of the stakes in Sabic until 2020. In its website, the company announced on June 16, 2020, that PIF's all stakes were transferred to Saudi Aramco. With that deal, Saudi Aramco becomes the major stake holder 'with ownership of 70% of capital.'[49] It is important to note that PIF holds 8% of Saudi Aramco and is the biggest institutional investor after the Saudi family. PIF raised 69 billion dollars with the SABIC deal.

[48] https://www.alahli.com/en-us/about-us/Documents/SNB-Annual-Report-2022-English-Revised-26-3-23-Single.pdf

[49] https://www.sabic.com/en/news/23759-sabic-announces-the-completion-of-saudi-aramco-acquisition-of-public-investment-fund

- Saudi Telecom Company (stc)

In the company's annual financial report in 2022[50], it states, 'The PIF is the ultimate controlling shareholder of stc through its ownership of 64% after the sale of 6% of stc's shares through a secondary offering during the year of 2021.'

- Maaden

In the company's website, it states that PIF holds 65.44% of company's shares.[51] Established in 1977 by a royal decree mandating the company to develop the country's minerals sector, Maa'den has been deeping its ties with the PIF. Both organizations have established a joint venture in 2023.[52]

6.1.3 PIF as the autonomy-maximizer in a new hyper nationalist country

In this study, we accept PIF as a quasi-newly founded organization due to the drastic organizational change the PIF went through even though the organization was originally founded in 1971. As stated in PIF's website, the PIF was 'reborn'[53] after 2015 with the MBS era. Even though some institutional changes took place in 2014 such as granting the PIF the right to carry out cross-border investments before the MBS era, PIF was 'reborn' with the arrival of new Saudi leadership. According to PIF's financial statements, PIF's international investments reached 22% of its total portfolio. It is important to highlight that PIF had no international investment until 2015.

[50] https://www.stc.com.sa/content/dam/groupsites/en/pdf/2022stc-annual-report-english-new3.pdf
[51] https://www.maaden.com.sa/en/about/history
[52] https://www.maaden.com.sa/en/news/details/570
[53] https://www.pif.gov.sa/en/who-we-are/our-history In PIF's official website, the company notes, "PIF was "reborn" in March 2015, when the Kingdom's Council of Ministers issued Resolution 270, which placed the Fund under the direction of the newly formed Council of Economic and Development Affairs (CEDA), with the Crown Prince, HRH Mohammed bin Salman bin Abdulaziz as chairman. This major step gave PIF greater autonomy and better-defined national strategic responsibilities."

One reason on why this thesis regards PIF as a newly founded SWF is Eldredge and Fails (2022) argument on autocrats' motivation to create and utilize SWFs. The authors opine that policy-making autonomy is the key driver in creating and running SWFs since it allows leaders to 'override any opposition from regime insiders' who can have different ambitions and arguments in running the country's wealth. In order to realize Vision 2030 via the PIF, MBS needed a policymaking autonomy. PIF's institutional changes took place in an era when MBS took drastic steps to eliminate opposition inside the royal family such as jailing royal rivals, or appointing loyalists to replace senior princes. By increasing his policy-making autonomy, MBS was able to locate the PIF at the center of his economy policies as Vision 2030. PIF's massive role in Saudi Arabia also led scholars to question to which extend the PIF is a tool for country's leadership along with being an engine of growth.

Another crucial organizational change is that the PIF's oversight was moved from the Ministry of Finance to the Council of Economic and Development Affairs (CEDA) in March 2015 which is chaired by MBS as a parallel economy cabinet established in a period when MBS was striving for weakening other Saudi power circles. CEDA was established on January 29, 2019, less than a week after King Salman assumed the throne. CEDA's existence was intended to unify the economic policymaking under King Salman and MBS whereas economic policymaking used to depend on multiple centers of power, ministries and their clientelist networks before MBS era. CEDA replaced dozens of Supreme Councils managing different sectors and industries.

Young (2020) asserts that PIF is a 'personalistic institution which is closely associated with the Kingdom's new generation of leadership.' The royal decree

numbered 270 in 2015 stipulated that the chairman of the PIF has to be the head of CEDA. Another testament of the major change the PIF went through is the fact that while PIF only employed 40 people in 2016, the institution employs more than 1,000 people since 2020. (Azhar, 2020) According to Global SWF's annual report, PIF was the lead investor in 2023 by spending 31.6 billion dollars in 49 business deals and it represents a 33 % increase compared to 2022. Global SWF's report highlights that PIF became a global investor powerhouse only in 8 years. PIF's AUM was 223 billion dollars in 2017. It reached 720 billion dollars in 2023.

While the Finance Ministry had the main control of PIF before MBS era, now Minister of Finance is only one of the board members which considerably shrinked the role of bureaucracy in the management of PIF in favour of MBS's personal rule. Before 2015, the PIF was 'embedded' with the Finance Ministry, and PIF's managing director's office was in the Finance Ministry. (Seznec, Mosis, 2018). On PIF's website, it is noted that 'PIF reports to the CEDA at the institutional level.'[54] In an interview aired on October 2022, the governor of PIF, Yasir al Rumayyan, explicitly stated[55] that the Crown Prince Mohammed bin Salman can overrule board's decisions if he does not agree with the majority decision. As Trudelle (2022) notes, before 2015, Saudi Arabia's political system used to be described as a system of 'segmented and hierarchical cemters of power.' However, with MBS, centralization of power is visible in almost every aspect of country's management.

Apart from PIF's structural change, Saudi Arabia itself went thought a major chance. MBS has explicitly criticized past Saudi policies fostering Islamism in the country and around the region calling such policies especially after the Iranian

[54] https://www.pif.gov.sa/en/Pages/About-Governance.aspx
[55] https://www.youtube.com/watch?v=HI7yJc0waTM

Revolution in 1979 as a ‘grave mistake’.[56] As the country moves away from its historical Islamic image, the nation building necessitates the new icons that highlights Saudi Arabia’s ancient history and natural uniqueness. Al Ula, a forgotten ancient city, was one of the major locations that new Saudi Arabia promotes as a new international touristic destination similar to Jordan’s Petra. Al Ula Development Company, established to support the development of Al Ula as a tourist destination is totally owned by the PIF along with other similar projects to change the course and international image of the country.

Al Ula is one example of large public projects intended to diversify the Saudi economy. According to Saudi Arabia's general authority for statistics report release on May 2022, 63 per cent of Saudi Arabia's population is under age 30. As the country hastened its efforts drastically to diversify the economy, which is seen long overdue, Saudi youth enjoys the growing career opportunities in the country. Without the diversification efforts, the lack of employment opportunities for the country’s large youth population may result in a grave threat for the existence of the Saudi ruling class. In an interview in 2016 with Bloomberg[57], MSB, still in early years of his rule, emphasized the importance of PIF for diversification efforts.

6.2 KIA

6.2.1 KIA’s board

The Chairman of the KIA's board is the Minister of Finance Anwar al Mudhaf, a non-royal figure who had vast banking experience in private sector. He was the

[56] https://www.project-syndicate.org/commentary/mbs-behind-saudi-nationalist-surge-by-bernard-haykel-2023-09
[57] https://www.bloomberg.com/news/features/2016-04-21/the-2-trillion-project-to-get-saudi-arabia-s-economy-off-oil

chairman of the board of directors at Ahli United Bank. On its website, KIA notes that at least three of the board members should not hold any public office.

Although KIA's managing director has historically been a member of the ruling Al Sabah family, this has changed in the last decades. Former managing director of KIA between 2003-2017, Bader as Saad was not a member of the ruling family and was the manager of Kuwait Financial Center, a large public company operating in the finance sector. Similarly, current managing director Ghanem Suleiman al Ghenaiman is not a royal family member. In addition to that, al Ghenaiman does not hold an official public position in Kuwait apart from his current duty.

According to the International Forum of Sovereign Wealth Funds's KIA Self-Assessment report, by law, KIA's board members consist of the following: the Minister of Finance (chairman), the Minister of Oil, the Governor of Central Bank, the Under Secretary of the Ministry of Finance, and five Kuwaiti nationals from the private sector appointed by the Emiri decree. Among the five private sector appointees, at least three members must not hold any other public offices apart from being a member of the KIA's board of directors. Braunstein (2018) notes that two members of Kuwait's Chamber of Commerce also sits at the board which increases the representation of Kuwait's historically strong merchants.

Table 5. Board Members and Official Posts in KIA

BOARD MEMBERS	OFFICIAL POST
Ghanem Suleiman al Ghenaiman (Managing Director)	None
Basel Al-Haroon	Central Bank Governor
Aseel al Munifi	Undersecretary of Ministry of Finance
Meshaal Jaber al Ahmad al Sabah	None
Fahad al Rashed	None
Saoud Salem Abdulaziz Al-Sabah	None

6.2.2 KIA's holdings in Kuwait's five Biggest companies

- Kuwait Finance House

As the first Islamic bank establish in 1977, Kuwait Finance House is the country's leading financial institution with assets totaling $55.2 billion. KIA holds 16.66% percent of the shares.[58]

- National Bank of Kuwait

KIA has no shares in National Bank of Kuwait. As a bank established by leading Kuwaiti merchants in 1952, the Public Institution for Social Security is the only entity that holds more 5 percent of the company's share.[59]

- Boubyan Bank

KIA has no shares in Boubyan Bank according to the company annual financial report in 2022 that includes the major stakeholders in Boubyan Bank.[60]

- Zain Telecommunications Company

[58] https://www.kfh.com/en/home/Investor-Relations/Annual-Reports/Annual-Reports.html
[59] https://www.nbk.com/investor-relations/latest-annual-report.html
[60] https://boubyan.bankboubyan.com/media/filer_public/53/9c/539c8ce8-3172-453a-b5a3-50fb111d56d1/bb_en__2022_3_english_website.pdf

KIA holds 24.57% percent of the shares according to company's annual finance report in 2022.[61]

- Agility Public Warehousing Company

KIA has no investment in the company as the company's annual reports and other open-source financial sheets does not mention KIA among its shareholders. [62]

6.2.3. KIA as the Autonomy-Maximizer in a Surprisingly Complex Country

As seen in the board structure and ownerships in the national flagship companies, Kuwait shows strong difference to Saudi Arabia and Abu Dhabi due to its uniqueness in country's domestic settlement and the role of the ruling family. To provide an example of how Kuwait's domestic political settlement is unique compared to its peers in Gulf region, all 50 members of Kuwait's parliament was elected by the public as the royal family has no right to appoint advisory members to the parliament. However, Saudi Arabia's royal family appoints all 150 members of Saudi Arabia's consultative assembly which has only an advisor role.

Bazoobandi (2013) argues that the Kuwaiti ruling family limited its involvement to KIA's board especially after the Iraq War. As explained before, the Iraq War was a milestone in the country's democratic reforms as the ruling family made some important compromises during the restoration process.

The complexity of Kuwait's management leads to criticism about the slow decision-making process in an era when other Gulf peers are taking major economic steps towards diversifying their economic sources and undertaking large public projects. Herb (2014) notes that Kuwait's political system prevents the royal family in initiating large and ambitious projects as other Gulf peers as Kuwaiti royal family

[61] https://zainweb-data.s3.amazonaws.com/media/documents/Annual_Report_2022-_EN_-_1.pdf
[62] https://www.agility.com/wp-content/uploads/2022/05/Agility-Annual-Report-2022-English.pdf

is demanded to run welfare state policies that serves every Kuwaiti citizen. Whereas, in Saudi Arabia and Abu Dhabi, the leaders have policy-making autonomy to spend large amounts of money in diversification projects instead of delivering equal services to its citizens and residents. As Kuwait's National Assembly can remove individual ministers, and override emir's veto on some issues, Kuwait's royal family is expected and required to be responsive to the public demand.

KIA, compared to its other peers in Gulf region, has no development mandate (Braunstein, 2018) due to the existence of well-organized industrial and construction sector with a strong lobby power under the umbrella of Kuwait's Chamber of Commerce. Unlike other Gulf peers, the royal family members are not members of Kuwait's Chamber of Commerce.

As Braunstein (2019) noted, local merhants' lobbying and economic power limits KIA's involvement in the local economy. This has been showcased in KIA's limited or no holdings in Kuwait's five biggest companies by market cap as of the beginning of 2024. Even though KIA shies away from being a competitor to local merchant, it played a major role in investing local companies particularly during economic depressions in order to provide relief to major companies.

The presence of a parliament and distinct political history including the First Gulf War and Torras Scandal, the domestic settlement creates the biggest difference in how the Kuwaiti Family utilizes KIA as a coup-proofer and autonomy-maximizer. Even though the Kuwaiti parliament is not affective in initiating new policies and reforms, it holds concrete power in blocking the government's steps in relation with KIA's management. As Bazoobandi highlighted, the Kuwaiti royal family cannot withdraw any money from KIA unless sanctioned by law and approved by the parliament. Within this complex system, the presence of KIA is hugely important for

the ruling family. As a strong institutional organization, KIA legitimizes the royal family as the oil income is invested in long-term assets instead of oil income to be channeled into private bank accounts or companies of Kuwaiti royals. (Hatton and Pistor, 2011) Although the chairman of KIA is non-royal and royal family is not dominant in KIA's board, Grigoryan (2014) asserts that KIA's internal structure is designed to support and keep the ruling family in power.

It is important to note that Kuwait, on the contrary to Saudi Arabia and Abu Dhabi, does not have multiple SWFs managed by different royal family members.

6.3 ADIA

6.3.1 ADIA's board

Nugent, Bazoobandi (2017) notes that Abu Dhabi's royal family has the ultimate control over ADIA. The former ruler Khalifa bin Zayed al Nahyan was the chairman of board of directors until his death in May 2022. In March 2023, Tahnoun bin Zayed al Nahyan, brother of Abu Dhabi's new ruler and the UAE's president Mohammed bin Zayed, was named as the chairman of ADIA. Tahnoun bin Zayed also chairs Abu Dhabi's third biggest wealth fund Abu Dhabi Developmental Holding Company (ADQ).

The tribal relations in ADIA's management are quite visible. The managing director of the board, Hamed bin Zayed al Nahyan is the brother of Abu Dhabi's current ruler Mohammed bin Zayed. Khaled bin Mohamed bin Zayed al Nahyan, the crown prince of Abu Dhabi and board member is the son of the ruler Mohamed bin Zayed.

In the 'Ruling Bargain: SWFs in Elite Dominated Societies' (2014), Grigoryan examines Abu Dhabi as a case study questioning how SWFs in Abu Dhabi

solves the rulers' commitment problem. Grigoryan notes that four mandates with channeling excessive oil revenues into long-term domestic and international investments. Grigoryan highlights that Al Nahyan family dominates the board of directors in SWFs. However, Al Nahyan family also shares some board memberships with crucial tribal allies such as al-bu Mahair, Sudan, Hawamil tribes of greater Bani Yas tribe. Hamad Mohammed al Hurr al Suwaidi, a member of Suwaidi tribe which is a part of greater Bani Yas tribe, is a board member.

Table 6. Board Members and Official Posts in ADIA

BOARD MEMBER	OFFICIAL POST
Hamed bin Zayed al Nahyan (Managing Director)	Member of the Executive Council
Khaled bin Mohamed bin Zayed al Nahyan	Crown Prince
Mansour bin Zayed al Nahyan	Vice President of the UAE
Khalil Mohammed Sharif Foulathi	None
Jassem Mohamed Bu Ataba al Zaabi	Chairman of Department of Finance
Hamad Mohammed al Hurr al Suwaidi	None

6.3.2 ADIA's holdings in Abu Dhabi's five biggest companies

ADNOC and its subsidiary ADNOC GAS is excluded with similar reasoning as Saudi Arabia's Aramco. As seen in companies' data below, it is visible that Abu Dhabu leadership follows a different path in the domestic economy with different SWFs under the leadership ofstrong princes and privately-held companies owned by royal family members.

- International Holding Company (IHC)

Royal Group for Corporate Management holds more than 61 percent of the public company including the ownership of its subsidiary Pal Group.[63] ADIA Chairman Tahnoun bin Zayed al Nahyan is also the chairman of IHC. Royal Group is owned by Al Nahyan family, and it is a private company. ADIA has no stake in IHC.

- TAQA

Abu Dhabi Power Corporation, a subsidiary of the country's third biggest investment fund Abu Dhabi Developmental Holding Company owns more than 90 percent of the company.[64]

- Alpha Dhabi

IHC Capital Holding, Abu Dhabi's biggest royal family company owns 76 percent of Alpha Dhabi.

- Etisalat Group (Emirates Telecom)

61% of the company is owned by Emirates Investment Authority[65] while the rest of the stocks are traded publicly. Emirates Investment Authority is founded in 2007 and chaired by Abu Dhabi's ruler's brother Mansour bin Zayed al Nahyan.

- First Abu Dhabi Bank

Abu Dhabi based SWF Mubadala Investment Company owns First Abu Dhabi Bank's 37.9% shares. In the company's 2022 annual report[66], the company state that Abu Dhabi ruling family owns 15.7% of the company. In explaining the ruler family members ownership, the company's annual report highlighted, "Members of/companies owned by the Abu Dhabi Ruling Family. Each investor (natural or

[63] https://www.ihcuae.com/photo/plugin/guidebook/2023/1695993159_file_1.pdf
[64] https://www.taqa.com/ownership-profile/
[65] https://www.eand.com/content/dam/eand/assets/docs/annual-report/2022/en-2022-1-eand-group-annual-report.pdf Page 10
[66] https://www.bankfab.com/v1/-/media/fabgroup/home/about-fab/investor-relations/reports-and-presentations/quarterly--annual-reports/2022-annual-report/annual-report-2022.pdf?view=1 Page 27

legal person) within this group, owns less than 5% of the Company's shares, and is free to buy or sell FAB shares."

6.3.3 ADIA as an autonomy-maximizer

Abu Dhabi is a unique case as its wealth management policies shows a big difference to Kuwait and Saudi Arabia. Grigoryan (2014) asserts that creating multiple SWFs as different entities with the same mandates as well as forming other smaller investment tools, the ruler of Abu Dhabi aims to buy the loyalty of crucial elite in the country.

This policy maximizes the autonomy of the ruler and prevents the rulers of being overthrown by the regime insiders. As the regime insiders plays and active role in the management of the country's wealth, any possible change in the rule the country many negatively affect their status. In addition, in this thesis, we content that regime insiders also build loyalty to the current rulers as the major portion of investments are parked overseas, any ruler or regime chance may endanger the investments, hence regime insiders' long-term financial future. As Abu Dhabi is a weakly instutionalized country, forming a highly institutional SWF such as ADIA carrying out both domestic and international investments provides a bright political future that helps the ruler to gain loyalty.

It is important to remind a major coup d'etat in Abu Dhabi's history which took place partly because of the former ruler's unpopular policies towards wealth management and distribution. This very incident proves the point that SWFs, the biggest source of wealth management and distribution to the elite groups in the Gulf region, are crucial for the rulers' existence.

Abu Dhabi quickly became a part of the global economy after 1958 with the discovery of oil. However, Abu Dhabi's Sheikh Shakhbout was deeply suspicious of

change in the economy management and social institutions which could have integrated Abu Dhabi's with the rest of the world. (Rabi, 2006). Takriti[67] (2019) accepts the removal of Sheikh Shakhbout as a part of colonial coups initiated and supported by Western powers that are displeased from the actions of leaders in the Middle East. This argument does not contradict the fact that one of major reasons for his removal was his stubbornness on not establishing a wealth distribution mechanism for his inner family and tribal allies. His unpopular economy policies led to the emergence of a strong opposition inside Abu Dhabi's ruling family which created a real possibility of a coup. Along with Shakhbout's unpopular wealth management policies, Takriti notes that since he 'resisted delegating authority to his brothers on oil management', his relations with his family turned sour. As Western countries are displeased from his economic policies since it is against 'dollar recycling' expectations, his inner family was alienated as he was 'stockpiling oil income as gold and cash in his multiple residences. (Rabi, 2006)

[67] Takriti argues that the main reason for Shakbout's removal was his firm stance against building a confedarate of states that Western power were aiming for during the time.

CHAPTER 7

DISCUSSIONS AND CONCLUSION

This study contends that regime stability, regime autonomy and coup-proofing is more important for Gulf rulers than geostrategic goals or financial long-term achievements in terms of their utilization of SWFs. Therefore, without a thorough understanding of SWF's domestic role and utilization, it is barely possible to understand the overall role of SWFs for the Gulf regimes and international markets.

Throughout the study, we focused on the differences of Saudi Arabia, Kuwait, and Abu Dhabi in terms of their political utilizations of SWFs. Although the mainstream academic approach is to highlight similarities of Gulf states in terms of their political systems or wealth management, exploring differences helped us understand that domestic drivers are the main factor in the utilizations of SWFs both domestically and internationally. In other words, each country utilizes SWFs in distinct ways in line with their political establishment and historical events to maximize their autonomy and become coup-proof. Visible differences between Gulf-based SWFs are a testament for the undeniable role that SWFs play in both issues.

This thesis is mindful of this common goal, yet I highlight the differences to showcase their distinct methods to reach the same target. These unique methods are shaped by the private sector-state relations, domestic settlement, country's history, and decision-making processes. As opposed to theories that assert that Gulf countries mimic each other to counter same situations, I argue that Gulf countries must invent new and unique ways to solve complexities in their rule and maintain their regime in a safe and autonomous way.

Table 7. A Broader Comparison of Gulf-based SWFs

	Saudi Arabia	Kuwait	Abu Dhabi
Strong private sector/chambers	No	Yes	No
Multiple SWFs	No	No	Yes
Non-officials at the board	No	Yes	Yes
Parliament	No	Yes	No
Strong non-royal presence at the board	Yes	Yes	No
Coup attempts, coups, invasions	Yes	Yes	Yes
Passive Outward Investor	No	Yes	Yes

As Table 7 indicates, there are major differences in the political and economic settlement of three major countries. The only point those three countries sharing is the coup attempts, successful coups and invasions. Both coups and invasions refer to an armed and forceful threat, and SWFs can be successfully utilized in both cases. For coups, SWFs are there to prevent them from happening. For foreign interference, SWFs are utilized for financial resistance just as in Qatar's case in 2015, and reconstruction just as in Kuwait's case after the first world war. Other points mentioned in the table such as 'strong private sector', 'number of SWFs', 'board

members' and 'passive outward investor' are all shaped by the domestic and economic settlement. As the differences between Gulf countries, and SWFs are visible in the table, it is safe to opine that Gulf counties intend to reach the same end goal, which is to stay in power as long as possible in a peaceful way, by inventing new and unique methods depending on their domestic dynamics with the help of SWFs.

For Saudi Arabia, the effect of the PIF in the domestic economy has been very visible since decades. As the biggest country by land and economy in the Gulf region, Saudi family have been using PIF as the lead investor for state-owned initiatives and as the main financial institutions for rent transfer to allied tribes or families since PIF's founding. However, with the arrival of MBS in 2015, PIF has been located at the very centre of the economy, economic policies, and international investments through major institutional changes as a much larger financial institution. The drastic change in Saudi Arabia from consultation-based rule to one-man showed a big impact on PIF and the country's overall wealth management. With the new regime, PIF became the major autonomy-maximising factor that the new leadership operates. PIF has also been used for wealth transfers from senior princes after their arrests to diminish their financial affect which prevents them from planning coup attempts.

Kuwait's political system is an anomaly compared to other Gulf states. Al Sabah family's power has been limited by the parliament that often leads to a political deadlock which has been heavily criticized by some groups in the country for creating an economic slowdown in the country. Compared to Abu Dhabi and Saudi Arabia, due to its multisided political system, Kuwait does not initiate large public initiatives, infrastructure projects or investments. However, the presence of

KIA mainly as a passive outward investor under the guardianship of the ruler family maximizes Al Sabah family' autonomy as their leadership guarantees the country with sizable returns of investments via KIA as Hatton and Pistor notes (2011). In Kuwait, keeping the balance between strong merchants, parliament, and reform-thirsty public, Al Sabah family follows a visibly different path than the rulers in Abu Dhabi and Saudi Arabia in order to become coup-proof. KIA's management has been reformed due to a series of reformation processes. Kuwait's parliament can vote out ministers and prevent major economy policies with its veto power. The royal family is prevented from withdrawing money from KIA by law. That said, as an official kingdom, Sabah family's hold is tight in the country's management despite the presence of a strong parliament. Due to these reasons, KIA has been a long-term investor mostly focusing on international investment prospects instead of heavily focusing on the domestic economy. This has been the main method that Al Sabah family utilizes the KIA to maintain their rule and become coup-proof.

Abu Dhabi is also distinct in its own way. Al Nahyan family power is very visible in the local economy and in the management the country as an unmatched power. Al Nahyan family's way to delegate power and positions to allied tribes in multiple boards and financial institutions is easily observed. Abu Dhabi has plenty of SWFs such as ADIA, ADIC, ADQ and Mubadala along with smaller wealth funds that are controlled by strong figures of Al Nahyan family which also provides the family with the opportunity to create strong positions for allied tribes. As we observed, five largest companies in Abu Dhabi by market cap are owned by either multiple SWFs based in Abu Dhabi or private companies owned by Al Nahyan family. This makes the situation more complicated compared to Saudi Arabia and

Kuwait to analyse. However, this does not make us doubt Al Nahyan family's tight control in the economy.

In short, this thesis sought to explore and critically analyze the existential role of SWFs within the Gulf regimes. Contrary to academic arguments that portray SWFs as rogue actors in international markets—an interpretation that fails to adequately capture their primary functions—the inception of Gulf SWFs is deeply rooted in domestic dynamics. While one of the central roles of these funds, such as dollar recycling, could theoretically have been accomplished through alternative means, such as the operations of central banks, as was the case in Saudi Arabia until 2015, or through enhanced foreign trade with the West, the broader objectives would have remained unmet. Specifically, the maintenance of tribal loyalty through strategic economic appointments, the provision of lucrative financial resources to sustain winning coalitions, and the bolstering of local economies and economic stability, are outcomes that would not have been realized without the establishment and strategic deployment of SWFs.

As we observe, royal families in Gulf have distinct way to increase their autonomy and become coup-proof as their sensitivities for political risk is very high. Domestic political calculations, coup histories and political balancing acts dominates the activities of SWFs in the region.

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