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# Domestic Sources of Twenty-first-century Geopolitics: Domestic Politics and Sovereign Wealth Funds in GCC Economies

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**ABSTRACT**
The present article brings domestic politics into an analysis on sovereign wealth funds (SWFs) that are relevant for the study of contemporary geopolitics. What are the domestic drivers behind SWF creation, and how does a country's domestic political environment affect the creation of these funds? Using a comparative historical case study on sovereign funds in Gulf Cooperation Countries, this article investigates the effects of domestic state–society structures on decisions about SWF creation and their evolving structure. Thereby, this article adds to an emerging stream of literature that looks at the drivers and implications of SWFs. One of the key findings of this analysis is that there are systematic links between the sovereign fund types and domestic structures; these structures include and exclude socio-economic actors that influence policy-making decisions.

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## 1. Introduction

The emergence of sovereign wealth funds (SWFs) – large state investment funds – reflect the wealth and power shift from OECD countries to non-OECD economies. The latter account for the majority of SWFs and many of the largest SWFs come from countries that are not traditional US allies, such as China, Russia and Iran (see Truman 2010). While in 2007 SWFs had USD one trillion assets under management (AUM), the size increased to nearly USD 7 trillion in 2016 – making SWFs larger than the combined size of global private equity and hedge funds (see Klingler-Vidra 2014; Prequin 2015; Sovereign Wealth Center 2017). The rapid growth of SWFs signals not only the rise of non-OECD economies but also a reassertion of state authority in the markets (Helleiner 2009). For example, the Norwegian SWF alone owns approximately 1 per cent of total global equity and, on average, 2.25 per cent of every listed European firm (Milne 2012). This combined with the lack of transparency among SWFs poses – according to commentators, such as former US Treasury Secretary Summers (2007) – geopolitical challenges, such as the use of their SWFs to pursue strategic goals.

SWFs and their variation have potentially far-reaching geopolitical implications.[1] Via SWFs governments can acquire strategic assets, such as distribution networks and defence technology (e.g. the Qatar Investment Authority's investments into defence and high-technology companies, such as Lagardère and EADS), and thereby following national interests (see Gugler and Boie 2009). Via board representation, SWFs with majority stakes can influence corporate decisions (e.g. technology transfer). Such investments can lead to political debates about how to respond to SWF investments (Thatcher and Vlandas 2016). In turn, such responses can trigger protectionist reactions. For example, in 1988 the UK government ruled against a 22 per cent purchase of British Petrol by the Kuwait Investment Authority in 1988 based on 'public interest' concerns (see Thatcher 2012). Interestingly also

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SWFs, such as the State Administration of Foreign Exchange (China), that invest primarily into minority stakes and highly liquid assets (e.g. US treasury bonds) have the potential to provoke resentments with reference to the fear of monetary disruption (see Kirshner 2009).

SWF variation is linked to the geographical location – notably trade routes and natural resource endowment – and the location is connected to politics. Clark et al. (2013) have demonstrated how cross-country variation in SWFs is linked to geographical variables by showing how the adoption and development of SWFs vary by country. By analysing this nexus further at a more sectoral level, the present article puts forward the argument that if we want to better understand the creation and different use of SWFs within countries one needs to look first at how structural relations between the state and private sector affects decisions about the allocation of resources. How does domestic politics, in particular the structure of state–private sector relations, affect the type and use of SWFs? That question addresses a gap in the burgeoning SWF literature. It sheds light on the way that SWF design and use are impacted by a political relationship between SWF owning states and the domestic private sector. To examine the effects of state–private sector relations on SWFs, this article uses within and cross-country comparison in four otherwise similar countries (i.e. Abu Dhabi, Kuwait, Bahrain and Qatar). Based on the findings, it develops a conceptual frame and a set of arguments. The key argument is that the existence of a strong and politically well-organised private sector in particular activities (finance or non-finance) tends to suppress the developments or constrain the use of SWFs in activities with a bearing on these. In turn, this could cause SWFs to be used in an uncoordinated short-term-oriented manner that primarily serves narrow private-sector rent-seeking interests.

The analysis is divided into three parts. The first part looks at how an analysis on the geopolitical phenomenon of SWFs can benefit from a framework that acknowledges the role of a well-organised private sector in particular activities. The second part starts by concentrating on small open Gulf Cooperation Countries (GCC) economies' (e.g. Qatar, Bahrain, Kuwait and Abu Dhabi) which are at the heart of the geopolitical discourse about SWF design and use. The third part looks at their common background in terms of their histories and macroeconomic contexts. That is followed by four subsections, which outline Kuwait's, Abu Dhabi's, Qatar's and Bahrain's state–society relations in the savings as well as industrial domain, and the corresponding SWF design and use.

## 2. Domestic politics and SWFs

A burgeoning SWF literature seeks to explain the design and use of SWFs. Scholarly accounts on SWFs in GCC economies outline the process of SWF creation as driven by functional considerations connected to excess savings related to the 1970s and 2000s oil boom (e.g. see Momani 2008). Though the oil price is critical, SWF form and function also reflect other factors. For example, a growing number of studies have paid increasing attention to the role of domestic politics and policy choices (e.g. see Helleiner 2009, Reinsberg 2009, Tranøy 2010, Pekkanen and Tsai 2011, Braunstein 2017). Choices have to be made about the allocation of windfall oil revenues in terms of spending and saving. In turn, these choices are inherently political because they create winners and losers. Empirically rich, domestic politics informed case studies of well and long-established GCC SWFs have begun to emerge (e.g. Seznec 2008, Raphaeli and Gersten 2008, Abdelal 2009, Diwan 2009, Bahgat 2010, Kéchichian 2010, Ali and Al-Aswad 2012, Bazoobandi 2013). Beyond individual case studies, leading IPE scholars, such as Helleiner (2009), recommend comparative research as a fruitful way for examining the effects of domestic politics on SWFs. This allowed academics, such as Shih (2009), to focus on the connection between the degree of state unity – relating to bureaucratic competition within state bodies – and SWF governance and behaviour. Building on Shih's (2009) formal accounts, notably Wang and Li (2016), look at the relationship between veto players on SWF governance rules. Wang and Li (2016) find that in democratic regimes, the number of veto players is critical in constraining the opportunistic behaviour of politicians and link it to the governance of SWFs (Wang and Li 2016). According to this line of reasoning, we would expect similar uses and types of SWFs in countries with similar regime types and similar levels of state unity. Other scholars (Monk 2009,

Haberly 2011, Yeung 2011, Clark *et al*. 2013) situate the emergence of SWFs in the context of borderless financial flows and nation states that are characterised by path dependency. Clark *et al*. (2013) suggest that states respond to the contradictions between global financial markets and sovereignty through the creation of different SWFs. In a similar vein, Tranøy (2010) considers the formation of the Norwegian SWF as a means of flexible adjustment in a highly globalised environment and as a tool to address external pressures and domestic compensation in terms of supporting Norway's welfare model.

This emerging body of literature is very important for understanding cross-country SWF variation but less helpful in explaining within-country variation and how the private sector affects the different development and uses of SWFs. This lack of understanding of the role of the private sector reflects an underestimation of non-state actors in the recent debate on SWFs.[2] Sociological models of state intervention offer a promising point of departure for investigating the role of state–private sector relations on decisions leading to different use and design of SWFs across and within countries (e.g. see Bates 1981, Migdal 1988, Evans 1995).

To authors, such as Evans (1995), states are not generic and vary dramatically in their internal structures but also in their relations to society, particularly the private sector. Different levels of state concentration, state autonomy and business mobilisation create different capacities for different types of state interventions, such as interventionist, non-interventionist, liberal and dirigiste (Evans 1995). That allows constructing a direct link between the structure of state–private sector relations and the use and design of SWFs, which are instances of state interventions.

This article uses these variables (i.e. mobilisation of private finance and state autonomy) in four otherwise similar economies with high levels of state concentration to develop a typology on different SWF design and use. With similar resource endowment GCC states offer 'hard cases' for studying the role of domestic structures in the face of powerful external forces. All four GCC states have SWFs but the development and uses of SWFs, however, differed greatly among them. GCC states (i.e. Kuwait, Abu Dhabi, Qatar and Bahrain) offer meaningful variation in state autonomy and private sector mobilisation, which allows a comparative analysis of the effects of different state–private sector structures on SWF choices.

Based on the empirical findings from the comparative analysis, this article proposes a conceptual framework to understand the different development and uses of SWFs (see Table 1). This frame suggests that different state–private sector structures can be linked systematically to different SWF choices. Thereby, this article adds to the analysis of SWF design and use by *bringing in* the private sector. The framework helps to explain why in four otherwise similar countries we can observe different designs and uses of SWFs, and what factors have informed these choices despite similar international pressures.

For example, in Abu Dhabi and Qatar, the centralised state, weakly mobilised private finance and high levels of state autonomy allowed the pursuit of highly interventionist state strategies with SWFs that dominate the domestic finance and industrial landscape. In Bahrain, by contrast, the centralised state, low levels of state autonomy from a highly organised finance elite led to state intervention that supports the activities of the domestic private finance sector. In such cases, we observe the mobilisation of state assets to the advantage of private finance and see the emergence of private equity type SWFs such as Mumtalakat. By contrast in the absence of a strong private finance elite, we see state

**Table 1.** Countries with high concentration of decision-making power and forms of state.

| | | Organisation and political strength of the private finance sector | |
|---|---|---|---|
| | | High | Low |
| State autonomy | High | No SWF | SWF with develop. mandate<br>SWF with savings mandate (e.g. Qatar 1990–2000s, Abu Dhabi) |
| | Low | SWF with develop mandate (e.g. Bahrain) | SWF with savings mandate (e.g. Kuwait) |

action that is highly coordinated in the finance sector and the creation of SWFs with savings mandates. For example, in countries, such as Kuwait, a centralised state with a weakly mobilised private finance sector but strongly organised commerce merchant class led to the creation of the Kuwait Investment Authority and state actions that benefit the commerce and merchant sector.

## 3. GCC countries: similar backgrounds and SWF variation

Kuwait, Abu Dhabi, Qatar and Bahrain share a common historical experience with the British Empire and a number of similarities in terms of their macroeconomic features, most notably size and dependency on oil/gas, as well as their exposure to international business and commodity cycles (see Table 2). Between the 1960s and the 1970s, these economies became independent, and were confronted with windfall hydrocarbon revenues. They have all been governed by strong rulers. These rulers stem from privileged and powerful domestic tribal clans, including the Al-Thani family in Qatar, the Al-Sabah family in Kuwait, the Al-Khalifa family in Bahrain and the Al-Nahyan family in Abu Dhabi. In Kuwait, Abu Dhabi and Qatar, resource wealth has been controlled by the ruling families, and natural resources have been significant contributors to public finance (Said Zahlan 1989).

However, state–private sector relations in Kuwait, Abu Dhabi, Qatar and Bahrain exhibit differences that where shaped by location and reach back to the pre-oil era. What set Qatar and Abu Dhabi apart from Kuwait and Bahrain was the absence of an entrepôt economy, poor harbours and an inhospitable climate. Bahrain emerged as a major trade centre and a pearling spot in the Persian Gulf which led to the emergence of a powerful commercial class (Field 1985). Likewise, Kuwait's location at a strategic trade route to Aleppo and Baghdad as well as its natural harbours allowed the emergence of a powerful domestic merchant elite (see Crystal 1990). While Kuwait had two economic pillars – entrepôt trade in the winter and pearl fishing in the summer – economic activity in Abu Dhabi and Qatar was dominated by highly mobile foreign traders in the pearl fishing sector (Crystal 1990, Davidson 2009). The collapse of global pearl trade in the 1920s saw the exit of traders from Abu Dhabi and Qatar (Crystal 1990, Davidson 2009). The lack of easily accessible ports and the collapse of the pearl fishing industry significantly weakened Qatar's merchants (Crystal 1990). Most of the time, merchants played a negligible role in Qatar's economic policy-making (Crystal 1990, Mehran, 2013). The rulers of Qatar distanced themselves very early from domestic merchants. Instead, they formed an alliance with Britain and its national population through distributive policies (Crystal 1990).

Before independence, the rulers of these territories had British bank accounts or created investment boards, through which they channelled their oil/gas royalties. Bahrain had the Government Reserve Fund, which allocated half of its assets into British stocks and half in fixed deposits with the Eastern Bank and the British Bank of the Middle East (British Treasury, 1963). Under British influence, Abu Dhabi created the Abu Dhabi Investment Board in 1967 and Kuwait created in 1953 the

**Table 2.** Macro-characteristics Bahrain, Qatar, Kuwait, UAE in 2007.

| | Bahrain | Qatar | Kuwait | UAE[a] |
|---|---|---|---|---|
| GDP (US$ bn) | 17.4 | 71.0 | 112.1 | 198.7 |
| GDP per head (US $) | 16,699 | 53.12 | 32.98 | 37,687 |
| GDP per head (US $ at PPP) | 23,934 | 56.15 | 38.34 | 27,837 |
| Consumer price inflation (average %) | 3.3 | 13.7 | 5.5 | 13.3 |
| Current-account balance (US$ bn) | 2.9 | 11.4 | 47.5 | 36.4 |
| Current-account balance (% of GDP) | 16.7 | 15.6 | 42.3 | 18.3 |
| Exports of goods fob (US$ bn) | 13.8 | 42.0 | 63.7 | 180.9 |
| Imports of goods fob (US$ bn) | −10.9 | −19.6 | −20.6 | −116.6 |
| External debt (US$ bn) | 8.6 | 39.9 | 33.6 | 66.5 |
| Debt-service ratio, paid (%) | 3.7 | 6.7 | 3.3 | 2.6 |

Source: Economist Intelligence Unit (2009).
[a]There are no precise data available for Abu Dhabi.

Kuwait Investment Board (KIB). The KIB had been highly unpopular with Kuwait's leadership, because of Britain's influence on Kuwait's asset allocation and 'a perceived' low return (Eastern Department 1954). This was well known among the British leadership. An official statement that '[the Kuwait Investment Board's] investment policy is widely thought to be directed by the United Kingdom and is bound to be unpopular with the Kuwaitis, who expect at least 12 per cent [return]' draws attention to the motivation behind Kuwait's creation of SWFs (Eastern Department 1954).

### 3.1. SWF choices following independence

In the years following independence (i.e. the period between 1960s and 1970s), small open economies in the Gulf offered interesting sectoral variation in terms of their SWFs and domestic state–private sector structures (see Table 3). The comparative analysis on SWF variation in GCC economies reveals systematic variation in state–private sector structures across policy domains that mirror different designs and uses of SWFs. The creation of large SWFs with savings mandates (e.g. the Qatar Investment Authority and the Abu Dhabi Investment Authority, Kuwait Investment Authority) reflected the concentrated state structures with high levels of autonomy from a weakly organised domestic private finance sector. Cross-temporal variation in the creation of SWFs is in line with the sequences of change in state fragmentation/domestic structures. Following the mid-1990s, the organisation of the state in Qatar's industrial domain experienced a change from a fragmented to a highly centralised decision-making structure. This was accompanied by the creation of SWFs with development mandates in the 2000s. Interestingly, Kuwait decided against creating a large Mubadala-type SWF with a development mandate. Yet KIA has with the Kuwait Investment Company a smaller strategic developmental subsidiary which decreased substantially in size following the Iraqi invasion (Anonymous, personal communication, 23 September 2014).

Unlike Abu Dhabi and Qatar (from the mid-1990s onwards), state–society relations in Kuwait's industrial domain were characterised by highly mobilised merchant elite and a fragmented state apparatus with low levels of autonomy. In contrast, Bahrain did not create a saving-oriented SWF but relied on the private finance institutions. Yet, it restructured its non-oil state enterprise sector into an SWF with a mandate of diversification.

### 3.2. Kuwait's Saving Policy: the Kuwait Investment Authority

The creation of Kuwait's Investment Authority represents a case where we have an SWF with a savings mandate and a politically weak private finance sector – similar to neighbouring Abu Dhabi and Qatar. This supports the basic argument of this article that we observe the creation of SWFs with savings mandates in the absence of a strong and politically well-organised private finance sector.

Preparing for independence from Britain in 1960 Kuwait established the General Reserve Fund. The General Reserve Fund was the main treasurer for the Kuwait government. It 'received all revenues (including all oil revenues) from which all state budgetary expenditures were paid' (Yi-Chong 2010: 287). Immediately after independence, Kuwait established a separate investment committee in the Kuwait Department of Finance, and it created the Kuwait Investment Office in London (Bazoobandi 2013). The Kuwait Investment Office had the purpose of replacing the British-run KIB (Bazoobandi 2013). Following Kuwait's nationalisation of oil companies in 1974/75, reserves increased substantially from about US$3 bn at the end of 1973 to about US$12 bn at the end of 1975 (Johns 1976: 21). The Crown Prince of Kuwait issued Law No.106, which was the legal basis for the creation of the Future Generations Fund. Article 2 of the law stated: 'A special account shall be opened for creating a reserve that would act as an alternative to oil wealth.' According to this law, 50 per cent of the assets of the General Reserve Fund were transferred to the newly created Future Generations Fund. In addition, the Future Generations Fund annually receives 10 per cent of all state revenues, and it receives the entire fund investment income (Bahgat 2010, Bazoobandi 2013: 35). The Future Generations Fund keeps all its assets outside Kuwait. Part of the Future Generations Fund is managed by the

**Table 3.** Structure of state–private sector relations in GCC states and corresponding SWFs.

| | | Saving domain | | | | Industrial domain | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Kuwait | Abu Dhabi | Bahrain | Qatar | Kuwait | Abu Dhabi | Bahrain | Qatar | Qatar |
| Period | | 1960s–2000s | 1970s–2000s | 1970s–2000s | 1970s–2000 | 1960s–2000s | 1970s–2000s | 1970s–2000s | 1970s–mid-1990s | Mid-1990s–2000s |
| State | Concentration | High | High | High | High | Low | High | High | Low | High |
| | Autonomy | High | High | Low | High | Low | High | High | Low | High |
| Private Sector | Organisation Pol Strength | Low | Low | High | Low | High | Low | Low | Low | Low |
| SWFs created after independence | | KIO<br>KIA | ADIA | n/a | QIB<br>QIA | n/a | Mubadala,<br>IPIC, ADIC | Mumtalakat | n/a | Qatar Holding,<br>Qatar Diar |

Kuwait Investment Office in London (Roberts 2011). Following the second oil shock in the late 1970s, and a drop in oil prices in the early 1980s, Kuwait started to consolidate separate government funds and investment entities (i.e. the Kuwait Investment Office, the General Reserve Fund and the Future Generations Fund) under the umbrella of a newly created entity (i.e. the Kuwait Investment Authority).

State decision-making structures in Kuwait's saving domain are highly centralised and autonomous officials stand vis-à-vis a highly mobilised segment of the business sector. Formed in 1961, the Kuwait Chamber had been hierarchically organised and functioned as a lobbying, expertise and coordination platform for private business organisations. It has been the only chamber in Kuwait since, and dominated by well-organised Kuwait merchant families and represents all private companies in Kuwait. In strong contrast to other small open Gulf economies, notably Qatar, the ruling family is absent from the Kuwait Chamber of Commerce (Crystal 1990). According to a high-level Chamber representative, the Kuwait Chamber of Commerce is represented on all major economic policy bodies via appointments to committees (Anonymous, personal communication, 24 September 2014). These committees allow private business to interact with the state in private (Moore 2002). The Kuwait Chamber of Commerce is highly supportive of the KIA and is also deeply integrated into the KIA's governance framework (Anonymous, personal communication, 24 September 2014). For example, two members of the chamber's board of director sitting on the board of directors of the KIA (Anonymous, personal communication, 24 September 2014).

In turn, these structures influenced the logic of policy-making facilitating direct negotiations between the state and the respective business sector, by means of which the state seeks to accommodate the interests of this group within its broader agenda. Different preferences among socio-economic actors towards the KIA indicate distributional conflicts. For example, there were conflicts of interest between Kuwait's commerce community and Kuwait's finance community. While the Kuwait Chamber of Commerce and Kuwait's merchants broadly supported the creation of an SWF, domestic private investment houses and finance firms were highly critical of the Kuwait Investment Authority (Anonymous, personal communication, 24 September 2014). They claim that KIA competes with the private domestic sector for talent. Furthermore, they complained that Kuwait's SWF was crowding out domestic fund management and as a result, they repeatedly demanded that the Kuwait Investment Authority should invest more in the Kuwait Stock Exchange in order to support or re-enforce the domestic market.[3] However, the extent to which KIA crowded out domestic fund management, especially in terms of talent, remains unknown.

The Finance Department, later renamed the Ministry of Finance, was Kuwait's dominant state agency, and it had significant autonomy from Kuwait's private finance sector (Moore 2002). Nearly all banks, except the National Bank of Kuwait, were established in the period after 1960. Apart from the National Bank of Kuwait, which was established by domestic merchants with the support of the ruler, other banks were established with significant state involvement (National Bank of Kuwait 2015). The state's dominance was reflected in the Kuwait Banking Association – formerly the Kuwait Banking Committee (est. in 1981) – which served as a coordination body. Kuwait's ruling family was directly represented on the Board of the Kuwait Banking Association. The principal objective of the Kuwait Banking Association was the coordination of members' activities 'within the framework of the state's plans, and economic and monetary policies' (Kuwait Banking Association 2014).

### *3.3. Kuwait's industrial policy*

Kuwait's SWF choices in the industrial domain differ from its neighbours due to the historically strong domestic merchant, construction and trade sector. The unusual absence of a large SWF with development mandate supports the basic thesis of this article that the existence of a politically well-organised merchant, trade and industrial sector tends to suppress the developments or constrain the use of SWFs in industrial activities.

Kuwait's industrial policy choices were characterised by short-termism, low levels of coordination and low levels of intrusion for private socio-economic actors. With the exception of the oil sector, policy choices were structured around the immediate preferences of private producer groups (Johns 1976). The government only entered sectors in which private merchants had little interest (Crystal 1990). Kuwait's merchants were heavily involved in the construction and logistics sector, such as the Kuwait Oil Tanker Company and Kuwait Airways (Crystal 1995).[4] Al-Kandari's statement that '[m]ost industry in Kuwait other than oil and natural gas is based on simple processing and largely depends on imports of primary [and], intermediate goods and materials' indicates a link between Kuwait's merchants and manufacturers (Al-Kandari 1982: 39). Organisations in the industrial domain referred mainly to light manufacturing, consumer goods such as food processing, construction, the manufacturing of building material/asbestos, the fabrication of metal windows and cement pipes (Al-Kandari 1982).

Although the Industrial Development Board (est. 1961) was officially charged with outlining long-term anticipatory policy, most of its five-year plans emphasised short-term reactive policy and institutional choices (Al-Dekhayel 2000). They produced reports that emphasised short-term goals and the need to expand the private sector's role in manufacturing and trade, and recommended that the state should support this via tariff protection, tax exemptions, cheap loans at low subsidised interest rates and the establishment of industrial estates (Al-Dekhayel 2000). For example, merchants were allowed to keep their monopolies in trade and services (Crystal 1990: 90). The Kuwait Chamber of Commerce and Industry regulated the permits for foreigners, which were their major competitors. Another form of subsidisation of domestic entrepreneurs related to the creation of joint stock companies with preferential treatment of Kuwaitis in case of government sales. The state bought shares in order to avoid losses to Kuwaiti shareholders. Large amounts of public funds were transferred to the private sector via overpriced government land purchases (Al-Dekhayel 2000). In addition, by law, Kuwait's private industrial sector had been given preference in government purchases. Policies and institutional choices had the objective to protect the immediate interests of local merchants (Al-Dekhayel 2000).

Between the 1960s and 2000s, the state apparatus in Kuwait's industrial domain was highly fragmented. State authority in Kuwait's industrial domain was diffused, and multiple state agencies had overlapping jurisdictions. As of the late 1970s, Khouja and Sadler (1979: 120) estimate that Kuwait had about 10 government agencies charged with the mission of industrial development. These included specialised departments, such as a joint office with the United Nations Industrial Development Organisation, the Ministry of Planning (which replaced the Kuwait Planning Board) and the Ministry of Commerce and Industry. The private domestic sector was strongly represented in these agencies (Al-Dekhayel 2000). For example, out of the Development Planning Board's 16 members, 10 were drawn from the private sector (Al-Dekhayel 2000). Likewise, the Kuwait Chamber of Commerce had been especially influential in the Ministry of Commerce Trade and Industry (Anonymous, personal communication, 24 September 2014). The Ministry of Commerce Trade and Industry served as an important platform for the state–business interaction (Moore 2002). As a result, the degree to which these departments could act autonomously from domestic merchants and traders was low (Khouja and Sadler 1979). For example, a 1971 World Bank Mission report on the 'Promotion of Manufacturing in Kuwait' highlighted the lack of coordination and autonomy among these agencies (see Khouja and Sadler 1979). These agencies did not have a clear conception of their mandate and role in order to support coherent policy (Khouja and Sadler 1979).

Private commercial organisations have been able to influence industrial policy-making directly through their positions in state apparatus (e.g. membership on the Cabinet) (Crystal 1995, Al-Dekhayel 2000). Simultaneously, each of the leading merchants was represented on an average of five boards of shareholding companies (calculated by using data from Al-Dekhayel, 2000: 52). Together they had directorship positions in 95 of Kuwait's shareholding companies. Again this is a high number, as by 1977, there were about 109 privately owned private shareholding companies and 40 privately owned public shareholding companies with government participation (Khouja

and Sadler 1979: 128). While Kuwait's business elite had little interest in the creation of SWFs with development mandates, the populist nature of parliamentary politics in Kuwait from the 1960s onwards also did not contribute to the creation of such a fund. In his article *Defying the Resource Curse: Explaining Successful State Owned Enterprises in Rentier States*, Hertog (2013) highlights the lack of regime autonomy in economic policy-making imposed by popular electoral politics from the 1960s onwards. Hertog (2013) links the absence of state autonomy in economic policy-making to Kuwait's National Assembly.

Unlike other Parliaments in the region, Kuwait's National Assembly has important powers in policy-making (e.g. power to remove confidence in individual ministers, power to override emir's veto). That matters in the domestic deployment of oil revenues. The members of the National Assembly are elected in free and fair elections, which are structured around popular politics (Herb 2014). In turn, Kuwait's ruling family is responsive to the Parliament by supporting a welfare state that provides a comfortable life for every Kuwaiti citizen (Tetreault 1991). As such, Kuwait's political system discourages ambitious diversification projects, such as in Qatar and Abu Dhabi, which have a direct impact on the immediate benefits of Kuwaiti citizens (Herb 2014).

Apart from affecting the creation of SWFs, state–society relations also matter with regard to the control and oversight of such funds. Unlike Abu Dhabi and Qatar, Kuwait's Parliament frequently challenges the ruling family in economic policy (Herb 2009). This has helped to unmask a major investment scandal of Kuwait's SWF in the early 1990s. Following the Gulf war, a relatively strong Kuwait's parliament uncovered a major fraud that included a number of members of the ruling family, such as the Emir's cousin Sheik Fahad Mohammed al-Sabah – former chairman of Kuwait's SWF (Cohen 1993). It was in the late 1980s when Kuwait's SWF invested more than US$5 bn via a Spanish middleman (Cohen 1993). Kuwait's Parliament Finance Committee found evidence of corruption and gross mismanagement of Kuwait SWF's investments and called for legal action against former managers (Cohen 1993).

### *3.4. Abu Dhabi's Saving Policy: the Abu Dhabi Investment Authority*

The creation of Abu Dabi's Investment Authority represents a case where we have an SWF with a savings mandate and a politically weak private finance sector – similar to neighbouring Kuwait and Qatar. This supports the basic argument of this article that we observe the creation of SWFs with savings mandates in the absence of a strong and politically well-organised private finance sector.

The Abu Dhabi Investment Administration was created as a means of managing Abu Dhabi's surpluses in parallel to the British-run Abu Dhabi Investment Board, which had been in existence since 1967. The motivation behind the creation of the Abu Dhabi Investment Administration in 1971 was very similar to the move of Kuwait in 1961 with its creation of the Kuwait Investment Office. It was a means of achieving more independence (i.e. from Britain) with regard to the management of Abu Dhabi's savings, which multiplied rapidly in the 1970s due to a number of oil discoveries and high oil prices. Three years after (in 1974), the Abu Dhabi Investment Administration took over the management of all wealth – including that of the Abu Dhabi Investment Board – and in 1976 the name was changed to the Abu Dhabi Investment Authority (Bazoobandi 2013: 73).

Although formally independent, the ADIA has strong links to the government. All of its senior officials and the members of its Board of Directors are senior government officials appointed by an Amiri decree. For example, half of the Board members come from the Al-Nahyan family, who occupy positions in the Executive Council at the same time. According to Davidson (2009), the chairman together with a former banker from Paribas, who joined the Investment Authority in the early 1980s, are in full control (see Landon 2008). As of the mid-1990s, the Abu Dhabi Investment Authority reached about US$100 bn, invested internationally into equities, bonds and real estate (Davidson 2009: 73; ADIA 2009). The Abu Dhabi Investment Authority has been receiving most of its AUM from the Abu Dhabi National Oil Company (ADNOC) (Abdelal 2009). With its 14 subsidiaries, the ADNOC accounts for a significant part of Abu Dhabi's national income (Abdelal 2009).

Between the 1970s and the 2000s, state–society relations in Abu Dhabi's savings and industrial domain were characterised by highly concentrated decision-making structures with high levels of state autonomy from weakly mobilised domestic private producer groups. This situation allowed the pursuit of long-term-oriented policies, characterised by high levels of coordination and state involvement. Unlike Kuwait's parliament, Abu Dhabi's appointive council has only advisory power (Herb 2009). In the absence of parliamentary constraints, Abu Dhabi's state enjoys high levels of autonomy from popular pressures, which in turn is reflected in the type of economic policy and financial institutions it fosters. This structure affected the policy-making processes, and the logic of policy-making in Abu Dhabi's savings domain over this period. It facilitated the pursuit of policies with a long-term horizon, along with high levels of state involvement and coordination in other policy areas. Reflecting this, Abu Dhabi created an SWF with a savings mandate immediately after British independence in 1971.

The UAE Constitution from 1971 highlighted that the resources and wealth were the property of the respective emirate (Bazoobandi 2013). As such, from 1971 onwards, the government of Abu Dhabi has had full authority over the allocation and management of its natural resources and wealth. The Executive Council was the most central economic policy-making body and was led by the Amir (Davidson 2009, Executive Council Abu Dhabi 2015). It consisted of 13 members, drawn mostly from the Bani Yas Tribe, which has around 20 subsections (Sheikh Mohammed 2014). Out of them, the Al-Nahyan family had been the most powerful tribe. Over the years, the ruling Al-Nahyan family co-opted a small number of families from these subsections into a firm political–economic network. Apart from the ruling Al-Nahyan family, important subsections of the tribe, which were on the Executive Council, were the Al-Mazrouei, the Al-Suwaidi, the Al-Romaithi and the Al-Qubaisi. As of the 2000s, these five subsections of the Bani Yas Tribe were in control of the Executive Council (see Table 4). Out of the 13 members on the Executive Council in 2014, 9 were related to those 5 families (Gulfnews 2014). According to Davidson (2009), inclusion and exclusion from the Economic Council is a barometer for influence and prestige among Abu Dhabi's tribal elite. Economic posts in the savings domain have been distributed among factions of the tribes within this network. Members of this network have occupied cross-directorships in important state bodies, such as the Executive Council, Finance Department, Development Department and banking and financial organisations. Banking organisations in Abu Dhabi's savings domain have had especially strong connections to the state. For example, the royal family has been represented in leading functions on the Board of Directors in Abu Dhabi's major banks such as the Abu Dhabi Commercial Bank, First Gulf Bank, Abu Dhabi Islamic Bank, National Bank of Abu Dhabi and the Union National Bank. Unsurprisingly, there has been no private Banking Association in Abu Dhabi, and in almost every bank the state has been a major shareholder.

As already mentioned, state–society relations also matter with regard to the control and oversight of such funds. Similar to Kuwait also Abu Dhabi had its own SWF scandal in the early 1990s involving the Bank of Credit and Commerce International (BCCI). Founded in the early 1970s, the BCCI became

**Table 4.** Cross membership on executive council and SWF boards among the leading Bani Yas Tribes.

| | | Membership on SWF Boards | | | |
|---|---|---|---|---|---|
| Leading Bani Yas Tribes | Members on Exec. Council | ADIA | ADIC | IPIC | Mubadala |
| Al Nahyan (part of Al Falahi) | 4[a] | 4[a] | 5[a] | 1[a] | 1[a] |
| Al Mazrouei | 1 | | | | |
| Al Suwaidi (Al Suwdan) | 2 | 2 | 1 | | 1 |
| Al Romaithi (Al Remethat) | 1 | | | | |
| Al Qubaisi (Al Qubaisat) | 1 | | | 1 | |
| Total | 9 | 6 | 6 | 2 | 2 |
| Total Membership(incl. leading Bani Yas) | 13 | 8 | 8 | 2 | 7 |

Source: Information compiled from SheikhMohammed (2014), Gulf News (2014), Mubadala (2014), IPIC (2014), ADIA (2014) and ADIC (2014).

[a]Chairman position hold within a particular subsection of the tribe.

the fastest growing global bank between the 1970s and 1990s with the help of Abu Dhabi (*The Wall Street Journal*, 11 March 1992). The ADIA together with Sheik Zayed – the ruler of Abu Dhabi – owned around 77 per cent of the BCCI (Prokesch 1991). The BCCI was involved in a number of illicit activities including: money laundering in Europe, Africa, Asia and the Americas; bribery of officials in most of those locations; support of terrorism, arms trafficking and the sale of nuclear technologies (Congressional Research Service 1992). In contrast to Kuwait, fraud and mismanagement allegations were initiated from outside by countries in which the BCCI was active, notably Luxembourg and the US through a congressional investigation (Congressional Research Service 1992). Following these accusations in the late 1980s, Abu Dhabi continued to inject money into BCCI in an attempt to limit losses (Brooks 1991, Congressional Research Service 1992).

### *3.5. Abu Dhabi's industrial policy: ADIC, IPIC and Mubadala*

The establishment of Abu Dabi's Investment Company (ADIC), International Petroleum Investment Corporation (IPIC) and Mubadala represents cases where we have SWFs with development/diversification mandates and a politically weak private merchant, construction and trade sector – similar to neighbouring Qatar. This supports the argument of this article that we expect the creation of SWFs with industrial mandates in the absence of a strong and politically well-organised private merchant, construction and manufacturing sector.

Between the 1970s and 2000s, Abu Dhabi created a number of state finance institutions with development mandates.[5] Following windfall oil revenues in the 1970s, policy decisions were made which led to the creation of the ADIC in 1977 (Davidson 2009: 74). The ADIC's highest authority was the Board of Directors, and its members were appointed by the Amir. Historically, it has been under the control of the ruling family and the Al-Suwaidi section of the Bani Yas tribe (Davidson 2009). The ADIC came under the umbrella of the 2007-established Abu Dhabi Investment Council, itself under the control of the Al-Nahyan family (InvestAD 2015). It has invested actively in international as well as domestic assets (Abu Dhabi Council 2015b). Its domestic holdings have included stakes in the National Bank of Abu Dhabi, the Abu Dhabi National Insurance Company and the Abu Dhabi Aviation Company (Abu Dhabi Council 2015a).

The ADIC created the IPIC in 1984 as a joint venture between the ADIA and the ADNOC. The IPIC was established by an Amiri decree with the mandate 'to secure end markets for Abu Dhabi crude' (IPIC 2015a). As of the 2000s, the IPIC's investments spanned the entire hydrocarbon value chain at an international level. Between the 1980s and 2000, it acquired controlling stakes in the upstream companies (e.g. CEPSA, OMV and COSMO Oil) midstream companies (e.g. PARCO, Gulf Energy Maritime, ADCOP, Emirates LNG and OMV CEPSA) and downstream companies (e.g. OMV, COSMO Oil, Borealis, ChemaWEyaat, Oasis International Power, Duqm Refinery, NOVA Chemicals, Fujairah Refinery, EDP, PARCO and CEPSA) (IPIC 2015a). Although the IPIC is co-owned by the latter two, it falls under the umbrella of the Supreme Petroleum Council, which is responsible for the petroleum industry of Abu Dhabi. The Petroleum Council is controlled by the ruling family. Out of its nine directors, five are from the ruling Al-Nahyan family and three are from the Al-Suwaidi section of the Bani Yas tribe (Abu Dhabi National Oil Company 2015). The IPIC's chairman is a member of the ruling family as well as Deputy Prime Minister of the UAE, and its managing director is from the Al-Qubaisi section of the Bani Yas tribe (IPIC 2015b).

Mubadala was established in 2002 by the government and its main objective related to the facilitation of Abu Dhabi's diversification and transformation process (Mubadala 2014). With its asset volume of approximately US$60.8 bn, Mubadala has been involved in various economic sectors, such as aerospace, semiconductors, real estate and health care. It has exposure to these sectors via its subsidiaries, international partnerships and joint ventures. In 2016, Abu Dhabi announced plans to merge Mubadala and the IPIC with the aim of streamlining investment operations across the two SWFs. According to Schena (2017), concerns about inter-fund rivalry and competition, leading to sub-optimal investment outcomes, were also linked to this decision. Abu Dhabi's Crown

Prince is the chairman of Mubadala's Board of Directors (Mubadala 2014). The Al-Suwaidi section of the Bani Yas was also represented on Mubadala's Board of Directors. For example, as of 2014, the Al-Suwaidi member is simultaneously a member of the Abu Dhabi Executive Council and the chairman of Abu Dhabi's Department of Finance. The remaining five directors of Mubadala are successful technocrats who made careers within the state enterprise sector, and who hold important positions in the state apparatus, such as chairmanships of regulatory authorities and government departments, government enterprises, government banks, and the Abu Dhabi Executive Council.

Over this period, there was no independent association representing private organisations in Abu Dhabi's industrial domain. As of 2014, there were around 80,000 business entities operating in Abu Dhabi (Ahmad 2014). It has been mandatory for all commercial, industrial, vocational or professional entities with offices in Abu Dhabi to join the Abu Dhabi Chamber of Commerce and Industry. However, it had weak research capacity and there were no sector-specific committees within the chamber (Hertog 2013). Because there has been only one chamber, which comprises all businesses registered in Abu Dhabi, there has been no competition for members. Furthermore, the Chamber is a government body set up to help co-ordinate the interests of the private sector with the interests of the state (Abu Dhabi Chamber of Commerce and Industry 2015a). Its mission has been to offer coordination for the private sector with the aim of advocating policies that 'contribute to Abu Dhabi's sustainable economic development'. The Chamber has had strong connections to the Department for Economic Development. Both consider each other as official partners (Abu Dhabi Chamber of Commerce and Industry 2015b). This relationship becomes visible in terms of recruitment patterns between the two entities. Officials who started their career in the Chamber often proceed to further their career at the Department of Economic Development. Via the Chamber, the state has co-opted the private sector into the state apparatus. Until 2014, when elections were introduced, nearly one-third of the 21 members on the chamber's board were appointed by the Amir (Abu Dhabi Chamber of Commerce and Industry 2013). This gave him the opportunity to include members with close connections to the state. For example, the Vice-Chairman of the Chamber has been on the Board of Directors of Mubadala – one of Abu Dhabi's SWFs – and began his career in the ADNOC, whilst also having held membership positions in the state-related National Bank of Abu Dhabi (National Bank of Abu Dhabi 2015, Mubadala 2014).

It facilitated the pursuit of policy with high levels of state involvement and coordination aimed at long-term industrial transformation. Like in Abu Dhabi's savings domain, the Executive Council was at the centre of decision-making in the industrial domain. Directly subordinated to it were the Department of Finance and the Department for Economic Development. The Department for Economic Development's as well as the Finance Department's chairmen were simultaneously members of the Executive Council. Both played a key role in formulating long-term industrial policy. The Department for Economic Development, for example, introduced the Plan Abu Dhabi 2030 infrastructure projects worth more than US$400 bn, including tramlines and metro as well as a select range of high-technology heavy industry (Davidson 2009: 81). The chairman of the Department of Economic Development also chaired the Abu Dhabi Council for Economic Development, which has a close relationship with the Urban Planning Council (ZonesCorp 2010, Abu Dhabi Council for Economic Development 2015).

### *3.6. Qatar's savings policy: Qatar Investment Board and Qatar Investment Authority*

The creation of Qatar's Investment Authority is a case where we have an SWF with a savings mandate and a politically weak private finance sector. Again, this supports the basic thesis that we observe the creation of SWFs with savings mandates in the absence of a strong and politically well-organised private finance sector.

Shortly after Qatar's independence, the Emir established the Qatar Investment Board in 1972. It was created as an agency with the purpose of coordinating the 'overall investment strategy of Qatar' (El-Mallakh 1979: 131). The Qatar Investment Board can be described as the predecessor of

the 2004/05-created Qatar Investment Authority. From 1972 onwards, reserves were channelled via the Qatar Monetary Agency to the Qatar Investment Board, which managed and coordinated these assets. The Qatar Investment Board was led by the Minister of Finance, and its Board of Directors included an advisor to the Emir, as well as the director of the Emir's private office, the Director of Finance and a Swiss Banker. In addition, the Qatar Investment Board was also drawing on a group of international financial experts, notably representatives from Manufacturers Hanover – a bank holding company based in the US –, the First National Bank of Chicago, Morgan Grenfell and Deutsche Bank (El-Mallakh 1979: 131).

There is a direct link between the 1972-created Qatar Investment Board and the 2005-created Qatar Investment Authority. An official statement that '[the Qatar Investment Authority] builds on the heritage of Qatari investments dating back more than 3 decades' draws direct attention to the connection between these two entities (Qatar Investment Authority 2014). The QIA was created with the purpose of diversifying Qatar's wealth across different asset classes and regions by making return-oriented investments (Qatar Investment Authority 2014). Its mission, defined in Article 5 of the State of Qatar Emiri Decision No (22) of 2005 (the QIA Constitution), is to '… develop, invest and manage the state reserve funds and other property assigned to it by the Supreme Council in accordance with policies, plans and programmes approved by the Supreme Council' (Qatar Investment Authority 2014). This means that the Supreme Council was central to QIA's funding and investment structure. Again, the Supreme Council was directly subject to the Emir, and it consisted of the Minister of Energy and Industry, the Minister of Finance, the Minister of Economy and Trade, as well as the Governor of the Qatar Central Bank, the Economic Advisor of the Emir, and representatives from the Qatar Investment Authority and the Qatar Development Bank (General Secretariat for Development Planning 2011, DohaNews 2013). The QIA's board of directors had full control over the QIA's business and its members were appointed in accordance with the Emir's decision. It was chaired either by the Prime Minister or by the Emir himself. The Board also included members simultaneously sitting on the Supreme Council (Qatar Investment Authority 2014).

Between the 1970s and the 2000s, the structure of state–society relations in Qatar's savings domain was highly centralised and autonomous from a weakly organised private banking sector. There was no banking association representing the private banking-finance sector. As of the 1970s and 1980s, apart from regional Arab Banks (e.g. Bank Al-Mashrek and Bank of Oman) and large foreign international banks (e.g. Standard Chartered Bank, British Bank of the Middle East, Citi Bank, Banque Paribas), there existed only smaller privately run Money Exchange Companies (e.g. Al-Fardan Exchange and Finance Co, Al-Basry Exchange) (Qatar Monetary Agency 1985). This structure enabled the government to pursue long-term-oriented policies with high levels of state involvement. Reflecting this, Qatar's government created an SWF with a savings mandate.

The Emir (i.e. Khalifa Al-Thani 1972–1995; Hamid Al-Thani 1995–2012) chaired the Supreme Council of Economic Affairs and retained control over policy-making in Qatar's finance and savings domain (Ibrahim and Harrigan 2012, Mehran 2013). Qatar's banking system had been controlled by the state via direct shareholdings and via appointments on the banks' Board of Directors. For example, as of the 2000s, the Qatar state continued to hold a 50 per cent ownership stake in Qatar's oldest bank (i.e. the Qatar National Bank est. 1964). Its chairman is the Minister of Finance, who is appointed by the Emir. Two other members of the Qatar National Bank's Board of Directors also belong to the ruling family (Qatar National Bank 2015). The chairman of 1975 created Commercial Bank of Qatar was from the ruling family. Although this bank is 'formally' Qatar's first private bank, the ruling family occupies central positions on the bank's Board of Directors. Likewise, the 1982-created Qatar Islamic Bank was chaired by a member of the royal family, with other royal family members sitting on the bank's Board of Directors (QIB 2015). Among Qatar's largest banks, there had been no genuine private bank (see Qatar Monetary Agency 1985).

### 3.7. Qatar's industrial policy (1970s–1990s)

Qatar's industrial policy and SWF choices between 1970s and 1990s stand in contrast to its neighbours. Despite a weakly organised private sector, the state was not able to create a large SWF, such as ADIC or IPIC. That was due to high levels of state fragmentation, which draws attention to the importance of state capacity.

Over this period, however, oil and gas revenues were low and volatile, which was reflected in the magnitude of spending in Qatar's industrial policy domain.[6] Especially in the 1980s and in the early 1990s, Qatar was highly exposed to external shocks in the energy market and the construction sector. For example, Qatar's newly established cement industry was badly affected by the early 1980s recession and intense international competition pressures (Ministry of Information 1985). It had to make significant price cuts (reducing its prices three times) and had to reduce its original cement output to a third from 330,000 to 110,000 tonnes (Ministry of Information 1985: 23). Likewise, falling steel prices and high production costs, which were three times more than in other countries, created further problems for Qatar's public sector (Moore 2002). In addition, Qatar faced significant problems in the oil sector in the 1980s and early 1990s, as oil fields aged and oil prices dropped (Ibrahim and Harrigan, 2012). Qatar responded with austerity programmes by reducing public spending and suspending public/private infrastructure projects (Moore 2002). Furthermore, it embarked on partial privatisations in order to relieve the fiscal burden from the government (EIU 2009).

Between 1972 and 1995, decision-making structures were fragmented, and officials stood vis-à-vis dispersed and fragmented business producer groups with conflicting preferences. During this period, the system of private interest representation was characterised by low levels of mobilisation. Despite the existence of a light manufacturing industry in Qatar (in 1983 there were around 1195 establishments in the manufacturing area, such as little workshops, clothes, furniture or packaging), there existed no business association representing these organisations (Ministry of Information Qatar 1985: 27). Secondary literature supports this and highlights that in contrast to other GCC economies, notably Kuwait, Qatar had a weak domestic merchant and business class (Crystal 1990, Mehran 2013). There existed no formal state agency or planning institution in Qatar's industrial domain. According to El-Mallakh (1979), this role was pursued by the Council of Ministers. But until the mid-1990s, the Council of Ministers was characterised by high levels of factionalism. Despite high levels of autonomy from domestic merchants, there was intensive competition among members of the ruling family over power and influence in social and industrial policy-making (Crystal 1990, Mehran 2013).

### 3.8. Qatar's industrial policy (1990s–2000s): Qatar Holdings, Qatar Diar

The creation of Qatar Holding and Qatar Diar took place in a context that was characterised by a concentration and centralisation of state activities. This supports the thesis of this article that we observe the creation of SWFs with industrial mandates in the absence of a strong and politically well-organised private merchant, construction and manufacturing sector.

Between the late 1990s and 2000s, Qatar has created a number of state finance institutions with development mandates under the auspices of the Qatar Investment Authority. For example, the Qatar Holding was created in 2006 as a direct investment arm of the Qatar Investment Authority. Qatar Holding has been a global investment house that 'invests internationally and locally in strategic private and public equity as well as in other direct investments' (Katarahospitality 2015). Another example relates to the Qatar Investment Authority's real estate and infrastructure investment arm Qatari Diar, which was established in 2005. Among Qatari Diar's international investments, there are more than 49 projects in 29 countries and among its domestic projects there are infrastructure projects such as the Qatar Railways Development Company and real estate projects, most notably Lusail City (Qatar Diar 2014).

Almost all specialist state agencies and bureaus in Qatar's industrial domain were created in the early 2000s. For example, the Ministry of Municipality and Urban Planning established the Central

Planning Unit in order to co-ordinate national infrastructure projects in the 2000s (Ibrahim and Harrigan 2012: 10). In addition, the government created the General Secretariat for Development Planning in 2007, with the objective of strategic planning and the formulation of Qatar's National Vision 2030. This was followed by the formation of the Supreme Committee for Development planning in 2011, with the purpose of implementing the Qatar National Vision 2030 (General Secretariat for Development Planning 2011).

From the mid-1990s onwards, Qatar experienced windfall gas revenues combined with a centralisation of decision-making structures in the industrial domain. The ascension of Hamad Al-Thani in 1995 – through a palace coup – triggered a process of centralisation and institutionalisation among state agencies in the industrial domain. Starting in 1995, internal factionalism in the royal family was ended through the replacement of the 'old guard' from the Council of Ministers through the appointment of like-minded members of the ruling family (Mehran 2013).[7] Qatar's first permanent constitution in 2003 and its amendment in 2004 ascribed near-absolute power to the Emir (Qatar Constitution 2004 Art 64–75). From the mid-1990s onwards, the inner circle of top policy-makers included only a handful of people, notably the Emir, the Emir's son, his second wife, the Emir's maternal and childhood friend who was the Deputy Prime Minister, and the Prime Minister (Mehran 2013: 117). This circle of top policy-makers under the leadership of the Emir was tied to a strong kinship network which consisted of between 50 and 60 members (Mehran 2013). It included members from the royal family and other key families, with intimate links to the top policy-makers, and technocrats occupying central positions. Their main tasks amounted to information gathering, policy-making and policy implementation via the chairmanship of specialist agencies (Mehran 2013).

The centralised and institutionalised decision-making affected the logic of policy-making in Qatar's industrial policy domain from the late 1990s onwards. According to a representative of the Qatar Chamber of Commerce, the 2000s were marked by increasing competition from the state, via its SWFs, with the private domestic sector, especially in domestic construction (Anonymous, personal communication, 25 September 2014). The government has been involved in almost every economic sector via the Qatar Investment Authority and its investment arms. Unlike in Kuwait and similar to Abu Dhabi, there has been no direct or indirect relationship between Qatar's SWFs and the Qatar Chamber of Commerce, which 'formally' represents the private sector. According to a Chamber official, between 1995 and 2012, the Qatar Chamber of Commerce tried 'unsuccessfully' to convince the government to consult the Chamber before major projects were commenced (Anonymous, personal communication, 26 September 2014). A representative at the Qatar Chamber of Commerce admitted that the Chamber had little influence on policy-making and that the government generally did not listen to the Chamber in economic policy-making (Anonymous, personal communication, 26 September 2014).

### *3.9. Bahrain*

Bahrain's SWF choices stand in contrast to its neighbours due to the historically strong development of its domestic private financial sector. The unusual lack of an SWF with a savings mandate supports the basic thesis of this article that the existence of a strong and politically well-organised private finance sector tends to suppress the developments or constrain the use of SWFs with savings mandates.

Despite high levels of oil revenues – at least in the early 1980s – Bahrain is the only GCC country that has never created a saving SWF, such as the KIA or the ADIA. As of 1981, Bahrains official reserves stood at around US$1.6 bn equivalent to 8 months of non-oil imports (IMF, 1983). The traditional 'rules of thumb' used to inform reserve adequacy suggest that countries should hold reserves equivalent of 3 months worth of imports (IMF 2011). This suggests that Bahrain had some surpluses available, which could have been used for the creation of a KIA like SWF. Instead, Bahrain's government relied on private finance institutions and as of the early 2000s, Bahrain has emerged as the leading conventional as well as Islamic finance centre in the region (IMF 1983). That in turn was the result of

Bahrain's diversification strategy – following the 1970s oil shock – to become the regions financial service hub (Hussein 2004). Through a combination of preferential tax treatment and nearly total freedom from normal banking regulation, the Bahraini government encouraged the creation of offshore banking units and regional offices from foreign companies (Hussein, 2004). Corresponding to this, the share of services and trade in GDP increased from 25% in 1973 to 33% in 1979 (IMF, 1983). Bahrain became a window for banking and neighbouring countries with closed banking systems, notably Saudi Arabia, increasingly recycled their oil surpluses via Bahrain (*The Financial Times*, 1 June 1982).

In 2006, the Government of Bahrain created Mumtalakat with a view of a more active and coordinated management of the country's non-oil assets. Mumtalakat is involved in a number of different sectors including aluminium production, telecommunications, real estate, tourism, as well as transportation, and it is with AUM of US$9 bn one of the GCCs smaller SWFs (Mumtalakat 2009). These assets were the result of Bahrain's diversification plans in the 1970s and 1980s that built on Bahrain's proximity to oil-rich countries and the availability of oil and gas (IMF 1983, *The Financial Times*, 1 June 1982). The strategy was to leave enough space for smaller local private enterprises which receive government assistance for selective government projects while undertaking large capital-intensive projects in cooperation with neighbour governments, such as Kuwait and Saudi Arabia (IMF 1983, Lawson 1991). Large-scale projects included the petrochemical complex (e.g. Arab Petroleum Services Company est. 1977), aluminium rolling plants (e.g. Aluminium Bahrain in operation since 1971), ship building and repairing (e.g. Arab Shipbuilding & Repair Yard established in 1977), transport (e.g. Arab Maritime Petroleum Transport Company established in 1973) and telecommunication (e.g. Arab Satellite Communications Organisation established in 1976, Bahrain Telecommunication Company established in 1981) (IMF 1983, Mumtalakat 2017).

By the time of British withdrawal from Gulf in 1971, a powerful coalition emerged between rich merchants and the ruling family/central administrative officials (Lawson, 1991). Executive power and decision-making structures remained concentrated within the ruling Al Khalifa family (EIU 2009). Most of the key cabinet posts are held by members of the ruling family and the king appoints the members of the Consultative Council, which offsets the power of the elected Parliament (EIU 2009). Bahrain's merchant elite was especially influential and well organised in commerce and finance affairs (Lawson, 1991). In the 2000s, Bahrain has with nearly 200 financial institutions 'the largest concentration of banks in the Arab world' (Hussein 2004: 12). Banks are represented by the Bahrain Bank Association, which is one of the oldest finance associations in the Gulf with its origins in the 1970s (BAB 2009).

Bahrain Chamber of Commerce and Industry (established in 1939) is one of the oldest and most established chambers of commerce in the region and represents the private sector (Bahrain Chamber 2017). The chamber is especially strong on trade and services. While most of the chamber's committees are led by private-sector members, the industrial committee mainly consists of state officials (Bahrain Chamber 2017). State–private sector relations where state decision-making structures are highly concentrated and officials with low autonomy stand vis-à-vis highly organised segments of the private sector facilitates interaction between both and shapes the content of state action.

## 4. Conclusion

This article has found that the existence of a strong and politically well-organised private sector in particular activities (finance or non-finance) tends to suppress the developments or constrain the use of SWFs in activities with a bearing on these. SWF mandates are conditioned by the state's relationship with the domestic private sector. This article helps to build bridges, conceptually, between the analysis of SWFs and state economic intervention more broadly.

This article has identified a gap in the burgeoning SWF literature that relates to the impact of state–private sector relationship on SWF design and use. It closed this gap through a conceptual

frame that was informed by well-established literature on sociological models of state intervention. This literature has helped identifying a set of critical variables for distinguishing among different state–private sector relations. The present article has further developed it in terms of investigating how different state–private sector relations actually matter. A cross-country and cross-sectoral comparison helped to assess the effects of different state–private sector relations on different development and uses of SWFs in four otherwise similar economies.

First, the article found similarities between the configurations of state and private actors in the savings domain of Abu Dhabi, Qatar and Kuwait. Between the 1960s and the 2000s, all of these economies established SWFs with savings mandates, channelling significant proportions of domestic savings into international assets. Over this period, the savings domains of Abu Dhabi and Qatar were characterised by strong and autonomous states and by weakly mobilised domestic private finance actors. For example, there was no banking association in Qatar and Abu Dhabi. As a result, the state was the dominant player in the banking systems across these economies, responsible for the appointment of key positions in the banking sector. Kuwait's savings domain was characterised by a centralised state with a highly mobilised segment of business in form of a strong merchant elite which was well organised in the Kuwait Chamber of Commerce. Unlike Qatar and Abu Dhabi, however, Kuwait had a strong parliament that was central in influencing economic policy-making. In stark contrast, Bahrain did not create an SWF with a savings mandate despite periods of surpluses. Instead, Bahrain relied on the expansion of private finance institutions.

Second, the article discovered similarities between the configuration of state and private actors in the industrial domains of Abu Dhabi, Bahrain and Qatar (1990s–2000s). In these cases, a centralised and autonomous state stood vis-à-vis a weakly mobilised private sector in the industrial domain. There was no merchant elite independent from the political or royal/tribal elite in Abu Dhabi or Qatar. The ruling families were themselves the commercial elite (Herb, 2014). In Qatar, as well as in Abu Dhabi, both the chamber of commerce and industry had been quasi-government departments. The rulers of both Abu Dhabi and Qatar had a strong influence over the appointment of members in the domestic business chambers. By contrast, state–society relations in Kuwait's industrial domain were characterised by a fragmented state which stood vis-à-vis a highly mobilised private sector. While short-term ad-hoc policies in Kuwait were reflected in the fact that it did not create an SWF with a development mandate, Abu Dhabi and Qatar created SWFs with development mandates in Qatar (e.g. Qatar Holdings and Qatar Diar), Abu Dhabi (e.g. Mubadala and IPIC) and Bahrain (e.g. Mumtalakat).

The findings have a number of implications for the study of phenomena with geopolitical dimensions, such as SWFs and their variation. One implication is to permit comparative analysis, to incorporate domestic political economy accounts and to strengthen geopolitical analyses with other explanatory frames. Another implication for the study of contemporary geopolitics is that more focus needs to be put on the role of subnational agent-structures. In turn, this helps increase the precision about the future trajectory of phenomena with geopolitical relevance, such as SWFs and their different development and use.

There are also implications for the SWF literature in terms of showing how the state's relationship with the domestic private sector conditions SWF mandates. The existence of a strong and politically well-organised private sector in particular activities (finance or non-finance) tends to suppress the developments or constrain the use of SWFs in activities with a bearing on these. As such, this article links the analysis of SWFs to state economic intervention more broadly.

## Notes

1. For an excellent overview on contemporary geopolitics, see O'Sullivan (2017).
2. One exception to this is Pekkanen and Tsai (2011).
3. These points were specifically highlighted by representatives from private Kuwait finance houses such as KFH Investment and the chairman of the Kuwait Economic Society (Anonymous, personal communication at the LSE Kuwait Programme Workshop in Kuwait, 22 September 2014).

4. Until the mid-1970s, the Kuwait Oil Tanker Company was fully owned by Kuwait's private sector (KOTC 2015). Kuwait National Airways was founded in 1954, but the government only took full ownership only in 1962 (Kuwait-Airport 2015).
5. Up until 2013, Abu Dhabi disposed of at least three SWFs with development mandates including the International Petroleum Investment Corporation (est. 1984), Mubadala (est. 2002) and the Abu Dhabi Investment Council (est. 2007).
6. In 1977, the state allocated around 35 per cent of its total budget to industrial development, but by 1978, the share had declined to 23 per cent (El-Mallakh 1979: 69). During this same period, housing expenditures increased from 10.2 per cent in 1977 to 17.8 per cent in 1978 (El-Mallakh 1979: 69).
7. Through his status of the successor, Hamad Al-Thani had already started Cabinet reforms already in 1992 by reshuffling and replacing the old guard with like-minded development-oriented family members (Mehran 2013: 113).

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No potential conflict of interest was reported by the authors.

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