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Executive Summary

Sovereign wealth funds have a prominent role in the global financial system. Their number has swelled over three decades, with sovereign investors in more than fifty countries, and combined assets under management (AUM) exceeding $8 trillion. Their prominence has raised questions among financial and political leaders in some of the markets in which they invest about their characteristics, especially regarding transparency and governance, and their political influence. The largest funds are held by oil- and gas-based economies and East Asian economies.

Originally created to hold oil wealth in a diversified financial portfolio that could also provide government revenue during low points in the commodity cycle, sovereign wealth funds in several countries are now being tasked with helping to diversify the real economy to provide an additional buffer against commodity risk. That is the case in Kuwait, Saudi Arabia, Qatar, and the United Arab Emirates (UAE), which together manage over $2.9 trillion.

The Kuwait Investment Authority (KIA), UAE's Mubadala Investment Company, Qatar Investment Authority (QIA), and Saudi Arabia's Public Investment Fund (PIF) each has a mandate that includes economic diversification. This study examines how these four Gulf countries are utilizing sovereign wealth funds, the approach that these funds are taking to help achieve economic diversification, and whether they are successful in their efforts to help achieve governmental economic diversification goals. Singapore—a nation commonly looked to by the Gulf countries as an example—and its investment company Temasek are useful comparisons in studying the extent to which these funds and or investment companies are successful in diversifying their respective economies.

Key takeaways:

1. All four Gulf states are following the trend of increasing investments in Asia and the United States, with technology being the most attractive investment sector.
2. While sovereign wealth funds are diversifying their portfolios, the energy sector remains the largest portfolio.
3. None of the funds in the Gulf countries have so far succeeded in creating a sector that is economically sustainable on its own and not dependent on oil- or gas-based revenue support.
4. Transparency and good governance by sovereign investors can lead to a positive impact as these practices mitigate fears of political motivations and can lead to successful partnerships that may benefit the economic diversification process.

Introduction

Over the past two decades, sovereign wealth funds (SWFs) have started to play a more prominent role in many hydrocarbon-based and East Asian economies. When properly managed, SWFs serve as long-term investment vehicles of public savings and promote economic stability, aimed at minimizing the impact from highs and lows in the commodity markets. Moreover, as countries examine oil and gas revenues amid the transition to low-carbon fuels or decarbonization of the energy system, some SWFs are aiding economies in their aims of increased diversification and decreased reliance on oil and gas revenue. The UAE, Kuwait, Qatar, and Saudi Arabia—the nations under consideration in this study[1]—differ in how they make investments and in how they define the benefits of those investments. Nonetheless, all are utilizing SWFs to help achieve their governments' economic diversification goals. However, it is unclear whether sovereign wealth funds are the right tool or means to help achieve diversification. There is also a broader question of what constitutes a sovereign wealth fund, as some funds may be better identified as sovereign development funds (SDFs), while others may have all the characteristics of SWFs or SDFs but opt to be called an investment or holding company.

This report focuses on SWFs and SDFs, including those that choose to identify themselves differently, and examines how different models, including the Singapore model that is often looked to in the Gulf, contribute to economic diversification. Specifically, the report examines four case studies: the UAE's Mubadala Investment Company, Kuwait's KIA, Qatar's QIA, and Saudi Arabia's PIF, each of which has a diversification mandate.

1 The author recognizes there are more than four countries that include economic diversification in the mandate of a sovereign investor, but she chooses to limit the report to a few case studies.

Table 1: A Selection of Sovereign Investors from Countries Discussed in this Study

Country	Sovereign Investors	Mandate of Diversification	Estimated Assets Under Management (AUM)
Kuwait	Kuwait Investment Authority (KIA)	Yes	$592 billion
United Arab Emirates	Mubadala Investment Company	Yes	$226 billion
United Arab Emirates	Abu Dhabi Investment Authority (ADIA)	No	$683 billion
United Arab Emirates	Investment Corporation of Dubai	Yes	$233.8 billion
United Arab Emirates	Emirates Investment Authority	No	$34 billion
Saudi Arabia	Public Investment Fund (PIF)	Yes	$360 billion
Saudi Arabia	SAMA Foreign Holdings	No	$515.6 billion
Qatar	Qatar Investment Authority (QIA)	Yes	$320 billion
Singapore	Temasek	Yes	$375 billion
Singapore	Government of Singapore Investment Corporation (GIC)	No	$390 billion

Source: Data drawn from Sovereign Wealth Fund Institute website.

Background

WHAT IS A SOVEREIGN WEALTH FUND?

A sovereign wealth fund is a state-owned investment fund that invests government revenue globally to maximize long-term return. Many SWFs are based in oil- and gas-rich nations and financed by oil and gas exports. When the oil or gas price goes up, nations see greater revenue, and often have a deficit when the price falls. By investing short-term revenue for long-term profit, SWFs are meant to provide a nation and its citizens with economic stability, especially during a downturn, to reduce exposure to the fluctuations of oil and gas prices.

Many other SWFs are in East Asia and are generally noncommodity-financed funds. These SWFs are financed by an excess of foreign currency reserves accumulated from the export of products and goods. Like commodity-based funds, noncommodity SWFs are used to increase economic stability, especially when the inflow of capital decreases. It is common for SWFs to invest in highly liquid, fixed income-denominated portfolios, especially when the objective is to protect and stabilize the budget and economy. If saving for future generations is the objective, funds are more commonly invested in diversified portfolios with a long-term horizon.[2] Economic stability and setting aside funds for the future are often pursued in tandem.

Sovereign wealth funds have existed for decades, dating back to the establishment of KIA in 1953, considered the oldest SWF.[3] Since then, roughly fifty countries have established SWFs, with close to half of these established in the early 2000s.[4] Examples of SWFs include Norway's Government Pension Fund Global, Abu Dhabi Investment Authority (ADIA), and China Investment Corporation.[5] The term "sovereign wealth fund" was not, however, created until 2005,[6] and continues to be debated, most often around the objective or purpose of the fund.

The World Bank has suggested another category of funds: sovereign development funds (SDFs). SDFs tend to have debt, public and private equity, infrastructure, and public-private partnerships among their assets,[7] and they typically include economic development as part of a stated mission. These funds often invest both domestically and internationally. Domestic investments aim to start new sectors or bolster existing sectors to help diversify the national economy, while foreign investments[8] are utilized to gain knowledge of a foreign industry and bring it back to the home country (an aim of Mubadala and PIF). Returns from foreign investments are often reinvested domestically in support of diversification efforts. Moreover, sovereign wealth funds, particularly those in the Gulf, aim to gain international recognition by investing in high-profile assets. Examples of funds that could fall under the SDF category include Mubadala, PIF, Temasek, Samruk-Kazyna in Kazakhstan, and Khazanah in Malaysia.[9]

This report focuses on sovereign wealth and development funds. It is important to note that not all funds use the term SWF or SDF to identify themselves, even though they may display the characteristics. Hence this report will use the term sovereign investor.

A sovereign investor is an extension of a government, executing its government's vision and mission through its investments. However, it is the fund's management that sets and executes the investment strategies. While the precise structure, makeup, and rules of management differ across sovereign investors, the boards of directors often include government officials, including the prime minister and/or ministers, to oversee performance.

2 Khalid A. Alsweilem, Angela Cummine, Malan Rietveld, and Katherine Tweedie, *Sovereign Investor Models: Institutions and Policies for Managing Sovereign Wealth*, a joint report of the Harvard Kennedy School Belfer Center for Science and International Affairs and Harvard University's Center for International Development, (April 2015): 13, http://www.ifswf.org/sites/default/files/Publications/InvestorModels.pdf.

3 "Overview," Kuwait Investment Authority, accessed November 3, 2018, http://www.kia.gov.kw/en/Pages/default.aspx.

4 "Breakdown of Sovereign Wealth Funds by Year of Establishment," Sovereign Wealth Fund Institute, last update unknown, accessed November 4, 2018, https://www.swfinstitute.org/sovereign-wealth-fund-rankings/.

5 Alsweilem, Cummine, Rietveld, and Tweedie, "Sovereign Investor Models," 13.

6 Sara Bazoobandi, *The Political Economy of the Gulf Sovereign Wealth Funds: A Case Study of Iran, Kuwait, Saudi Arabia and the United Arab Emirates* (Routledge, 2013), 1.

7 Alsweilem, Cummine, Rietveld, and Tweedie, "Sovereign Investor Models," 13.

8 Caroline Nowacki and Ashby Monk, "Sovereign Investors: Understanding the Giants of the Financial World," Global Projects Center, Stanford University (May 2017): 1, http://cdcicapital.fr/wp-content/uploads/2017/12/Sovereign_Investors_CDC_Stanford_05_2017.pdf.

9 Alsweilem, Cummine, Rietveld, and Tweedie, "Sovereign Investor Models," 13.

Caption: A general view of participants at the Sovereign Wealth And Pension Funds Dialogue during the Word Investment Forum 2018, October 24, 2018. Credit: Jean Marc Ferré, UNCTAD/Flickr

The establishment and size of sovereign investors has increased quite dramatically over the past thirty years. In 1990, sovereign investors held, at most, $500 billion;[10] in 2007, the International Monetary Fund (IMF) estimated the total at $2 trillion to $3 trillion;[11] and in November 2018, the estimated value of AUM was over $8 trillion.[12] While sovereign wealth is concentrated in a few funds, the trend suggests it is becoming slightly less so, with 70 percent of total AUM controlled by five funds in 2007[13] compared to 74 percent of AUM managed by ten funds today.[14]

This concentration is reflected in the total investment activity of sovereign investors. A group of six sovereign investors—Temasek, Government of Singapore Investment Corporation (GIC), ADIA, Qatar Investment Authority, Ireland Strategic Investment Fund, and China Investment Corp.—represented at least 72 percent of the global acquisition count in 2016 and 77 percent of the global total in the first half of 2017.[15]

Sovereign Wealth Funds also differ in terms of the types of investments they make and the sectors they target for investment. The primary sectors for investment in 2016 and 2017 were technology (24.3 percent and 26.1 percent, respectively), real estate (21.5 percent and 23.9 percent, respectively), and finance (13.4 percent and 17.1 percent, respectively), while the remainder was invested in industry, services, and other sectors.[16] In 2011, 44 percent of investments made by sovereign investors went to the financial services sector, 16.5 percent went to hydrocarbons, and 15.6 percent was invested in real estate, with the rest being invested in infrastructure, mining and metal processing, transportation (aircraft, vehicles, ships, and trains), and healthcare, among other things.[17]

10 Simon Johnson, "The Rise of Sovereign Wealth Funds: We Don't Know Much about These Major State-owned Players," *Finance & Development* (September 2007): 56, https://www.imf.org/external/pubs/ft/fandd/2007/09/pdf/straight.pdf.

11 Johnson, "The Rise of Sovereign Wealth Funds," 56.

12 "Sovereign Wealth Fund Rankings," Sovereign Wealth Fund Institute, last updated November 2018, https://www.swfinstitute.org/sovereign-wealth-fund-rankings/..

13 Johnson, "The Rise of Sovereign Wealth Funds," 56.

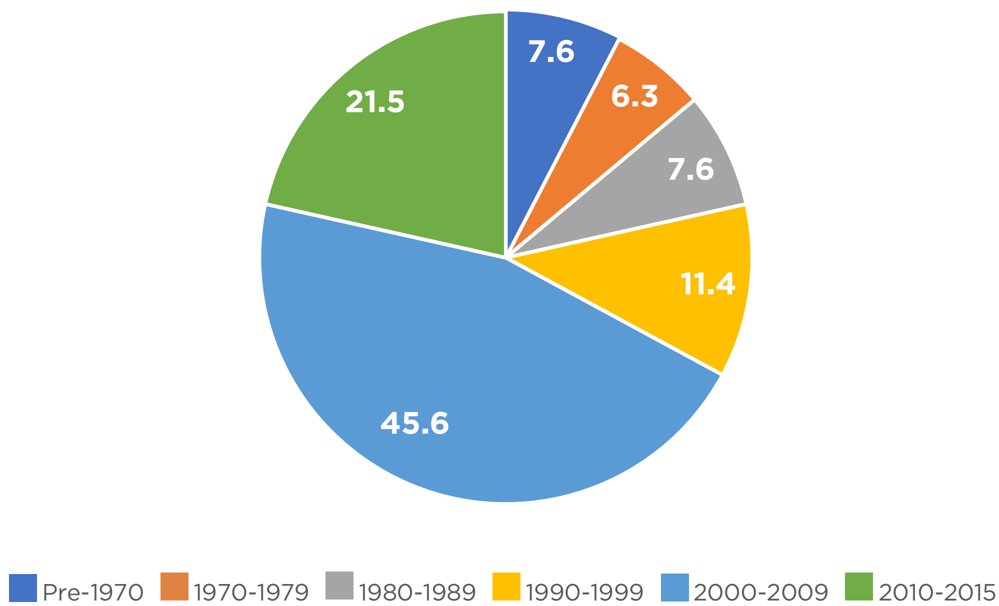
14 Milhench, "Global Sovereign Fund Assets Jump," Reuters.

15 Javier Capapé and Javier Santiso, eds., *Sovereign Wealth Funds 2017*, annual report of IE Foundation and Invest in Spain (ICEX), (2017) 10, http://docs.ie.edu/centros/SOVEREIGN-WEALTH-LAB-REPORT-2017.pdf.

16 Javier Capapé and Javier Santiso, eds., *Sovereign Wealth Funds 2017*, 19.

17 Javier Santiso, ed., *Sovereign Wealth Funds 2012*, ESADE Business School, KPMG, and Invest in Spain, 18, 2012, http://www.esade.edu/itemsweb/wi/Prensa/SWFsReport2012.pdf.

Figure 1: Percentage of Sovereign Investors by Year of Establishment



Source: Data drawn from Sovereign Wealth Fund Institute website.

In 2011, Europe received 32 percent of investments by sovereign investors, with the Asia-Pacific region following at 37 percent, trailed by the United States and the Middle East and North Africa (MENA) region, both of which received around 8 percent of the investments.[18] This distribution had shifted by the first half of 2017, when around 76 percent of the investments were in the United States, India, United Kingdom, China, Singapore, and Australia.[19] Prior to the financial crisis of 2007-2008 and the Eurozone crisis that followed, sovereign investors had viewed Europe—which until the early 2010s had received most investments—and developed markets more broadly, as low-risk investment areas with high returns. However, sovereign investor sentiment changed in the wake of the crisis, especially as countries such as Greece, Ireland, Portugal, and Spain all needed to be bailed out.[20] As a result, a shift started to take place among sovereign investors to diversify their portfolios geographically and invest in emerging markets,[21] which has continued ever since.

Both the sectors and regions targeted by sovereign investors have shifted over the years. Most notable is that the MENA region, including the Gulf, has not been a significant target for investments, and the hydrocarbon sector is no longer a big draw. It is challenging for sovereign investors to draw new investors to the Gulf when they are not major players in any of the current targeted sectors, such as technology or real estate, as many businesses tend to target those markets as well.

TRANSPARENCY AND INVESTMENT MOTIVATIONS

Sovereign investors' potential influence on the companies and countries they invest in, as well as the overall global market, can be sizable. Sovereign investors have more than $8 trillion in investments around the globe, and the sovereign investors in Saudi Arabia, the UAE, Qatar, and Kuwait have in excess of $2.9 trillion in combined assets, according to estimates by the Sovereign

18 Santiso (ed.), *Sovereign Wealth Funds 2012*, 15.

19 Javier Capapé and Javier Santiso (ed.), *Sovereign Wealth Funds 2017*, 10.

20 Santiso (ed.), *Sovereign Wealth Funds 2012*, 14.

21 Santiso (ed.), *Sovereign Wealth Funds 2012*, 14.

Wealth Fund Institute (SWFI).[22] Given these sizable resources and the relationship funds have with their respective governments, countries on the receiving end of investments have started to ask questions about the political motivations of some funds.

During and following the financial crisis of 2007-2008, sovereign investors bought stakes in hard-hit financial-services companies such as Citigroup Inc. (by ADIA in 2007[23] and KIA in 2008, which sold it a year later and earned $1.1 billion in profit),[24] Merrill Lynch (by Temasek in 2007 and additional stakes in 2008),[25] and Morgan Stanley Group Inc. (by China Investment Corporation in 2007).[26] At the time, the US Department of the Treasury and Congress were concerned that the purchases made by sovereign investors in the US could compromise national security, especially when relations between the nations were strained.[27] The US government was keen to create a system that would ensure purchases of US assets were based solely on financial motivations, not political ones.[28] The 2007 Foreign Investment and National Security Act was partly created to mitigate this concern and force more transparency on foreign governments or state-owned entities purchasing US assets.[29]

The Treasury Department also requested that the IMF come up with voluntary guidelines for sovereign investors to increase transparency, which in turn could mitigate concerns around national security.[30] Europe shared many of the concerns expressed by the United States.[31] In discussions with the Group of 20, the IMF, and the Treasury Department, the International Working Group of Sovereign Wealth Funds (at the time a group of twenty-three sovereign investors) established the Santiago Principles in 2008, which aimed to "promote transparency, good governance, accountability, and prudent investment practices while encouraging a more open dialogue and deeper understanding of SWF activities."[32] The working group was rebranded as the International Forum of Sovereign Wealth Funds (IFSWF) in 2009 and currently has around thirty members. It remains a voluntary organization; while the member sovereign investors do endorse the Santiago Principles, they are only asked to provide a self-assessment report every three years on their implementation of the principles, and not all members submit this report.[33]

While motivation behind investments remains a concern for companies and countries receiving investment, scholars Caroline Nowacki and Ashby Monk argue that sovereign investors do play by market rules: "a long-term political objective and alignment with government policy for the country do not equate short-term political interference. On the contrary, this long-term horizon and alignment with government incentives can support the long-term financial returns of the fund. Indeed, this can be a key for sovereign investors to find and structure innovative projects that were not accessible directly to private investors. This is very different from the fund being used for personal interests, or politicians dictating investments, both of which can be prohibited through governance arrangements."[34] They also argue that sovereign investors have not used investments for political purposes thus far, but instead, the investors have been consistent in pursuing financial returns while following the rules of the global financial system.[35]

In assessing the potential ability of a sovereign investor to leverage its investments for political instead of

22 "Sovereign Wealth Fund Rankings," Sovereign Wealth Fund Institute.

23 Emily Kaiser, "Citi Stake Sale Shines Spotlight on Wealth Funds," Reuters, November 27, 2017, https://www.reuters.com/article/us-citi-abudhabi-wealthfunds/citi-stake-sale-shines-spotlight-on-wealth-funds-idUSN2751161320071127.

24 "Kuwait Lops $4.1B Citi Stake," New York Post, December 7, 2009, https://nypost.com/2009/12/07/kuwait-lops-4-1b-citi-stake/.

25 Kevin Lim and Saeed Azhar, "Singapore's Temasek Invests $900 Million More in Merrill," Reuters, July 29, 2008, https://www.reuters.com/article/us-merrill-temasek-idUSSIN6551220080729. (Note: Bank of America Corp. agreed to buy Merrill Lynch in 2008 and completed the purchase on January 1, 2009.)

26 Michael J. de la Merced and Keith Bradsher, "Morgan Stanley to Sell Stake to China Amid Loss," *New York Times*, December 19, 2007, https://www.nytimes.com/2007/12/19/business/19cnd-morgan.html.

27 Kaiser, "Citi Stake Sale Shines Spotlight on Wealth Funds."

28 Kaiser, "Citi Stake Sale Shines Spotlight on Wealth Funds."

29 "Foreign Investment and National Security Act of 2007," United States Congress, public law 11049, July 26, 2007, https://www.congress.gov/110/plaws/publ49/PLAW-110publ49.pdf.

30 Kaiser, "Citi Stake Sale Shines Spotlight on Wealth Funds."

31 Steven R. Weisman, "Concern About 'Sovereign Wealth Funds' Spreads to Washington," New York Times, August 20, 2007, https://www.nytimes.com/2007/08/20/business/worldbusiness/20iht-wealth.4.7186699.html.

32 "Santiago Principles," International Forum of Sovereign Wealth Funds, last update unknown, accessed November 10, 2018, http://www.ifswf.org/santiago-principles-landing/santiago-principles.

33 "Trends in Transparency: Santiago Principle Self-Assessments 2016," International Forum of Sovereign Wealth Funds, last update unknown, accessed November 10, 2018, http://www.ifswf.org/trends-transparency-santiago-principle-self-assessments-2016.

34 Nowacki and Monk, "Sovereign Investors," 9.

35 Ibid, 10.

Table 2: Total Sovereign Investors' Asset Divisions by Percentage

	June 2010	June 2015	June 2018
Total oil- and gas-related assets	55.21%	56.6%	54%
Total other assets	44.79%	43.4%	46%

Source: Developed using data from the Sovereign Wealth Fund Institute's website.

financial gain, the following criteria are key to understanding each sovereign investor:

- transparency and governance;
- age, assets under management, and geography;
- the sovereign investor's strategies and portfolios.[36]

Transparency refers to the clarity of the decision-making process and accessibility of information on the assets under management, i.e., what the percentages of stakes are and their valuation. Transparency also mitigates concerns about investments and the threat they might pose to national security. Governance relates to how a fund is managed, where the executive authorities lie, the involvement of the government, accountability, and management of different portfolios. When it comes to other criteria such as AUM, geography, and strategies, the following needs to be considered: investments are not necessarily concentrated in one geographical area, and investments are not made in countries based on politics but on investment opportunities, profitability, reputation building, and as a means for transferring knowledge. The sovereign investor's strategy for accomplishing its mission is clear and the information is public. While rare, clarity provided by sovereign investors on all these fronts would allow nations and financial institutions to assess the leverage sovereign investors may have and would minimize concerns governments may have of political motivations.

In 2008 the SWFI created the Linaburg-Maduell Transparency Index (LMTI), which rates sovereign investors on transparency based on ten principles. SWFI considers a sovereign investor adequately transparent at a rating of eight out of ten, and considers whether the sovereign investor provides up-to-date and independently-audited annual reports; lists the ownership breakdown of company holdings as well as geographic locations; discloses the total portfolio market value, returns, and management compensation; states clear strategies and objectives for the fund; and provides guidelines for investment policies, ethical standards, and how these are enforced, among other considerations.[37] For the first quarter of 2018, over forty-five sovereign investors were ranked by the LMTI and twelve received a ten out of ten rating, including Singapore's Temasek and UAE's Mubadala Investment Company. KIA received a rating of six out of ten, while PIF and QIA both received five out of ten.[38]

For sovereign investors, transparency can have a positive impact due to its potential to decrease concerns

36 "Nowacki and Monk, "Sovereign Investors," 3."

37 "Linaburg-Maduell Transparency Index Released," Sovereign Wealth Fund Institute, March 31, 2008, https://www.swfinstitute.org/swf-news/linaburg-maduell-transparency-index-released/.

38 "Linaburg-Maduell Transparency Index Released."

of political interference.[39] Even if a sovereign investor has political objectives when buying company shares, it could have a positive impact and increase the value of shares if it is transparent about its goals and investments, especially if the political objective aims for positive developments for all parties involved. In terms of governance, it is common for government officials to hold positions on the board of directors, but rules and regulations that separate the fund from political influence are crucial, or if political objectives are part of the funds' remit, it is important that the context of the transaction is understood and transparent.

Sovereign investors that aim to make high returns to support their respective national budgets tend to be less transparent than sovereign investors that have the clear objective to diversify the economy. For the former, while transparency may mitigate any political concerns the receiving nations may have, the real priority is to generate revenue to ensure economic stability and provide a safety net for the government during economic slowdowns. These sovereign investors tend to have a higher AUM under their control (ADIA versus Mubadala or GIC versus Temasek). Sovereign investors with the aim to diversify tend to be smaller funds and more transparent. Part of the key to achieving their objective is building partnerships and bringing new business or knowledge home, and transparency may lead to more success in reaching that aim.

However, there are also funds that are a mix of the two. PIF, KIA, and QIA all fall into this category. All three funds are responsible for generating revenue and fostering economic stability while also having the mandate to help diversify the economy. So far, none of them have been successful at achieving all goals, and perhaps not having a clear identity and one mission may be part of the problem.

ECONOMIC DIVERSIFICATION

Many nations with sovereign investors tend to be dependent on hydrocarbons or another commodity for their main source of income, which can leave them vulnerable to volatility in commodity prices. For example, many oil revenue-reliant countries suffered when oil prices drastically fell in 2014, and although prices have gone back up since then, it became clear for many that dependence on mostly one sector may not be sustainable over the long term.

The possibility of a peak and subsequent decline in oil demand is another concern. This scenario would limit the profitability of producing oil and gas, adding another reason to diversify the economy for the future. In a June 2018 interview with *Bloomberg*, Khaldoon Al Mubarak, CEO of the UAE's Mubadala Investment Company, said: "We have a wealth of resources, particularly in the oil and gas field. That's been the foundation of the economic development. Oil and gas [are] not going to be here for the next 1,000 years; it's finite and we have to prepare ourselves for the future." The UAE's leadership has been "focused on maximizing the benefits and returns from these resources, but at the same time, build [*sic*] a diversification strategy—preparing ourselves for the future,"[40] he continued.

Kuwait, Saudi Arabia, Qatar, and the United Arab Emirates have all stated their intent to diversify their economies and decrease dependence on oil and gas revenues by moving toward a knowledge-based economy through investments in science, technology, engineering, and math (STEM) education as well as by increasing human capital, improving education, and increasing the role of women in the workforce, among other goals. By establishing other sectors, they hope they can create new jobs and new sources of revenue, turning the page from reliance on hydrocarbons to a more resilient economy.

Despite the goals of providing noncommodity revenue to governments and of economic diversification, the majority of assets that sovereign investors manage are still in the oil and gas sector (see Table 2). While this does not reflect how each individual sovereign investor invests, the fact that the percentages have only marginally changed over the past eight years shows that the hydrocarbon sector continues to be an important and valuable investment. While the Gulf countries aim to use their sovereign investors to diversify, their investments continue to be in oil and gas as well, further exposing them to commodity risk.

39 Nowacki and Monk, 3.

40 "The David Rubenstein Show, Peer-to-Peer Conversations: Episode Khaldoon Al Mubarak," Bloomberg online video series, June 27, 2018, https://www.bloomberg.com/news/videos/2018-06-27/the-david-rubenstein-show-khaldoon-al-mubarak-video.

Sovereign Investors: a Means for Diversification?

The governments of the UAE, Saudi Arabia, Qatar, and Kuwait have given some of their sovereign investors the mandate to foster economic diversification. It is worth examining in what ways these funds might support economic diversification, whether and what kind of impact they might be able to have, and if any impact would be sustainable. The following section will briefly examine each nation to determine whether and how sovereign investors can be a means for diversification.

UNITED ARAB EMIRATES

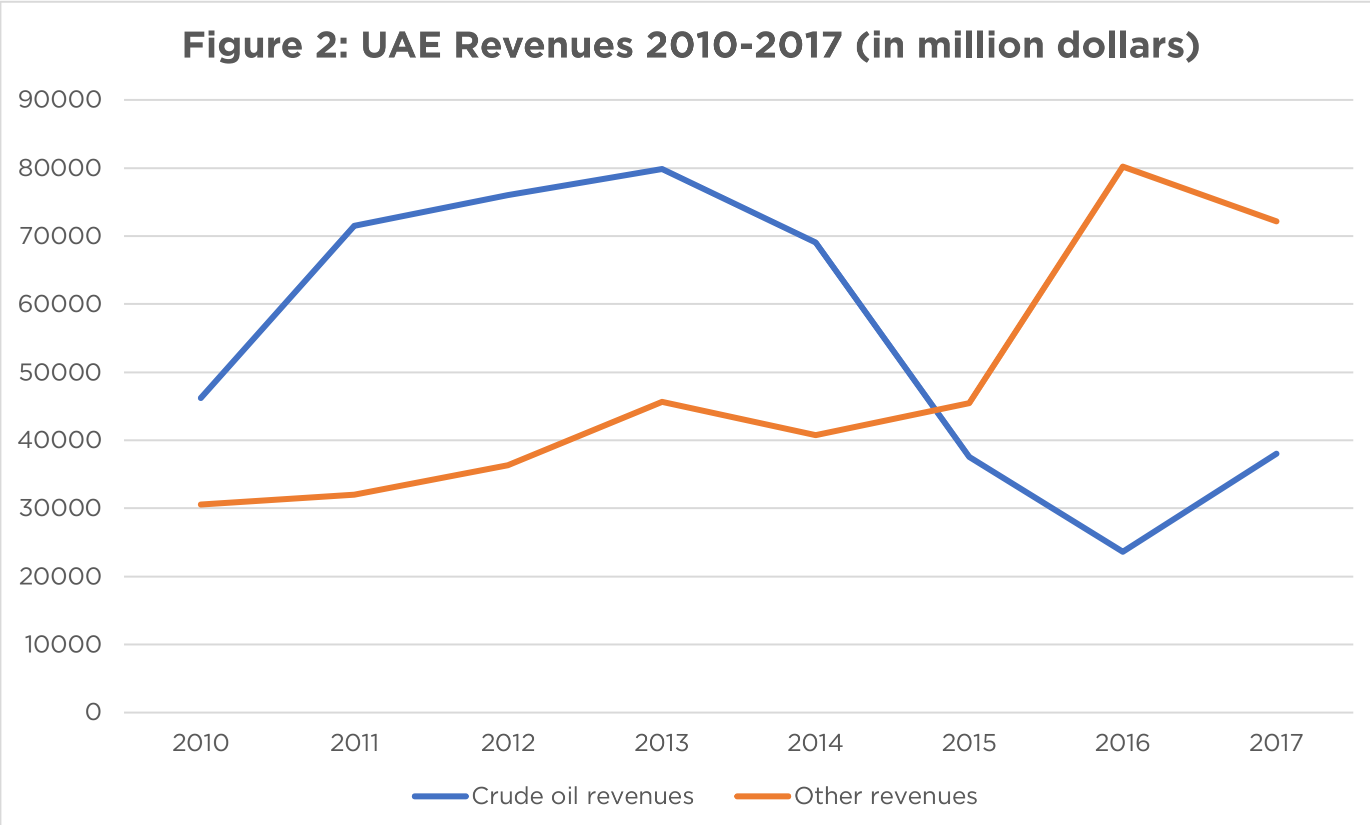
The UAE, a federation that consists of seven emirates, is the eighth-largest oil producer in the world.[41] In 2010, the small nation launched its Vision 2021 plan, aiming to be among the "best countries" in the world by the fiftieth anniversary of its 1971 founding, on a range of issues, including health care, education, safety, and social and economic development.[42] One of the key pillars of Vision 2021 is to become a competitive knowledge economy, with the UAE becoming an economic, tourist, and commercial hub as well as a center of innovation and research and development.[43]

Cleveland Clinic Abu Dhabi formed in 2006 as the result of an agreement between Mubadala Development Company (Mubadala), and US-based Cleveland Clinic. It aims to support the Abu Dhabi government's Economic Vision 2030 to develop a robust, world-class healthcare sector in the Emirate. Source: Wikimedia Commons

41 "Total Petroleum and Other Liquids Production, 2017," US Energy Information Administration, last update unknown, accessed, November 27, 2018, https://www.eia.gov/beta/international/rankings/#?prodact=53-1&cy=2017.

42 "UAE Vision," Vision 2021 United Arab Emirates, last update unknown, accessed November 27, 2018, https://www.vision2021.ae/en/uae-vision.

43 "National Agenda 2021: Competitive Knowledge Economy," Vision 2021 United Arab Emirates, last update unknown, accessed November 27, 2018, https://www.vision2021.ae/en/national-agenda-2021/list/economy-circle.



Source: Developed using data from Federal Competitiveness and Statistics Authority, United Arab Emirates

Abu Dhabi is the largest of the seven emirates by land area and holds most of the country's oil reserves. The emirate has used its hydrocarbon revenue to establish several sovereign investors (other emirates have also established sovereign investors). The largest of these is ADIA, with close to $700 billion of assets under management.[44] ADIA receives funds and any budget surplus from the Abu Dhabi government, which are invested globally. During financial difficulties or a budget shortfall, ADIA is required to make financial resources available to support the government.[45] As ADIA is a fund manager of the Abu Dhabi government, like Singapore's GIC, and does not have diversification as a mandate, this section will solely focus on Mubadala, one of the other key investment vehicles in Abu Dhabi.

Mubadala is solely owned by the government of Abu Dhabi; Crown Prince Sheikh Mohammed bin Zayed Al Nahyan is the chairman, and its board members include government officials and business leaders. The board reviews and approves strategic direction and business plans to ensure Mubadala delivers on Abu Dhabi's diversification priorities.[46] While there is more government involvement in Mubadala compared to Singapore's Temasek, as discussed below in the section "The Singaporean Model," the company scores a ten out of ten in the transparency index and meets all the LMTI criteria (i.e., provides annual reports, breakdowns of company holdings and geographic locations, has clear strategies and objectives, and discloses its total portfolio market value).[47]

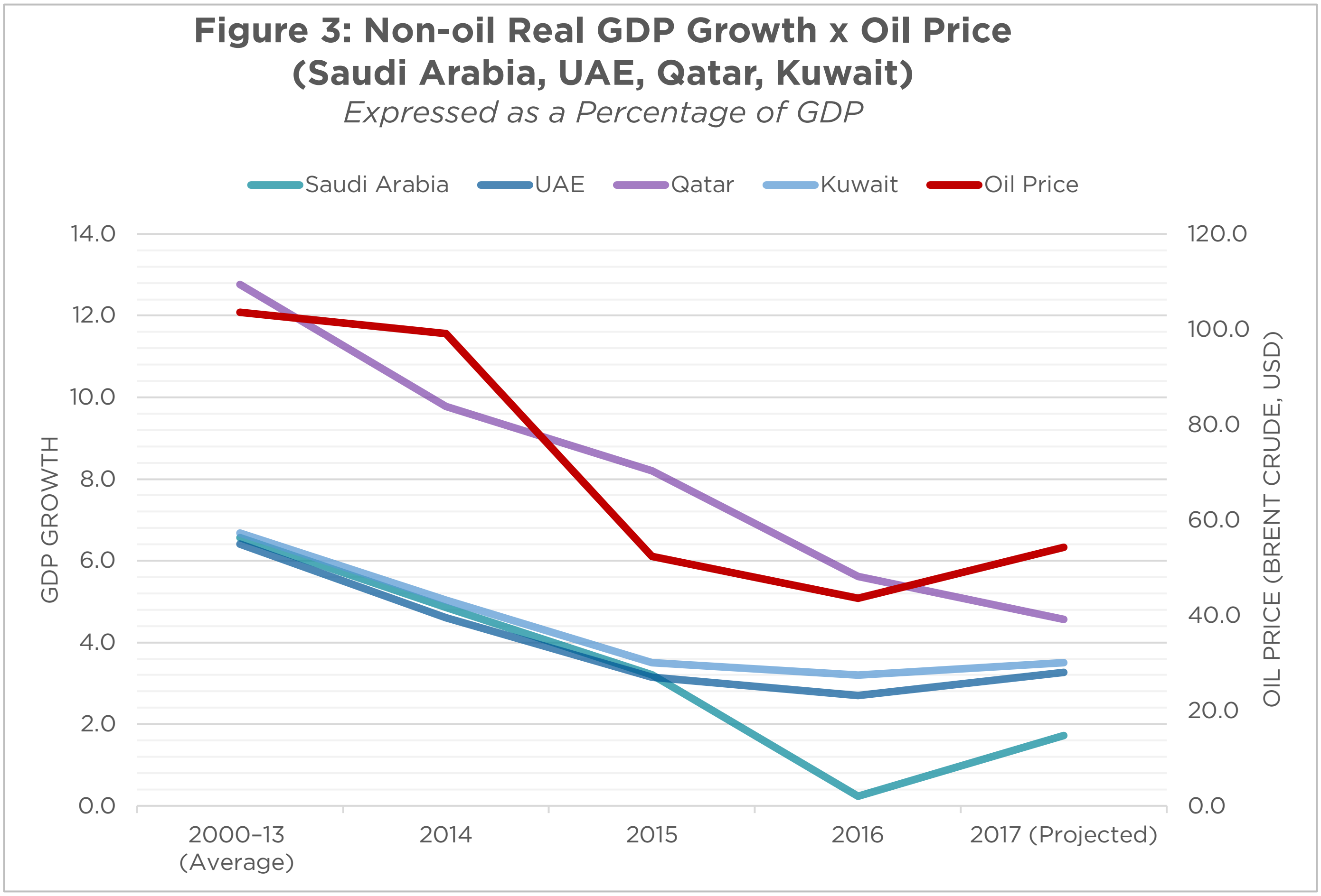
The UAE's leadership has endeavored to maximize the benefits of the oil and gas resources, while building a strategy to diversify its economy and taking concrete steps to do so. According to the UAE, the country has been successful: While the nation relied on oil for 70 percent of total revenue as recently as 2013, UAE data

44 "Sovereign Wealth Fund Rankings," Sovereign Wealth Fund Institute.

45 "ADIA Annual Review 2017," Abu Dhabi Investment Authority, (April 30, 2018): 41, https://www.adia.ae/En/pr/2017/ui/downloads/ADIA_Annual_report_2017.pdf.

46 "Board of Directors," Mubadala Investment Company, last update unknown, accessed November 19, 2018, https://www.mubadala.com/en/who-we-are/board-of-directors.

47 "Sovereign Wealth Fund Rankings," Sovereign Wealth Fund Institute.



Source: Developed by the Atlantic Council's Reed Blakemore using International Monetary Fund data, 2017 Regional Economic Outlook: Middle East and Central Asia, http://data.imf.org/?sk=4CC54C86-F659-4B16-ABF5-FAB77D52D2E6&sId=1390030109571.

show that oil comprised about 30 percent of total revenue in 2017 (see Figure 2).

However, after examining the revenue line table as well as the non-oil GDP versus oil-price graph closer, one should consider how prices fluctuate and the issue of "connectedness,"[48] or the degree to which changes in one sector of the economy impact other sectors. At the second annual Atlantic Council Global Energy Forum, in January 2018, Christof Rühl, ADIA's former global head of research, talked about the connection between oil and non-oil-based economies in the Gulf, including the UAE, Saudi Arabia, and Kuwait:[49]

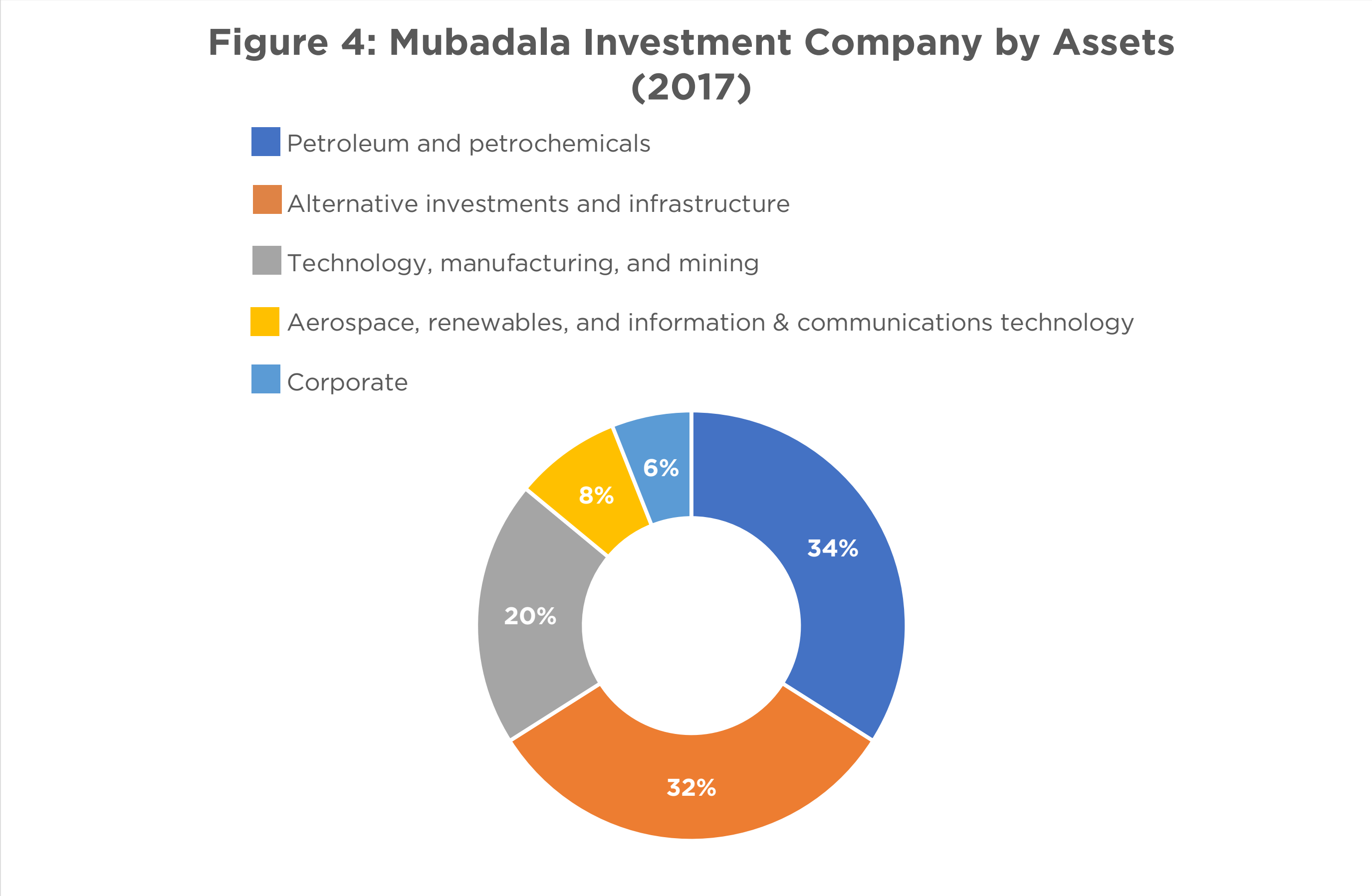
> "While it looks as if the share of non-oil of GDP… is steadily rising… there is a puzzling sign here, which is that when you take the growth of non-oil GDP for the GCC year after year and you overlay it with the oil price … you get a relationship of one to one, Every single year the oil price goes up, growth of the non-oil sector increases. Every single year the oil price goes down, growth of the non-oil sector decreases.[50]

The correlation between the non-oil GDP and oil price is there indeed, calling into question whether the growth of non-oil GDP as well as non-oil revenues are truly signs of diversification. Unless non-oil GDP continues to grow even during times of low oil prices, it is not certain that the UAE has successfully built an economy that is no longer dependent on oil revenues.

48 For more information on "connectivity" please go to the following source: Navi Daliwal, Soojin Jo, and Mine Yucel, "Texas Job Growth Swings More with Services than Oil," Dallas Fed (Vol. 13, No. 1), January 2018, https://www.dallasfed.org/~/media/documents/research/eclett/2018/el1801.pdf?utm_source=newsletter&utm_medium=email&utm_campaign=&stream=top-stories.

49 Randolph Bell, "GCC Economic Diversification: Lessons from Texas," EnergySource, February 21, 2018, https://www.atlanticcouncil.org/blogs/energysource/gcc-economic-diversification-lessons-from-texas.

50 "Sustainable Best Practices and Business Models," Atlantic Council Global Energy Forum, session video, January 13, 2018, https://www.youtube.com/watch?v=-6GKz9gw7KY&index=16&list=PLrmyxz4euJD_nfvCBRDD30hkgTvGX7slB.



Source: Developed using data from Mubadala Investment Company

While there is a question as to whether the Gulf nations are truly diversifying their economies, Mubadala has played a role in the attempt to diversify. Originally, Abu Dhabi founded the International Petroleum Investment Company (IPIC) in the 1980s "to advance Abu Dhabi's natural petroleum wealth for the development of the emirate." In 2002, Abu Dhabi established Mubadala to complement IPIC and specifically to support the diversification process.[51] Mubadala and IPIC merged in 2017,[52] and also integrated the Abu Dhabi Investment Council (ADIC) into the company in 2018.[53] The resulting company manages assets valued at $226 billion, with investments in thirteen different sectors[54] and thirty countries in Europe, North America, Asia, Latin America, Gulf countries (including the UAE), and the Middle East and North Africa.[55]

Through its investments, Mubadala is supporting the UAE in the economic-diversification process by strengthening sectors such as tourism, healthcare, and education. To promote tourism, Mubadala invested in hotels and museums, such as the Louvre Abu Dhabi, and in Formula One racing with the Abu Dhabi Grand Prix. To advance its healthcare, Mubadala partnered with and brought the Cleveland Clinic to Abu Dhabi.

51 "Our History," Mubadala Investment Company, last update unknown, accessed July 14, 2018, https://www.mubadala.com/en/who-we-are/our-history.

52 Stanley Carvalho, "Abu Dhabi Creates $125 Billion Fund by Merging Mubadala, IPIC," Reuters, January 21, 2017, https://www.reuters.com/article/us-emirates-abudhabi-funds-idUSKBN1550R2.

53 "UAE President Issues Law Restructuring Abu Dhabi Investment Council," Mubadala Investment Company, March 21, 2018, accessed July 15, 2018, https://www.mubadala.com/en/news/uae-president-issues-law-restructuring-abu-dhabi-investment-council.

54 "About Mubadala," Mubadala Investment Company, last update unknown, accessed July 14, 2018, https://www.mubadala.com/en/who-we-are/about-the-company.

55 "Interactive Portfolio," Mubadala Investment Company, last update unknown, accessed November 19, 2018, https://www.mubadala.com/en/interactive-portfolio#.

In education, the company has attracted prestigious international universities such as New York University.

KUWAIT

Kuwait is a nation in the Gulf with a population of approximately four million, of which 70 percent are expatriates.[56] Similar to other Gulf nations, Kuwait is rich in oil and plans to pivot away from a hydrocarbon-based economy. In 2017, Kuwait's prime minister, Sheikh Jaber al-Mubarak al-Hamad al-Sabah, announced a plan to activate development, boost the economy, diversify productivity, push through economic and financial reforms, and grow the private sector. The plan is known as Kuwait Vision 2035, as well as New Kuwait, and lays out goals such as decreasing the expatriate population to 60 percent by 2030, diversifying the national economy, and raising Kuwait's revenue to 50 billion dinars (roughly $164 billion) from 13.3 billion dinars (around $44 billion).[57]

The Kuwait Investment Authority (KIA), which is the oldest sovereign investor in the world, is the fourth largest globally and manages assets valued at $592 billion, according to SWFI.[58] KIA is responsible for managing the country's assets and investing the country's oil and gas revenue to ensure the economic well-being of the country now and in the future.[59] KIA was not initially tasked with diversifying the economy, but incorporated it as a mandate as the Kuwaiti government's goals for its economy changed, and has been involved in privatization and economic diversification efforts at least since the late 1990s.[60]

KIA plays a prominent role in Kuwait's Vision 2035 efforts and had taken steps to diversify its portfolio prior to the announcement of the development plan. For instance, in 2014, KIA established a $2 billion portfolio for venture-capital investments, mostly focusing on the technology industry. Bader Al-Saad, KIA's managing director at the time, thought the fund needed to "take more risk in order to maintain the returns."[61] In May 2018, current Managing Director Farouk Bastaki was quoted by Reuters as saying that KIA is diversifying its investments and "moving to increase its investments in emerging markets." While that did not mean KIA would abandon developed markets, it could lead to "a reduction in some investments in them," he added.[62] The sovereign investor was particularly interested in exploring China, India, and Brazil for investment opportunities as their economic growth outpaced that of the global economy.[63] Given that KIA does not disclose its assets or geographical breakdown, it is difficult to determine to what extent KIA is successful at diversifying its portfolio. Regardless, if KIA continues to diversify its portfolio, it could decrease its exposure to and revenue from the oil- and gas-based sector, making Kuwait less vulnerable to fluctuations in oil and gas prices, providing the nation with a new stream of revenue that is not hydrocarbons based, and altering its economic profile.

On governance, KIA's structure holds the sovereign investor accountable to the government and the people, as it is required to report to the parliament frequently on its decision making. Moreover, it plays a larger role domestically as it is engaged in macroeconomic policy, mainly the government's budget as it directs and manages the government's shares and contributions in different entities. KIA manages two funds: 1) the General Reserve Fund, which is the main treasurer of the government and a domestically focused development fund that consists of all revenues (holding all government assets)—including oil revenues—used to pay for state budgetary expenditures; 2) the Future Generation Fund, which invests globally and receives 10 percent of state revenues annually to invest in assets.[64] Among

56 "Kuwait," World Bank, last update unknown, accessed November 27, 2018, https://data.worldbank.org/country/Kuwait.

57 B Izzak and Agencies, "Govt Launches Ambitious 'New Kuwait' 2035 Strategy," *Kuwait Times*, January 31, 2017, http://news.kuwaittimes.net/website/govt-launches-ambitious-new-kuwait-2035-strategy/.

58 "Sovereign Wealth Fund Rankings," Sovereign Wealth Fund Institute.

59 "Foreign Investment to Boost Diversification in Kuwait Trade," Oxford Business Group, last update unknown, accessed November 12, 2018, https://oxfordbusinessgroup.com/overview/broadening-horizons-attracting-foreign-investment-becomes-key-diversification-plans.

60 "The KIA Expands Its Horizons," Energy Intelligence Unit, December 11, 2013, http://country.eiu.com/article.aspx?articleid=781317662&Country=Kuwait&topic=Economy&subtopic=Cur_8.

61 Andrew Vought, "The 'New Kuwait,' " Gulf State Analytics, Monthly Monitor Report, January 2017, https://gallery.mailchimp.com/02451f1ec2ddbb874bf5daee0/files/3ceac939-4a1d-4e2c-a5df-74fc022893ed/GSA_monthly_monitor_report_Jan_2017.pdf.

62 Ahmed Hagagy, "Kuwait Investment Authority Plans to Increase Investment in Emerging Markets–CEO," Reuters, May 2, 2018, https://www.reuters.com/article/us-kuwait-investment-emerging/kuwait-investment-authority-plans-to-increase-investment-in-emerging-markets-ceo-idUSKBN1I31Y0.

63 Hagagy, "Kuwait Investment Authority Plans to Increase Investment in Emerging Markets–CEO."

64 "KIA's Implementation of the Santiago Principles," Kuwait Investment Authority, last update unknown, accessed November 12, 2018, http://www.kia.gov.kw/en/Documents/IFSWF/Wspp.pdf; "Fund Profile: Kuwait Investment Authority (KIA)," The Sovereign Wealth Fund Initiative, Fletcher School, Tufts University, December 2011, 1, http://fletcher.tufts.edu/~/media/Fletcher/Microsites/swfi/pdfs/2012/profiles/KIA%20Fund%20Profile_v2.pdf.

its objectives, KIA aims to grow the private sector, increase human capital, and assist in developing the necessary skills for the market.[65]

KIA's board consists of government officials (the chairman is the minister of finance) and private-sector leaders;[66] in addition to reporting to its board, it is also required to report to parliament on investment decisions.[67] Despite these reporting obligations, which include reports to the Council of Ministers, there is little public information available, e.g., annual reports. The paucity of public information is one of the key reasons, along with a lack of disclosure of portfolio assets and geographic locations, why KIA only rates six out of ten on the transparency index,[68] below what is considered adequate by the SFWI. Further, the fund is integrated into the government system, directing and managing the government's contributions and shares in different entities locally.[69]

With respect to its role in the national economy and contribution to economic diversification, KIA "promotes and supports institutionalization of the market" by setting up funds and business, assists in developing "the role of local financial companies by giving them the opportunity to manage some of its investments locally and abroad," undertakes privatization programs, and promotes investment opportunities in Kuwait.[70] How this translates into numbers or success stories toward its broader diversification goals is unclear, especially considering that Kuwait's budget relies on oil revenue at around 67 percent, a rate the IMF projects will remain unchanged until at least 2022.[71]

QATAR

Qatar is the world's largest liquefied natural gas (LNG) exporter[72] as well as an oil exporter of 600,000 barrels per day.[73] Roughly 70 percent of government revenue depends on natural gas.[74] Qatar has been aiming to diversify its economy and pivot away from an oil- and gas-based economy since 2008 when Qatar launched its National Vision 2030.[75] While QIA is not formally part of this effort, the sovereign investor's mission does include "facilitating economic diversification and developing local talent."[76]

QIA was established in 2005[77] and today manages a portfolio with an estimated value of $320 billion.[78] Similar to KIA, the Qatari sovereign investor is supported by the government through infusions of budget surplus into the fund.[79] QIA is expected to receive an additional large cut of an anticipated budget surplus of $44 billion in 2024, revenue to be generated from gas exports once Qatar completes its expansion project that same year.[80]

Owned by the government, QIA is overseen by the Supreme Council for Economic Affairs and Investments, and its board of directors is chaired by Qatar's foreign minister, H.E. Sheikh Mohammed bin Abdulrahman bin

65 "Investment Objectives," Kuwait Investment Authority, last update unknown, accessed November 12, 2018, http://www.kia.gov.kw/en/ABOUTKIA/Pages/OBJECTIVES-PRINCIPLES.aspx.

66 "Structure and Governance," Kuwait Investment Authority, last update unknown, accessed November 12, 2018, http://www.kia.gov.kw/en/Pages/orgStruct.aspx.

67 Henny Sender, "Kuwait Investment Authority Chief Navigates Politics and Trendy Tech," Special Report: Investing in Kuwait, *Financial Times*, September 10, 2018, https://www.ft.com/content/e6fdc262-4e36-11e8-ac41-759eee1efb74.

68 "Sovereign Wealth Fund Rankings," Sovereign Wealth Fund Institute.

69 "KIA's Implementation of the Santiago Principles," Kuwait Investment Authority.

70 "KIA's Implementation of the Santiago Principles," Kuwait Investment Authority.

71 *Kuwait Country Report No. 18/21*, International Monetary Fund, Middle East and Central Asia Department, approved by Aasim M. Husain and Sanjaya Panth, January 2018, 32, https://www.imf.org/en/Publications/CR/Issues/2018/01/29/Kuwait-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-45592.

72 Eric Yep, "Austrial's Bid To Be the World's Largest LNG Exporter May Fizzle Out," S&P Global Platts, October 18, 2018, https://blogs.platts.com/2018/10/18/australia-bid-world-largest-lng-exporter-may-fizzle-out/.

73 Tim Daiss, "Qatar's OPEC Exit May Just Be the Beginning," Oilprice.com, December 4, 2018, https://oilprice.com/Energy/Energy-General/Qatars-OPEC-Exit-May-Just-Be-The-Beginning.html.

74 Daiss, "Qatar's OPEC Exit May Just Be the Beginning."

75 Qatar National Vision 2030," Ministry of Development Planning and Statistics, Qatar, last update unknown, accessed December 17, 2018, https://www.mdps.gov.qa/en/qnv1/pages/default.aspx.

76 "Our Mission," Qatar Investment Authority, last update unknown, accessed December 17, 2018, https://www.qia.qa/About/OurMission.aspx.

77 "Our History," Qatar Investment Authority, last update unknown, accessed December 17, 2018, https://www.qia.qa/About/OurHistory.aspx.

78 "Sovereign Wealth Fund Rankings," Sovereign Wealth Fund Institute.

79 Mohammed Sergie, "Qatar Said to See $40 Billion Income Gain from Gas Expansion," Bloomberg, September 26, 2018, https://www.bloomberg.com/news/articles/2018-09-26/qatar-wants-to-get-even-bigger-in-gas-as-race-with-u-s-heats-up.

80 Sergie, "Qatar Said to See $40 Billion Income Gain from Gas Expansion."

New Paris Saint-Germain signing Neymar Jr and Chairman and CEO Nasser Al-Khelaifi pose with the club shirt, August 4, 2017. Qatar Sports Investments, a branch of the emirate's sovereign wealth fund, completed a buyout of Paris Saint-Germain in 2012. Source: REUTERS/Christian Hartmann

Jassim Al-Thani.[81] Like many other sovereign investors in the region, QIA does not disclose its assets,[82] but it has invested billions of dollars in Europe, Asia, and the United States over the last several years.

Domestically, QIA is the largest investor in the nation's stock market, and it is a majority shareholder of Qatar National Bank SAQ and telecom provider Ooredoo QPSC.[83] QIA has also been supporting local Qatari banks by injecting billions of dollars to compensate for the commercial and diplomatic boycott by Saudi Arabia, UAE, Bahrain, and Egypt since the summer of 2017.[84]

QIA has traditionally been heavily invested in Europe,[85] especially the United Kingdom, where it is estimated to have investments totaling 35 billion pounds and plans to increase this by 5 billion pounds by 2020.[86] However, the fund seems to be following the lead of Mubadala and PIF by diversifying its portfolio and increasing investments in technology and Asia. The United States is a also a large part of its focus: QIA opened an office in New York in 2015 and committed that same year to investing $45 billion over the course of five years.[87] In March 2017, the fund announced it was opening an office in San Francisco to continue expanding its US

81 "Our Governance," Qatar Investment Authority, last update unknown, accessed December 17, 2018, https://www.qia.qa/About/OurGovernance.aspx.

82 "Qatar: 2018 Investment Climate Statements," Bureau of Economic and Business Affairs, US Department of State, July 19, 2018, https://www.state.gov/e/eb/rls/othr/ics/2018/nea/281679.htm.

83 Mohammed Sergie, "Two Royals in Their 30s Have Been Given the Keys to a $320 Billion Fund," Bloomberg, November 6, 2018, https://www.bloomberg.com/news/articles/2018-11-06/qatar-turns-to-royals-in-their-3os-to-manage-320-billion-fund.

84 Eric Knecht and Saeed Azhar, "Qatar Investment Authority Has Accelerated Investments in Technology: CEO," Reuters, December 10, 2018, https://www.reuters.com/article/us-qatar-investments/qatar-investment-authority-has-accelerated-investments-in-technology-ceo-idUSKBN1O914P.

85 Tom Finn, Kylie Maclellan, and Claire Milhench, "Qatar Wealth Fund to Open Office in Silicon Valley," Reuters, March 27, 2017, https://www.reuters.com/article/us-britain-qatar-qia/qatar-wealth-fund-to-open-office-in-silicon-valley-idUSKBN16Y0V7.

86 Sergie, "Two Royals in Their 30s Have Been Given the Keys to a $320 Billion Fund."

87 "Qatar: 2018 Investment Climate Statements," US Bureau of Economic and Business Affairs.

portfolio, specifically in Silicon Valley.[88] The CEO of QIA, Mansour Ibrahim Al-Mahmoud, said the fund has accelerated its investments in technology and "will keep the momentum until we increase our pie."[89] In 2014, QIA announced it planned to invest as much as $20 billion in Asia over six years[90] and has been making numerous investments since then. It invested in Softbank, has a $1.7 billion stake in Power Assets Holdings (an electric utility company in Hong Kong), and purchased the Asia Square Tower in Singapore for $2.5 billion in 2016.[91]

While maintaining some of its traditional investments in Europe, QIA is diversifying its portfolio and pivoting toward other continents. However, given the limited transparency, it is difficult to determine to what extent QIA is supporting the economic diversification process of Qatar.

SAUDI ARABIA

Saudi Arabia is the second-largest holder of proven oil reserves globally, and its economy remains heavily dependent on oil revenue.[92] Like other Gulf nations, Saudi Arabia's finances suffered during the fall of oil prices in 2014. Learning from this experience, it launched its Vision 2030 in April 2016, a blueprint for Saudi's future to remain economically prosperous and ensure an economically sustainable future for its population. Economic diversification and reforms, including increasing female participation in the workforce and privatization of businesses, are key to Vision 2030. PIF, Saudi's sovereign investor, is an integral part of pursuing this vision. The Kingdom of Saudi Arabia aims for PIF to "unlock strategic sectors requiring intensive capital inputs," which in turn "will contribute towards developing entirely new economic sectors and establishing durable national corporations."[93]

Riyadh wants PIF to become the largest sovereign investor in the world; it is currently nearing $400 billion in assets and the crown prince has set a target of $600 billion in assets by 2020 and $2 trillion by 2030.[94] PIF is transitioning from being a mainly domestic-focused sovereign investor to becoming a global investor whose returns will become the government's main revenue source in place of oil.[95] To achieve this, Riyadh planned for PIF to receive fresh capital from the initial public offering (IPO) of state-owned oil company Saudi Aramco. However, with the IPO stalled indefinitely, there is increasing doubt that this is realistic. Regardless, PIF has ramped up international investments, investing $3.5 billion in Uber in 2016—a 5 percent stake—and putting PIF Managing Director Yasir Othman Al-Rumayyan on Uber's board.[96] That same year, PIF invested $45 billion in SoftBank's Vision Fund, a technology investment fund, which it reinforced with an additional $45 billion investment in 2018.[97] PIF also invested $20 billion in the Blackstone Group's infrastructure fund.[98] In 2017 Crown Prince Mohammed bin Salman, also chairman of PIF, said the sovereign investor would be investing $500 billion in NEOM, a new industrial zone focused on artificial intelligence and tourism to be built in the desert.[99] The crown prince expects the first town in NEOM to be ready in 2019 or 2020 and for the entire project to be completed by 2025.[100] Over the long term, returns from these investments should help PIF generate revenue in place of oil income.

As of early 2019, PIF had assets in the following sectors: energy, manufacturing, and mining; technology and communications; financial and real estate services; agriculture and food; and utilities, transportation, and

88 Finn, Maclellan, and Milhench, "Qatar Wealth Fund to Open Office in Silicon Valley."

89 Knecht and Azhar, "Qatar Investment Authority has Accelerated Investments in Technology: CEO."

90 Sergie, "Two Royals in Their 30s Have Been Given the Keys to a $320 Billion Fund."

91 Sergie, "Two Royals in Their 30s Have Been Given the Keys to a $320 Billion Fund."

92 "Country Analysis: Saudi Arabia," US Energy Information Administration, last updated October 20, 2017, accessed November 15, 2018, https://www.eia.gov/beta/international/analysis.php?iso=SAU.

93 "Vision 2030," Kingdom of Saudi Arabia, April 2016, 42, http://vision2030.gov.sa/download/file/fid/417.

94 "Saudi Crown Prince Says Sovereign Wealth Fund Will Surpass $600 Billion Target by 2020," Reuters, October 5, 2018, https://www.reuters.com/article/us-saudi-pif/saudi-crown-prince-says-sovereign-wealth-fund-will-surpass-600-billion-target-by-2020-idUSKCN1MF2KC.

95 Capapé and Santiso (eds.), *Sovereign Wealth Funds 2017*.

96 Leslie Hook, "Saudi Wealth Fund Takes $3.5bn Uber Stake," Financial Times, June 1, 2016, https://www.ft.com/content/a7e31c58-282c-11e6-8b18-91555f2f4fde.

97 Riad Hamade, Matthew Martin, and Archana Narayanan, "Saudi Arabia Doubles Down on SoftBank Bet With Extra $45 Billion," Bloomberg, October 5, 2018, https://www.bloomberg.com/news/articles/2018-10-05/saudi-arabia-doubles-down-on-softbank-bet-with-extra-45-billion.

98 Gillian Tan, "How Blackstone Landed $20 Billion from Saudis for New Fund," Bloomberg, October 21, 2018, https://www.bloomberg.com/news/articles/2018-10-22/how-blackstone-landed-20-billion-from-saudis-for-infrastructure.

99 Glen Carey, Vivian Nereim, and Christopher Cannon, "Sun, Sea and Robots: Saudi Arabia's Sci-Fi City in the Desert," Bloomberg, October 26, 2017, https://www.bloomberg.com/graphics/2017-neom-saudi-mega-city/.

100 "Saudi Crown Prince Says Sovereign Wealth Fund Will Surpass $600 Billion Target by 2020," Reuters.

Visitors watch a 3D presentation during an exhibition on 'NEOM,' a new business and industrial city, in Riyadh, Saudi Arabia, October 25, 2017. REUTERS/Faisal Al Nasser

infrastructure.[101] The sovereign investor has set up companies in the entertainment, tourism, and defense sectors, among others, aiming to expand the private sector and job opportunities. This shows PIF has become a more dominant factor within Saudi's economy.[102]

For the kingdom to succeed in diversifying its economy, it needs, among other things, to attract foreign investors and build partnerships that would bring them to Saudi Arabia to start new sectors, share knowledge that will enable the local population to learn new skills and gain new expertise, and increase the number of job opportunities. It will be difficult for the country to diversify without foreign investment and partnerships. According to the United Nations, Saudi Arabia has been struggling to do so as foreign direct investment dropped from $7.45 billion in 2016 to $1.42 billion in 2017,[103] and it was reported that Saudi Arabia saw another outflow of at least $650 million from foreign investors in October 2018 alone.[104]

Political stability and transparency are important to attract foreign investors. PIF received a rating of five out of ten on the transparency index, meaning it is not considered to be very transparent in its workings.[105] There are no annual reports that show concrete numbers, strategy, or an explicit statement of policies. PIF's leadership consists mostly of government officials. The board of directors establishes the fund's investment policies and strategic decision making, and its

101 "Portfolio," Public Investment Fund, last update unknown, accessed November 15, 2018, https://www.pif.gov.sa/en/Pages/Portfolio.aspx.

102 Andrew England and Simeon Kerr, "Saudi Arabia: How the Khashoggi Killing Threatens the Prince's Project," *Financial Times*, October 22, 2018, https://www.ft.com/content/227c99dc-d2b5-11e8-a9f2-7574db66bcd5.

103 England and Kerr, "Saudi Arabia: How the Khashoggi Killing Threatens the Prince's Project."

104 Owen Walker, "Saudi Arabia Suffers $650m Outflow of Foreign Investment," *Financial Times*, October 21, 2018, https://www.ft.com/content/b30a4952-d50f-11e8-ab8e-6be0dcf18713.

105 "Sovereign Wealth Fund Rankings," Sovereign Wealth Fund Institute.

performance is overseen by the Council of Economic and Development Affairs.[106] This suggests there is no separation between PIF's executive office and the government. Moreover, there is a concern about PIF staffing. Up until 2015, the fund had fewer than fifty people employed;[107] today it has around 300 employees. Given the rapid growth, there is a concern about the fund's ability to find capable and knowledgeable people to fill key middle-management positions.[108] While there was significant excitement around PIF in 2017, the data suggests that foreign capital is leaving the kingdom instead of coming into it, which accelerated further in 2018 after increasing political instability and tension in the region. Increased transparency might turn this around for PIF and could in turn build a foundation for steady growth as the kingdom takes steps toward economic diversification.

106 "About PIF," Public Investment Fund, last update unknown, accessed November 15, 2018, https://www.pif.gov.sa/en/Pages/AboutPIF.aspx.

107 Phillip Cornell, "The Saudi Public Investment Fund: The Emerging Financial Vehicle Behind Vision 2030," EnergySource, March 30, 2018, http://www.atlanticcouncil.org/blogs/energysource/the-saudi-public-investment-fund-the-emerging-financial-vehicle-behind-vision-2030.

108 England and Kerr, "Saudi Arabia: How the Khashoggi Killing Threatens the Prince's Project."

The Singaporean Model

The so-called Singaporean model is known for rapid growth, efficiency, and government support in building a strong economy. Gulf nations look at Singapore as a model, as Singapore shares some commonalities with Gulf economies, such as a large dependence on expatriates and primary dependence on one source of income. Singapore is a relatively young nation that built an economy in much tougher conditions than the Gulf countries, lacking natural resources that produce revenues.

Singapore has several sovereign investors including Temasek and GIC. As a fund manager for the Singaporean government, GIC is a traditional sovereign wealth fund that does not invest domestically; while Singapore enjoys returns on GIC's investments and uses the returns to support the economy, GIC does not play a direct role in diversifying the economy. Temasek, on the other hand, identifies itself as an investment company and plays a role in diversifying the Singaporean economy by investing both domestically and globally; therefore, this will be the sovereign investor that will be further examined in this section. The GIC board comprises former government officials and business leaders and though the Singaporean government is a shareholder of Temasek, it does not play a role in investment decision making[109] (although it should be mentioned that the CEO of Temasek, Ho Ching, is married to Lee Hsieng Loong, the current prime minister of Singapore).[110] Temasek has a ten out of ten LMTI rating, while GIC has a six out of ten rating, which is below what SWFI considers adequate.[111]

When the Republic of Singapore became independent after having been a British crown colony and then a Malaysian state from 1963 to 1965, it had few natural resources and depended on others for food, energy, and water.[112] Singapore successfully built itself from the ground up, drawing on its strategic location, and is now a global financial and economic hub.

The Singapore city skyline from Marina Bay Sands, 2010. Source: chensiyuan/Wikimedia Commons

109 "Our Purpose," Temasek website, last update unknown, accessed November 15, 2018, https://www.temasek.com.sg/en/who-we-are/our-purpose.html.

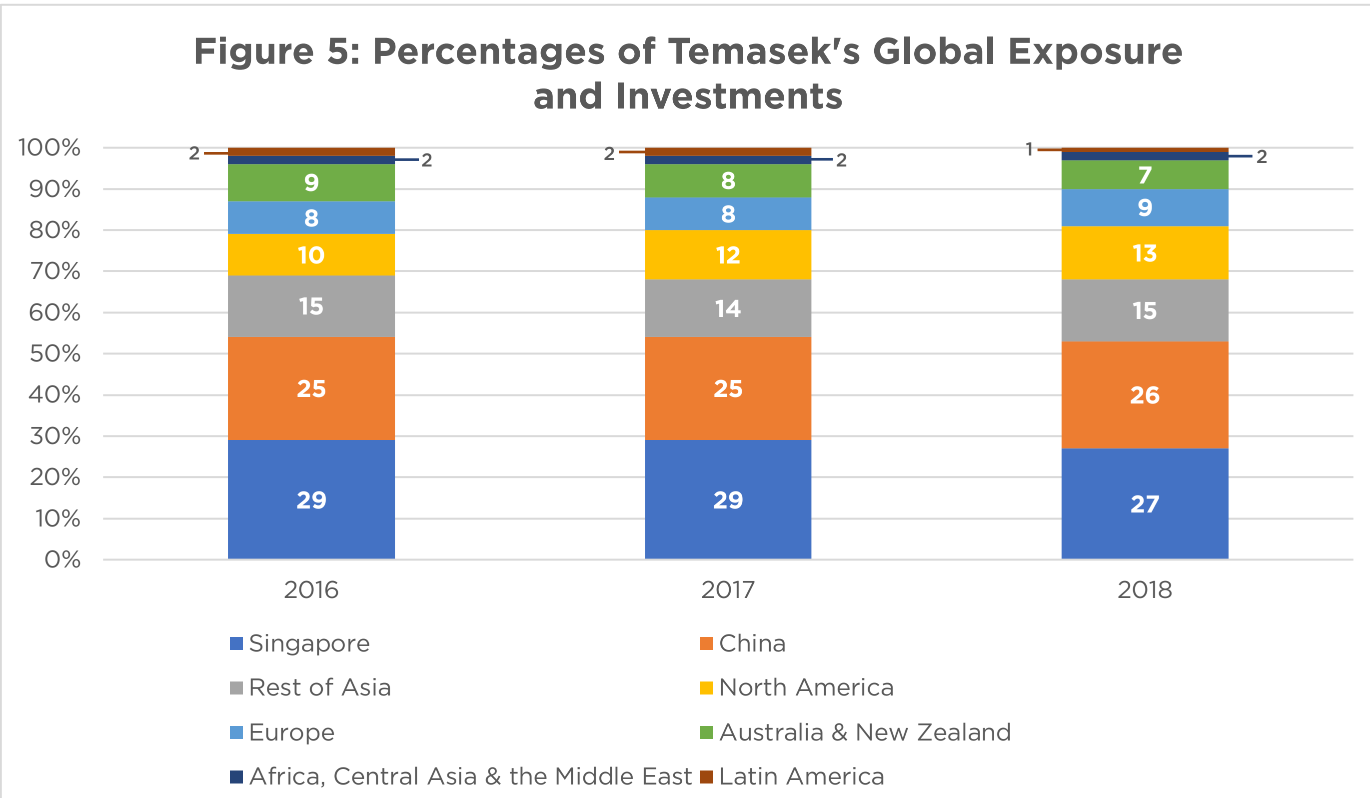
110 Sender, "Kuwait Investment Authority Chief Navigates Politics and Trendy Tech."

111 "Sovereign Wealth Fund Rankings," Sovereign Wealth Fund Institute.

112 Sajjad Ashraf, "Lessons from Singapore's March to Success," *Gulf News*, August 9, 2018, https://gulfnews.com/opinion/op-eds/lessons-from-singapores-march-to-success-1.2263933.

Singapore provides a useful example in using revenue at its disposal to plan for its long-term future. The country "pursued an economic-development model that prioritized courting foreign direct investment."[113] It has a strategic location and a harbor linking to the Strait of Malacca, through which around 40 percent of the world's maritime trade passes, including hydrocarbons.[114] This strategic location allowed Singapore to "become one of Asia's major petrochemical and refining centers and oil trading hubs,"[115] and petroleum and minerals are among Singapore's primary exports as well as electronics, pharmaceutical products, and industrial equipment.[116] In essence, Singapore has expanded its economy to include the energy industry in its efforts to broaden its economy, while the Gulf states look to do the opposite.

Temasek, founded in 1974, manages a fund valued at 308 billion Singaporean dollars as of March 2018, then equivalent to about $223 billion. Temasek invested mainly in Singapore until 2002, when it expanded to the rest of Asia, and it has been investing globally since 2011.[117] The bulk of Temasek's investments still are in Singapore, with China following as a close second. Meanwhile, 13 percent is invested in North America, 9 percent in Europe, and a mere 2 percent in Africa, Central Asia, and the Middle East combined. Overall, Temasek allocates 60 percent of its investments to mature economies and 40 percent to growth regions.[118] As Singapore continues to diversify its economy, the financial-services industry remains a key sector, comprising a quarter of Temasek's portfolio (see Figures 5



Source: Developed using data from Temasek's website

113 Ankit Panda, "Singapore: A Small Asian Heavyweight," Council on Foreign Relations, June 26, 2018, https://www.cfr.org/backgrounder/singapore-small-asian-heavyweight.

114 "Why Singapore Became an Economic Success," *Economist*, March 26, 2015, https://www.economist.com/the-economist-explains/2015/03/26/why-singapore-became-an-economic-success.

115 "Country Analysis: Singapore," US Energy Information Administration, last updated July 2016, accessed November 3, 2018, https://www.eia.gov/beta/international/analysis.php?iso=SGP.

116 Panda, "Singapore: A Small Asian Heavyweight."

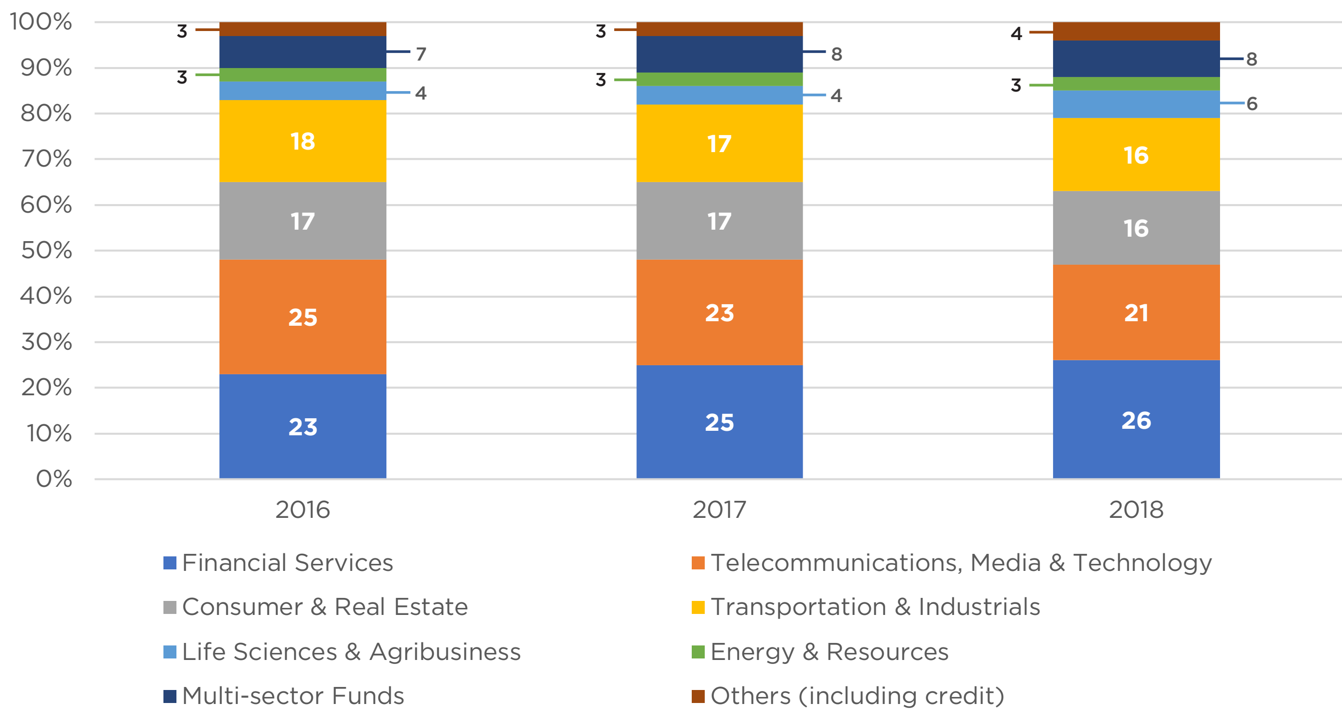
117 "Our Financials: Portfolio Performance," Temasek, last update unknown, accessed November 18, 2018, https://www.temasek.com.sg/en/our-financials/portfolio-performance.html.

118 "Our Portfolio: Sector," Temasek, last updated unknown, accessed November 18, 2018, https://www.temasek.com.sg/en/what-we-do/our-portfolio.html#sector; Temasek defines mature economies as Singapore, Japan, Korea, North America, Europe, Australia, and New Zealand, and growth regions as including the rest of Asia, Latin America, Africa, Central Asia, and the Middle East.

and 6 depicting Temasek's global exposure and portfolio by sector).

The island still has its challenges when it comes to economic diversification. Singapore has relied on the revenues of financial services, which took a hit during 2008 financial crisis and its exports declined. As a result, the government took concrete steps to improve resilience and economic diversification, providing tax benefits for companies providing professional development and skill training for employees and investing in productivity improvement. Singapore also seeks to find a balance between attracting new economic sectors, skilled foreign workers, and creating job opportunities for its own citizens. The government acknowledges the importance and benefit of bringing in foreign workers who have the required skills to build new sectors. At the same time, Singapore also aims to strengthen the human capital and skills of its own workforce by investing in research, enterprise, and by building links between research and innovation through education.[119] As long as Singapore's population remains small, there will be little choice but to rely on expatriates in the diversification effort. Similarly, though the Gulf states want to decrease the number of expatriates involved in economic diversification, the nations will need to rely more on foreign expertise until they develop sufficient national capacity.

Figure 6: Percentages of Temasek's Portfolio by Sector



Source: Developed using data from Temasek's website

119 Veronika Cummings (née Deffner), "Economic Diversification and Empowerment of Local Human Resources: Could Singapore Be a Model for the GCC Countries?" in *Economic Diversification in the Gulf Region, Volume II: Comparing Global Challenges*, eds. Ashraf Mishrif and Yousuf Al Balushi (Gulf Research Centre Cambridge, 2018), 253.

Observations and Conclusions

When evaluating the efficacy of these sovereign investors in helping ensure long-term economic sustainability in countries that are currently reliant on oil or gas revenue, several conclusions can be made.

- "Connectivity" to the oil and gas sector remains a challenge. While sovereign investors are investing in new sectors and working on strengthening others, Saudi Arabia, Kuwait, Qatar, and to a certain extent the UAE, have not yet successfully created a new economically sustainable sector or industry that generates enough independent revenue for these countries to be considered truly economically diversified.

- The MENA region, including the Gulf states, are not recipients of investments made by international sovereign investors, which are looking toward Asia, the United States, and other regions. This suggests that the four Gulf countries do not have industries that are attractive enough for such investment. Though none of the four nations need outside sovereign investors, such investment can create a sense of confidence that a specific industry in the country has growth potential and could be profitable in the long term.

- Geopolitical instability in the region can make it more challenging for sovereign investors to create partnerships that could lead to foreign direct investments, which would benefit the country in the long term and help the economic-diversification process. During times of perceived instability or turbulence, foreign investors are more hesitant to invest as returns may no longer look as lucrative as other investment opportunities.

- Transparency and good governance for sovereign investors can lead to a positive impact as these practices mitigate fears of political motivations and can lead to successful partnerships that may benefit the economic diversification process.

    - Part of these practices is having a clear identity, mission, and strategy to achieve the mission.

    - Without having and disclosing these elements, sovereign investors will fail to play the integral role of achieving economic diversification.

Commonalities between the funds:

1. Regardless of diversification, each sovereign investor has its largest portfolio in the sector that built their economy in the first place: oil and gas in the case of the Gulf countries' funds, and financial services in the case of Temasek.

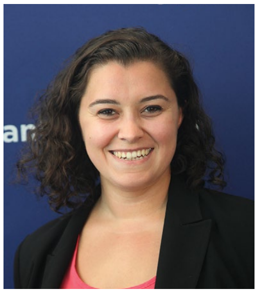
2. Sovereign investors that have economic diversification as a key objective seem to have greater success in maintaining a diversified portfolio and the capacity to start new sectors successfully at home if they are transparent, such as Mubadala and Temasek.

3. Sovereign investors such as KIA, PIF, and QIA serve as both an investment fund, focused on profitability and stability, and a development fund; while they control more AUM, they are considered less transparent and seem to have less success in building partnerships that could create new industries at home or bring back knowledge.

The extent to which Gulf sovereign investors can play a role in achieving economic diversification is still not clear. The UAE is an instructive example of a Gulf nation that has drastically reduced its reliance on oil revenue. However, the following matters warrant further consideration: the link between the UAE's non-oil GDP growth and the price of oil; whether Mubadala should receive credit for the progress made in economic diversification in the case of Abu Dhabi; the correlation between portfolio diversification at the fund level and national economic diversification; the structures in place that channel a sovereign investor's revenue into national economic diversification; and the possibility of successfully contributing to the economic-diversification process when also tasked to hedge against any economic instability, as are KIA, PIF, and QIA.

Given that no nation among the case studies or globally has been successful at pivoting away entirely from an oil- and gas-based economy to a diversified economy, it seems that sovereign investors are only a piece of the puzzle. For a sovereign investor to be successful in creating partnerships, incentivizing foreign investment, increasing value of investments, and mitigating the fear of political motivations, transparency can play an instrumental role to generate an impact that could benefit a nation and its process of economic diversification.

About the Author



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