



Gulf Research Centre Cambridge
Knowledge for All

Workshop 12

The Role of Sovereign Investment Vehicles in the GCC

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Abstract

GCC economies face a balancing challenge between domestic and foreign investments of their sovereign investment vehicles. While natural resources related income and investment returns are decreasing, the demand towards domestic deployment of capital and development is increasing in order to sustain growth. Prices of assets and securities in international markets have risen much in the last decade, as such the sovereign investment vehicles' expectations on future returns remain low while at the same time demand for capital to finance domestic infrastructure projects remains high. This also represents an opportunity to implement some reforms to generate growth and jobs in the long term without losing the focus on maintaining and expanding fiscal savings managed by the sovereign funds and development banks.

Description and Rationale

GCC countries are continuing to adjust to lower oil prices. Although the governments have reduced the spending, fiscal and external accounts have deteriorated, hence generating financing needs. Economies are still growing, but at a much lower pace. This is not surprisingly since the global growth environment is fairly negative as well. Furthermore, sectors that in the past were the main drivers of growth such as retail, real estate, shipping and banking are now struggling because of changes in consumer habits, new technologies and stricter regulations. In particular new technologies such as AI have the potential to disrupt old models without creating too many jobs. In addition, GCC are not only facing economic and financial challenges. In terms of security, the region is experiencing high levels of violence and uncertainty that likely are not going to decrease anytime soon.

Taking into consideration the above context, we propose a workshop with the aim of examining the optimal role of sovereign investment vehicles – SIVs - (e.g. sovereign wealth funds, central banks, development banks) in catalyzing capital flows and domestic resources for the purpose to improve the welfare of the states and pursue geopolitical strategic interests.

This workshop compares and analyses critical dimensions, such as SIV's national policy frameworks and broader asset allocation, to assess the processes of fiscal re-adjustments and the potential for reducing or exaggerating existing inefficiencies (e.g. avoiding duplications and crowding out). Thereby it will link directly with the research on political economy of public enterprise in the MENA region through a comparative perspective, especially given GCC SIVs large exposure to domestic state- owned enterprises. Finally, the workshop will look at how foreign investments can support national strategic interests.

Scholarly Contribution to Gulf Studies

The project builds on and compliments past GRM workshops, such as “Public-private partnerships for infrastructure delivery in the GCC: Challenges and the opportunities”; “Challenges Facing GCC Oil and Gas Exports”; “Economic Diversification: Challenges and Opportunities in the GCC”; “Fintech, Digital Currency and the Future of Islamic Finance in the GCC- Strategy, Operational and Regulatory Issues”; “A Debate on Economic Sustainability: In the GCC and Elsewhere.”

The workshop will leverage a new perspective on an emerging stream of literature on industrial policy in the twenty first century (Rodrik, 2004; Lin 2011, Stiglitz et al. 2013; Mazzucato, 2015), which emphasizes that public investment is inherently afflicted with a number of challenges some originating from poor capacity and weak governance. These can be accentuated when government investment institutions, with even partially overlapping mandates, compete for investments, as well as political, financial, and human resources, leading to redundant costs.

The workshop will also tap into a recent scholarship that highlights the potential of SIVs to promote social welfare and reduce inequality of citizens in the sponsor community (Lansley, 2016); thus to enhance the local impact.

Anticipated Participants

The workshop welcomes papers from scholars in the field of economics, finance, political science and international relations. The papers can either focus on one GCC country or propose comparative studies among GCC countries or between GCC and other countries/regions. Case studies are encouraged. The workshop is mainly intended to raise awareness about the optimal role of SIVs, and it welcomes research on the following topical areas:

1. GCC SIVs and the Industrial Revolution 4.0
2. GCC SIVs Privatization and Capital Market Development in GCC countries
3. GCC SIVs in Global Energy Transition
4. GCC SIVs Role in Attracting Foreign Investments
5. GCC SIVs and their Role in Building a stronger Private Sector
6. GCC SIVs their Accountability and role in Social Service Delivery Systems
7. GCC SIVs Regional Soft Power and Geopolitics
8. GCC SIVs and Risk Management

These are some questions the workshop is addressing. Why are the SIVs so important in this adjustment process? What are the barriers and how can they be overcome? How can SIVs be used efficiently to smoothen this adjustment? How SIVs should manage the current risks in capital markets? How SIVs should allocate money in the current situation? How GCC can use their SIVs to advance strategic interests in foreign affairs?

Workshop Director Profiles

Juergen Braunstein is a postdoctoral fellow at Harvard Kennedy School's Belfer Center where he co-leads the project on *Geopolitics of Renewable Energy*. He is also a member of the Sovereign Wealth Community of Practice, Collaboration for Development (C4D) platform at the World Bank Group. He coordinated the New Climate Economy Special Initiative on financing the urban transition under the leadership at the London School of Economics (LSE) Cities. His areas of expertise include financial instruments, emerging markets and state-owned enterprise reform and Sovereign Wealth Funds (SWFs). He was researcher at the Kuwait Programme on Development, Governance Globalisation in the Gulf States, where he worked on one of the first databases on SWF equity investments in OECD economies. His work on SWFs appeared in the *Review of International Political Economy*, *New Political Economy*, *Journal of Economic Policy* and *Global Policy*. Juergen is the author of "Capital Choices: Sectoral Politics and the Variation in Sovereign Wealth" (2019) with Michigan University Press. He has a B.A. from the University of Vienna and a masters and doctorate from the London School of Economics.

Mattia Tomba – Senior Research Fellow at the Middle East Institute NUS – is a multi-disciplinary investment professional with a track record of investments and acquisitions in different asset classes, sectors, and geographic areas. He has an extensive experience in evaluating, negotiating, and structuring direct investments globally across all parts of the capital structure, in public and private markets.

He worked with the Qatar's Sovereign Wealth Fund, where he managed an equity portfolio and worked on large private equity and real estate transactions worldwide. Previously he was part of the Goldman Sachs Group (Whitehall Real Estate Funds) where he was involved in the portfolio management and strategic planning of large European acquisitions. He began his career with the Private Wealth Management team of Merrill Lynch.

Mattia is a Senior Fellow at the Middle East Institute at the National University of Singapore where he focuses on Asia – Middle East relations. He also sits on the Advisory Council of the Center for Sovereign Wealth and Global Capital at the Fletcher School (Tufts University).

He graduated from the Fletcher School at Tufts University (Boston) with a MA in International Affairs and from Bocconi University (Milan)/Science Po (Paris) with a BS in Business Administration.

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