

SOVEREIGN WEALTH FUNDS AND THE GULF CO-OPERATION COUNCIL

A Study of the Impact of Financialisation on State-Society Relations in the Gulf Region

MA Global Political Economy

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Summary:

The aim of this paper is to discuss the process of financialisation of the Gulf Co-operation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) by means of Sovereign Wealth Funds (SWFs), in order to critique its impact on state-society relations and class formation in the aforesaid GCC countries. The historical materialism approach will be used to provide an understanding of the state formation of GCC countries through the way in which they utilise their natural resources. The development of SWFs will also be examined, particularly how they handle government or royal families as financial instruments and how the wealth returns to the royal families and their allies instead of the wider society, especially the working classes in these countries.

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Abbreviations

ADIA — Abu Dhabi Investment Authority

ADIC — Abu Dhabi Investment Council

GCC — Gulf Co-operation Council

GIC — Gulf Investment Co-operation

IWG — International Working Group

KIA — Kuwait Investment Authority

OECD — Organisation for Economic Co-operation and Development

SWF — Sovereign Wealth Funds

UAE — United Arab Emirates

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Preface

The purpose of this dissertation is to highlight how financialisation reflects upon state society relations in the GCC countries. In order to achieve this, SWFs, which are the singularly most important financial instrument and managed by government or royal families, will be explained so as to illustrate the impact of financialisation on state society relations. In view of the fact that this essay is intended to be a critique, the evidence presented will mostly draw from secondary sources. Furthermore, data will be gathered from government publications and organisational reports; the SWF Institute and those institutions concerned with historical materialism, to facilitate an understanding of state and class formation in the GCC countries that are rentier states, meaning they derive a substantial portion of their national revenue from the rent of their indigenous oil resources to external clients. Therefore, it is helpful to appreciate that the income from oil has a huge impact on contemporary state-society relations in the Gulf region during the epoch of financialisation. Moreover, the increasing price of oil has led the GCC countries to experience inflated privileges in the global financial system; the benefits include trade integration, government investment and the creation of financial funds. In addition, a critique of the state-society relations and dominance of the royal families over the working classes in the GCC countries will be presented, by way of reference to the financialisation of the economies in the region.

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Introduction

The financial system has been in a phase of far-reaching structural and ideological transformation since the beginning of the 1970s, which can be associated with the rise of contemporary financial globalisation, both as an economic reality and a political project. Financialisation has accelerated the process of globalisation since the bureaucrats initially made the decision to enter into the financial markets of the capitalist states. Hence, it is realistic to declare that some states or unions have come into prominence in the global financial system (Monk, 2010: 1). This is exemplified by the fact that the six member states of the Gulf Co-operation Council (GCC), that is to say Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE), have each experienced improved prosperity due to the prodigious accumulation of wealth generated through oil revenues. Owing to the fact that a significant proportion of their revenue is generated from their oil resources, these economies are not considered to be manufacturing economies, but are more accurately defined as rentier states, which infers that the state distributes the rents generated from its oil resources. Whilst this provides political legitimacy, it raises the question of the sustainability of their economies, which has been closely linked to their financial strategies in recent years. Moreover, the extensive financialisation may not be a concern in the short-term, as the very large financial reserves they have accumulated provide the necessary liquidity.

The GCC countries have become serious contenders in the global financial system as a consequence of extraordinarily high hydrocarbon prices over the last few decades. Under these circumstances, the authorities of these countries have started to use their oil revenues as a mechanism to reconfigure their position in the global financial system. Furthermore, the GCC states have transformed their position to the extent that they take centre stage in strategic financial investments, through the creation of crucially important financial funds. A significant investment vehicle that has contributed to this transformation has been the creation of Sovereign Wealth Funds (SWFs), which governments use as a means to invest any surplus budget (Diwan, 2009: 345; Asutay, 2008: 2). Accordingly, these funds demonstrate the role of governments in the global financial system. However, although the SWF is accepted as a valid investment tool within the financial markets, such funds are the emerging face of the transformation of global capitalism and the empowering of financialised states¹ such as the

¹ For more information on the financialised state, see Filho (2009) and Lapavitsas (2012).

GCC countries. In this respect, the government and its bureaucrats can be viewed as responsible for the initial move towards capitalism through the financialisation of the state (Monk, 2010; Filho, 2009). Thus, the rise of SWFs is the new profile of economic, financial and political realities; these funds demonstrate that governments have resolved to provide the necessary financial liquidity. The result has mainly been an influx of money into developed countries from developing countries. Thus, it would appear that twenty-first century global capitalism favours countries that possess financial assets, such as those of the GCC states, over those that do not, even if they are more developed countries (Dixon & Monk, 2012: 114-115). Therefore, the SWFs perfectly illustrate the process of financialisation in the GCC countries.

The aim of this study is to explain the pivotal role that GCC countries play in the global financial system, and how this is facilitated by the SWFs, which are their principal financial instrument. Significantly, the SWFs are managed by a combination of state staff and members of the royal families. Historically, state formation through oil revenues was based on the royal families and their allies, which meant that society supported the ruling elites. However, it appears that the SWFs have led to class differences between the ruling elites and the working class, especially since the protracted aggressive financialisation period in the region. These SWFs are long term investments into foreign countries, and as such they are not currently helping to develop the indigenous society, which is not manufacturing its own products either. Thus, they generate income purely through financialisation, and the working class experiences poor working conditions in the service sector.

This situation raises questions concerning who benefits and who loses. With regard to the integration of GCC countries into the world economic system, it would appear that there is a discrepancy between members of the royal family and those who are not part of the royal family. In the GCC countries, governments were aggressively outlawed, so the ruling/royal families developed important positions in terms of employment within the new public sector. Therefore, it is important to understand that the capitalist classes in the GCC countries include members of state staff and individuals from the ruling families (Hanieh, 2011: 14). In the context of this explanation, 'new public sector' employment refers to the financial sector and financial institutions (Moore, 2010: 76). For example, the process of integration into the global financial system has led to the migration of expertise and staff from multinational firms

into regional family offices (Rehman, 2010: 74). Similarly, there has been a significant increase in the number of family offices that manage family wealth. Furthermore, these offices have been embraced and supported by the families themselves, by the advisors who serve them, and by the regulators in the region, such as the Dubai International Financial Centre (Rehman, 2010: 75). It is reasonable to suggest that the strategies for financialisation and investment in the GCC countries, which is controlled by agencies that are comprised of both members of government and the royal families, accentuate the class configurations in these countries.

The capitalist classes in the GCC countries are governed by the ruling families and were generated mainly to control oil production and the redirection of state revenues via financial instruments (Hanieh, 2010: 41). In this respect, class formation in the Gulf region has developed through an analysis of value flows between and within the interlocking circuits of capital across the region. These value flows have facilitated the process of capitalist class formation and are distinguishable by a particular configuration of labour that is unique to the GCC countries (Ibid, 38). Class formation in the GCC states can be associated with patrimonial government and investment, meaning that patrimonial SWFs become state owned and their relationships to their respective states are weak because of the lack of industrialisation of these states. State ownership has provided a screen for private activities, such as controlling state offices, and generated resources by means of rents from the allies of ruling families. In light of these facts, the investment strategies of the SWFs appear to be non-transparent and the objectives of the investments remain secret (Schwartz, 2010; Moore, 2010).

In correspondence with this argument, this dissertation aims to address the questions of how the GCC countries have been integrated into the capitalist world market and how this form of integration has impacted on state-society relations. Furthermore, particular attention will be paid to the issue of who benefits or loses as a result of the use of SWFs as a financial instrument in these societies. In order to achieve this objective, this dissertation is comprised of two main parts. The first of these examines the literature and theoretical framework and is composed of two sections. Firstly, the literature review investigates the aforementioned process of financialisation during capitalist development and the utilisation of SWFs as a financial instrument in the GCC countries, examining various perspectives such as

neoliberalism, institutionalism and Marxist concepts. The second section explores state formation and class formation in the Gulf region, using the historical materialism approach to provide an understanding of the fact that the current structure of society within the GCC countries is based upon the exploitation of their natural resources, such as oil and gas. The literature review is followed by section two, which investigates the empirical evidence and is also composed of two sections. The initial section analyses the process by which the GCC countries integrated into the world financial market and examines the role of the SWFs in this financialisation process. SWFs and their position in the global financial system will be explained, before an analysis of each of the SWFs in the GCC countries. The evidence for the distribution of SWFs will be described in detail in the next section, to illustrate the extent to which SWFs have grown and reveal the huge degree of investment into the financial system, prior to the analysis of the outcome of the financialisation process in the third part of this dissertation. The third and final section highlights the outcomes of integration into the world financial market. Specifically, it analyses how this form of integration has impacted on state-society relations, and identifies who benefits or loses as a result of this integration within these societies. The analysis focuses on GCC countries which are governed by the royal/ruling families through a patrimonial system. In the new financial system, the hierarchy of class configuration in the GCC countries can be viewed as royal families, ruling families, the capitalist class from the business sector, the citizen labour class and migrant workers respectively. Finally, the dissertation concludes with an overall evaluation taking into consideration all of the evidence.

PART 1: Literature Review and Theoretical Framework

1.1 The Concept of Financialisation in the GCC Countries

The GCC states have managed to make the transition from playing a minor role in the global economy to playing a major one (Rehman, 2010: 25). The Gulf region is currently experiencing a high economic growth rate internally, and an increase in its political influence globally, owing primarily to its oil revenues and associated natural resources, such as gas (Gani & Al-Abri, 2013: 516). As a consequence of the increasing price of these natural resources, oil and gas (in Qatar mainly gas), the GCC states now have an influential position in the global economy; their involvement in global economics effects a variety of areas including trade integration, the stock market, government investment and the creation of various financial funds (Hertog, 2007: 54). Financialisation has enabled these countries to play a crucial role in capitalism, particularly since the post-2000 era of internationalisation (Hanieh, 2011: 27). Moreover, it is notable that the economies of the GCC countries have accumulated massive financial reserves since 2000 (Rehman, 2010: 26), which has led to fundamental transformations in the topography of the global economy. Essentially, developed countries, such as the United Kingdom, have struggled with the burden of large national debts, whereas the GCC countries have accumulated vast wealth. The developed countries recognise that the financialisation of the GCC countries over the last few decades has transformed the topography of the global economy (Ibid, 26), which has encouraged the extension of global privileges to GCC countries in the form of investments and new revenue streams.

The importance of the role is that the GCC countries have assumed is primarily a result of the increasing global financial integration they have experienced (Hertog, 2007: 68). Budget surpluses are a key factor motivating the GCC states throughout this process of financial integration; as global financial integration increases their income exceeds their budgetary requirements, and wealth flows into the world financial market (Rehman, 2010: 33). These budget surpluses are generated by the oil companies that have enabled the establishment of capitalism within the GCC countries. Therefore, social bonds under Gulf capitalism are interconnected across the GCC countries (Hanieh, 2011: 23). Consequently, the GCC states have recently been able to alter their position so as to take centre stage in strategic financial investments, through the creation of critically important financial funds, such as SWFs

(Asutay, 2008: 2). These funds are connected to their investments in important sectors in host-countries, such as in financial and banking institutions, technology, transportation, education and construction (Ibid, 13). Moreover, SWFs are intended to safeguard the states' assets, offering guarantees of profitability regardless of their countries' economic downturns, and additionally offsetting political risks. The GCC countries have the option to transfer funds into SWF investments that they perceive as both more rewarding and safer. Nevertheless, SWFs have encountered some resistance within the global financial system from host countries due to the nature of investing in key sectors, such as finance (Ramady, 2014: 227). Examination of the information available leads to the conclusion that SWFs have become critical investment tools, supporting GCC countries' investments by allowing these states to integrate into the global financial system. Furthermore, Shabbir (2009) states that SWFs provide capital investment for financial institutions in urgent need of liquidity, thereby adding to the extent of the market, as long-term investors, in times of crisis.

In accordance with their core mission to preserve and grow national wealth, conservative portfolio strategies focused on the objectives of the Organisation for Economic Co-operation and Development (OECD) are likely to endure. Increased international scrutiny is likely to further prompt SWFs to concentrate on sovereign debt, fixed income, and diversified equity investments, with minor stakes in listed companies (Rehman, 2010: 6). According to Santiso (2008), in addition to the impact of SWFs on the stability of global finance, they are also vital in meeting the equity needs of developing countries. Research shows that although OECD countries accounted for 75% of the world GDP in the 1950s, by the early 2010s they accounted for less than 55% of global wealth, and that SWFs have helped to shift resources from developed countries to developing states (Santiso, 2008). The Sovereign Wealth Fund Institute's August 2014 Report revealed that almost 80% of the current SWFs had invested in developing countries and only 35% in Middle Eastern countries (SWF Institute, 2014). These investments can be interpreted as supporting developing countries, by functioning as development funds (Santiso, 2008: 3).

The body of available literature reveals that authorities from several theoretical perspectives, including institutionalism, neoliberalism and Marxism, express different opinions concerning the process of financialisation. Firstly, the authorities on institutionalism approach the subject from the perspectives of legitimate governance of legitimacy, viewing SWFs as the result of

institutional innovation. The SWFs have a role to perform via institutional investments, whether in the domestic economy or the global financial system (Feldstein 2008, cited in Monk, 2010: 24). These funds have taken on an important role in the process of financialisation. Indeed, SWFs are an instrument for financial governance because they are based on government structure and political legitimacy. Thus, it is apparent that in terms of investment policies, SWFs do not incur internal criticism. However, domestic expectations of the SWFs may not always correspond to international expectations. A key example of this was the international crisis of legitimacy that confronted SWFs in 2007 (Monk, 2010: 25; Dixon & Monk, 2012: 105).

According to Monk (2009), SWFs could be determined in relation to the social norms and their value in terms of political legitimacy, and a culture of confidence could be created for stake holders in order to foster legitimacy. In the Kuwait Declaration², the International Working Group of Sovereign Wealth Funds³ (IWG-SWF) addressed the issue of internal and external legitimacy by acknowledging the importance of the participation of SWFs in the international monetary and financial system, and even went as far as suggesting that SWF transactions have been responsible for promoting growth, welfare and economic development in the capital exporter countries and host-countries (Monk 2009, cited in Monk 2010: 27).

The process of financialisation through SWFs is also referred to by institutionalists as an "institutional innovation". Furthermore, the emergence of SWFs has been associated with the need to protect countries from the damage of globalization, and with types of organisational investment theories. In fact, the institutionalist perspective has described SWFs and their implementation as resembling a stealthy financialisation of the nation-state policies. Moreover, SWFs represent finance-led capitalism in the context of the remodelling of global economic integration and geopolitical power in the long term (Monk, 2010: 30). In addition, Monk (2010) stated that:

‘SWFs are related to finance-led capitalism in the counter principle behind the latest stage of capitalist development’ (Monk, 2010: 30-31).

² ‘Kuwait Declaration’: Establishment of the International Forum of Sovereign Wealth Funds was organised on April 6, 2009 by IWG-SWF. The IWG-SWF members were present in Kuwait, Azerbaijan, Botswana, Chile, China, Korea, Kuwait, Mexico, New Zealand, Norway, Qatar, Russia, Singapore, Timor-Leste, United Arab Emirates, and United States.

³ The IWG-SWF has been replaced by the International Forum of Sovereign Wealth Funds (IFSWF).

The new financial institutions have benefited global capitalism. In this context, SWFs have assisted the process of global capitalism in the world financial system (Monk, 2010: 21; Lawson, 2012: 37). In summary, institutionalists have focused on the issues concerning the governance of legitimacy and institutional innovation in terms of utilising SWFs as a means of integration into the world financial system. Moreover, they have analysed the relationship between state and market with regards to both internal and external legitimacy. With regard to the subject of legitimacy, institutionalists support the notion of controlling states investing into the global financial system. However, they have chosen not to discuss the dominant ruling elites in the government and their status in society.

Similarly, the neoliberal perspective has also described the integration of the GCC countries into the global financial system as being facilitated by the SWFs, which are viewed as providing material wealth. Moreover, neoliberals have highlighted the fact that SWFs help to minimise the risks within the financial system. In addition, they have taken every opportunity to comment on the extensive worth of existing SWFs. In fact, the total value of the funds managed by the Abu Dhabi Investment Authority (ADIA) has been compared with the total worth of Rockefeller's assets⁴ (Nugee & Subacchi, 2008: 1). Moreover, neoliberals claim that the total value of SWFs will exceed the total worth of all the foreign reserves in the world by 2015⁵ (Jen, 2008: 164). According to the neoliberal perspective, SWFs operate not only as investment instruments but also as protection against risk factors of the investment variety.

Jen (2008) recommends that the GCC countries could make aggressive financial savings via SWFs in order to maximise the return on investment. Therefore, the GCC states could find an opportunity to expand their wealth in the global financial system by revealing the underground wealth of their natural resources. In addition, Jen (2008: 164) emphasises the fact that there is a transition from underground wealth: hydrocarbon, to overground or material wealth: financial and physical investments. According to the neoliberal approach, the policy makers of the GCC countries have focused on three main themes during the process of integration into the global financial system: liberalisation of the asset market, privatisation and intensive-investment (Hanna, 2008: 109).

⁴ The value of ADIA's SWFs is about three times that of Rockefeller's total assets.

⁵ SWF Institute 2013 report: Total SWFs assets are around 6.6 trillion dollars, but Morgan Stanley mentioned in a 2007 report that the total amount of the SWFs could reach 12 trillion dollars by 2015.

Neoliberalists perceive that SWFs help to free up cash flow and the balance of the global financial system (Seznec, 2012). Despite all these positive justifications, neoliberalists retain some concerns about SWFs, particularly relating to transparency and government financing. In this respect, they claim that there is the potential for political problems due to inappropriate management of the SWFs between the government and the host-countries (Subacchi, 2008: 154; Reisen, 2008: 194). However, neoliberalists support the notion of freeing up cash flows from states that have surplus budgets to those countries that require liquidity, in order to protect the capitalist system. Conversely, they do not consider the impact of financialisation on state-society relations and class configuration in their arguments.

Alternatively, the Marxist perspective has focused on class configuration and state-society relations in terms of the impact of financialisation in the GCC countries, rather than on the economic situation created by the huge investments of the SWFs. Furthermore, on the Marxist approach examines aspects of the financialisation of the GCC states in a critical manner; aspects such as who benefits from financialisation and who manages the SWFs. In line with this context, Hanieh (2011) observed that SWFs have instigated class formation in the GCC countries. Moreover, this process has transformed the societies into capitalist systems which are comprised of royal family-based capital:

‘The patterns of accumulation crystallizing in the GCC embody a new set of internationalized social relations and thereby represent a process of class formation—described henceforth as Khaleeji Capital’⁶ (Hanieh, 2011: 2).

The internationalisation of capital has been facilitated by SWFs, which has led to the creation of a hierarchical structure specifically designed so that the rich get richer and the poor get poorer in the GCC countries, especially via this financialisation process (Bolukbasi, 2012: 175). The Marxist perspective examines the subject of royal families or ruling elites, which is not discussed by the other two approaches. In the context of countries which are governed by royal families, such as the GCC states, the SWFs help the elite or ruling class to acquire revenue from financialisation (Kamrawa, 2012: 39), because they are investing in foreign countries and, therefore, these funds are separate from domestic investments. Moreover, as previously explained, the process of investing in SWFs is not transparent so the criteria used for making a decision to invest are not visible. The elite or ruling class can act to enhance

⁶ Hanieh prefers to use the term ‘‘Khaleeji Capital’’ throughout his book. It is used to describe those capitalists whose accumulation is most thoroughly and consistently grounded in the internationalisation of capital across the GCC space (Hanieh, 2011).

their own interests when investing in the financial system. Evidence of this can be observed from historical reflection on state formation in the GCC countries. Thus, Marxists consider state-society relationships in the contemporary financial system through examination of their state formation in terms of the historical relations of these states. From this perspective, it is apparent that financialisation has led to class differences between the ruling elites and the wider society.

Taking into consideration the review of the available literature, this dissertation aims to explore the notion of state-society relations in the GCC countries, and investigate the process of financialisation with regard to state formation and class formation in the GCC states. Furthermore, the examination of class formation in the GCC states will consider the impact of SWFs on class configuration. According to the Marxist perspective, these processes have combined with capital internationalisation to establish capital accumulation. The theme of state formation and class formation in relation to SWFs, and how this reflects on the current class differences, will be discussed in detail, in particular the notion that SWFs are controlled by the capitalist class which is predominantly comprised of members of the royal family. Indeed, pressure from the royal family onto the wider society in GCC states has increased since the financialisation period. Consequently, the new capitalist classes in the GCC states prefer to support their capitalist allies in foreign countries rather than their own society. The impact of the financialisation process with regard to state-society relations between royal families and the working classes in the GCC countries will be analysed briefly.

1.2 State and Class Formation in the GCC Countries

The aim of this dissertation is to endeavour to find an adequate theory to explain what state formation consists of and how it reflects on state-society relations since the financialisation process in the GCC countries. The proposed theory would link the processes of state formation and financialisation in the GCC countries, since financialisation and subsequent government investments in the GCC countries have triggered the integration of the GCC states into the global financial system (Palley, 2013; Filho, 2009; Hanieh, 2011). In order to comprehend state formation and its reflection on state-society relations it is necessary to understand who benefits and who loses because of financialisation in this region, where the government is primarily composed of royal families and ruling elites.

There is a growing body of literature on the subject of political economy that debates the impact of capitalist development on state formation and state-society relations (Schwarz, 2008; Bromley, 1994; Ayubi, 1995; Hanieh, 2011; Poulantzas, 1975). According to these studies, it is important to appreciate the role of oil revenues in capitalist development within the GCC countries. However, the rentier state perspective has led to discrimination amongst class relations and to strict hierarchical structures in the GCC states (Hanieh, 2010: 38). Therefore, it is implicit that state formation facilitates the generation of oil revenues and enables fair distribution. At first glance, the state formation of the GCC countries implies that natural resources have an important influence on the royal families. Therefore, taking into consideration the state formation of the GCC countries, where management by the government means the royal families, the process of financialisation generates strict discrimination between the capitalists (the bourgeoisie, royal families, ruling elites and their allies from the private sector)⁷ and the working class (non-royal families, workers and migrant workers) (Bromley, 1994; Ayubi, 1995). To sum up, the rise of capitalism in the GCC countries has highlighted the effect of royal families, who govern the states, in the contemporary global financial system.

As previously discussed, the ruling class⁸ has related to their allies and their ideas in every epoch, but they do not consider the working classes to be involved in the financialisation process. Therefore, the rising class structure within the state and society has fostered discrimination between state bureaucracy⁹ and the working classes¹⁰ in the contemporary global economy. However, it is important to examine the historical relationship of state and society in the Middle East in order to understand contemporary royal families/ruling elites-society relations in the GCC countries. There are several differing perspectives concerning state-society relations in this region, including the observations of Talal Asad:

‘The political elite may indeed act in the capacity of entrepreneur, middleman or representative, but it does so as a middleman who has a privileged monopoly in relation to his tribal "clients." As with all holders of crucial monopolies this gives the elite-middlemen dominant power over others: the middleman is able to define the conditions for the fulfillment of his clients' interests, and even to determine their essential priorities’ (Caton, 1990: 82).

⁷ It is possible to consider the capitalist class as including many state staff and individuals from the ruling family.

⁸ This class is largely royal families in the GCC countries, especially Saudi Arabia and UAE.

⁹ For the issue of bureaucratic growth see Webern’s ‘bureaucratic development’ thesis (Ayyubi, 1995, p. 289).

¹⁰ Over the last few decades, migrant workers have generally only been able to find work under unfair working conditions in the tourism sector.

Furthermore, it is essential to contemplate the historical development of the culture of a hierarchical society, managed by a government composed of the main ruling class which comprised the producers, warriors and clerics (Bromley, 1994: 7-9). According to these historical studies, the most important decision makers in the GCC states were religious functionaries and producers, yet the contemporary ruling elites are composed of sheiks¹¹ and royal families. These ruling elites have taken on a critical role due to the increasing oil revenues. Therefore, investigating the advancement of royal families through state formation, citizenship, oil and financialisation as a whole provides an opportunity to make sense of the capitalist development epoch in the Gulf region (Oskay, 2010: 1). The significant increase in oil revenues has affected the political and financial conditions of the GCC states and has had an impact on the relations between capitalists and the ruling families (Ibid, 17). Consequently, the development of relations between capitalists and the royal families and ruling elites in the GCC countries evolve as distinguishable from every other class in the society (Hirsch& Kannakulam, 2010: 14).

Neoliberalism has facilitated a remarkable success for the upper classes, such as the ruling elites and royal families, by enabling the royal families to establish relationships with their allies, mainly from the capitalist class (Harvey, 2006: 13). In this context, investment in the financial markets following the discovery of oil, and the subsequent revenue, has generated numerous changes in society that have altered the status quo. Relationships between royal families, the ruling elites and the working classes have been modified as a result of the distribution of the new wealth and its accumulation by the royal families through oil revenues and investments in the world financial markets (Oskay, 2010: 56). Moreover, the ruling elites of the GCC states, primarily composed of royal families or their allies, have constructed a strict system of control over the wider society (Thier, 2012). The financialisation process allows the state to serve their surpluses to the world financial market, whilst protecting the royal families and ruling families who have the opportunity to accumulate wealth through oil revenues and its further investment into the financial system. This system means that the class structure and the domination of society by the ruling elites becomes more pronounced. Therefore, integration into the financial market and the resulting revenue generation means

¹¹ Sheikh means the leader man of a tribe who acquired this status from his father or from Islamic schools. Sheikhs are effective in society in the Middle East. This status is commonly seen in the government because sheikhs usually come from royal families' patrimonially.

that relations between the upper and lower classes become especially strained (Caton, 1990: 78).

The class structure of the GCC countries may be categorised in terms of three layers. Firstly, the royal family, whose members have taken on a role in the process of decision making and engaged in business, which has led to the formation of a large upper class during the capitalist development era of the GCC countries. Secondly, the middle layer of professionals and bureaucrats, who are non-royal family members employed in government and in private business, who have formed an emerging middle class. Finally, the labour or working class, who are the landless rural population, unskilled urban workers and migrant workers, who have formed the third layer of the class structure, namely the lower class (Kostiner, 1990: 243). The population of migrant workers is predominantly made up of people from countries in the Middle East, but over the last few decades it has included progressive numbers of workers who have come from Bangladesh, Pakistan, Sri Lanka, India and the Philippines (Thier, 2012). Although migrant labour accounts for the largest majority of the workforce, migrant workers are afforded no rights of citizenship. Thus, the class structure is continuously being remodelled and this obstacle has prevented the development of class consciousness and organisation.

Overall, the GCC countries have gained political power through financialisation, enabling the redirection of state revenues to an emerging capitalist class and huge control over oil incomes (Hanieh, 2010: 41). Hence, the distinction between state and private capital has become ambiguous within the GCC countries. In most cases, royal families have played a pivotal role in the private investments that are closely linked to their control over the state. Moreover, in each of the GCC countries, the accumulation of excess capital has historically amalgamated the state, royal families and ruling families, who have recently united around capital flows and risen to dominate the economies of the GCC countries (Ibid, 58).

Bromley (1994: 3) provides a theory to explain class formation and capitalist development as it effects financialisation in the GCC countries, considering the mechanisms of control that prevent the people of the region conforming to this process. To sum up, Bromley (1994) discusses state-society relations in the GCC countries in terms of state formation, whereas Hanieh (2010) regards them through class formation. It is arguable that financialisation can be contextualised as a reconfiguring of state-society relations as restructured by SWFs in the

GCC states. This dissertation will explore the link between financialisation via SWFs and state-society relations in the Gulf region, whereas the existing studies have focused on the subject of the income from oil and historical reflections on the societies. In addition, this dissertation aims to explain contemporary state-society relations and class formation of the GCC countries through SWFs in the context that SWFs are managed by governments that are, in turn, managed by royal families and their allies. Accordingly, the historical process of state-society relations through oil income and the contemporary reflection of this process on the royal families and working classes will be analysed, utilising the findings of Bromley (1994), Ayubi (1995) and Hanieh (2011).

PART 2: The Empirical Evidence

2. The Integration Process of the GCC Countries into the Global Financial System

2.1 The Role of SWFs in the Financialisation Process of the GCC Countries

Increasing oil income and the implementation of neoliberal policies have facilitated the integration of the GCC states into the global financial system. Moreover, these countries, who want to be integrated into the global financial system, need to have a budget surplus in order to provide liquidity for developed countries. Hence, the popular contention is that the GCC countries have become integrated into the global financial system via SWFs. This process has accelerated due to increasing oil prices since the early 2000s. In particular, countries affected by the worldwide financial crisis rely on the GCC's budget surplus in order to regulate their domestic economic situation following the effects of the crisis. In this context, SWFs appear to be an effective financial instrument for the GCC countries (Akbulak & Akbulak, 2008: 1).

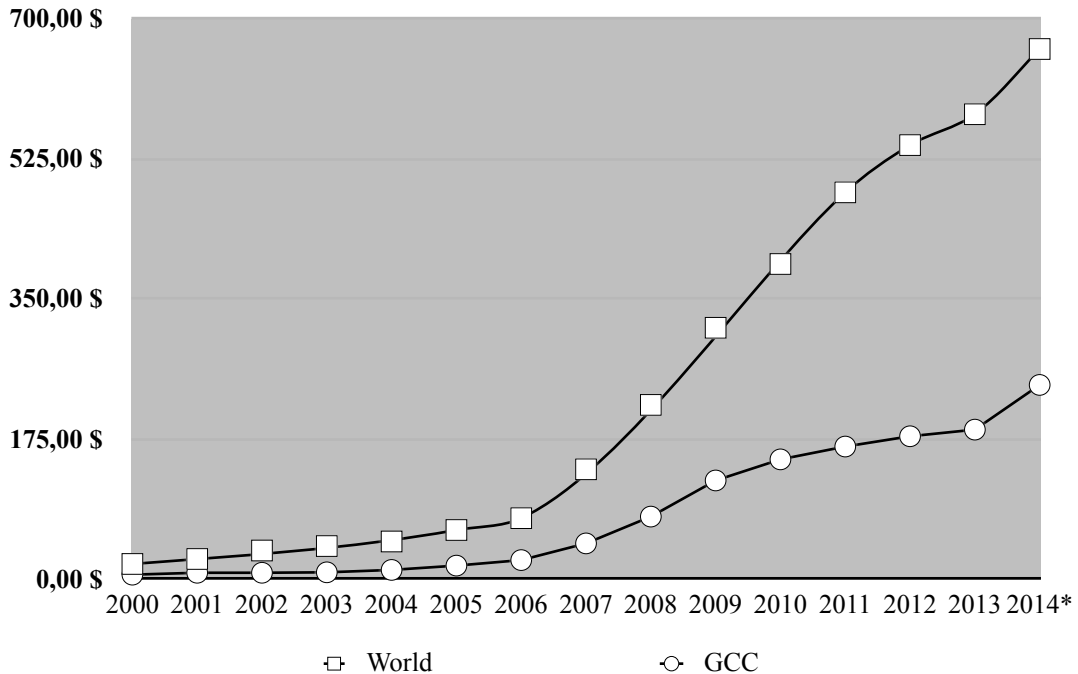
Following the 2007-2008 financial crisis, the GCC states have developed an important role in the global financial system, due to the US and European countries' need for liquidity, which has probably accelerated their emergence as important forces in the global financial system (Rossi, 2008: 23). The GCC countries have around 500 billion barrels of oil reserves, and the current income of the GCC countries is more than \$70 trillion. This does not take into account natural gas reserves, which would place the total hydrocarbon wealth of the GCC states in excess of \$75 trillion. The financial assets of the GCC states' SWFs amounts to around \$2,43 trillion¹² (Jen, 2008: 165; SWF Institute, 2014). As previously mentioned, SWFs create huge wealth for states, and the aim is that future generations in the region will be guaranteed profitable long-term investments in the event that oil income decreases in the future. However, SWFs do not involve investment in domestic manufacturing and the process of investment is not transparent and has, therefore, led to abuse by the state.

Traditionally, cash flow in the global financial system has moved from the developed countries into the developing countries, where there is a shortage of capital in their economy. However, nowadays this trend has altered so that the GCC SWFs have become the largest suppliers of capital in the global financial system, with a value of around \$2,43 trillion (Bazoobandi, 2011: 54; SWF Institute, 2014). Moreover, in the year 2000 there were only five

¹² This study is based on the SWF Institution data as last updated in August 2014.

funds in the Gulf region, but in the intervening thirteen years the number of funds has grown to fourteen. This is illustrated in chart 1, which demonstrates how the assets of \$784 billion in 2000 increased to \$2.43 trillion by August 2014 (SWF Institute, 2014; GIC, 2013).

Chart 1: Sovereign Wealth Funds (2000-2014) (US\$ bn)

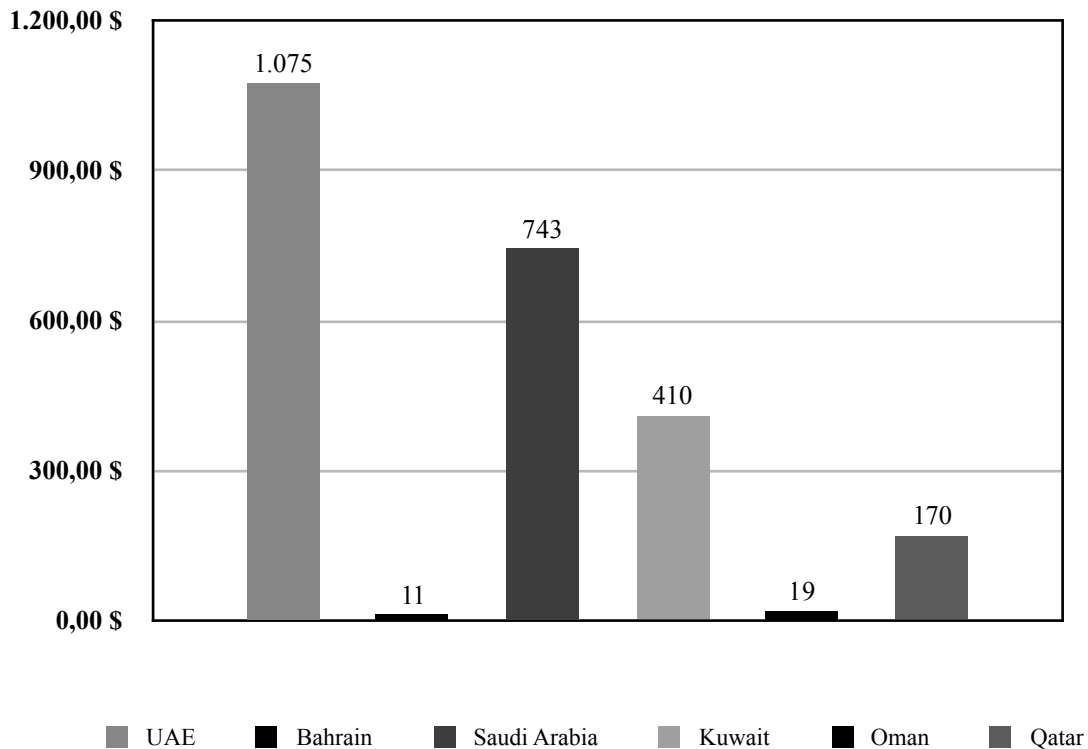


*Last transaction was updated on August, 2014

Source: Gulf Investment Cooperation, Annual Report and Accounts 2013, http://www.gic.com.kw/site_media/uploads/annual-reports/ar_2013_gic_eng_fa.pdf

The main reason for the growth of SWFs until 2008 was the high oil prices. Thus, in the 2000s, the GCC countries became the largest source of global cash flow in the global financial system and emerged as a new financial superpower (The Economist 2008, cited in Bahgat, 2011: 23). The emergence of SWFs in the global financial system has altered the traditional flow of capital, evidenced by the transition from developed financial centres dominating the cash flow to emerging financial markets such as the GCC countries. This transformation involves public capital financing private investment. Whilst the financial crisis has prevented the developed countries from having access to capital resources, the position of the GCC SWFs has improved and made them into financial superpowers in the global financial system (Ramady, 2012: 250).

Chart 2: The Amount of the GCC Sovereign Wealth Funds by Country (US\$ bn)



*Dated August 2014

Source: SWF Institute; <http://www.swfinstitute.org/fund-rankings/>

The total value of the SWFs stood at \$ 6.6 trillion in August 2014; however, \$2,43 trillion of this total was generated by SWFs mainly in the UAE, Saudi Arabia and Kuwait (Sanli, 2010: 19; SWF Institute, 2014). This is illustrated in chart 2, which demonstrates how of all the GCC countries the UAE, with close to \$1.08 trillion in SWFs, holds the most funds in the world. Furthermore, the UAE holds another record for having the most SWFs; a total of seven¹³. The UAE are closely followed by Saudi Arabia, which has generated close to \$743 billion in SWFs¹⁴. The Kuwait Investment Authority (KIA)¹⁵ is the known to have established the first SWF in the world, and currently holds \$410 billion. Consequently, the KIA provides cash flow to capital markets and the world's major industrial enterprises (Sanli, 2010: 20). The UAE, Saudi Arabia and Kuwait are the three wealthiest GCC countries in terms of the value of their SWFs, followed by Qatar with a value of \$170 billion as the 4th largest SWF¹⁶ in the

¹³ Namely; Abu Dhabi Investment Authority, Mubadala Development Company, International Petroleum Investment Company, Abu Dhabi Investment Council, Emirates Investment Authority, Investment Corporation of Dubai, RAK Investment Authority.

¹⁴ SAMA Foreign Holdings and Public Investment Fund

¹⁵ KIA traces its roots to the Kuwait Investment Board, which was established in 1953.

¹⁶ Qatar Investment Authority

region. However, the lower values of SWFs in Bahrain¹⁷ and Oman¹⁸ mean they have fallen slightly behind in the financial market (SWF Institute, 2014).

2.2 The Distribution of SWFs by Sector and Region

The distribution of the GCC SWFs by sector is depicted in chart 3, which illustrates the value of investments in long-term infrastructure, financial and other strategic sectors. Between the years 2005 and 2013, the GCC invested heavily in the world's major industrial enterprises. Qatar, with \$170 billion, increased investment in real estate sector to \$3.665 million in September 2013 from \$1.109 million in 2005. Although financial sector investment increased to \$1.428 million, it peaked at \$ 20.156 million in 2008 (Seznec, 2008: 105; GIC, 2013). The growth in capital flow appears to build on the GCC states' position as financial centres in the Gulf region, managed by governments and bankers (mainly from the royal family), and enables them to support the financial development of the Middle East, North Africa and South Africa, which are not financed by New York, London and Hong Kong. The GCC governments and bankers have used Singapore, which has supported the financial needs of South-East Asia, as a model, coupled with the fact that the GCC countries have significant oil income which reflects positively on the current account surplus (Hanna, 2008: 112-113).

Chart 3: GCC Sovereign Wealth Funds Yearly Investment by Sector (US\$ bn)

	Energy	Financials	Health Care	Industry	Information Technology	Infrastructure	Real Estate
2005	182,60	21,6	13,15	112,10	————	————	1.109,0
2006	383,22	270,57	————	289,36	————	————	4.808,2
2007	5.207,7	9.202,1	546,56	161,62	824,08	————	2.686,3
2008	1.116,7	20.155,55	151,46	252,83	241,02	2.963,66	9.311,2
2009	6.050,4	2.851,18	————	17.667,36	540,78	14.611,35	1.722,3
2010	440,92	15.993,62	199,13	1.707,35	1.208,22	1.553,30	1.562,9
2011	5.421,4	5.794,46	————	120,42	14,63	1.586,32	3.283,5
2012	4.803,9	616,56	87,89	387,06	884,74	2.446,75	3.346,5
2013*	219,49	1.428,01	115,48	156,95	459,82	1.069,23	3.664,7

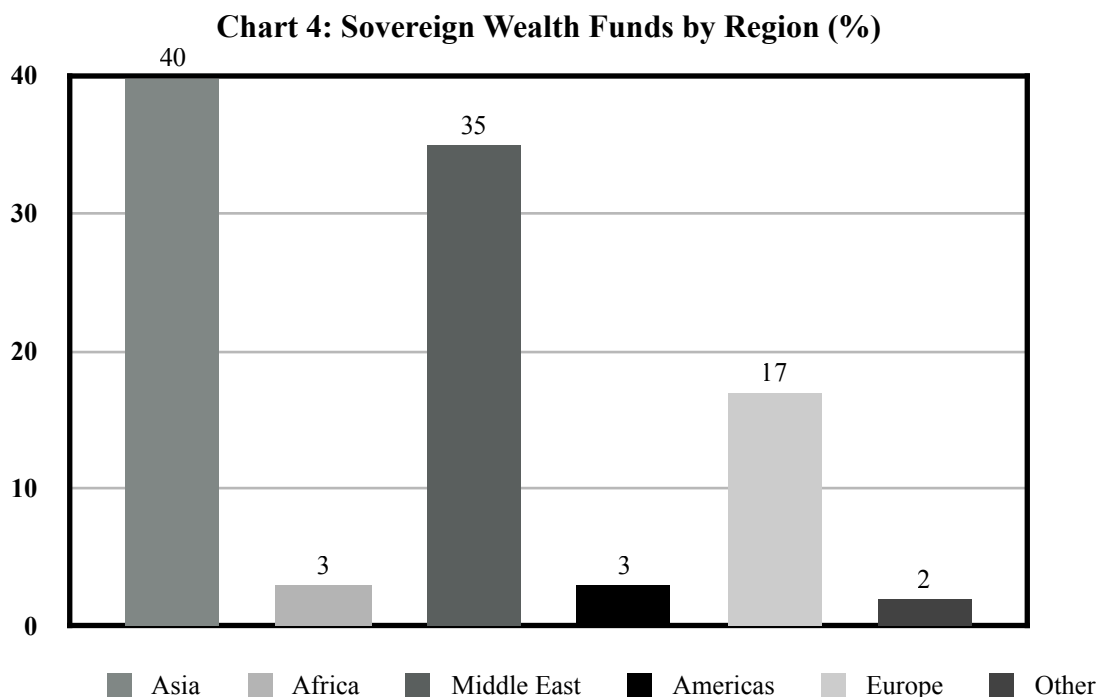
*Last transaction was updated on September 6, 2013

Source: Gulf Investment Cooperation, Annual Report and Accounts 2013: http://www.gic.com.kw/site_media/uploads/annual-reports/ar_2013_gic_eng_fa.pdf

¹⁷ Mumtalakat Holding Company

¹⁸ State General Reserve Fund and Oman Investment Fund

Despite developments that have generated a massive influx of cash from emerging economies into developed economies, some countries such as France and the US disapprove of the fact that the emerging economies are located in the Middle East and in Asia¹⁹. This is especially the case since the increase in the emergence of SWFs in the GCC countries, when critics have focused on issues concerning the management of the SWFs because of the swiftly increasing profits and the apparent lack of transparency surrounding the management of these funds. Paradoxically, whilst the developed countries focus their attentions on criticising the management of these funds, the GCC states have been able to use SWFs as an effective tool to enable them to become integrated into the world financial market and expand economic development in the region (Ramady, 2012: 250). Under these circumstances, the issues concerning the transparency of the management of SWFs have become a challenge for the world financial system to face. The countries that require liquidity have claimed that the emerging newly rich countries have become dominant in the global financial system (Bazoobandi, 2011: 228).



*Dated August 2013

Source: SWF Institute; <http://www.swfinstitute.org/fund-rankings/>

The main argument concerning SWFs in the countries needing liquidity is that SWFs have been created mainly by countries in one region, such as Middle East and Asia, creating a

¹⁹ After these critiques, IMF and IWG proposed principles namely “Santiago Principles” in 2008. 25 states have signed the principles. For more information on Generally Accepted Principles and Practices (GAPP), see the appendix B.

monopoly. As illustrated in chart 4, the majority (75%) of the total SWFs come from these regions (SWF Institute, 2014). The GCC SWFs play an important part in all Middle East countries. Although host countries need liquidity for their economies, the governments of these countries are anxious about the GCC countries for political reasons. Therefore, there are both economic and a political dilemmas facing the host countries. However, despite this, the GCC SWFs continue to play an important role in the free global financial market.

3. The Outcome of Financialisation on State-Society Relations

3.1. The Management of the SWFs by Royal Families in the GCC Countries

Financialisation is a key feature of the way of capitalism has developed in the GCC countries, where the capitalist class includes state personnel and individuals from the ruling family (Bromley, 1994; Ayubi, 1995; Hanieh, 2011). Furthermore, the fact that SWFs are a pivotal financial instrument in the GCC states, but are not comprised of private money and yet are largely owned and managed by their host governments, raises concerns about the expanding role of these governments into the world financial markets (Bahgat, 2012: 223). Presently, the greatest concern is the management of the SWFs, which is controlled by the state which is, in turn, governed by the royal family²⁰.

Historically, scrutiny of the management structure of the GCC countries reveals that the royal families have exorbitant state privileges such as their income from the annual oil revenue of the state and the right to govern over state-led financial or investment institutions. These exorbitant privileges, and their impact on the royal hierarchy, have continued to increase as more of the state institutions have been taken over by sons of the sheikhs. This has been occurring since the oil revenue began to increase and enable the investment and generation of wealth via the world financial market (Hertog, 2012: 237). However, although it is clear who controls the administration of the SWFs in the GCC countries, it is not obvious whether the funds are owned by the state on behalf of the people, by ruling families of the Gulf, or by the people themselves (Seznec, 2012: 70). Moreover, each of the SWFs is managed by a board of directors, which represents the interests of one or more clans in the royal family²¹ or a finance minister of the host-country. In addition, within each board the chairman represents the royal clan that has invested the most money in the SWFs (Ibid, 79).

²⁰ For the management of the each SWF in the GCC countries see appendix A.

²¹ This type of management of the SWFs is generally can be seen in the Saudi Arabia and UAE.

The UAE holds the largest number of, and the most profitable, SWFs and, thereby, sets an example for the ruling families who manage SWFs in other GCC states. For example, ADIA, which is the largest SWF in the GCC countries with assets of \$773 trillion, is managed by the Al Nahyan Family. The board of directors of ADIA is composed of nine directors, six of whom are from the Al Nahyan Family and two from the Al Suwaidi Family. However, Sheikh Mohamed bin Zayed Al Nahyan is on the board of ADIA, although the main power appears to reside with Sheikh Khalifa bin Zayed Al Nahyan, the Emir of Abu Dhabi and President of the UAE Federation. Furthermore, the second largest SWF in the UAE, the ADIC which controls assets of around \$90 billion, is also managed by the same director and the same families, with the exception of a few directors, who are financial investment professionals from the current royal families (Kamrawa, 2012: 79; Davidson, 2009: 74; ADIA, 2014). Traditionally, ADIC has been under the control of the Suwaidi Family, which remains the case today with Khalifa bin Muhammad Al-Kindi and Nasser bin Ahmad Al-Suwaidi serving as its chairman and deputy chairman respectively (Davidson, 2009: 74). A further example from the SWF of the UAE is that of the Mubadala Development Company, which is a Public Joint Stock Company. However, the company is wholly owned by the government of Abu Dhabi and therefore is often considered to be under the control of Sheikh Mohamed bin Zayed (Seznec, 2012: 79). As previously mentioned, the management boards of the SWFs and of governmental financial institutes are composed primarily of royal families, and its bearing on these families is that they have status in the global financial system and their wealth has increased simultaneously alongside their co-operation with the business class. Therefore, relations between the royal families and the business class underpin the creation of the new capitalist class controlled by the state.

3.2 The Relationship between State and Business Class

As previously discussed, members of the ruling family, who hold high ranking positions in state and financial institutions, function as part of the private capitalist class and make business with the non-royal private capitalist class (Daher, 2011). Indeed, the ruling families in the GCC countries represent the modern capitalist class and financial players (Aarts & Nonneman, 2006: 145). However, it is possible for the management of the SWFs to come from non-royal families²², namely from the main merchant families in the GCC states, who

²² This management structure can be seen in the Mubadala Development Company. This member usually needs to have a good quality education and has to be a finance professional.

have good relations with the government (Seznec, 2012: 79). Relations between the state and the business class have reflected on the financial sector in the GCC countries, leading to the formation of a new capitalist class composed of the royal families and their allies (Hanieh, 2011: 103). For example, the Saudi economic polity consists of several formal and informal clienteles including partners and followers of princes and their institutions, and public enterprises (Aarts & Nonneman, 2006: 123). Therefore, state and business relations are very close meaning this relationship inevitably reflects onto economic interests and investments. Moreover, nowadays the management of financial institutions is shared by representatives of both state and business.

The size of the royal family has played an important role in the financial system, with the number of princes in government and business steadily rising, alongside the entitlement to exorbitant privileges (Ibid, 124). Inevitably, the relationship between state and business has sometimes fostered illegal business, as in the case of Kuwait, where the decline in oil prices and its reflection on the financial market led to the formation of an illegal stock market providing the conditions for state and business co-operation. Co-operation such as this can be traced back to the process of state formation. Thus, the business class has not only controlled the oil industry, but has also built financial institutions and established their Chamber of Commerce through their organic link with the royal families in the region (Moore, 2002: 53). Consequently, the relationship between the royal family and the business class has engendered mutual interests in the GCC countries, encouraging state and business to help each other to profit from the world financial market.

As a result of the increasing importance of the region in the world financial markets and their growing assets, the number of the foreign tourists visiting the Gulf region has increased over the last few decades. However, the luxury hotels are owned by members of the royal families, ruling elites or their allies. Therefore, companies such as Jumeirah International are adding to their portfolios, for example the Al-Maktoum family enhanced the Maha Desert Resort by building the new Fairmont Hotel (Davidson, 2012: 207).

3.3. The Exorbitant Privileges of the Royal Families

The rise of financialisation in the GCC countries has led to discrimination between state and society, evident as the rich get richer and the poor get poorer. The capitalist class in the GCC states is composed of members of the royal families and their allies. In this context, the privileges of the ruling class have been increasing day by day due to increasing oil revenues and investment in the world financial markets via financial tools such as SWFs. The windfalls from oil and financial assets have resulted in dramatic increases in government spending, leading to a great deal of economic waste (Akarli, 2008: 58), including payments to the royal families for their prestige investments and luxury lifestyles. The primary exorbitant privilege of the royal families is their unquestioned entitlement to a share of the annual revenues. Indeed, cash expenses, which account for sizable amounts extracted from the SWFs, are actually payments made to the royal families. Generally, this is not public knowledge, but it is common knowledge that in GCC countries the state pays a salary to each member of the royal family every year. Prince Al Walid bin Talal²³ indirectly referred to these payments in an interview to the New York Times in 2001. The Prince mentioned that he received an annual allowance of \$180,000, which implies that the royal families in Saudi Arabia acquire approximately 4% of the gross oil income and profits from financial transactions (Seznec, 2012: 86).

A further exorbitant privilege for the royal family is that private institutions, which are typically controlled by royal families or their allies from the business sector, tend to make the most prestigious investments based on non-commercial grounds and personal preferences (Rehman, 2010: 78). For example, Investcorp, which is Bahrain-based and controlled by the royal family of Bahrain, owns Tiffany & Co. and Gucci. Similarly, the UAE SWF, Mubadala, owns 5% of Ferrari. Consequently, they have achieved prestige in the business sector and created a new capitalist class in the GCC countries (Ibid, 78). Furthermore, SWFs have been joined by a number of consortia, often composed of leading members of the royal family and their allies from the business sector. These consortia make investments independently from the parastatals. Perhaps the most notable consortium is the Abu Dhabi United Group for Development and Investment, which bought Manchester City Football Club for around \$360 million in 2008 (Davidson, 2009: 77; Rehman, 2010: 78). Interestingly, among the members

²³ He is member of the Saudi Royal Family and nephew of the King Abdullah bin Abdülaziz el-Suud. His fortune is around 20 billion dollar.

of this consortium is Abu Dha Mansour bin Zayed Al Nahyan, son of Sulayman Al-Fahim, the CEO of Hydra Properties (Davidson, 2009: 77; Rehman, 2010: 78). Thus, as in the case of this consortium, the relationship between royal families and the business sector is very close and it is apparent that both public and business finance is interwoven into the financial system and investments in the GCC countries. Finally, the Mansour family has acted individually, investing around \$5.2 billion in 2008 to acquire a 16% of Barclays Bank. Despite the fact that this investment was not officially financed by a SWF, there are some concerns that a SWF was actually used to fund the investment. Indeed, the investment was financed by Mansour who is a senior member of the ruling family and of the management boards of the SWFs in Abu Dhabi (Davidson, 2009: 77; Rehman, 2010: 78).

3.4. Working Conditions of the Labour Class and Migrant Workers

The process of formulating the capitalist class has taken place to the detriment of the working classes in the GCC countries. Thus, the class structure can be understood in terms of the impact of financialisation on the GCC states (Hanieh, 2010: 55). In this context, the rise of oil revenues and investments in the world financial market has shifted the focus from the manufacturing sector onto tourism and financial institutes. As previously mentioned, the management boards and staff of the financial institutes are composed mainly from members of the royal families and ruling elites. Therefore, members of the royal families are working under good conditions whereas the working class earn less than a living wage. It is apparent that the wealth of the SWFs is not reflected into the society and the working classes, because it is not invested in manufacturing for the state, but in foreign countries. Therefore, the ruling families of the GCC are able to establish a strict system of control over society in the region; a repressive system to ensure their continuing control over society. The transition to state-led oil companies and institutions has influenced the class structure of the GCC countries, which has developed the hierarchy of royal families, ruling families, the capitalist class from the business sector, the citizen labour class and migrant workers²⁴. Thereby, most citizens of the GCC countries achieved good working conditions or public sector management positions (Hanieh, 2010: 56; Daher, 2011; Thier, 2012).

²⁴Migrant workers, are low-skilled and are coming from mainly Bangladesh, India, Pakistan and Nepali, and constitute the majority of the working class

Historically, the Gulf region attracted migrant workers because of the discovery of oil in the late 1930s. However, this migration increased after the 1990s due to financialisation and investment in tourism and other service sectors. Nowadays, the GCC states have a population of approximately 43 million, 46% of whom are from other countries (Lori, 2012, cited in Reijenga, Bruckner & Meij, 2013: 1-2). As Illustrated by chart 5 below, in four out of six GCC countries, the number of non-native citizens in the population exceeds the number of native citizens. However, despite the economic boom in the GCC countries, domestic attitudes towards migrant labour, along with an increasing dependence on migrant workers, have led to a growth in inequality in the region. In states like Qatar and the UAE, nine out of ten people originate from foreign countries, mainly India and Pakistan or Bangladesh (Ibid, 1-2).

Chart 5: The Population of GCC Citizens and Non-Citizens

	Citizens	%	Non-Citizens	%	Total Population
Bahrain	568,399	%46	666,172	%54	1.234,571
Kuwait	1.056,900	%39	1.616,026	%61	2.672,926
Oman	1.957,336	%71	816,143	%29	2.773,479
Saudi Arabia	20.941,242	%73	7.745,391	%27	27.136,977
Qatar	174,279	%11	1.357,563	%89	1.531,842
UAE	947,997	%11	7.316,073	%89	8.264,070

Source: Lori, N. (2012) 'Temporary Workers or Permanent Migrants? The Kafala System and Contestations over Residency in the Arab Gulf States' *Center for Migrations and Citizenships*. Paris. Available from: <http://www.ifri.org/?page=contribution-detail&id=7403> (Accessed: 26.07.2014).

Although this migrant workforce plays an important role in terms of developing the wealth of the GCC countries, nowadays mainly people think of the oil-rich GCC countries in terms of their fascinating skyscrapers or other tourist attractions. On the surface the development of the wealth of these states seems satisfactory, but behind this increasing wealth lies a darker truth about exploited migrant workers (Reijenga, Bruckner & Meij, 2013). This ostentatious development highlights class differences in the region. There is a paradox in the class structure in the GCC countries: it occurred during an economic crisis, yet the effects have reflected most on migrant workers and the domestic working class respectively. When the financial crises occurred in late 2008, most of the migrant workers in the region were

banished and those who remained suffered poor working conditions such as low wages²⁵. Indeed, many migrant workers were stranded in the UAE because of they did not have enough cash or a passport to enable them to leave. Thus, suicides increased dramatically among migrant workers due to the desperate working conditions (Hanieh, 2011; Thier, 2012). Naturally, the severe exploitation of migrant workers has been addressed by human-rights organisations (Hanieh, 2010: 55), such as the report by Migrant Rights in the Middle East (2013):

‘In the past year alone, 205 Nepali workers died in Saudi Arabia, 151 in Qatar, 47 in the UAE, and 14 in Bahrain. The report states that 80 of the Nepali deaths in Saudi Arabia were natural causes, but 70 died in traffic accidents, 7 were heart-related, and 17 were suicide. The UAE had 6 traffic accidents, 17 heart-related and 3 suicides. Notably, Qatar had a high number of heart-related deaths with 85 cases. Such deaths can be attributed to the extreme conditions of weather and forced labour that Nepali workers face as Qatar prepares to host the 2022 FIFA World Cup tournament’ (Migrant Rights Report, 2013).

Obviously, there are three layers to the GCC countries: the new capitalist class; the royal families, ruling elites, the business class and labour classes; the local workers and migrant workers. Although the labour class is not developing, the capitalist class creates new opportunities in society, such as investment into the global financial system. Furthermore, the differences between the classes has increased almost daily since financialisation, undeniably brought about primarily through SWFs in the GCC countries. Moreover, financialisation has benefited the capitalist class rather than society, and has proved particularly detrimental to local workers and migrant workers. Whilst the new capitalist classes profit considerably from financialisation, the standard of living for the working classes is becoming lower because of their lack of social status in the state-society relations. The royal and ruling families have invested budget surpluses into foreign countries to gain prestige in the global financial system and to exploit new investment opportunities. Consequently, their wealth is going into the capitalist countries rather than creating social wealth in their own countries to benefit the working classes. However, the families are manipulating their wealth to forge good business relationships in the foreign financial system.

²⁵ Migrant workers could not even get low wages properly.

Conclusion

The GCC countries represent the new face of economic prosperity, accumulating financial wealth generated through oil revenues. The GCC countries have played a pivotal role in the global financial system due to extraordinarily high oil revenues over the last few decades. Furthermore, these economies are not concerned with manufacturing, but with income from rents generated through their natural resources. Therefore, the creation of Sovereign Wealth Funds has been a crucial investment vehicle, utilised by governments that have a budget surplus. The GCC states have begun to use oil revenues as an investment tool in order to reconfigure their position in the global financial system via SWFs. Moreover, SWFs have been accepted as an investment tool and are proving to be the new face behind the transformation of global capitalism, empowering financialised states such as the GCC countries. The power has switched from developing countries to developed capitalist states in the last few decades. As a result of this, the status of state staff and government employees is on the rise in developing countries as a new capitalist class emerges. The question of who governs the state and which families control the country is an important issue, particularly because the oil rich countries are managed by royal families and therefore the new economic and financial wealth has been mainly generated by these families.

The dominance of the royal families in the GCC region can be understood via an examination of regional state formation and the composition of the royal families, using the historical materialist perspective to explain how their oil wealth contributed. In this context, royal or ruling families have an important role in the political and economic system of the region. In every epoch, these families or sheikh religious leaders have dominated society in the region. Therefore, a patrimonial system has influenced the development of governance in the region. Hence, members of the royal families have obtained prominence whereas the labour class has remained in the background with little social status. Thus, the class differences are rooted in the past owing to the discovery of oil in the region. Gradually, members of the royal families have taken on roles in the arenas of politics, business and finance, whereas the working classes have taken on roles that involve poor working conditions, resulting in the contemporary situation.

As a result of the financialisation period, SWFs generated by government have enabled the royal families to access privileges, because these families also manage the SWFs. The intention was that each government would fund SWFs in order to secure the current economic prosperity for the next generation. However, the management of these funds is not transparent and investments are made to foreign countries. Thus, the decision makers, comprising the royal families and their allies, have the opportunity to make long-term investments in foreign countries to secure the future but these investments do not benefit manufacturing in the host countries and are not reflected back onto the quality of life and working conditions for the working classes. Moreover, these families and the business class in the GCC countries have built good relationships with the capitalist class in the foreign countries and are able to exploit good business opportunities in these countries. With regard to investment into foreign countries, the royal families have utilised the opportunities created by financialisation to make profitable investments. The relationships with the capitalist classes has elevated the position of royal families and the business class within the GCC countries and brought them closer together. Therefore, whenever a member of the royal families decides to invest in a foreign country, they can rely upon the co-operation of their allies from the business class.

As previously mentioned, SWFs have created discrimination amongst the different classes in the region. On one hand, members of the royal families control high prestige investments and financial institutions, whilst on the other hand, the working classes serves them. The relationship between the elite class in the GCC and the capitalist class in the foreign countries has led to improvements in the service sector in the Gulf region. Thus, the working class, especially migrant workers, find themselves working under conditions such as no rights of citizenship, low wages, and poor standards of accommodation. Hence, an increase in the number of suicides amongst migrant workers. Whilst the value of the GCC SWFs is approximately \$2,47 trillion, the working classes are still exploited and working under unsatisfactory conditions. In conclusion, in answer to the question of who benefits or loses as a result of employing SWFs as a financial instrument, it is apparent that royal families and their allies are benefiting and gaining prestige in the world financial markets, whereas it has made no difference to the working classes. On the contrary, during the emerging capitalist era local workers are exploited under poor working conditions in the private sector whilst migrant workers are exploited in the service sector. In brief, the capitalist class benefits from this huge investment, whilst the working class loses out as a result of the process of financialisation. To

sum up, the new class formation in the GCC countries consists of three layers of hierarchy: the royal families and ruling families; the capitalist class from the business sector; native working class and migrant workers.

APPENDIX A The Chairman of SWFs in the GCC Countries

Chairman	
UNITED ARAB EMIRATES	
Abu Dhabi Investment Authority	Sheikh Khalifa bin Zayed Al Nahyan
Mubadala Development Company	Sheikh Mohamed bin Zayed Al Nahyan
International Petroleum Investment Company	Sheikh Mansour bin Zayed Al Nahyan
Abu Dhabi Investment Council	Sheikh Khalifa bin Zayed Al Nahyan
Emirates Investment Authority	Sheikh Mansour bin Zayed Al Nahyan
Investment Corporation of Dubai	Sheikh Mohammed bin Rashid Al Maktoum
RAK Investment Authority	Sheikh Ahmad Saqer Mohamed Al Qasemi
KUWAIT	
Kuwait Investment Authority	Anas Khaled Al-Saleh
SAUDI ARABIA	
SAMA Foreign Holdings	Fahad Al-Mubarak
Public Investment Fund	Ibrahim Abdulaziz Al-Assaf
BAHRAIN	
Mumlatkat Holding Company	Sheikh Kkalid bin Abdulla Al-Khalifa
OMAN	
State General Reserve Fund	The Sultanate of Oman
Oman Investment Fund	The Sultanate of Oman
QATAR	
Qatar Investment Authority	Sheikh Tamim bin Hamad Al-Thani

**APPENDIX B Generally Accepted Principles and Practices (GAPP)—
Santiago Principles**

Principles	
GAPP 1. Principle	The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).
<i>GAPP 1.1. Subprinciple</i>	The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.
<i>GAPP 1.2. Subprinciple</i>	The key features of the SWF’s legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.
GAPP 2. Principle	The policy purpose of the SWF should be clearly defined and publicly disclosed.
GAPP 3. Principle	Where the SWF’s activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.
GAPP 4. Principle	There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF’s general approach to funding, withdrawal, and spending operations.
<i>GAPP 4.1. Subprinciple</i>	The source of SWF funding should be publicly disclosed.
<i>GAPP 4.2. Subprinciple</i>	The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.
GAPP 5. Principle	The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.
GAPP 6. Principle	The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.
GAPP 7. Principle	The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF’s operations.

Principles	
GAPP 8. Principle	The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.
GAPP 9. Principle	The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.
GAPP 10. Principle	The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.
GAPP 11. Principle	An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.
GAPP 12. Principle	The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.
GAPP 13. Principle	Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.
GAPP 14. Principle	Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.
GAPP 15. Principle	SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.
GAPP 16. Principle	The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.
GAPP 17. Principle	Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.
GAPP 18. Principle	The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

Principles	
<i>GAPP 18.1. Subprinciple</i>	The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.
<i>GAPP 18.2. Subprinciple</i>	The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.
<i>GAPP 18.3. Subprinciple</i>	A description of the investment policy of the SWF should be publicly disclosed.
GAPP 19. Principle	The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.
<i>GAPP 19.1. Subprinciple</i>	If investment decisions are subject to <i>other than</i> economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.
<i>GAPP 19.2. Subprinciple</i>	The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.
GAPP 20. Principle	The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.
GAPP 21. Principle	SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.
GAPP 22. Principle	The SWF should have a framework that identifies, assesses, and manages the risks of its operations.
<i>GAPP 22.1. Subprinciple</i>	The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.
<i>GAPP 22.2. Subprinciple</i>	The general approach to the SWF's risk management framework should be publicly disclosed.

Principles	
GAPP 23. Principle	The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.
GAPP 24. Principle	A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

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