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Sovereign Wealth Funds (SWFs) and Economic Development: Context, Determinants, and Impact in the Gulf Cooperation Council (GCC)

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Declaration

I declare that this thesis has not been submitted as an exercise for a degree at this or any other university and it is entirely my own work.

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Sign: Mohammed Bayounes

Date: June 1, 2025

For: Beeba, Lily, Toti, Nana, and Koki—my heart.
With deepest gratitude to my parents, whose love
and prayers carried me through.

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Abstract

Sovereign Wealth Funds (SWFs) originating from the Gulf Cooperation Council (GCC) have emerged as significant actors within global finance. They manage the largest concentration of state capital in the world, and are increasingly central to national strategies for economic diversification and navigating the global energy transition. Despite their significance, yet, the evidence base surrounding their domestic functions remains ambiguous. More specifically, while a proliferation of research has examined their impact on global financial markets (the "external gaze"), the literature has largely neglected their critical function as domestic development tools. In particular, understanding the determinants of their investment policies and the resulting macroeconomic impacts on their domestic economies remains underdeveloped. This thesis addresses critical gaps in the extant literature by investigating the domestic determinants and impacts of GCC SWFs, reconceptualizing them not merely as portfolio managers, but as "Transitional Institutions" designed to navigate the friction between hydrocarbon dependence and structural economic diversification.

The study adopts a quantitative approach underpinned by the political economy associated with Strategic State Capitalism. The thesis comprises three interconnected essays. The first essay (Chapter 2) presents a systematic literature review that maps the business and management landscape of the Middle East. It consolidates important contextual factors and identifies the predominant theoretical frameworks (Institutional Theory and Cross-Cultural Management Theory) relevant to the environment in which SWFs operate. It argues that the "petrostate" context creates specific institutional pathologies, such as labor market distortions and rent-seeking, that necessitate the state's active intervention through SWFs.

The second essay (Chapter 3) uses panel data econometrics (2007-2022) to investigate specific macroeconomic determinants of GCC SWF investment policies. These determinants include economic development and private sector development. A particular focus is empirically testing the moderating influence of institutional trust. The third essay (Chapter 4) employs advanced time-series methods (cointegration, ARDL, VECM, IRFs). It analyzes the dynamic causal relationships between SWF investment activities and domestic economic outcomes. These outcomes include prosperity, resilience, and sustainability in selected GCC states (Saudi Arabia, UAE, Qatar).

The findings reveal a complex and heterogeneous interplay of factors and challenge the simplistic assumptions about SWF investment and impact. The first essay highlights the unique institutional and cultural context shaping regional business practices where the GCC SWFs operate in. The second essay confirms that domestic economic development positively influences SWF investment, whereas the relationship with private sector development is more complex. It suggests potential crowding-out effects or transitional roles for SWFs, with institutional trust acting as a significant moderator. Importantly, the third essay uncovers a Stabilization-Transformation Trade-off, whereas SWFs drive long-term diversification, they generate short-run adjustment costs and, paradoxically, increase policy uncertainty during periods of aggressive reform. The findings also suggest a considerable variation in the dynamic domestic impacts of SWF investment across the GCC countries and time horizons.

Collectively, this thesis contributes significantly to international business, finance, and political economy by providing a detailed, context-specific, and notably dynamic analysis of GCC SWFs. It demonstrates that GCC SWFs are not passive savings vehicles but active, if imperfect, agents of structural

transformation, whose efficacy is contingent upon the delicate balance between state intervention and market maturity. It offers critical empirical evidence and refined theoretical insights on the heterogeneity of SWF impacts and the crucial importance of distinguishing between short-run trade-offs and long-run trajectories when evaluating their domestic impacts. These findings have direct implications for policymakers grappling with resource wealth management, state capitalism, economic diversification, and sustainable development strategies in the GCC and similar economies globally, emphasizing the need for tailored, context-aware policies and adaptive SWF governance.

Chapter 1: Introduction

1.0 Background and Motivation

Sovereign Wealth Funds (SWFs) have become key players in the global financial landscape, operating as state-owned investment vehicles that manage substantial assets (Alosaimi & Alfraih, 2023; Bahoo et al., 2020). These funds, controlled by sovereign states, are used to manage national wealth, promote economic development, and achieve strategic investment goals (Gilligan et al., 2014). They are distinct from other institutional investors due to their sovereign nature, lack of short-term liabilities, and long-term investment orientations. According to Das et al. (2010), their rise can be attributed to the increase in commodity prices and sizeable foreign exchange reserves.

The prominence of SWFs is particularly evident in the Gulf Cooperation Council (GCC) region, which includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. These nations, abundant in oil and gas reserves, have accumulated substantial financial resources, enabling the establishment and growth of some of the world's largest SWFs. The GCC SWFs, representing over 40% of global SWF assets under management (AUM), have become influential investors in both domestic and international markets (Alosaimi & Alfraih, 2023). For example, the Public Investment Fund (PIF) of Saudi Arabia, the Abu Dhabi Investment Authority (ADIA), and the Qatar Investment Authority (QIA) are among the largest SWFs globally. These funds have a significant impact on financial landscapes and drive economic development agendas (Amar et al., 2022).

The emergence of SWFs in the GCC region is closely linked to the unique economic characteristics of a heavy reliance on hydrocarbon revenues,

particularly from oil and gas exports. This dependence on natural resources has shaped their economic structures, fiscal policies, and development trajectories (Braunstein, 2019). While the abundance of hydrocarbon resources has fueled economic growth and prosperity, it has also created vulnerabilities and the imperative of economic diversification. The GCC's heavy reliance on a single sector has also exposed them to volatility in global commodity markets (Kaddorah, 2021). Fluctuations in oil prices can significantly impact government revenues, fiscal balances, and economic growth, creating uncertainty and hindering long-term development. For instance, the sharp drop in oil prices in 2014 significantly impacted the income of oil-exporting countries, including the GCC (Megginson & Gao, 2020).

GCC governments have increasingly used SWFs as strategic investment vehicles to mitigate these risks and promote economic diversification. In this capacity, these funds function as "Transitional Institutions¹" designed to bridge the gap between the current state-led hydrocarbon economy and a future diversified market economy. These funds are mandated to invest in a diversified portfolio of assets, ranging from traditional stocks and bonds to alternative investments such as real estate, infrastructure, and private equity (Alhashel, 2015). By strategically deploying capital across different sectors and geographies, GCC SWFs aim to generate financial returns, promote economic growth, and reduce their reliance on oil revenues (Amar et al.,

¹ By "institution, within the term "transitional institution", it is meant a specific kind of financial institution, and should be seen as distinct from wider socio-economic institutions referred to in the economic and comparative institutional analysis literatures (e.g. institutional approaches to understanding the Gulf states, economies and societies); This follows on conventions in the existing literature that draws a clear distinction between the two. As an aide-memoire at key stages the term "financial" is added in brackets, so as to avoid confusion between these two different types of institution.

2023). The GCC SWFs serve as a critical instrument for these diversification efforts, transforming finite natural resources into diversified portfolios and investing in strategic sectors to develop new engines of growth (Montambault Trudelle, 2022).

The GCC SWFs have also gained prominence due to their active involvement in domestic economic development initiatives. Many of these funds have mandates to support national development goals, such as infrastructure development, job creation, and promoting non-oil sectors, such as tourism, manufacturing, logistics, and renewable energy (Al-Hassan et al., 2013; Arouri et al., 2018). For instance, Saudi Arabia's Public Investment Fund (PIF) has been actively investing in sectors like tourism, entertainment, and renewable energy, aligning with the Kingdom's Vision 2030 plan to reduce its dependence on oil (PIF, 2023). Similarly, the Qatar Investment Authority (QIA) has spearheaded investments in critical infrastructure projects like Hamad International Airport and the Lusail City development, contributing to Qatar's economic growth and job creation. The UAE's SWF, Mubadala, has invested in the Masdar City project, aiming to create a sustainable urban environment, and the world's largest solar power plant in Al Dhafra, Abu Dhabi, demonstrating its commitment to sustainable energy and economic diversification (Griffiths & Sovacool, 2020). These examples illustrate the proactive role of GCC SWFs in driving economic transformation and contributing to long-term prosperity. This kind of intervention reflects the political economy of "Strategic State Capitalism," where the state does not merely regulate the market but actively shapes it through sovereign investment (Montambault Trudelle, 2022). They are deployed strategically to directly promote economic diversification. They are also used to establish and reinforce global alliances critical to national developmental efforts.

However, even with the presence of SWFs and progressive diversification, the GCC countries face significant challenges that warrant further study. While SWFs are intended to mitigate the risks associated with reliance on hydrocarbon revenues, their effectiveness is subject to some internal and external factors. First is the region's exposure to a potential "resource curse". This is a significant challenge for GCC SWFs as the region's reliance on oil revenues can hinder diversification efforts and lead to poorer development outcomes compared to resource-poor nations (Corden, 1992). Specifically, SWFs must navigate the "Stabilization-Transformation Trade-off", which is the tension between using funds to buffer against short-term oil price volatility (stabilization) versus deploying them for long-term structural change (transformation). This phenomenon, where resource-rich countries underperform economically, stems from several factors like over-dependence on oil (Cumming et al., 2020), the Dutch disease effect (Amar, Carpentier, et al., 2018), volatility and economic instability (Megginson & Gao, 2020), rent-seeking and corruption (Tsani, 2013) and weak public institution (James et al., 2022) , all of which the GCC SWFs must navigate.

Second is the challenge of developing a sustainable business environment. This is a key challenge for encouraging private sector growth. GCC nations are challenged with promoting innovation and technological advancements to drive new industries as they diversify away from oil (Othman & Albuainain, 2022). This requires investments in research and development, supporting startups and technology-driven ventures, and creating an ecosystem that encourages innovation. While SWFs can provide the needed capital, they may be competing with private firms on key investment opportunities and resources. This could potentially result in a crowding-out effect on the private sector, a risk that is particularly acute if institutional trust is low, as the state may feel compelled to intervene more aggressively (a dynamic

explored empirically in Chapter 3). Yet, a thriving private sector is essential for long-term economic health (Braunstein, 2019).

Furthermore, a more developed private sector can potentially reduce the need for direct SWF investments, which highlights a complex interplay between the two (Cumming & Monteiro, 2023). To address this, SWF investments must facilitate private sector growth by complementing their activities rather than competing with them (Scheda et al., 2018). SWFs need to strategically direct investments towards sectors that support private sector activities, such as infrastructure development, or create partnerships with private investors.

The third challenge is developing human capital, which is closely linked to the "resource curse" and the need for economic diversification. There exists a skill gap in local talent, which GCC countries must address and reduce reliance on a large expatriate workforce through strategic investments in education, skills development, and training programs (Goby et al., 2015; Matherly & Al Nahyan, 2015). The labor markets in the GCC are often characterized by a dual system, with nationals usually employed in the public sector and expatriates dominating the private sector, which limits the exposure and development of local talent in key industries (Budhwar & Mellahi, 2016; Edgar et al., 2016). For example, expats occupy 90% of private-sector positions in Saudi Arabia (Al-Asfour & Khan, 2014; Nurunnabi, 2017). In the UAE, Qatar, Kuwait, and Bahrain, expats outnumber the native population by about 84%, 74%, 60% and 55%, respectively (Harrison & Haslberger, 2016). This gap in the availability of skilled local talent highlights the need to secure greater indigenous participation at all levels of firms.

Addressing the human capital challenge in the GCC requires a holistic approach that encompasses education, training, and labor market reforms. SWFs can be instrumental in driving this transformation by making strategic

investments in human capital development and aligning their strategies with national development agendas. The GCC SWFs can strategically invest in education and training programs by funding universities, vocational training centers, and research institutions to develop a skilled local workforce (Aguilera et al., 2016). They can allocate capital to initiatives that promote skills development, particularly in sectors that are crucial for economic diversification, such as technology, renewable energy, and healthcare. SWFs can also support the development of knowledge-based economies by investing in technology companies and start-ups (Schena et al., 2018). This can create opportunities for local talent in high-value sectors and also incentivize them to pursue careers in the private sector. These initiatives are critical for achieving long-term economic sustainability and reducing reliance on hydrocarbon revenues (Amar et al., 2022).

A fourth challenge is attracting foreign investment to bring in capital, expertise, and technology (Schena et al., 2018). While SWFs themselves are significant investors, additional foreign capital is needed to fuel broader economic diversification. This requires creating a stable and predictable investment environment that is attractive to international investors (Aytaç et al., 2016). This challenge is associated with transparency and accountability in SWF operations, which is vital for building public trust and mitigating corruption risks. SWFs are often criticized for lacking transparency, which can breed distrust and uncertainty (Kratsas & Truby, 2015). Greater transparency in SWF management, investment strategies, and governance can promote accountability and investor confidence (Cohen, 2009).

The fifth set of challenges is associated with balancing short-term and long-term goals. GCC SWFs often have multiple objectives, including short-term fiscal management, long-term savings, and economic diversification. For

example, while some funds aim to stabilize government revenues against commodity price volatility, others are designed to promote economic diversification and long-term growth (Amar et al., 2019). These different aims can lead to internal conflicts in investment strategies. This manifests in the challenge of balancing the need for liquid assets for short-term stabilization with the pursuit of higher returns through long-term investments. SWFs with stabilization objectives tend to prioritize liquidity and have shorter investment horizons, while those focused on long-term savings have lower liquidity needs and longer investment horizons (Das et al., 2010). In the same vein, short-term stabilization may require a conservative approach to risk, while long-term diversification often involves taking on higher risks to achieve greater returns (Das et al., 2009). Lastly, the challenge of balancing short-term gains with long-term sustainability in a way that ensures current economic activities do not compromise the well-being of future generations (Gilligan et al., 2014). This can be challenging, as some investments that offer high returns might have negative environmental or social impacts. Balancing these liquidity objectives, risk preferences and sustainability goals, given their economic reliance on oil, is crucial for GCC SWFs to protect their assets and ensure long-term growth. More so, given their dependence on oil revenues, the volatility of oil prices adds complexity to balancing short-term needs and long-term goals. As some GCC countries face diminishing oil and gas reserves, economic diversification becomes more urgent (Kabbani & Mimoune, 2021).

These challenges highlight the need for further research into the effectiveness of SWFs as tools for economic diversification. Despite the potential of SWFs to drive economic transformation, the complexities involved in overcoming these obstacles emphasize the importance of a comprehensive understanding of the interplay between macroeconomic

factors, institutional structures, and policy implementation in the GCC region.

1.1 Problem Statement

The central problem that this thesis addresses is the limited understanding of the relationship between GCC SWFs, their domestic macroeconomic determinants, and their resultant economic impacts. While SWFs have become major players in global finance, their specific role and impact within the unique context of the GCC countries require more in-depth analysis. While growing, the extant research concerning SWFs in the GCC region insufficiently addresses the evolving connection between SWF investments and macroeconomic performance, particularly in the context of economic diversification and sustainability.

Much of the existing literature is characterized by a dominant "external gaze," which emphasizes the microeconomic aspects of SWF investments, such as the effects of their capital inflows on target firms in recipient nations (Bortolotti et al., 2015; A. M. Knill et al., 2012; Mietzner et al., 2015; Urban, 2017). While valuable, this external orientation has rendered the domestic function of SWFs a "black box." Some of the literature also explores some macroeconomic aspects along their formation and impact on home countries (Aizenman et al., 2019; Coutinho et al., 2022; Kinda et al., 2018; Mohaddes & Raissi, 2017; Rasaki & Malikane, 2018; Shehabi, 2015; Youssef et al., 2008; Zeufack et al., 2016). These studies focused on the economic, fiscal, and social implications of SWF activities within their domestic contexts. As a result, there is a lack of focus on the broader macroeconomic consequences of these investments, such as their effect on economic prosperity, resilience, and sustainability performance in the home countries. This gap in the literature limits a holistic understanding of how SWFs affect

their respective domestic economies, particularly in economies prone to the challenges associated with the "resource curse."

Furthermore, the literature often treats the relationship between SWFs and economic development as static, overlooking the Stabilization-Transformation Trade-off (the tension between short-term adjustments and long-term gains). They overlook the temporal dynamics and potential for non-stationarity in financial and economic time series data (Beck & Fidora, 2008; Chee & Nair, 2010; El-Kharouf et al., 2010; Othman & Albuainain, 2022; Soumaré, 2015; Udo et al., 2024). This static view fails to capture the evolving nature of SWF investment behavior and its impact on macroeconomic outcomes over time. More so, existing research on SWFs often treats them as a homogenous group, overlooking the significant variations in their mandates, and investment styles.

Beyond these research limitations, there is also a key practical challenge regarding how GCC SWFs allocate their substantial, yet finite, resources. They must balance funding current national priorities against saving and investing for the long-term future. This creates a tension between using funds for immediate needs like current development projects, versus preserving wealth and investing for economic diversification essential for a future less reliant on oil (Aizenman et al., 2019). Although national development projects aim to serve both present and future needs, it remains unclear how SWFs actually manage these competing demands in their investment decisions and if current strategies effectively balance these different time horizons.

Consequently, addressing both the identified research shortcomings and the practical allocative tensions necessitates a more comprehensive analytical approach that views the SWF not merely as a portfolio manager, but as a transitional institution. There is a critical need for further research that

integrates key macroeconomic indicators—namely economic prosperity, economic resilience, and sustainability performance—directly into the analysis of SWF investments within oil-driven economies like the GCC. Such integration is vital to move beyond static and overly simplistic assessments, allowing for a detailed evaluation of how SWF activities genuinely impact the multifaceted goals of national development, including navigating the resource curse, managing economic shocks, and fostering a sustainable economic transition. Furthermore, this requires employing dynamic analytical frameworks capable of examining both the short-term and long-term impacts of SWF investments on the macroeconomy, while also exploring how GCC SWFs operate within the specific framework of state capitalism and their resulting implications for economic development in their home countries.

This thesis seeks to address the following gaps in the literature:

- A. Understand the diverse activities and context of business management, especially SWFs, in the Middle East. Recognizing that different theoretical tools are appropriate for explaining different facets of SWF operations and their environment, this study undertakes a systematic review and synthesis of existing regional business and management research. This approach seeks to build a coherent and contextually sensitive theoretical foundation tailored to the specific research questions addressed in this thesis, providing clearer insights into the challenges and transformations related to SWFs in Middle Eastern economies.
- B. There is a need for a deeper understanding of the specific drivers of SWF investment decisions in resource-rich economies, particularly among the GCC countries that hold a substantial proportion of the global SWF assets. Many studies have examined SWF investments,

but the specific factors driving these decisions in the context of the GCC's unique institutional environments need further research. This study posits that key macroeconomic variables, specifically the level of economic development (Haberly, 2011) and the maturity of the private sector (Braunstein, 2019), are significant determinants of GCC SWF investment policies that require focused investigation. More so, the role of institutional trust within these countries, while potentially highly influential, remains particularly under-documented. Therefore, this research will examine these direct relationships and, crucially, explore how institutional trust influences the link between economic development and SWF investments, and between private sector development and SWF investments.

- C. A significant gap persists regarding the domestic macroeconomic impacts of GCC SWF investments. Specifically, there is insufficient research examining the short- and long-term effects of these investments on key national indicators. This thesis identifies three critical, yet under-researched, areas of impact: economic prosperity (including contributions to long-term growth) (James et al., 2022), economic resilience (specifically, the capacity to withstand economic shocks) (Amar, Carpentier, et al., 2018; Bahgat, 2008), and sustainability performance (encompassing environmental, social and governance outcomes) (Aggarwal & Goodell, 2018; Gnabo et al., 2017). Furthermore, a major limitation in the current literature is the dominant use of static analytical frameworks. Addressing this, the research emphasizes the necessity of employing methods like time-series analysis to adequately capture the evolving nature of SWF investment behavior and its influence on these macroeconomic outcomes over both short and long-time horizons.

To address these research gaps, this thesis will explore the relationship between GCC SWF investments and the macroeconomic environment in which they operate. This will involve exploring business and management practices in the region beyond the dominant western management paradigms documented in the literature, examining the specific drivers of SWF investment, the impact of these investments on economic development, and the role of institutional trust. The following section will outline the specific research questions that guide this investigation.

1.2 Research Questions and Objectives

This thesis seeks to answer a primary research question and several specific research questions to address the identified research gaps and contribute to a deeper understanding of GCC SWFs as instruments of state capitalism for economic development and sustainability in economies heavily reliant on hydrocarbon revenues.

1.2.1 Primary Research Question:

How do macroeconomic factors and institutional trust within each GCC country influence their SWFs' investment policies, and what are the short-term and long-term impacts of these investments on economic prosperity, resilience, and sustainability performance in their respective domestic economies?

This primary question probes the complex relationship between SWFs, macroeconomic factors, and institutional trust in the GCC region. It seeks to understand how domestic macroeconomic conditions and the level of trust in institutions shape the investment policies of SWFs. Additionally, it investigates the short-term and long-term impacts of these investments on economic prosperity, resilience, and sustainability performance in the GCC

countries. This question is crucial for understanding the role of SWFs in promoting economic development and sustainability in resource-rich economies. The thesis is further guided by the following specific research questions:

A. What are the main contextual forces affecting business and management in the Middle East?

This question seeks to identify and analyze the key environmental factors that shape business and management practices in the Middle East. These forces may include economic factors such as reliance on oil revenues, the presence of sovereign wealth funds, and economic diversification efforts (Bortolotti et al., 2017), socio-cultural factors such as the influence of Islam, family centrality, and a young population (Budhwar et al., 2019; Murphy et al., 2019), political factors such as geopolitical risks, regional conflicts, and governance structures (El-Anis, 2018; Hanau Santini, 2017), and institutional factors such as regulatory frameworks, cultural norms, formal and informal networks ties such as *Wasta* – an indigenous networking practice (Edwards et al., 2016; Gooderham et al., 1999). Understanding these contextual forces is essential for comprehending the unique challenges and opportunities in SWF management practices in the region.

B. What are the directions of current research on business and management in the Middle East?

This question aims to map out the primary areas of focus in current academic research on business and management in the Middle East. The research identifies three main themes: Human Resource Management (HRM), General Management (GM), and Cross-Cultural Management (CCM) (Bealer & Bhanugopan, 2014; Karacay et al., 2019; Yeganeh & Su, 2011). Within HRM, sub-themes include women in the workplace, organizational

performance implications, indigenization implications, and strategic HRM. GM research covers topics such as business model innovation, sustainability, and corporate politics (Al-Akra et al., 2016; Elbanna et al., 2020). CCM research focuses on the impact of Arab, Islamic, and other cultural values on business practices. By examining these research directions, the thesis seeks to provide an overview of the current knowledge base but also helps pinpoint areas where further investigation is needed, specifically concerning institutional investors like SWFs as to how they reinforce embedded patterns of behavior or mitigate them.

C. What are the key theoretical concerns and directions in the study of business and management in the Middle East?

This question examines the dominant theoretical frameworks used to study business and management in the Middle East and explores potential avenues for theoretical development relevant to this thesis. The essay identifies institutional theory and cross-cultural management theory as the most widely used (Budhwar et al., 2019; Tlaiss & Mendelson, 2014; Weir & Ali, 2020; Zahra, 2011). Key theoretical concerns, which hold direct relevance for understanding SWFs, include the need for a more nuanced understanding of Wasta and regional culture. This is important because informal networks and cultural norms likely influence both the internal operations and external relationship management of SWFs. Additionally, the review highlights the need to develop a more suitable archetype for the region's specific form of capitalism, crucial for accurately situating major state-linked actors like SWFs within their political-economic system. Understanding both the formal and informal institutional environment, including cultural features like Wasta, is therefore essential for analyzing SWF behavior and impact.

D. How do macroeconomic factors, such as economic development and private sector development, influence the investment policies of GCC SWFs?

This question explores the connection between the economic conditions of GCC countries and the investment strategies of their respective SWFs. It examines how factors like economic development and the level of private sector development affect the investment decisions of SWFs. For instance, whether greater prosperity leads to a larger amount of investment allocations. Critically, it explores how the level of private sector development impacts SWF investment activity, testing whether a more mature private sector correlates with reduced SWF investment (potentially indicating a crowding-out effect or a successful transition). This involves understanding if SWFs act as transitional tools, shifting focus as economies move from primarily government-led towards private sector-driven growth.

E. How does institutional trust influence the relationship between macroeconomic factors and SWF investment policies?

This question investigates how the level of trust in a country's institutions influences the relationship between macroeconomic factors and SWF investments. It explores whether higher levels of institutional trust in the GCC countries strengthens or weakens the link between a country's economic and private sector development and their SWF investment levels. Institutional trust encompasses public confidence in governance practices and regulatory frameworks (Sønderskov & Dinesen, 2016) and may influence how SWFs operate.

F. What are the short-term and long-term impacts of SWF investments on economic prosperity, resilience, and sustainability performance in GCC countries?

This question seeks to examine the effects of SWF investments on three key macroeconomic indicators – economic prosperity, resilience, and sustainability in the domestic economies of GCC countries. These indicators are chosen for their direct relevance to the core challenges and objectives facing GCC economies. Assessing the impact on economic prosperity is crucial because a primary goal of SWFs is to transform temporary resource wealth into lasting national economic well-being (James et al., 2022). Evaluating economic resilience is vital given the inherent vulnerability of GCC economies to commodity price volatility and other shocks (Amar et al., 2022; Bahgat, 2008). Understanding SWFs' role here reveals if they successfully buffer the economy or aid diversification. Examining sustainability performance is essential as long-term development requires balancing economic goals with environmental and social outcomes (Aggarwal & Goodell, 2018; Gnabo et al., 2017). It reflects both intergenerational equity concerns and evolving global investment norms. Therefore, this research uses time series techniques to dynamically analyze how SWF investments influence these critical dimensions over time, looking specifically at whether they enhance prosperity, improve resilience, and promote environmental and social sustainability in the GCC.

1.2.2 Research Objectives

The research objectives of this thesis are to:

A. Provide a systematic review of extant literature on business and management practices in the Middle East.

This objective involves a broad review of Middle East management to provide essential background for understanding how GCC SWFs operate. It addresses the theoretically scant literature on Middle Eastern management by consolidating existing research and identifying key themes related to

indigenous practices. It analyses the contextual forces affecting business and management in the Middle East by identifying key economic, sociocultural, political, and institutional factors that shape business practices in the region. While this objective is broader than just SWFs, it is crucial for understanding the context in which GCC SWFs operate. It is especially relevant for best practices that might be relevant for GCC SWFs and their counterparts, as state-owned entities, to navigate the complexities of international investment while rooted in local cultures and values. This context matters greatly when considering the challenges GCC SWFs face as international investors. They need to balance financial returns with national goals, manage how they are viewed internationally due to state ownership and transparency issues, and deal with different global rules. Therefore, understanding local management practices helps identify potential best practices for these SWFs.

B. Investigate how macroeconomic factors and institutional trust within each GCC country influence their respective SWFs' investment policies.

This objective addresses the limited research on the factors driving SWF investment decisions in resource-rich economies with unique institutional environments like the GCC. It seeks to examine how factors such as economic development, private sector development, and institutional trust within the GCC countries influence their SWFs investment policies. Based on the understanding that a country's institutions can affect economic outcomes (Morgan et al., 2010), this objective specifically investigates the moderating role of institutional trust on the relationship between macroeconomic factors and SWF investment policies. The research will employ quantitative analysis, using panel data and fixed & random effect econometric techniques, to examine the relationships.

C. Examine the dynamic impact of SWF investments on key macroeconomic indicators across the GCC countries.

This research objective focuses on analyzing the short- and long-term impacts of SWF investments on key domestic macroeconomic areas within GCC countries: economic prosperity, economic resilience (meaning the ability to handle economic shocks), and sustainability performance. Understanding the dynamic relationship between SWF investments and macroeconomic performance is crucial to formulating effective policy strategies in resource-rich economies like the GCC. It aims to fill the gap in studies, which often overlooks these domestic considerations or fails to analyze them dynamically. For example, many studies focus on SWF effects on foreign companies (Bortolotti et al., 2015; A. M. Knill et al., 2012) or cover some macro aspects (Aizenman et al., 2019; Mohaddes & Raissi, 2017) or uses static methods for their analysis of SWF investments in oil-driven economies, ignoring how these factors evolve (Beck & Fidora, 2008; Othman & Albuainain, 2022). Therefore, this research will employ advanced time series techniques, such as cointegration analysis, ARDL, VECM and IRF, to capture the evolving nature of SWF investment behavior and its impact on macroeconomic outcomes over time.

By addressing these research questions and objectives, this thesis aims to provide a new understanding of the relationships between Middle Eastern business and management practices, SWF investment policies and economic impact within the GCC region. To contribute to the literature, the thesis draws upon various theoretical frameworks and employs appropriate research methods to address the research questions. The following section will discuss the theoretical foundations that underpin this research.

1.3 Theoretical Framework

While business and management practices in the Middle East, along with the complex relationship between GCC SWFs and economic development, could potentially be explored through a wide array of theoretical lenses, the existing literature reviewed for this study reveals a predominance of certain perspectives. Notably, Institutional Theory and Cross-Cultural Management Theory emerge as frequently employed frameworks. Importantly, these dominant approaches are not necessarily mutually exclusive; rather, they often share common ground through their focus on understanding behavior within specific contexts. In fact, they can be viewed as complementary. For instance, cross-cultural insights into embedded networks and relational practices, such as 'Wasta', can supplement institutional studies where formal rules might be lacking, explaining why these networks are important. Recognizing the value of these foundational perspectives, while also drawing on other established theories relevant to SWFs and economic dynamics, this thesis builds a robust framework to analyze its research questions. The core theories utilized offer perspectives on SWF investment drivers, their economic impacts, and the role of institutional factors, and are applied across the subsequent essays as outlined below:

A. Institutional Theory (and Comparative Institutionalism)

Institutional theory offers a good lens to understand the role of formal and informal institutions in shaping organizational behavior and economic outcomes (Cummings et al., 2020). It suggests that institutions, such as laws, regulations, norms, and cultural values, provide a framework for economic activity and influence the decisions of individuals and organizations (Tlaiss, 2014; Zahra, 2011). In the context of SWFs, comparative institutional theory can help to explain how the governance structures, investment mandates,

and cultural contexts of GCC countries shape the investment policies of their respective SWFs (Cumming et al., 2020). It can also shed light on how institutional trust, as a reflection of public confidence in institutions, influences investment behavior and economic development (Ganguly et al., 2024). A particularly relevant perspective within this framework is Comparative Institutionalism, which specifically examines how variations in institutional arrangements (such as legal systems, financial markets, corporate governance) across different countries lead to different economic behaviors and performance (Morgan et al., 2010). This comparative view is crucial for explaining how the distinct institutional environments of GCC countries shape their SWF policies and for understanding the challenges SWFs face when operating internationally across diverse regulatory and governance landscapes (Aytaç et al., 2016).

Overall, institutional perspectives (including comparative institutionalism) inform multiple aspects of this thesis: they help analyze Middle Eastern management practices in Essay 1, and critically, they provide the theoretical basis in Essay 2 for examining how institutional trust moderates the relationship between macroeconomic factors and SWF investments. Consequently, this thesis places specific emphasis on institutional trust as a boundary condition. As explored in Chapter 3, trust determines the extent to which state intervention via SWFs is perceived as developmental support or as an interference, thereby shaping the crowding out or transitional dynamics between the state and the private sector.

B. Cross-Cultural Management Theory

Cross-cultural management (CCM) theory examines the challenges and opportunities associated with managing organizations in diverse cultural contexts (Adler & Gundersen, 2001). It highlights the importance of

understanding cultural differences in values, norms, and communication styles to manage organizations across borders effectively (Barmeyer & Mayrhofer, 2008). The CCM theory, a dynamic force shaping individual and collective behavior, is particularly significant in the Middle East, where cultural values and norms are deeply ingrained in society (Barmeyer et al., 2019). In the context of SWFs, this theory provides a profound understanding of how the cultural contexts of GCC countries influence the investment decisions of their respective SWFs (Amar et al., 2019). It also illuminates the challenges and opportunities associated with managing SWFs in a globalized investment environment, where cultural differences can significantly impact investment strategies and outcomes (House et al., 2004).

This theory is also linked to research question, "What are the most used theoretical approaches in Middle East studies?", mainly applied in Essay 1 (Chapter 2), which goes into the dynamic interaction between local and global management approaches in the Middle East. The theory interprets how cultural differences affect various management functions, such as human resources, leadership, and marketing within the Middle East. Knowledge derived from studies of management in the Middle East is directly relevant to understanding SWFs because these cultural dimensions likely influence the SWFs' own internal decision-making processes, their governance approaches, and how they build and manage relationships with both local firms and international stakeholders.

C. Resource Curse Theory (RCT)

Resource Curse Theory (RCT) is an influential framework for understanding the developmental challenges often faced by countries with abundant natural resources. Crucially, contemporary research increasingly emphasizes that the "curse" is not inevitable but is often mediated by the quality of

institutions; strong institutions can help nations avoid negative outcomes associated with resource wealth, while weak ones may exacerbate them (Acar, 2017; Mahdavi, 2020; Mehlum et al., 2006a, 2006b). The core RCT proposition posits that countries with abundant natural resources, such as oil and gas, often experience lower economic growth and less favorable development outcomes than resource-poor countries (Rosser, 2006b; Sachs & Warner, 2001). This is attributed to factors such as volatility in commodity prices, rent-seeking behavior, and economic distortions caused by the dominance of the resource sector (Amar, Carpentier, et al., 2018).

The theory is particularly relevant to the GCC countries, which are heavily reliant on hydrocarbon revenues. In the context of SWFs, the resource curse theory can be a key to understanding the challenges faced by GCC countries in diversifying their economies and achieving sustainable development (Chambers et al., 2021; James et al., 2022). It can also shed light on the role of SWFs in mitigating the resource curse by investing in non-oil sectors, promoting innovation, and attracting foreign investment (Cummings et al., 2020).

This theory provides the theoretical lenses for exploring research question: "How do macroeconomic factors, such as economic development and private sector development, influence the investment policies of GCC SWFs?" in Chapter 3 (Essay 2). It is used to examine how a more developed private sector can serve as a buffer against the resource curse, as well as to analyze the moderating role of institutional trust. It highlights how the resource-dependence challenges (e.g., commodity price volatility, Dutch Disease) affect the investment policies of SWFs in the GCC. Within this thesis, the Resource Curse Theory serves as the foundational problem context. It frames the SWF not merely as a financial actor, but as the primary counter-measure designed to navigate the stabilization-transformation trade-off,

buffering against short-run volatility while financing long-run structural diversification (as modeled dynamically in Chapter 4).

D. Macroeconomic and Financial Stability Theory (MFST)

The Macroeconomic and Financial Stability Theory (MFST), which emphasizes the role of macroeconomic policies and financial regulations in promoting economic stability and growth (Minsky, 1986), is highly relevant to SWFs. It provides a comprehensive explanation of how macroeconomic conditions and financial regulations in GCC countries influence the investment decisions of their respective SWFs (Khamis et al., 2010). This theory also sheds light on the role of SWFs in contributing to macroeconomic stability and financial resilience, particularly in times of economic uncertainty or crisis (Ciarlone & Miceli, 2016).

This theory provides the theoretical underpinning for addressing research question, "What are the short-term and long-term impacts of SWF investments on economic prosperity, resilience, and sustainability performance in GCC countries?". It provides a framework for analyzing how SWF investments affect key macroeconomic indicators, such as economic prosperity, resilience, and sustainability, as shown in Chapter 4 (Essay 3). MFST informs the analysis of the stabilizing role of SWFs and their potential to act as countercyclical investors.

These theories offer perspectives that will be used to analyze the research questions and objectives, contributing to a richer and more insightful analysis. By grounding the research in these theoretical frameworks, this thesis aims to comprehensively understand the complex dynamics between GCC SWFs and economic development.

1.4 Research Methodology

This thesis employs a multi-method quantitative research design to address the research questions and objectives. While Essay 1 utilizes a Systematic Literature Review (SLR) to synthesize insights, the core empirical component involves two advanced quantitative studies.

The second essay employs panel data analysis to examine the macroeconomic determinants of GCC SWFs' investment policies, with a particular focus on the moderating role of institutional trust. This analysis will use data from various sources, including the World Bank, Refinitiv and SWF Institute, to investigate how macroeconomic factors, such as economic development and private sector development, influence the investment behavior of GCC SWFs.

The third essay employs advanced time series techniques, including cointegration analysis, ARDL, VECM and IRF, to investigate the dynamic relationship between SWF investments and macroeconomic indicators in Saudi Arabia, the UAE, and Qatar. This analysis will use quarterly time series data from various sources, including the SWF Institute, London Stock Exchange Group, and U.S. Energy Information Administration, to examine the short-term and long-term impacts of SWF investments on economic prosperity, resilience, and sustainability performance in these countries.

This approach allows for a detailed understanding of the research topic, combining the strengths of various quantitative research methods. The SLR provides a rich contextual understanding of the cultural and institutional environment in which GCC SWFs operate. At the same time, the empirical studies offer rigorous quantitative analysis of the macroeconomic determinants and impacts of SWF investments. By combining these approaches, the thesis aims to provide valuable insights for policymakers,

investors, and academics interested in the role of SWFs in promoting economic development and sustainability in resource-rich economies. Specific Methodologies for each essay are presented as follows:

1.4.1 Essay 1 (Chapter 2): Systematic Literature Review (SLR)

In Essay 1, this research employs a systematic literature review (SLR) to analyze the existing literature on management practices in the Middle East. Understanding this broader business environment is crucial, as it maps the specific institutional, cultural, and operational contexts within which GCC SWFs function. Furthermore, as large organizations themselves, SWFs likely encounter many of the same internal challenges—related to human resources, organizational capabilities, and navigating cultural dynamics—identified within other firms operating in the region. This SLR will follow a rigorous methodology, including a comprehensive search strategy, clearly defined inclusion and exclusion criteria, and a systematic data extraction and analysis approach. The systematic reviews "summarize in an explicit way what is known and not known about a specific practice-related question" and constitute "a replicable, scientific, and transparent approach" (Briner et al., 2009). The SLR focuses on papers published in academic journals instead of books and other sources since academic publications tend to provide more theoretical and methodological depth that allows us to achieve the objectives of our review (Cho & Marshall Egan, 2009).

1.4.2 Essay 2 (Chapter 3): Panel Data Analysis

In Essay 2, the research utilizes panel data analysis to examine the macroeconomic determinants of GCC SWFs' investment policies, with a particular focus on the moderating role of institutional trust. The methodology employs the econometric techniques of fixed-effects models to estimate the relationship between macroeconomic factors, institutional

trust, and SWF investment behavior, controlling for other relevant factors. The analysis focuses on the moderating role of institutional trust on the relationship between macroeconomic factors and SWF investments and conducts robustness checks using random-effects models. The data, gathered from the Sovereign Wealth Fund Institute (SWFI) database, The World Bank and Legatum Institute, spans from 2007 to 2022.

This panel data approach allows us to address more issues than possible with pure time series or cross-sectional data alone. Drawing insights from Baltagi (2005) and Hsiao (2005), employing panel data in our study has several advantages over time-series and cross-sectional data. First, it allows us to control for variations among GCC countries (heterogeneity), preventing bias from unobserved factors like legal frameworks, demography, and political regimes. Secondly, the panel data approach boosts econometric efficiency, offering richer information, increased variability from the data containing both cross-sectional dimension (i) and time-series dimension (t), and more degrees of freedom. It facilitates a nuanced exploration of inter-unit differences and intra-unit dynamic adjustments of SWF investment policies in the GCC countries.

1.4.3 Essay 3 (Chapter 4): Advanced Time Series Techniques

In Essay 3, the research employs advanced time series techniques, including cointegration, ARDL, VECM, and IRF, to investigate the dynamic short-term and long-term relationships between SWF investments and key macroeconomic indicators in selected GCC countries based on data availability. This choice is critical for capturing the stabilization-transformation trade-off where a potential divergence between short-run adjustment costs and long-run economic gains is anticipated. These methods are favored over traditional regression methods for several reasons. Firstly,

most financial and economic time series data, including data on SWF investments, exhibit non-stationarity for which their statistical properties (mean, variance) change over time, rendering ordinary least squares (OLS) regression results unreliable (Gujarati & Porter, 2009). Secondly, traditional regression approaches generally require a pre-determined endogeneity (dependence on other variables) and exogeneity (independence from other variables) of the variables based on prevailing theories or underlying assumptions. However, in the case of SWFs, a relatively new phenomenon where established theories are scarce, the cointegration technique, for instance, offers an advantage by not requiring pre-determined endogeneity or exogeneity (Johansen, 1991).

This analysis utilizes quarterly time series data spanning 17 years, from Q1 2007 to Q4 2023, making a total of 68 observations. This timeframe captures a significant period of economic fluctuations, policy shifts, and SWF investment activities across the selected GCC countries, providing a rich dataset for analysis. Data was obtained from the Sovereign Wealth Fund Institute database, the London Stock Exchange Group (LSEG) Beyond Rating, Sovereign Risk Monitor (SRM) database, the Policy Uncertainty database, and the U.S. Energy Information Administration (EIA).

1.5 Thesis Structure

This thesis is structured to comprehensively examine business management practices, SWF investment behavior, and their impact on economic development in the Middle East, specifically focusing on the GCC countries. The thesis comprises five chapters, each building upon the previous one to create a cohesive and insightful analysis.

1.5.1 Chapter 1: Introduction

This introductory chapter lays the groundwork for the thesis by establishing the research context, objectives, and methodology. It provides a comprehensive overview of the key themes explored in the subsequent chapters, setting the stage for a deeper dive into the intricacies of business management practices and GCC SWF investment dynamics.

1.5.2 Chapter 2: Business and Management Practices in the Middle East

This chapter presents the thesis's first essay (Essay 1), which analyses research trends and patterns in business management practices in the Middle East. It highlights the importance of cultural and institutional contexts in shaping SWF organizational behavior and decision-making, while acknowledging the limitations of applying universal management models. This chapter reviews the connections between Middle Eastern and global management systems and offer valuable insights into the challenges and opportunities explored in academic research on managing across contexts.

1.5.3 Chapter 3: Macroeconomic Determinants of SWF Investment Behavior

This chapter presents the thesis's second essay (Essay 2) that examines the factors influencing SWF investment decisions in resource-rich economies, focusing on the GCC countries. It provides empirical evidence on the macroeconomic determinants of SWF investment policies, including economic development, private sector development, and institutional trust. This chapter also explores the potential crowding-out effect of SWF investments on private sector development, contributing to the debate on the role of state-owned investors in economic development.

1.5.4 Chapter 4: SWF Investments and Macroeconomic Performance

This chapter presents the thesis's third and final essay (Essay 3), which investigates the dynamic relationship between SWF investments and macroeconomic performance in GCC countries. It analyses the short-term and long-term impacts of SWF investments on economic prosperity, resilience, and sustainability. This chapter also highlights the persistent dependence on oil revenues and the challenges associated with economic diversification in these economies.

1.5.5 Chapter 5: Conclusion

This is the concluding chapter, summarizing the key findings of the thesis and discussing their implications for policymakers, practitioners, and academics. It offers recommendations for promoting sustainable economic development in the GCC region, leveraging the strengths of business management practices, and optimizing the role of SWFs in economic diversification and long-term prosperity.

This structured approach allows for a thorough investigation of the research questions, allowing for a comprehensive analysis of the complex interplay between business management practices, SWF investment behavior, and macroeconomic performance in the GCC region.

Chapter 2: Business, State and Society in the Middle East: Research Traditions and Trajectories

Abstract

The Middle East can be divided into two broad categories, petrostates and non-petrostates. Where both share commonalities in culture, geo-political locale and historical legacies, they differ in terms of the challenges and opportunities posed by oil and gas endowments. Firms in the region face common challenges. As the literature on the resource curse highlights, petrostates commonly face the challenges of lop-sided development and in sustaining firms outside of oil and gas (Acar, 2017; Corden, 1992; Mahdavi, 2020; Mehlum et al., 2006a, 2006b; Rosser, 2006b; Sachs & Warner, 2001). In short, oil and gas windfalls pose challenges for business, impacting on firm level practices. In turn, Sovereign Wealth Fund (SWF) investment has the potential to transform the capabilities of these petrostates. Such countries are able to utilize oil and gas revenues to fund local talent development schemes as a means of incentivizing private sector firms to indigenize their employment. This review paper summarizes what is known about business and management in the Middle East as a basis for better understanding the potential of regional SWFs to optimize organizational outcomes, and further sheds light on some of the contextual features that may impact on the internal dynamics of SWFs themselves. Specifically, it compares and contrasts firm-level practices in petrostates versus non-petrostates. Findings from 48 key works are categorized into three primary thematic areas: Human Resource Management (HRM), General Management (GM), and Cross-Cultural Management (CCM). The analysis reveals that the extant literature

is often fragmented and relies heavily on applied insights rather than theoretical extensions. There is a persistent over-reliance on stylized macro-level factors, such as religion and political economy, while intra-firm dynamics remain under-researched. In doing so, this chapter consolidates our knowledge of the contextual forces at play and establishes the key theoretical and practical challenges Middle Eastern SWFs managers are facing.

2.1 Introduction

The Middle East can be broadly divided into two distinct categories: petrostates (such as Saudi Arabia, Kuwait, the United Arab Emirates (UAE), Qatar, Oman, Bahrain, Libya, Iraq, and Algeria) and non-petrostates (like Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia), which often rely on tourism and trade (Drine, 2013). Both groups, despite differing resource endowments, face a common challenge of sustaining their private sectors and generating sufficient levels of high-quality employment for their citizens, which is essential for their long-term economic sustainability and stability. This challenge has been a persistent and difficult policy goal.

Petrostates are frequently described as rentier states (Common, 2008) that rely on substantial income attained passively through rents, such as oil exports, rather than taxation of the local economy (Hvidt, 2011). These states commonly face the challenges associated with the resource curse (Wood & Allen, 2020), where abundant natural resources, particularly resources like oil, can inhibit economic growth (Bjorvatn & Selvik, 2008). The resource curse manifests in the form of lop-sided development, macroeconomic volatility and the "Dutch disease," which causes deindustrialization by making non-oil tradable sectors uncompetitive due to currency appreciation (Apergis et al., 2014). In short, oil may provide riches, but also poses challenges to firms in non-resource areas.

However, petrostates can use oil and gas revenues to fund greater public sector employment, which serves as the most important channel of rent distribution and social obligation for nationals (Yamada, 2018). These revenues are also used as a means of pressurizing private sector firms to indigenize (nationalize) their employment (Zahra, 2011). This dynamic has created complex labor markets, where some nations have an exceptionally high number of expatriates, who often dominate the private sector, with

host country nationals often preferring work in the public sector. For instance, in the Gulf petrostates, expatriates now outnumber the native population (Zahra, 2011). This makes indigenization a critical, yet elusive, national objective.

Despite the economic disparities between petrostates with high per capita incomes (e.g., Qatar and the UAE) and those with severe economic issues (e.g., Yemen), the region is interconnected (Abdel-Latif & El-Gamal, 2020). The economies of non-oil exporting neighbors are largely shaped by investment patterns and workers' remittances from the Gulf oil-exporting countries. This results in a resource curse backwash effect (Bjorvatn & Selvik, 2008), which involves the drain of capital, talent, and skills from peripheral states to the Gulf petrostates. The petrostates have a strong interest in the stability of non-petrostates, and major Gulf states have actively sought to reshape business relationships and investment interests in their near abroad (Abdelal et al., 2008), *inter alia*, through targeted SWF investments.

SWFs are no longer just global investors; they are increasingly expected to play a crucial domestic and regional role (Cumming & Monteiro, 2023), investing in local and regional enterprises to drive diversification and address the very challenges of employment and private sector development (Cummings et al., 2020) identified above.

This study provides a systematic literature review (SLR) that summarizes what is known about business and management in the Middle East as a basis for better understanding the potential of regional SWFs to optimize organizational outcomes, and further more sheds light on some of the contextual features that may impact on the internal dynamics of SWFs themselves. Specifically, it compares and contrasts firm-level practices in petrostates versus non-petrostates. It highlights the direct effects of oil and gas revenues (Ansari & Holz, 2020) and reflects on the potential role of

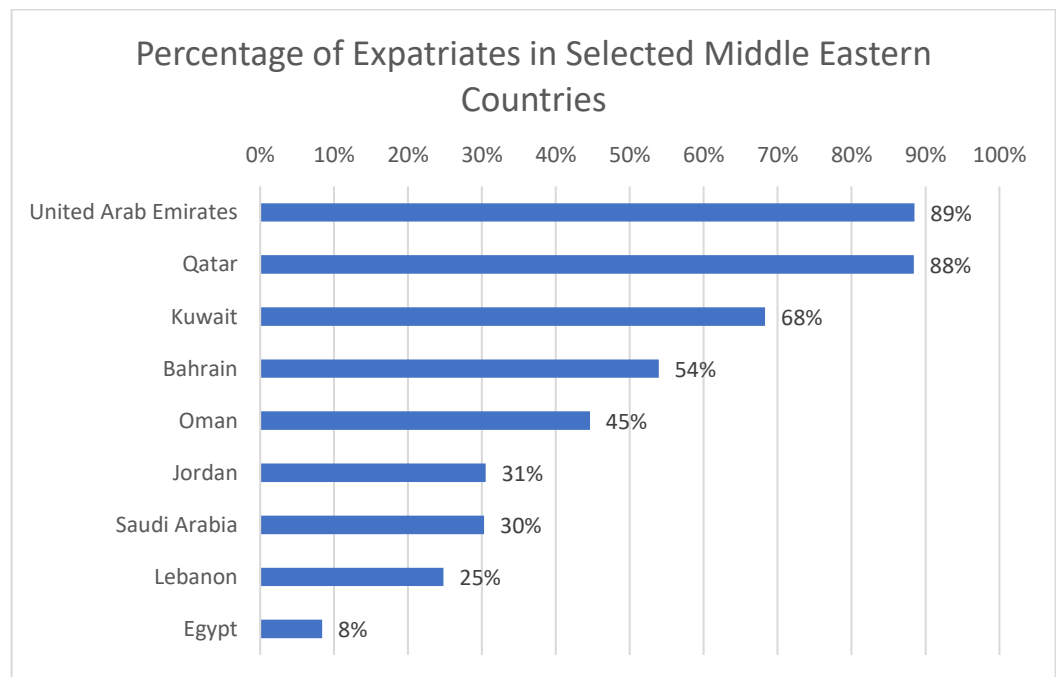
regional SWFs in promoting and sustaining firms across the region, and in encouraging optimal managerial practices. In doing so, this chapter consolidates our knowledge of the contextual forces at play and establishes the key theoretical and practical challenges Middle Eastern SWFs managers are facing.

The geopolitical locale of the Middle East makes it very challenging to secure and sustain political stability. This volatility stems from a history of conflicts, including the Iraq-Iran war and the Arab Spring, as well as geopolitical tensions that continue to shape the global environment (Ramdani et al., 2020). Moreover, economies oriented towards oil and gas may face challenges in creating and maintaining jobs outside of the industry (Yamada, 2018). Hence, a key concern of the Middle Eastern petrostates has been to promote indigenous staffing at home, and to evangelize it among other states in the Middle East. Yet, indigenization may be costly and difficult to secure; this raises the question as to whether indigenization may be solved by state investment alone (whether via a SWF or directly), or whether the structural barriers to indigenization are so embedded as to be virtually insurmountable.

Indeed, although the drivers to indigenize staffing are not unique to the Middle East, securing greater indigenous participation at all levels of firms seems particularly intractable in the region. Some nations have an exceptionally diversified labor market, with expatriates from all over the globe making up the majority of the workforce in senior, middle-ranking and low-level jobs (Budhwar & Mellahi, 2016; Edgar et al., 2016; Goby et al., 2015; Matherly & Al Nahyan, 2015). Expats occupied majority of private-sector positions in Saudi Arabia (Al-Asfour & Khan, 2014; Nurunnabi, 2017). Moreover, as shown in **Error! Reference source not found.**, expats

outnumber natives in four other petrostates², UAE (89%), Qatar (88%), Kuwait (68%), and Bahrain (54%) (Arab Times, 2024; Bahrain National Portal, 2023; Global Media Insight, 2025; Harrison & Haslberger, 2016). Finally, it has been argued that focusing solely on the Middle East's volatile and uneven economic performance may lead to a neglect of the beneficial features from, and challenges of, the interplay of industry, government, and society, and this represents an important agenda for future research (Afiouni et al., 2014; Budhwar et al., 2019; Budhwar & Mellahi, 2016; Faghih & Zali, 2018); SWFs lie at the epicenter of this interplay.

Figure 1: Percentage of Expatriates in Selected Middle East Countries



Author's elaboration

We found that the literature on the Middle East has mainly focused on three main themes: including Human Resource Management (HRM); General

² See full list in Appendix **Error! Reference source not found.**

Management (GM); and Cross-Cultural Management (CCM); however, all share common ground in according attention to the contextual challenges associated with being located or domiciled in a petrostate and one without significant natural resource endowments, and in terms of accounting for state efforts to promote desired practices and outcomes. We found that institutional and cross-cultural theories were the most widely used. Our findings show that most research relies on applied rather than theoretical insights, concentrates on excessively stylized macro indices such as political economy forms, culture, and religion, and undervalues intra-firm dynamics. Future research might improve our understanding of the Middle East by establishing a more detailed theoretical explanation of Wasta and culture and expanding comparative institutional theory by constructing an archetype summarizing the type of capitalism most commonly encountered in the region.

The paper is organized as follows: in the theoretical section, we summarize theories most used by business and management scholars to frame their studies on the Middle East. A methodology section follows, which outlines our SLR approach. Thus, we summarize the main research findings, discuss our findings' theoretical and practical implications, and recommend issues for future studies.

2.2 Theoretical Underpinnings

A foundational theory for understanding the political economy of the Middle East, particularly its petrostates, is the Resource Curse Theory (RCT). The RCT literature demonstrates a paradox in which countries with abundant natural resources, such as oil and gas, often experience slower economic growth, weaker institutions, and less development than resource-poor countries (Bjorvatn & Selvik, 2008). This is attributed to factors like high exposure to

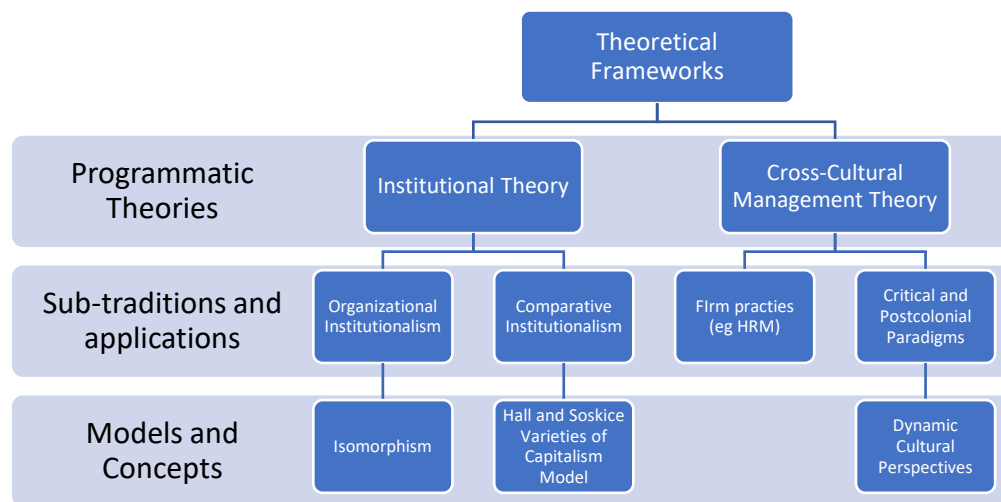
commodity price volatility, the "Dutch Disease" (where the resource sector crowds out other productive sectors like manufacturing), and the encouragement of rent-seeking behavior over productive enterprise (Williams, 2011).

The literature on the resource curse, however, rarely features in studies of business and management practice in the Middle East (Wood & Allen, 2020). However, common concerns around the relative availability of human capital, institutional pressures, and the role of MNEs implicitly reflect concerns raised in the resource curse literature; these include sectoral skills disparities and gaps, macroeconomic volatility (Ansari & Holz, 2020), and institutional shortfalls (Wood & Allen, 2020). Indeed, given the interconnected nature of the Middle Eastern region, it could be argued that the resource curse and most notably the backwash effect, which refers to the drain of capital and human resources (skilled labor and talent) from non-resource linked areas of the economy (non-oil producing neighbors or marginalized domestic sectors) towards the highly profitable oil and gas sector, and the public sector funded by resource rents affects the whole region (Wood & Allen, 2020). It worsens the lop-sided nature of the economy. It should be noted that the resource curse may have national and regional effects; with respect to the latter, non-petrostates may face a drain of skills and talent to the petrostates. In seeking to counteract the effects of the resource curse, petrostate governments directly invest substantially in their home economies, SWFs represent a vehicle for state investment that has both a regional and global scope.

Error! Reference source not found. illustrates the dominant theories used in the Middle East business and management literature, Institutional theory (Budhwar et al., 2019; Tlaiss, 2014; Weir & Ali, 2020; Zahra, 2011) and cross-cultural management theory (Bealer & Bhanugopan, 2014; Karacay et al.,

2019; Yeganeh & Su, 2011). In the next paragraphs, we provide a synopsis of these two theories.

Figure 2: Theoretical Frameworks in Middle Eastern Business Studies



Author's illustration

2.2.1 Institutional Theory

Organizational institutionalism and comparative institutionalism are the two most common institutional approaches (Edwards et al., 2013; Kostova & Marano, 2019; Wood & Allen, 2020), although economic institutionalism is also widely encountered in broader studies of the Middle Eastern political economy. The former two institutional theory traditions have often been treated as interchangeable in the literature, although they are quite distinct (Wood et al., 2018). The foundations of organizational institutionalism are sociology and organizational theory, and comparative institutionalism socio-economics. However, both strands can be considered programmatic theories in that they cover multiple phenomena (see Aguinis and Cronin (2022)). A common theme is that institutions in the Middle East have

shortfalls that pose challenges to organizations (Elbanna et al., 2020; Zahra, 2011) and with some accounts concluding that this is bound up the resource curse (Al-Akra et al., 2016; Common, 2008; Williams, 2011). In short, even if oil and gas may provide financial windfalls for states, it may weaken institutions, negatively impacting on organizations.

Institutions are defined in this literature as social structures that establish legal and legitimate status and offer stability and significance to social life (Meyer & Rowan, 1977; Powell & DiMaggio, 2012). Individuals and businesses react to these institutions by doing activities they feel are legal, implying that participants within an organizational field are becoming isomorphic. This process is characterized by adopting ideas, which are subsequently disseminated and deployed in various ways, some of which are unanticipated (Greenwood & Meyer, 2008). While this line of institutional theory suggests convergence at firm level within specific settings, cross-national differences in institutional frameworks lead to management practices that persistently differ between countries (Edwards et al., 2016; Gooderham et al., 1999).

The comparative institutional approach believes that institutions and economic players differ across social systems according to the density of the ties between them (Jackson & Deeg, 2008). Accordingly, the institutional analysis must eventually explain the roles of many players in each country. Hall and Soskice (2001) divide the most advanced economies into liberal and coordinated markets, with the former giving more emphasis on shareholder rights and the latter on the value and relevance of close social links as a basis of competitive advantage. In recent years, numerous efforts have been made to identify new national archetypes that encompass the Global South. In such efforts, the Middle East was rather neglected, although most could probably be fitted into the Feldmann (2019) state-centered category.

However, at the center of this framework is the assumption that institutions are bound up with dominant modes of economic activity, and that firms seek to develop complementary practices in line with this. As can be seen – and even if not formally expressed in these terms – firms in the region have battled to establish such complementarities. In response, governments have sought to promote specific practices that are intended to support diversification and broad-based growth, through SWF investment.

2.2.2 Cross-Cultural Management Theory

Cross-Cultural Management (CCM) research encompasses a broad range of social science disciplines that emerge from disparate research traditions on the characteristics of culture and its influence on business and management (Adler & Gundersen, 2001; Barmeyer et al., 2019; Barmeyer & Mayrhofer, 2008; Bjerregaard et al., 2009). In general, CCM research has been applied to understanding human behavior in organizations; in other words, much of it represents a sub-area of HRM (Holden, 2002). However, given the sheer volume of the former within the corpus of work in the Middle East, this is treated as a separate category in this article.

Nowadays, a growing number of publications are based on critical viewpoints and postcolonial paradigms, and some attempts have been made to apply these to the Middle East (Jackson, 2012; Mahadevan, 2017; Primecz et al., 2016; Ybema & Byun, 2009). In this literature, a shift from the "hard factors" of business studies toward the integration of "soft factors," encompassing not only culture but also the effects of history on human behavior (Adler, 1983; Pudelko et al., 2015); however, much of the literature encountered retains a narrower or more focused view of culture. Other work by Boyacigiller et al. (2004), Sackmann and Phillips (2004), and Pudelko et al. (2015) indeed seeks to move from a static/path dependency oriented

perspective of culture toward a more dynamic one, but this body of literature is limited, and has yet to become mainstream in management studies in the region. Cross-cultural approaches typically do not take account of the resource curse, although there is some literature that argues that the prospect of sudden wealth can have cultural consequences (Weszkalnys, 2014). However, culture may confer benefits for some of the negative consequences of the resource curse, and, institutional weakness; for example, more communitarian cultures may be more conducive to informal redistributive mechanisms.

2.3 Context

Studying the Middle East is important for several reasons. First, what goes in the region has vast international consequences given its role in global energy markets, even as the region confronts the inevitable global spillover effects of the energy transition, oil price volatility, climate change, the difficulties in promoting green transformations offset by an ongoing reliance on petrodollars, episodic financial crises, persistent geopolitical risk and wars (Abdel-Latif & El-Gamal, 2020; Ansari & Holz, 2020). Second, the Middle East is home to several SWFs that are among the largest global institutional investors, such as the Abu Dhabi Investment Authority, the Kuwait Investment Authority, and the Public Investment Fund (PIF) in Saudi Arabia. According to Bortolotti et al. (2017), global SWFs had aggregated assets under management (AUM) of around \$8 trillion in 2017, accounting for more than 10% of global AUM, and are three times the size of all private equity funds and twice the size of hedge funds. The total AUM of SWFs is expected to exceed \$13 trillion in the next decade (Liang & Renneboog, 2020). Middle Eastern SWFs are expected to invest heavily in not only overseas firms but also in local and regional startups and established enterprises to diversify their home economies when many other SWFs are restricted from investing

at home (Debarsy et al., 2017). The Middle Eastern SWFs tend to play domestic and regional roles; this raises the question as to what are the common challenges faced by firms in the region as a basis for understanding how SWF investments may make a difference.

It can be argued that the Middle East is more of a cultural area than a geographical region with precise borderlines (Budhwar et al., 2019; Mellahi et al., 2011). Political commentators and regional observers use many interchangeable terms to refer to the region, including "The Middle East," "Middle East-North Africa" (MENA), "Arabian Peninsula," or the "Arab World," the latter of which stretches from Mauritania in the West to Iraq in the East (Budhwar & Mellahi, 2016). Some researchers use membership in the Arab League to guide their analysis (Elbanna et al., 2020; Zahra, 2011).

We employ a loose version of the definition comprising republics and monarchies across clusters located in Asia and Africa, such as the Gulf Cooperation Council (GCC) states, the Levant nations, the Arab Maghreb Union (AMU) countries as well as other nations like Iraq, Yemen, Sudan, and Egypt (Afiouni & Karam, 2017; Al-Akra et al., 2016; Metcalfe et al., 2020). However, this study does not encompass Israel owing to the many differences between it and other countries in the Middle East. The Middle East region's population exceeds 400 million people (Aljuwaiber, 2020; Elbanna et al., 2020). The three major faiths of Islam, Judaism, and Christianity originated in the region, and religious influence remains strong. Muslims make up most of the population, accounting for around 95%. Additionally, it is home to the Muslim world's two holiest cities, Mecca and Madinah (Budhwar et al., 2019; Murphy et al., 2019). Therefore, Islam influences how companies are governed to a great extent (Farah et al., 2021).

Aside from Arabs, the region is home to various other ethnic groups, most notably Berbers (approximately 5% of the population) and Kurds (7%). Over 60% of the population is under 30 years old in the Middle East region. A Bedouin tribal cultural legacy is crucial in many nations with otherwise distinct histories, resource endowments, and national goals, and regional communities are communal with a solid dedication to family (Al-Kandari & Gaither, 2011; Elbanna et al., 2011).

Despite many shared characteristics like religion, culture, language, family centrality, and a burgeoning young population (Karam & Afiouni, 2014), the region has vast economic disparities, largely between petrostates and non-petrostates. Resource curse backwash effects can worsen the challenges of the latter (Darwish et al., 2016). Some nations, such as Saudi Arabia, Qatar, and the United Arab Emirates, have among the highest per capita incomes globally, with citizens enjoying a high standard of living and access to world-class infrastructure. Other nations, such as Somalia, have the lowest per capita GDP globally (Zahra, 2011).

Looking more closely, the Middle East can be classified into three economic groups, the first being the petrostates, and the latter two categories being two different types of non-petrostates (**Error! Reference source not found.**): (1) Petrostates, such as Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Oman, Bahrain, Libya, Iraq, and Algeria; (2) countries that are heavily reliant on tourism and trade as main engines for economic growth, such as Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia, but which face persistent revenue challenges and economic instability; (3) peripheral countries with severe economic and social issues, such as Sudan, Yemen, and Djibouti (Drine, 2013). Given this disparity, the Middle East has been dubbed "the most unequal region" in the world (Alvaredo et al., 2019). This inequality is increased by the regional backwash effect of the resource curse,

which causes a drain of skills, talent, and capital from the peripheral and tourism-reliant states to the Gulf petrostates. It further complicates the development paths of the non-oil economies.

Figure 3: Middle East Economic Classification (Drine, 2013)



Author's Illustration from Drine, (2013)

Additionally, the Middle East is one of the most conflict-prone areas on the planet. It is confronted with a number of security and military issues, including the emergence of extremism, regional proxy wars, state fragmentation, internal upheavals, state-society cleavages, and foreign and regional forces interfering in different domestic disputes (El-Anis, 2018; Hanau Santini, 2017). The region's vast oil and gas reserves have often exacerbated these tensions (Nitzan & Bichler, 1995). It has attracted foreign power meddling (Elbanna et al., 2020), which has, in many cases, served to prolong and worsen these conflicts rather than resolve them.

As a result, and because of colonial legacies, the security and military services are more powerful than all other political-economic actors. Indeed, massive government expenditure on security and military may have crowded out

economic development efforts in other sectors. The percentage of military/security jobs in the overall labor force is one indicator of this crowding-out effect. Three Middle Eastern nations (Iraq, Jordan, and Syria) ranked first through third in the world on that metric (Moore, 2019). Furthermore, the high costs of arms purchases impose a significant fiscal burden by concentrating dwindling resources into one sector.

Redistribution has been a shared pillar of the social contract and a prevailing feature of state-society relations across the Middle East (Cammatt et al., 2015; Heydemann, 2020; Jomet, 2018). This is primarily to create popular legitimacy (Diwan et al., 2019; Karshenas et al., 2006; Yousef, 2004). For instance, several developing countries have the highest subsidies as a percentage of government expenditure (Rougier, 2016). While redistribution is generally a pervasive economic model in the region, the specific implementation of the redistribution model varies, and this has had uneven outcomes at firm level.

Petrostates do not need to tax the local economy to finance its activities because of significant income attained passively through rents (i.e., exports of oil). States redistribute the revenues from that rent to the citizens (Hvidt, 2011). One of the common types of subsidies in the Middle East is consumption subsidy, which alleviates poverty, and increases support among the poorest sections of the populace (Cammatt & Diwan, 2013; Karshenas et al., 2014; Matsuyama, 2002; Yousef, 2004).

Furthermore, public employment has been one of the most common policy choices adopted by governments in the region as an indirect redistribution tool (Adams & Page, 2003). Another common type of subsidy in the Middle East is production subsidies that channel capital to inefficient sectors and companies (Chekir & Diwan, 2014) to please certain social groups. However, these populist-redistributive social welfare policies have proven difficult to

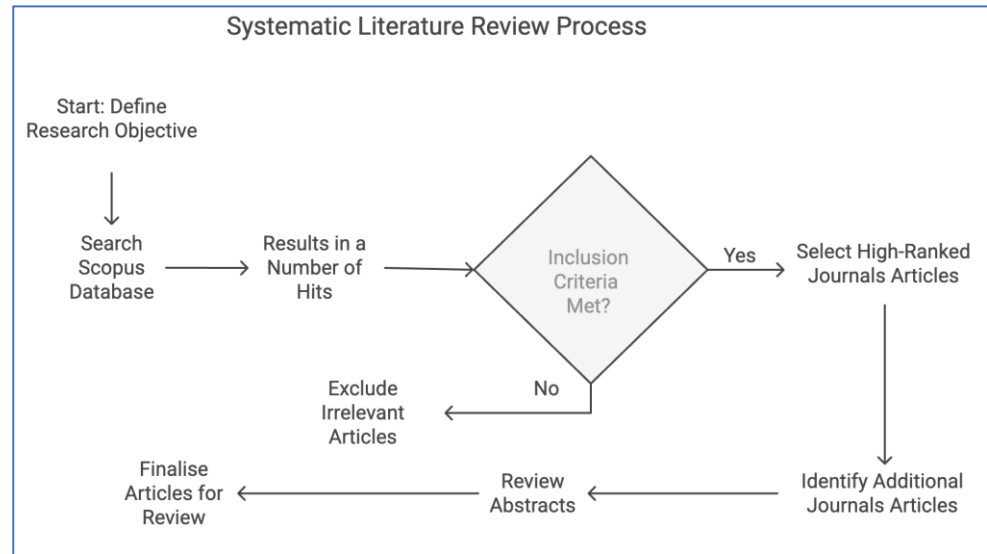
sustain, especially for the resource-poor countries. As a result, regimes have significantly reduced the size of redistribution and narrowed the boundaries of the entitlements through the introduction of new concepts such as "contingent citizenship" and "selective benefits" (Heydemann, 2020).

Given the economic hardships and rising redistribution costs, this seemed the least-worst strategy to preserve governments, although, in many instances, this was followed by protests (Albarazi, 2017; Heydemann, 2020; Meijer, 2014). Shifting policy choices from universal entitlements to selective benefits has created pain points across significant segments of nearly all stakeholders.

2.4 Methodology

A systematic literature review (SLR) was carried out to establish a holistic understanding of business and management in the context of the Middle East region, as well as the key theoretical perspectives from which it has been researched. Rigorous systematic reviews "summarize in an explicit way what is known and not known about a specific practice-related question" and constitute "a replicable, scientific, and transparent approach" (Briner et al., 2009). Our SLR focuses on papers published in academic journals instead of books and other sources since academic publications tend to provide more theoretical and methodological depth that allows us to achieve the objectives of our review (Cho & Marshall Egan, 2009).

Figure 4: Systematic Literature Review Process



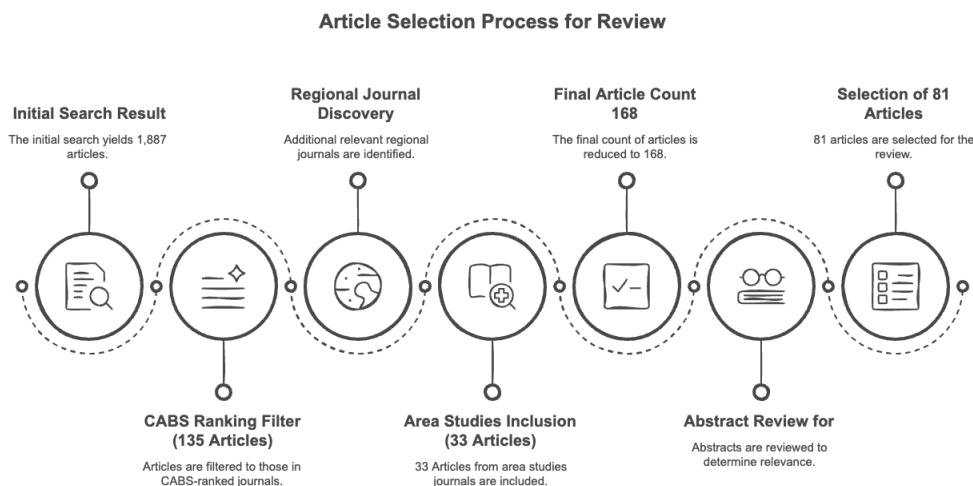
Author's Illustration

Following the SLR process illustrated in **Error! Reference source not found.**, we searched for articles on the Scopus database as the most comprehensive abstract and citation database, usually the first port of call for systematic literature reviews. As for inclusion criteria for selecting journal articles, the following keywords were deployed: "Middle East" AND "Oil-based Economy" OR "Middle East" AND "Economic Diversification" OR "Middle East" AND "Broad-based Economic Growth" OR "Middle East" AND "Regional Development" OR "Middle East" AND Business OR "Middle East" AND "Industrial Policy" OR "Middle East" AND "Venture Capital" OR "Middle East" AND "Resource Curse" OR "Middle East" AND "Sovereign Wealth Fund" OR "Middle East" AND Management. We excluded subject areas not relevant to the research (e.g., medicine). This resulted in 1,887 hits.

To avoid spurious results, we only kept articles published in academic journals ranked 3 or higher on the Chartered Association of Business Schools (CABS) 2018 ranking. Targeting journals ranked as 3 or higher reflected the selected journals' high quality and impact on management and business

research (Antonakis, 2017; Farah et al., 2020). This has produced 135 results, which means most of the research in the region is limited to specialist regional and lower-impact journals. **Error! Reference source not found.** illustrates the article selection process.

Figure 5: Article Selection Process for Review



Author's Illustration

We became aware of relevant papers published in different journals to those ranked on the CABS list, so Scopus's search process was repeated to identify such articles. These articles are frequently published in newer, smaller, or regionally-oriented publications that are less academically rigorous but offer insights from an indigenous emic perspective, as well as in leading relevant area studies journals. Thus, we have also included other leading Middle Eastern studies journals that are not on the CABS list per se but include work on or relevant to business and management studies. This second process identified 33 additional articles published in area studies journals (such as International Journal of Middle East Studies, Middle East Critique, Middle East Policy, Digest of Middle East Studies, Middle East Journal, Contemporary Review of the Middle East, British Journal of Middle Eastern Studies, and

Arab Studies Quarterly). From 1,887, we moved to 168 (135 + 33) results. Then, we reviewed the abstracts of all 168 articles and removed the less relevant (87 articles), thus giving us 81 articles to include in the review. Salient references are drawn from broader management scholarship to inform concepts and ideas and to define critical debates.

Our investigation to date has identified 81 articles on business and management in the Middle East, published in 34 journals, for the period 1978 - 2020. We conducted an open-ended search, but the oldest paper among the 81 articles identified was from 1978. 1978 predates the establishment of many of the journals captured in our search. It is also a period when many Gulf states began to take stock and to formulate new development policies after the oil boom of the 1970s and the year of the Camp David peace accords between Israel and Egypt. To further evaluate these 81 papers, we read each one, recording the year of publication, the journal in which it was published, the abstract, the topical focus, and the geographical concentration (i.e., the country in which primary data were collected). Since this is a business and management review, we only considered genuinely firm and organization-centered papers, which led to keeping 48 papers only out of 81 articles in our dataset (see Appendix Table A 2: Full list of 48 articles).

The analysis also reviewed the theoretical lens used to view business and management phenomena. Although some studies highlighted the theory employed, others were less specific. We have to categorize them by carefully reading the paper and deducing this from the discussions offered. This review used thematic analysis to address the following: (1) what are the most used theoretical approaches in Middle East studies (2) what are the main research themes addressed, and (3) what are interesting areas for future research. Thematic analysis is a qualitative method used to decipher data

trends and patterns (Elbanna et al., 2020). This process entailed reading the obtained articles and developing insights through thematic analysis (Braun & Clarke, 2006). Our thematic qualitative analysis was carried out in two stages. Stage 1 entailed categorizing the articles by topic and used an inductive technique to uncover data trends. Stage 2 entailed taking a more analytical approach to properly organize the papers.

Our paper adds new insights to previous reviews of the region (c.f. (Afiouni et al., 2014; Budhwar et al., 2019)) in terms of the range of studies and its broad interdisciplinary nature. The first point to note is that, despite adopting an open-ended time frame, this study reflects the recent abundance of literature, particularly surrounding major current events such as the energy transition and economic revitalization strategies. Secondly, it is broader-based and conceptually informed by mainstream management theories.

While the first paper published in our data goes back to 1998, 35 articles out of 48³ (about 73%) were published in the past decade, reflecting growing research interest in the region as shown in **Error! Reference source not found.**

Table 1: Articles distribution over (1998 – 2020)

Time Period	# of Articles	%
1998 – 2005	4	8
2006 – 2010	9	19
2011 – 2015	20	42
2016 – 2020	15	31
Total	48	100

³ For the full list of 48 papers, refer to Appendix Table A 2 in the Appendix.

The distribution of articles based on the CABS journal ranking is presented in **Error! Reference source not found.** Forty-five out of forty-eight articles (94%) were published in journals ranked 3 or higher based on the CABS-ranking benchmark.

Table 2: Articles distribution relative to CABS Journal ranking

CABS Journal Ranking	# of Articles	%
4*	2	4
4	2	4
3	41	85
Unranked	3	7
Total	48	100

Author's Calculation

Error! Reference source not found. presents the distribution of data across the 24 journals in which such work was encountered. Most of the work is published in the International Journal of Human Resource Management (IJHRM). This is possibly due to the significance of comparative HR, labor economics, and people management issues in the region. It could also reflect the journal's focus on publishing work from areas of the world that are often neglected in mainstream HR research.

Table 3: Journals in descending order of number of articles

#	Journals	CABS Journal Ranking	# of Articles
1	International Journal of Human Resource Management	3	15
2	Asia Pacific Journal of Management	3	3
3	European Management Review	3	3
4	Middle East Journal	Unranked	2
5	Industrial Marketing Management	3	2
6	International Journal of Contemporary Hospitality Management	3	2
7	Journal of International Management	3	2
8	International Business Review	3	2
9	Journal of Business Research	3	2
10	World Development	3	1
11	International Marketing Review	3	1
12	Management and Organization Review	3	1
13	Business and Society	3	1
14	Contemporary Review of the Middle East	Unranked	1
15	Journal of Economic Behavior and Organization	3	1
16	Tourism Management	4	1
17	Journal of International Accounting, Auditing and Taxation	3	1
18	Accounting, Organizations and Society	4*	1
19	Entrepreneurship and Regional Development	3	1
20	Academy of Management Perspectives	3	1
21	International Review of Administrative Sciences	3	1
22	American Sociological Review	4*	1
23	Family Business Review	3	1
24	Journal of Business Venturing	3	1
Total			48

Author's Calculation

We have grouped the papers into 3 main themes. Human Resources Management (HRM) accounted for almost half of the papers (48%), followed

by General Management (GM) (31%) and Cross-Cultural Management (CCM) (21%) (see **Error! Reference source not found.**).

Table 4: Articles distribution across the main themes

#	Main Themes	# of Articles	%
1	Human Resource Management (HRM)	23	48
2	General Management (GM)	15	31
3	Cross-Cultural Management (CCM)	10	21
Total		48	100

Author's Calculation

We noted six review papers in our findings: two HRM review papers (Afiouni et al., 2014; Budhwar et al., 2019), one on Wasta (Weir & Ali, 2020), one on management research (Elbanna et al., 2020) and another on internal auditing (Al-Akra et al., 2016). The sixth concerned marketing (Lages et al., 2015). We have classified these identified review papers into their respective HRM, GM, or CCM theme.⁴

⁴ Appendix Tables A2, A3 and A4 in the Appendix report the complete list of papers for each theme.

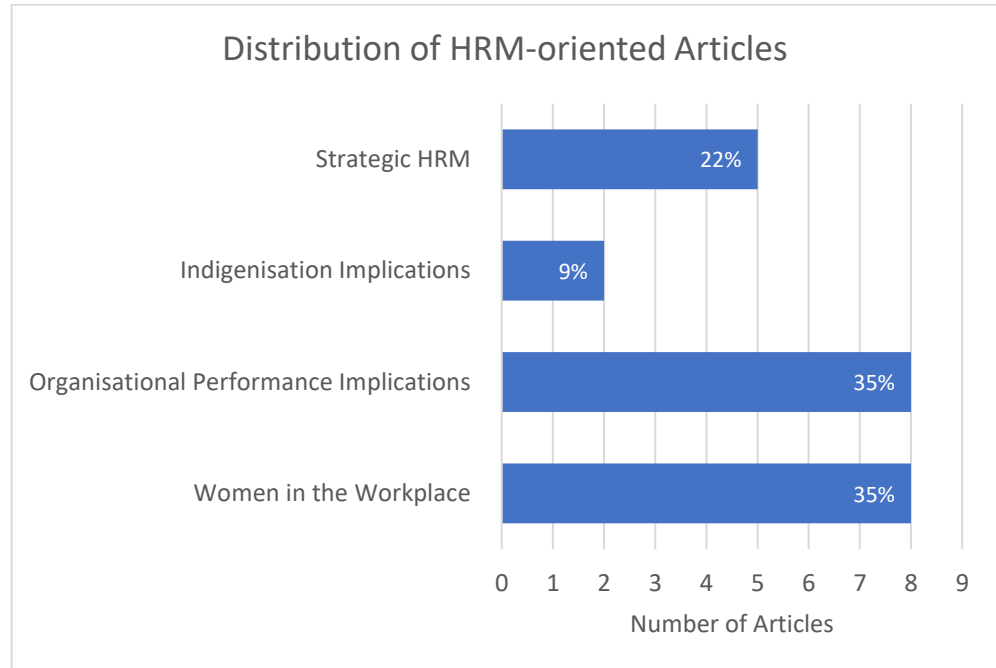
2.5 Findings

We present here a summary of our analysis of the identified articles. We have grouped the main themes into the following three themes: Human Resource Management (HRM), General Management (GM), and Cross-Cultural Management (CCM).

2.5.1 Human Resource Management (HRM)

A key concern of governments around the region is on the creation and sustenance of decent jobs for home country nationals, which is seen as necessary for stability; oil and gas resources tend to only confer limited direct employment opportunities. Indeed, this constitutes a major driver of state investment decisions, the size and shape of national public sectors and regional and local SWF investments. Echoing this, a major focus in the business and management literature in the Middle East is on HRM, with many of the challenges identified in the literature, most notably, persistent organizational performance challenges and indigenization being directly linkable to resource curse issues. The HRM-oriented theme has 23 articles. As shown in **Error! Reference source not found.**, our analysis revealed four sub-themes under this central theme: (1) Women in the Workplace (8 papers), (2) Organizational Performance Implications (8 papers), (3) Indigenization Implications (2 papers), and (4) Strategic HRM (5 papers). We cluster the sub-themes of HRM according to the country type (Drine, 2013) to impart a greater coherence to this rather diverse discussion. We note two HRM review papers on the region (Afiouni et al., 2014; Budhwar et al., 2019).

Figure 6: Distribution of HRM-oriented Articles



Author's Calculation

2.5.1.1 Women in the Workplace

In a region characterized by a masculine culture that shapes institutions amid the salience of gender stereotypes, gender and HRM research occupies a central position in regional research; this topic has received sustained attention over the years. Again, there is a tension between desires to uphold perceived traditional values as a basis for stability in a region where natural resource endowments have often proved destabilizing, and promoting indigenous female labor force participation as a basis for economic inclusion, to enhance household wealth and reduce reliance on expatriates. The topics cover a wide range of issues such as women's engagement in the workplace, career paths of women, experiences of women in academia, retention of women in the workforce, women's job satisfaction, women undertaking international assignments, how Islam influences women to work experiences, and career challenges for women.

Emerging themes from studies on women in Middle East Literature

Figure 7: Prominent themes from studies on women in Middle East Business Literature

Oil-dependent Countries	Tourism-dependent Countries	Regional View
• Focuses on the challenges and cultural factors affecting women's workforce participation in Gulf nations.	• Explores women's work engagement and career development in Jordan and similar contexts.	• Examines macro and organizational factors impacting women's employment across the Arab Middle East.

Author's elaboration

1) Oil-dependent countries

Marmenout and Lirio (2014) investigate challenges related to retaining women in the workforce in UAE and how local female talents navigate workforce participation. Their findings indicate that local women working outside the home confront unique obstacles in the Gulf region, such as the ambiguities of social norms concerning working women (Hutchings et al., 2012; Lirio et al., 2007). Similarly, Gulf women have high expectations for large families and a desire to financially support their households without detracting from their husbands' contributions. Against this are pressures to, as noted above, reduce reliance on expatriates, and improve the lot of poorer indigenous households.

Metcalfe (2007) conducted a study in Bahrain that covers an assessment of how Islamic values played a role in women's work experiences and HRM policies more broadly. The study examines how governments are developing public policy objectives to advance women's participation in the public sphere within an Islamic context. The findings, based on empirical evidence,

imply that organizational-level HRM policies should explicitly address the issue of women's management training. This research contributes to our understanding of the relationship between globalization, indigenization, and HRM procedures.

2) Tourism-dependent countries

Banihani and Syed (2017) study addressed the situation of women's work engagement in Jordan and, more broadly, in Arab countries. They studied relevant economic, sociocultural, political, and legal factors and how managers and policymakers can reform current policies to make organizations more inclusive for women. The researchers argue that interventions to encourage and facilitate women's greater engagement in the workplace will have twofold benefits. First, women will have a better environment. Second, several desirable organizational outcomes can be achieved from more engaged employees.

Informed by institutional theory and career development theory, Tlaiss (2014) researched the women's career paths in Lebanon and found that traditional (mostly vertical progression in a single organization) (Arthur, 1994; Orser & Leck, 2010) and contemporary (both work-related and other experiences inside and outside organizations are incorporated) (Sullivan & Baruch, 2009) career patterns remain relevant for women managers, in contrast with what is suggested in the majority of Western-based literature. It is worth noting that Lebanon is an exception regarding female participation in the economy and society. Tlaiss and Mendelson (2014) investigated the job satisfaction of women working in Lebanon and assessed personal demographics concerning objective and subjective job satisfaction. Job satisfaction, according to the study, is linked to age, religious affiliation, and tenure, but not to marital status or education. In their research, women reported high levels of dissatisfaction with objective aspects of their

employment (specifically, income, benefits, and promotions) and high levels of satisfaction with subjective components of their careers (current positions, achievements, and skill development).

Kattara (2005) has diagnosed career challenges for women in Egyptian hotels. The results depicted the experiences of professional women and the factors that prevent them from breaking the glass ceiling and advancing in their careers. These variables include gender discrimination, challenging work relationships, mentor support, and limited access to networks. These findings should inform the formulation of policies to alleviate these predominant barriers within the hospitality industry in the Middle East. In turn, given major SWF investments in hospitality, issues arise in terms of how much these translate into job creation for locals as adverse to expatriates.

3) Regional view

Karam and Afiouni (2014) sought to investigate what it is like for women to work in universities across 17 countries within the Arab Middle East. They conclude that connecting macro-level factors to organizational-level policies is essential for women to make their workplaces more equitable. They also contend that HR professionals can play an important role by conducting gender audits, promoting gender equality, and establishing gender equity governance. Hutchings et al. (2010) looked into what Arab Middle Eastern women in Bahrain, Egypt, Jordan; Saudi Arabia; Oman; Qatar and the UAE thought were impediments to getting jobs in international management opportunities. Earlier research has identified four key barriers to women working abroad: employer resistance, prejudice against foreigners, women's lack of interest, and a lack of family support (Harris, 2001; Harris & Brewster, 1999; Linehan, 2019; Linehan et al., 2001). Findings of Hutchings et al. (2010) support earlier research about the four barriers. The study also identified that Western women overwhelmingly receive international experience via

MNCs, whereas Arab women get international opportunities via non-government and women's organizations. In other words, women expatriate workers (and potential expatriate workers) from elsewhere in the region face limited job opportunities.

2.5.1.2 Organizational Performance Implications

Several studies looked at HRM from the standpoint of organizational performance. It covers research on the influence of HRM methods on organizational performance, disruptive technologies, workplace stress, creativity and innovation, organizational commitment, job analysis' impact, and employee performance.

Figure 8: Emerging themes from studies on Organizational Performance in Middle East Business Literature

Oil-dependent Countries	Tourism -Depednet Countries	Regional View
• Focuses on how HRM practices influence organizational success in oil-rich nations.	• Examines HRM practices' impact on performance in nations reliant on tourism.	• Highlights cultural differences and similarities in HRM practices across regions.

1) Oil-dependent countries

Alberti-Alhtaybat et al. (2019) examined Aramex's collaborative knowledge management system to see how it adjusted to disruptive technologies. This global logistics company is headquartered in the Middle East. Based in Dubai, it is the first Arab company to be listed on the NASDAQ stock exchange. According to the authors, taking account of disruption is ingrained in the culture, thereby stimulating innovation and value creation. Aramex is an

intriguing example of an apparent regional (and global) success story that relies on effective knowledge sharing.

The significance of organizational commitment originates from the belief that it may contribute to increased organizational effectiveness, higher performance, lower turnover, and lower absenteeism (Stallworth, 2004; Suliman & Iles, 2000). Suliman and Al-Junaibi (2010) study the relationship between affective and continuous commitment and employees' intention to stay or leave the UAE oil industry. Perhaps unsurprisingly, they found a negative correlation between organizational commitment and intention to quit. By investigating the influence of job analysis on organizational performance in the UAE, Siddique (2004) results corroborate HRM-performance studies conducted in Western nations. The results urge senior management to regard job analysis as a competitive advantage for their organizations, stressing competency-based employee attributes in job analysis approaches. The author concluded that proactive job analysis is strongly associated with organizational success. At the basis of these accounts are concerns as to the relative efficiency and competitiveness of local firms against international benchmarks; again, it raises issues of tradeoffs in direct government and SWF investments, between creating jobs for locals, and creating organizations that are capable of sustaining themselves into the long term, even after oil revenues decline.

2) Tourism-dependent countries

HRM scholars seek to understand the effect of HRM practices on organizational performance (OP). Mohammad et al. (2021) investigated the HRM-OP relationship in Jordan. They found that the introduction of proven HRM practices in recruitment, training, and internal promotion improves organizational-level performance. This part of the study is broadly consistent with evidence from other countries and cultures (Darwish et al., 2016;

Gould-Williams & Mohamed, 2010). However, they also found, surprisingly, that other HRM practices such as appraisal and rewards and benefits had no effect on performance. Such findings could reveal institutional shortfalls or cultural issues but may also simply reflect the general complexity of the HR-performance link. Similar results in the Middle Eastern context are reported in the work of (Al-Husan et al., 2009; Aladwan et al., 2014; Budhwar & Mellahi, 2006; Darwish et al., 2013). Additionally, Mohammad et al. (2021) study also indicates HRM has an indirect positive impact on OP through social exchange. The researchers developed insightful theoretical explanations of the HRM-OP nexus by utilizing particular societal nuances.

The way managers view creativity and innovation may impact creativity and innovation within organizations (Mostafa, 2005). The latter exposes discrepancies in Egyptian leaders' attitudes. The study identified a statistically significant variation in attitudes towards organizational innovation based on the managers' functional area within the organization. The data also suggests that education and gender are two significant aspects impacting managers' views toward creativity and innovation and confirms earlier findings (Ali, 1993) that Arab managers scored poorly on risk-taking measures.

Recent studies show that employees' general feelings of insecurity directly impact performance (Kajalo & Lindblom, 2010). Hence, understanding the concept of occupational stress would help remediate sources of stress, especially in sectors where stress levels among workers are known to be high, such as the retail sector, and how stresses may spillover from wider society into the workplace. Touzani et al. (2016) investigated this issue in a Tunisian context, and have identified three sources of stress that, they argue, characterize the MENA cultural context: feelings of anxiety inside the

organization; social disdain towards those of low status; and cultural and gender stereotypes.

Suliman (2001) This study explores the multidimensional nature of performance in Jordan across three managerial levels (top, middle, and lower). It concludes that performance is determined by five factors: job skills, job excitement, job performance, job comprehension, and willingness to innovate. The author posits that strengthening these areas may more than compensate for any contextual difficulties.

3) Regional view

Welsh and Raven (2006) surveyed retail managers and salespeople in Kuwait and Lebanon to investigate family-owned businesses' perceived service behavior and organizational commitment. The findings indicate that workers of family-owned companies in the Middle East largely behave similarly to those in Western nations; nevertheless, particular distinctions may be ascribed to the region's cultural traits. Middle Eastern cultures are distinct in many ways, but they share a penchant toward fatalism. This is evident in numerous ways, but particularly in the phrase “Insha’Allah,” which means “God willing” but can also mean “if the boss wills” (Rice, 1999). A key theme of the literature is on common contextual pressures and potential ways forward; however, much more attention is accorded to cultural interconnectedness, than flows in investment capital, despite the undeniable importance of the latter.

2.5.1.3 Indigenization Implications

Other studies looked at HRM from labor indigenization policy and its manifestations on organizations in the petrostates.

1) Oil-dependent countries

According to recent research, the greatest progress in workforce indigenization may be found in companies in the oil and gas industry (including both foreign players, which are susceptible to host country government pressures and state oil firms), with minimal success in non-minerals sectors (Wood et al., 2019). The investigation was carried out in Saudi Arabia by the researchers. The authors suggested that the resource curse theory might be expanded to explain the gap in policy outcomes by the overconcentration of regulators and policymakers on the oil and gas sector. Due to this focus on a single industry, other industries suffer from restricted investment and a scarcity of human resources, making indigenization more difficult for multinational firms in non-minerals sectors. Rees et al. (2007) investigated how the UAE petroleum company applied Emiratization at the organizational level. This study adds to and expands on previous research on the intricacies of internal opposition to nationalization, the role of expatriates in conducting Emiratization initiatives, and other institutional nuances. The research results support the description of workforce indigenization as a "black box" and, in some ways, explain a substantial gap in the HRM literature; in turn, these insights helped inform subsequent work. What is clear from this literature is that progress in indigenization has been very uneven, and often limited; regulatory drives have not yielded the full results anticipated. Yet, to date, there has been little research on the role of state investments, either directly or via SWFs, as mechanisms for indigenization, although the latter concerns are undeniably major drivers of such investments.

2.5.1.4 Strategic HRM

Among the topics covered in this sub-theme of HRM were regional HRM convergence vs. divergence relative to the Western HRM system, the existence of regional HR models similar to or different from Western models

1) Oil-dependent countries

Bealer and Bhanugopan (2014) perform a comparative leadership behavior study of expatriate and indigenous managers in the UAE. The findings show that regional leaders are less transformational than their counterparts in the US and Europe. They also found that regional managers are more passive-avoidant than managers in the US and Europe. Such managerial characteristics may permeate a wide range of organizations.

Divisions within the workforce create an environment that perpetuates poor employment conditions. In their analysis, Connell and Burgess (2013) argued that Dubai had become a regional hub for international firms partially thanks to a lightly regulated labor market. Nonetheless, the authors advocate for labor reform in the UAE and the region to ensure better labor standards for migrant workers.

2) Regional view

Budhwar et al. (2019) argue that a hybrid HR paradigm based on indigenous and rationalized Western traits will ultimately develop. Afiouni et al. (2014) noted an already significant body of research on HRM related areas of “employment nationalization policies, self-initiated expatriation, local employee’s view on expatriate managers, female talent retention, knowledge transfer from multinational corporations to local subsidiaries, high performance work systems, and employee and leaders’ behaviors.” Afiouni et al. (2013) analyze the existence or absence of an Arab Middle Eastern (AME) HR model in 13 countries throughout the region. The findings

indicate that present HR practices in these countries fall along the dimensions of the value proposition model (VPM) with a shared perspective of the region's most and least prevalent HR practices, with some differences, hinting that the outlines of "AME HR model" may begin to emerge. However, there is little evidence that such a model unlocks complementarities between rules and practices, yielding superior outcomes. Rather, it seems to be often accidental, based on improvisation and discovery, rather than driven by investors or other stakeholders. Such realities may reflect institutional shortfalls; again, easy revenues from oil and gas may detract from a sense of urgency to deal with organizational challenges.

2.5.2 General Management (GM)

The GM-oriented theme has 15 articles encompassing managerial functions from organizing, planning, to leading and controlling resources within an organization. We found two literature reviews on regional management research (Elbanna et al., 2020) and regional internal auditing (Al-Akra et al., 2016). The topics discussed, as shown in **Error! Reference source not found.**, included business model innovation, sustainability, corporate politics, internal audits, and, notably, governance of sovereign wealth funds, marketing, key account management, institutional reforms, industrial clusters, and performance drivers.

Figure 9: Categorization of General Management Themes

Business Model Innovation	•Represents the adaptation and evolution of business models to meet changing demands.
Corporate Politics	•Examines the dynamics of power and influence within organizations.
Internal Auditing	•Highlights the importance of oversight and compliance in organizational processes.
Sustainability Practices	•Focuses on integrating sustainable practices within organizational operations.
Marketing Strategies	•Addresses the development and implementation of effective marketing approaches.

Author's Depiction

Allan and Allahham (2021) investigate the realities and prospects for sustainable practices and behavior in Jordan's government-run tourist organizations. The findings indicate that public sector managers are increasing their awareness and application of sustainability but are hampered by organizational constraints.

Businesses routinely restructure their operations in response to internal and external difficulties (Amit & Zott, 2015; Cozzolino et al., 2018; Futterer et al., 2018; Teece, 2018). A framework for addressing these difficulties has been proposed as business model innovation (BMI) (Osiyevskyy & Dewald, 2015). Ramdani et al. (2020) conducted a study to explore how companies in the Middle East respond to internal and external threats. They create resilience, according to the findings, by deploying permutations of activities from their arsenal in response to distinct internal and external challenges. While the value proposition, operational, and financial value dimensions exhibit the most critical activities, the human capital dimension shows the fewest

changes in activity; the research concludes by recommending resilience as an alternative strategy to business model innovation.

Two typical organizational antecedents of corporate politics are managerial autonomy and strategic control (Elbanna & Child, 2007; Papadakis et al., 1998). The impact of managerial autonomy and strategic control on organizational politics was investigated by Elbanna (2016) using data from the GCC tourism industry. Organizational politics are projected to be uncommon in low autonomous and high control scenarios, according to the analysis, and organizational politics have a negative impact on strategic planning efficacy. The research finds that by raising organizational tensions, high degrees of autonomy paired with low levels of control nullify the effectiveness of strategic planning.

The region has undergone and is facing significant future changes in the regulation of internal auditing (Al-Akra et al., 2016). The researchers conducted a systematic review of the literature to shed light on regional practices by analyzing research on the internal auditing function and providing insight into areas where prospective reform would be most advantageous. This analysis established that internal auditors' independence and objectivity are insufficient, notwithstanding the region's recent governance changes. They conclude that cultural elements such as family and tribe considerations impacted internal auditing professionalism, uniformity of procedure, and independence.

A further area of inquiry has been marketing. According to Lages et al. (2015), there has been a gap in the region's marketing literature. They suggest that relying solely on assumptions based on research conducted in developed economies is a risky strategy. The paper reviews the marketing literature and finds that research on the region has provided explanations for its under-researched status. These explanations include, among other things, field

research constraints such as obtaining research clearance and limited availability of data sources. While the study supports some prior research assertions, it also contradicts others, including the claim that academic freedom constrains scholars. However, intellectual freedom was not raised as a concern in this study.

The drivers of firm performance in the UAE were investigated by Elbanna (2012). He investigated whether slack (resources in excess of those required) and planning (the breadth and depth of strategic planning) contribute to or impede organizational performance. Both slack and planning are found to be significant determinants of organizational performance.

Many governments in the region have developed industrial cluster policies and strategies to achieve economies of scale over the past few decades. Cammett (2007) investigated the patterns of business-government relations in Morocco and Tunisia, arguing that state-dominated political economies with more organized business communities are better positioned to create and implement macroeconomic and infrastructure-related measures for upgrading industries and boosting innovation.

Dant and Nasr (1998) focus on how franchisors may supervise and monitor the performance of their franchisees in remote places, with an emphasis on information sharing. The authors conducted a study of US-based franchisors with Middle Eastern and African franchisees. While the degree of competition faced by franchisees was shown to be an incentive to share information with franchisors, the relationship's age was found to deter such sharing.

Other work explores variations in accounting practices, using, *inter alia*, networking theory (ALHussan et al., 2014). Other work focuses on public management and administration and concludes, among other things, that

while reform processes are gathering traction in several countries throughout the region, they are slow and evolutionary in nature, more suited to the domestic context in which social structures take precedence over rational managerial strategies (Common, 2008).

Zahra (2011) describes some of the significant changes occurring in the Arab Middle East and the opportunities they provide for researchers worldwide. The scholar offers research opportunities that can promote influential management theory and research. The author believes understanding this region and its organizations may enrich management scholarship and practice. The paper implores leaders to establish connections with the rest of the world in order to attract talent, finance, new technology, and modern management and organizational systems. Common themes running through the literature include differences in state and private employment, and uneven allocations of talent and skills; both, as we have seen may be linked back to the effects of oil riches.

2.5.3 Cross-Cultural Management (CCM)

This CCM-oriented theme has 10 articles that are mainly about how Arab, Islamic, and other cultural values impact business and management practices in the Middle East. Our analysis revealed two sub-themes under this central archetype: (1) trust, Wasta, relationships and cultural dissonance (7 papers), and (2) religion and management (3 papers). We noted one systematic literature review on Wasta (Weir & Ali, 2020).

2.5.3.1 (1) Trust, Wasta, Relationships and Cultural Dissonance

There is a considerable body of research on how culturally bonded relationships emerge and operate, examples being the Chinese "Guanxi" (Liu et al., 2008; Luo, 2007; Yau et al., 2000), the Russian "Blat" (Michailova & Worm, 2003), the Thai "Boon Koon" (Pimpa, 2008), and the Middle Eastern

“Wasta”; the latter can be defined as a form of social capital widespread in the region and rooted in family and kinship ties to bypass formal bureaucracies and regulations (Cunningham et al., 1993; Hutchings & Weir, 2006; Smith et al., 2012). Such networks are often viewed as mechanisms for compensating for institutional shortfalls (ALHussan et al., 2014; Budhwar et al., 2019; Weir & Ali, 2020). It should be noted that they interpenetrate firms, governments and SWF investment; this makes it harder for the state to mitigate the challenges such networks pose, most notably to formal regulatory drives.

Some researchers have used frameworks that look at how people's affiliations with networks and alliances affect their business decisions and practices. These frameworks examine social networks and institutions, social capital, and group identity (Ledeneva, 2018; Li, 2007; Qi, 2013; Sato et al., 2010). Weir and Ali (2020) conducted a systematic review on Wasta and offered a synthesis of explanations to understand the practice holistically. The paper reviewed the body of knowledge on Wasta from a theoretical lens. It sheds light on the complexity of Wasta, as the network and its manifestation among its members. It should be noted that wasta networks are widely pervasive, and hence, may permeate both private firms and SWFs; this may facilitate in the interchange of ideas, but also may enhance vested interests in the status quo.

Scholars often see Wasta as incompatible with foundational Islamic principles such as fairness and justice and use this as a shred of evidence to note that not all Islamic values are fully adhered to in the business setup (Ali & Al-Kazemi, 2006; Iles et al., 2012). This is an interesting phenomenon because one could argue that even within the indigenous value system, we will see a divide and tension between the identity and the behaviors, which scientists call "cultural dissonance," the gap between cultural values and

actual practice (Karacay et al., 2019). This could weaken the degree to which cultural values can influence business and management practices at the individual level and the Islamic society at large.

Cultural dissonance theory explains the state of tension that results from the discrepancy between cultural values ("the way things should be") and actual practice ("the way things are"). Karacay et al. (2019) incorporated the concept of cultural dissonance into a study on implicit leadership to identify the leadership preferences of people of the region. They found that "leaders may be seen as effective if they act as change agents by taking the lead in reducing the discrepancy between cultural values and actual practices."

Scholarly understanding of the cultural values that business leaders in the region subscribe to has been murky at best. The primary focus of Ralston et al. (2012) paper is to assess the differences and similarities in the region's collectivism, individualism, and universalism values. The findings show that the region is not homogeneous. Instead, cultural value heterogeneity proliferates both between and within countries. Yeganeh and Su (2011) study cultural orientations and compensation policy preferences. The study results suggest that culture impacts compensation preferences in partial and moderate ways. Furthermore, preferred compensations vary across cultural orientations, as the paper indicates. This can be helpful insights when designing compensation policies.

Mizrachi et al. (2007) look at the trust ties between Israeli and Jordanian managers in a joint industrial complex. According to the authors, trust, which is always a barrier to transnational cooperation, poses significant challenges to this delicate relationship between erstwhile foes. They demonstrate how Jordanians and Israelis alternatively and interchangeably employ various types of trust, overcoming cultural dichotomies such as tradition and modernity and diverging from presupposed growth pathways.

2.5.3.2 (2) Religion and Management

As noted earlier, Muslims constitute approximately 95% of the regional population. Therefore, examining how Islamic values affect business behaviors and management practices would help us better understand the region's people within a business and management setting.

An important line of questioning is how religion influences business, emphasizing dominant religious institutions. Theories of how religion shapes business tend to focus on dominant religious institutions and typically explore macro- and micro-level linkages within sacred contexts, as well as whether these linkages lead to structural change or the status quo in business.

One way to understand how religion shapes business in the Middle East is to scrutinize organizational religiosity (Abdelsalam & El-Komi, 2014; Lehrer, 2004; Leventis et al., 2018; Vitell, 2009). Abdelsalam et al. (2016) examined the strict religious standards adopted by Islamic banking institutions and how these extended accountability constraints impacted earnings management behaviors. The paper concludes that "Islamic banks are less likely to manage earnings and adopt more conservative accounting policies." The researchers assert that religious standards and moral accountability requirements have a major impact on the quality of financial reporting and agency costs in these organizations, with implications for policymakers and market players.

While Islamic banking literature begins with an understanding of culture and religion, it focuses on operational issues rather than on what the latter reveals about culture. Bassens et al. (2012) discuss the role of Shari'a scholars in Islamic banking. The article focuses on the international capabilities of Shari'a experts recruited by Islamic banks to evaluate "Islamic" character and aid in the design of Shari'a-compliant offerings.

Members of what some people call the "global Shari'a elite" might be regarded as "gatekeepers" of Islamic financing because they are important points of entry into Islamic knowledge and authority networks.

2.6 Discussion and Conclusion

Unlike phenomenon-driven review research, which focuses on one or two distinct constructs, our review is geographically oriented. This paper contributes to our understanding of business and management practices in the Middle East. SWF investments may serve as a vehicle for indigenization, greater investments in people, and, indeed, economic diversification. At the same time, it is evident that practices are deeply embedded, and as with regulatory drives, there may be limits as to what investor pressure might achieve. This review aimed to consolidate the fragmented research and cluster work around major themes, contributing to a more holistic understanding of the interactions between business, state, and society in the region, and drawing a distinction between petrostates and non-petrostates. Our results reveal that most business and management challenges are studied only partially, largely through applied studies, with modest theoretical ambitions and few extensions. Very limited attention is devoted to the effects of investor pressures, by local private investors, states and SWFs. Again, the novelty of many studies often rests on new empirical data, corroborating or challenging what is known, but in a manner that is often more confirmatory than counter-intuitive, even if there is an admittedly smaller corpus of more ambitious and genuinely path-breaking work. The key findings of this review present several important trends and patterns that characterize the current state of business and management research in the Middle East.

First, much of the literature focuses on Human Resource Management (HRM). This is in line with strong policy emphases across the region towards indigenization and local job creation, and the challenges and contradictions it has faced. Such a policy emphasis represents, as we have seen, at least in part efforts to mitigate the distorting effects of oil and gas riches and the associated resource curses. These contradictions are frequently linked to the challenges of human capital development (HCD), where strong public investment in education fails to yield sufficient skilled local talent ready for the private sector, often due to the enduring legacy of rentierism and institutional fragmentation in the education sector, and the large-scale availability of public sector work. To manage large oil surpluses and mitigate dependency on the volatile oil sector, petrostates deploy SWFs to inject capital into home-country and regional development projects. They often use oil-related liquidity to finance large infrastructure programs, though their governance structures have historically prioritized financial market accountability over broader developmental or public goals.

A particular concern is on indigenization within petrostates, as evidenced by studies examining labor nationalization policies (Rees et al., 2007; Wood et al., 2019). This emphasis highlights the importance of understanding the challenges and complexities associated with increasing the representation of local citizens within the workforce, particularly in key sectors such as oil and gas.

Other HRM research in the region demonstrates a notable focus on organizational performance implications, reflecting a scholarly interest in examining the impact of HRM practices on various organizational outcomes. Studies within this sub-theme investigate the role of HRM in navigating disruptive technologies (Alberti-Alhtaybat et al., 2019), managing workplace stress (Touzani et al., 2016), fostering creativity and innovation (Mostafa,

2005), enhancing organizational commitment (Stallworth, 2004; Suliman & Iles, 2000; Suliman & Al-Junaibi, 2010), optimizing job analysis (Siddique, 2004), and improving employee performance (Mohammad et al., 2021; Suliman, 2001). These investigations reveal a concern with understanding how HRM can be leveraged to enhance organizational effectiveness, productivity, and overall success.

Secondly, in the realm of General Management (GM), this review reveals a scholarly interest in a range of topics, including business model innovation (Amit & Zott, 2015; Cozzolino et al., 2018; Futterer et al., 2018; Osiyevskyy & Dewald, 2015; Ramdani et al., 2020; Teece, 2018) and sustainability (Allan & Allahham, 2021), reflecting a concern with how organizations in the Middle East are adapting to evolving internal and external environments and integrating sustainable practices into their operations. This is reflected in major initiatives, such as Saudi Arabia's PIF investing heavily in sustainable projects like NEOM and electric vehicle manufacturer Lucid Motors, or the UAE's Mubadala pioneering the Masdar City sustainable urban development project. This theme of accountability is also particularly relevant to the region's SWFs, with some GM literature exploring their transnational accountability regimes (e.g., (Mehrpooya, 2015)) as they navigate the sustainability and governance expectations inherent to their role as instruments of state capitalism.

Furthermore, research on corporate politics (Elbanna, 2016; Elbanna & Child, 2007; Papadakis et al., 1998) and internal auditing (Al-Akra et al., 2016) points to an interest in understanding organizational dynamics, power relations, and governance mechanisms within Middle Eastern businesses. This review also highlights the importance of regionally tailored marketing research (Lages et al., 2015), acknowledging the limitations of relying solely on assumptions derived from developed economies. Finally, GM research

demonstrates an interest in the drivers of firm performance (Elbanna, 2012), the dynamics of business-government relations (Cammett, 2007), and specific areas such as franchise performance (Dant & Nasr, 1998), showcasing a diverse range of scholarly inquiries aimed at understanding and enhancing organizational effectiveness.

Thirdly, Within Cross-Cultural Management (CCM), this review underscores the significant impact of cultural values, including Arab and Islamic values, on business and management practices in the Middle East. A particularly prominent theme within this domain is the examination of *Wasta* (Cunningham et al., 1993; Hutchings & Weir, 2006; Ledeneva, 2018; Liu et al., 2008; Luo, 2007; Michailova & Worm, 2003; Pimpa, 2008; Qi, 2013; Sato et al., 2010; Smith et al., 2012; Weir & Ali, 2020; Yau et al., 2000), a form of social capital rooted in kinship and social ties, and its influence on business interactions and organizational processes. Additionally, CCM research explores the concept of cultural dissonance (Karacay et al., 2019), which refers to the tension between cultural values and actual practices, as well as the role of religion and management (Abdelsalam et al., 2016; Abdelsalam & El-Komi, 2014; Bassens et al., 2012; Lehrer, 2004; Leventis et al., 2018; Vitell, 2009), particularly the influence of Islamic values and institutions on business behaviors and organizational religiosity. A limitation of the CCM literature are strong assumptions of path dependence, when cultures do evolve and adapt in line with changing economic realities.

In sum, these key findings highlight the diverse and evolving nature of business and management research in the Middle East, encompassing a range of thematic areas and reflecting a growing scholarly interest in understanding the complex interplay of cultural, institutional, and organizational factors that shape business practices and outcomes in the region.

2.6.1 Theoretical Implications

This review contributes to existing knowledge and theoretical frameworks across several disciplines, specifically management, economics, and sociology. Its primary contribution lies in providing a deeper understanding of management practices as they are enacted within a non-Western context. This is important, as much of mainstream management theory has historically been developed and validated within Western paradigms, which somewhat limits its applicability and explanatory power in diverse cultural settings. By synthesizing research focused on the Middle East, this review brings to light the contextual contingencies that shape organizational behavior, human resource management, and general management practice. For instance, the findings highlight the pervasive influence of cultural values, such as collectivism, power distance, and religiosity, on leadership styles, employee relations, and organizational culture. Furthermore, the exploration of 'Wasta' as a form of social capital provides a critical counterpoint to universalistic notions of networking and highlights the embeddedness of economic action in specific socio-cultural contexts. It should be noted that wasta ties interpenetrate the state and private sectors, and within the latter, both the oil and gas industry and other sectors; they would also interpenetrate state vehicles such as the SWFs. This may deepen informal linkages between these areas, but may serve to entrench vested interests, and by implication, the status quo.

2.6.2 Practical Implications

Beyond its theoretical contributions, this review also yields important implications for practice. The synthesized findings offer insights for businesses operating in, or contemplating entry into, Middle Eastern markets, locating it within the context of the uneven allocation of natural

resource endowments and the challenges these pose. They highlight the imperative to adapt business strategies, management practices, and organizational structures to the specific cultural, institutional, and regulatory contexts of the region. It also highlights the limitations and challenges of existing state interventions, most notably in terms of public sector job creation and indigenization. In turn, this would underscore the importance of future SWF investments in the region, and the difficulties they might run into, in terms, *inter alia*, of talent and skills, and the operation of extended informal networks of support such as *wasta*.

At the level of the firm and, indeed, other organizations, such as the SWFs themselves, this requires a move away from ethnocentric approaches and towards culturally sensitive and contextually appropriate management models. For example, businesses must be cognizant of gender dynamics in the workplace, the significance of relationship building and '*Wasta*', and the influence of Islamic values on ethical conduct and business operations. The review also carries implications for talent management, emphasizing the need for developing local talent and implementing HRM practices that align with cultural expectations and norms.

At the level of government policy, this review's findings can inform the development of more effective and contextually relevant policies in the Middle East. It underscores the need for policies that foster sustainable economic diversification, promote inclusive labor markets (e.g., by supporting women's participation and addressing labor nationalization), and strengthen corporate governance frameworks. The insights into state-business relations and the challenges of balancing economic development with socio-cultural values can guide policymakers in designing interventions that are both economically sound and socially acceptable.

Finally, this review's insights into the socio-cultural dynamics of the Middle East can also inform societal initiatives aimed at fostering social and economic development. It highlights the importance of addressing cultural barriers to social mobility, promoting gender equality, and fostering cross-cultural understanding and dialogue. The findings can inform the design of culturally sensitive, community-driven initiatives that are effective in achieving their intended social impact.

2.6.3 Implication for SWFs

This review has significant implications for understanding SWFs in the GCC. Although they are unique state entities, yet SWFs operate within this regional environment and likely face similar challenges as other organizations.

First, internally, SWFs, as large and strategically important organizations, are not immune to the HRM complexities highlighted in the SLR. First is the persistent challenge of indigenizing staffing (Rees et al., 2007; Wood et al., 2019), particularly in highly specialized, non-mineral sectors crucial for diversification, is acutely relevant. SWFs require a cadre of skilled professionals in global finance, asset management, and strategic investment – fields where local talent pools may still be developing. Their efforts to balance national employment objectives with the need for world-class expertise will involve navigating the "Emiratization" or "Saudization" or "Omanization" complexities identified in the literature (Rees et al., 2007; Wood et al., 2019), potentially requiring innovative recruitment, intensive local capability development programs, and sophisticated management of diverse, multicultural teams comprising both nationals and expatriates. The SLR findings on challenges faced by women in the workplace (Marmenout & Lirio, 2014) also suggest that SWFs, as prominent national institutions, will

be under scrutiny to champion the development of female talent and leadership, while navigating the same socio-cultural ambiguities identified in regional HRM research.

Secondly, the SLR highlighted regional challenges in areas such as organizational creativity and innovation (Mostafa, 2005), as well as variations in the effectiveness of HRM practices on organizational performance (Mohammad et al. (2021). For SWFs, which are often tasked with spearheading economic transformation, investing in cutting-edge industries, and achieving superior financial returns, cultivating an internal culture that fosters innovation, strategic thinking (as per "Strategic HRM" themes), and high performance is important. They may need to consciously address any regional tendencies towards less transformational leadership styles (Bealer and Bhanugopan (2014) and develop hybrid HR models (Budhwar et al., 2019; Tlaiss, 2014; Zahra, 2011) that blend global best practices with local sensitivities to achieve their ambitious objectives.

Thirdly, the emerging GM themes from the SLR, such as the influence of local norms on corporate politics and internal auditing practices (Al-Akra et al., 2016; Elbanna et al., 2020), are critical for SWFs. Given their substantial public assets and strategic national importance, robust and transparent governance is non-negotiable. SWFs must navigate the informal institutional landscape, including potential influences of family or tribal considerations on professionalism noted by Al-Akra et al. (2016), to uphold international standards of accountability and mitigate operational risks. Their role as key instruments within state-dominated political economies Cammett (2007) further underscores the need for impeccable governance to ensure their mandates are pursued effectively and legitimately. The challenge of adapting to disruption and embedding sustainability, as noted by Ramdani et al.

(2020) and Allan and Allahham (2021) respectively, also directly applies to SWFs tasked with future-proofing national economies.

Fourthly, externally, the CCM findings and institutional analyses in the SLR directly inform how SWFs must manage their relationships and international image. The importance of trust, personal relationships, and networks like 'Wasta' in Middle Eastern business dealings (Smith et al., 2012; Weir & Ali, 2020) has clear implications. In their domestic investments and stakeholder engagements, SWFs will inevitably operate within this relational context. This requires key strategies that acknowledge and ethically navigate such informal institutions. Internationally, however, these same practices might be perceived differently, which necessitates careful management of their global image and adherence to international business norms to avoid misunderstandings or accusations of opacity. The "cultural dissonance" identified by Karacay et al. (2019) – the gap between espoused values and actual practices – could also manifest in how SWFs balance local operational norms with global expectations.

State Ownership and International Perceptions:

Lastly, as quintessential examples of state capitalism, GCC SWFs operate under heightened international scrutiny. Their strategies need to account for the institutional and cultural context identified in the review, particularly regarding perceptions of their governance, transparency, and the geopolitical implications of their investments. The SLR's call for a more suitable archetype for the region's specific form of capitalism is pertinent here, as understanding this archetype is key to analyzing the behavior and impact of major state-linked actors like SWFs.

In essence, the SLR shows that effective SWF strategies and governance cannot be mere transplants of universal models. They demand a more

context-sensitive approach that adeptly blends global best practices in finance and management with reflective adaptations of Middle Eastern institutional, cultural, and socio-economic realities. Essay 1 provides this essential background for analyzing SWFs as complex organizations shaped by their specific regional setting.

2.6.4 Key Limitations

While this review endeavors to provide a comprehensive overview of the extant literature on business and management in the Middle East, it is crucial to acknowledge certain inherent limitations that may circumscribe the scope and generalizability of its findings.

Firstly, this review is subject to language restrictions. The primary focus on English-language publications, while pragmatic, inevitably risks excluding relevant scholarly work published in other languages prevalent in the region. Arabic, being the dominant language across much of the Middle East, is a particularly salient example. This linguistic bias could result in an underrepresentation of indigenous perspectives, theoretical contributions, and empirical findings originating from scholars and practitioners within the region who choose to disseminate their research in languages other than English. Consequently, the review's synthesis of knowledge may not fully capture the richness and diversity of scholarship on business and management in the Middle East.

Secondly, the review is potentially susceptible to database bias. The reliance on specific academic databases, primarily Scopus, for the identification of relevant literature, introduces the possibility of exclusion of studies indexed in other databases or published in outlets not covered by these selected platforms. While Scopus is a widely recognized and comprehensive database, it is not exhaustive, and variations in indexing practices can lead

to the omission of pertinent research. Furthermore, the application of the Chartered Association of Business Schools (CABS) ranking as a criterion for assessing journal quality, while intended to ensure rigor, may inadvertently prioritize certain types of publications and research paradigms, potentially overlooking valuable contributions from emerging scholars or those published in regionally focused journals that may not be captured within the CABS framework.

Thirdly, the review acknowledges the limitations imposed by the availability of data, a factor particularly pertinent to conducting research within the Middle East. As highlighted in the paper, field research constraints, such as difficulties in obtaining research clearance and limited access to reliable data sources, can pose significant challenges to empirical investigation in the region. These constraints not only affect the quantity of research output but may also influence the nature and scope of studies that are feasible to conduct. Consequently, the body of literature available for review may be shaped by these practical limitations, potentially impacting the depth and breadth of the synthesis.

Finally, the review's thematic focus, while providing a structured approach to analyzing the literature, also presents certain limitations. The categorization of studies into themes, such as HRM, GM, and CCM, may lead to an inadvertent overlooking of interdisciplinary research that transcends these boundaries or emerging areas of inquiry that do not fit neatly within these categories. This thematic structuring, while facilitating a systematic analysis, could potentially constrain the exploration of novel perspectives, innovative methodologies, or less-researched topics that are nonetheless relevant to understanding the complexities of business, state, and society interactions in the Middle East. A further limitation of this thematic structuring is that linkages between the firms and other areas of the

economy may be less visible than might otherwise be the case; to mitigate this, explicit linkages were drawn whenever possible.

In sum, these limitations, stemming from language restrictions, database biases, data availability constraints, and thematic choices, necessitate a cautious interpretation of the review's findings and underscore the need for future research to address these limitations and further refine our understanding of business and management in the Middle East.

2.6.5 Recommendations for Future Research

The findings of this review point to salient directions for future research that can further advance our understanding of the intricate dynamics of business, state, and society within the Middle East. Firstly, the review underscores the need for future studies to cultivate a deeper theoretical understanding of *Wasta* and culture more broadly. While the existing literature has acknowledged the significance of *Wasta* as a form of social capital in the region (Cunningham et al., 1993; Hutchings & Weir, 2006; Smith et al., 2012; Weir & Ali, 2020), there remains a need to move beyond descriptive accounts and delve into the deeper theoretical underpinnings of this phenomenon. Future research should explore the connection between *Wasta* and other cultural values, examining how it shapes organizational practices, decision-making processes, and power relations within different contexts in the Middle East.

Secondly, the review highlights the potential to extend comparative institutional analysis by developing an archetype better suited to understanding the Middle East. While institutional theory has been widely applied to the study of business and management in the region (Budhwar et al., 2019; Tlaiss, 2014; Zahra, 2011), there is a need to refine and adapt existing frameworks to better capture the unique institutional configurations

of Middle Eastern economies. This involves moving beyond simplistic dichotomies, such as liberal vs. coordinated market economies (Hall & Soskice, 2001), and developing more context-sensitive archetypes that account for the specific roles of the state, family, religion, and other socio-cultural institutions in shaping economic governance. Future research could draw upon comparative institutionalism, but also incorporate insights from political economy, development studies, and sociology to develop more robust and nuanced theoretical frameworks for analyzing institutional change and its impact on business and management in the Middle East. This endeavor would not only contribute to a more accurate understanding of the region but also enrich comparative institutional theory by expanding its scope and applicability to non-Western contexts.

In addition to these recommendations, future research should also consider exploring the role of SWFs as instruments of state capitalism for development in the Middle East, and, indeed, as Middle Eastern organizations in their own right; the review highlights many of the managerial challenges affecting Middle Eastern organizations which are likely to be encountered within SWFs as well. Given the significant role of SWFs in the region's economies, further investigation is warranted to understand how these state-owned investment vehicles shape corporate governance, industrial policy, and economic diversification efforts. Research could examine SWFs' investment strategies, their impact on local businesses and capital markets, and their contribution to broader development goals. Such studies could contribute to our understanding of the evolving nature of state capitalism and its implications for economic development in the Middle East.

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Chapter 3: Macroeconomic Determinants of GCC SWFs' Investment Policies: Unveiling the Role of Institutional Trust in Country of Origin

Abstract

Holding approximately 40% of the world's Sovereign Wealth Fund (SWF) assets, Gulf Cooperation Council (GCC) SWFs are influential players in the global financial ecosystem. However, prevailing scholarly frameworks, which frame SWFs as either passive savings vehicles or instruments of external statecraft, provide an inadequate lens for understanding their dynamic domestic function. This study addresses this theoretical void by reconceptualizing the GCC SWF as a 'transitional institution', a strategic state entity designed to manage the shift from a state-dominated economy to a private-sector-led model, whose behavior is moderated by the quality of institutional trust. Using panel data from 2007 to 2022, we test this new framework by examining how domestic macroeconomic factors, like economic development and private sector development, affect SWF investment behaviors. Additionally, we investigate the moderating effect of institutional trust on these relationships. Our findings support the 'transitional institution' concept. It reveals a significant negative relationship between private sector development and SWF investment, suggesting that SWFs strategically recede as the private sector matures. The role of institutional trust was found to be complex. It acts not just as a simple direct driver but as a significant moderator of the relationship between economic development and SWF investment. These findings challenge simplistic views of state capitalism and offer a refined, context-dependent model for

understanding the determinants of SWF investment in resource-rich economies.

3.1 Introduction

This study explores how domestic macroeconomic factors and institutional trust influence the sovereign wealth investment behavior of Gulf Cooperation Council (GCC) countries. This is against the backdrop of the growing interest in international business literature on transnational financial actors, most notably Sovereign Wealth Funds (SWFs) (Boubakri et al., 2023a), a term coined by Rozanov (2005). Although their genesis can be traced back several decades, with early examples emerging in the mid-20th century, it was during the 1990s and early 2000s that they gained prominence on the global financial stage as countries with substantial current account surpluses sought effective means to manage their excess reserves (Aizenman & Glick, 2009; International Monetary Fund, 2007).

While GCC countries, comprising Saudi Arabia, the United Arab Emirates (UAE), Qatar, Kuwait, Bahrain, and Oman, have thrived on resource wealth, this study examines the role of institutional trust in shaping SWF investment policies, particularly as these nations seek to diversify their economies and promote private sector growth. It suggests that the impact of economic and private sector development on SWF investments is conditional upon the prevailing levels of institutional trust, shedding light on how macroeconomic conditions and institutional quality interact to influence sovereign wealth strategies. By examining these relationships, this study provides a refined understanding of how GCC countries can leverage their SWF investments to achieve sustainable economic development and diversification.

A search of the literature revealed few studies (Amar et al., 2019; Amar et al., 2022; Candelon et al., 2011), which has examined the specific factors driving SWF investment decisions in resource-rich economies with particular institutional environments like the GCC. For example, Amar et al. (2019) identified macroeconomic, political, and fund-specific characteristics

influencing SWF investments. They noted some studies that finds that higher GDP per capita, financial development, and political stability in target countries attract more SWF capital. They also find that factors like current account surpluses and foreign exchange reserves are significant for SWF existence. Similarly, Candelon et al. (2011) finds that exchange rate stability is a key determinant of SWFs in developed economies like Europe and the United States. While these studies provide valuable insights, a specific gap exists in understanding the drivers of GCC SWF investments, especially considering their unique resource-rich context and institutional setups. For instance, there is a limited amount of empirical investigation into the specific macroeconomic factors within the GCC countries themselves that influence their SWFs' investment behavior. Moreover, the potential influence of institutional trust, in the context of the GCC countries, on the relationship between these macroeconomic factors and SWF investment policies has largely been overlooked in existing literature. This presents a gap in understanding the drivers of GCC SWF investments.

To address this theoretical void, this study proposes a new framework that reconceptualizes the GCC SWF as a 'transitional institution'⁵ We argue that prevailing scholarly models—which frame SWFs as either passive savings vehicles or as externally-focused instruments of statecraft—provide an inadequate lens for understanding their dynamic domestic function. This paper posits that these SWFs are, in fact, strategic state entities designed to

⁵ As described in the opening chapter of the thesis, “institution”, within the term “transitional institution”, means a specific kind of financial institution, and should be seen as distinct from wider socio-economic institutions referred to in the economic and comparative institutional analysis literatures (e.g. institutional approaches to understanding the Gulf states, economies and societies); This follows on conventions in the existing literature that draws a clear distinction between the two. As an aide-memoire at key stages the term “financial” is added in brackets, so as to avoid confusion between these two different types of institution.

manage the shift from a state-dominated, resource-dependent model to a private-sector-led model, whose behavior is moderated by the quality of institutional trust.

To test this new framework, this study conducts an empirical analysis of GCC SWF investment behavior using panel data from 2007 to 2022. It contributes to a deeper understanding of how macroeconomic factors, such as economic development and private sector development, influence the investment policies of GCC SWFs and how institutional trust moderates these relationships.

GCC countries are renowned for their abundant oil and gas reserves and are significant global sovereign investors. Collectively, these countries account for approximately 45% and 17% of the global repositories of proven oil and natural gas reserves, respectively, and oversee about 25% of the worldwide crude oil exports (ElGindi, 2016; Kabbani & Mimoune, 2021; Kaddorah, 2021). Due to increased global dependence on crude oil resulting from industrialization and the subsequent rise in oil prices, in the past few decades, the GCC countries have amassed significant capital – “Petrodollars”. This capital has enabled the establishment of SWFs in the region with a primary function of managing oil revenue windfall, diversifying national economies, mitigating the impacts of price volatility on their economies, and serving as an inter-generational savings device (Arouri et al., 2018).

Globally, SWFs have experienced remarkable growth since 2007, with their assets under management (AUM) estimated to have reached USD 10 trillion in 2023 (Alosaimi & Alfraih, 2023; Amar et al., 2023) with an average annual growth rate of around 25% over the past two decades (Girra et al., 2022). The considerable size of GCC SWFs, with cumulative assets exceeding USD 4 trillion, representing over 40% of global SWF assets (Alosaimi & Alfraih,

2023), positions them as influential entities (like the Abu Dhabi Investment Authority (ADIA) and Mubadala of the UAE, the Public Investment Fund (PIF) of Saudi Arabia, and the Qatar Investment Authority (QIA)) in the global economy. This highlights the need for a deeper understanding of their investment policies. They have invested in a wide range of asset classes and sectors, including stocks, bonds, real estate, alternative investments, natural resources, infrastructure investments, and venture capital investments (Garg & Shukla, 2021; Hentov & Petrov, 2018). Additionally, while their global investment footprint extends beyond developed countries in North America and Europe to a growing presence in emerging markets such as India, China, and other Asian countries, GCC SWFs also maintain significant investments within their own countries, which highlights their substantial role in shaping both international and domestic financial markets (Hentov & Petrov, 2018).

However, some of the GCC countries face diminishing oil and gas reserves. For example, Bahrain and Oman are in a vulnerable position, with Bahrain's oil reserves anticipated to deplete within the next decade and Oman's within the next 25 years (Kabbani & Mimoune, 2021). Due to concerns about the uncertainty surrounding the long-term sustainability of crude oil revenue, given the depleting reserves of some GCC countries, the volatility of oil and gas prices, and the ongoing global energy transition with the risk of climate-related stranded oil resources (Ansari & Holz, 2020), SWFs have a critical role to play (Amar et al., 2022). While GCC SWFs were established as a basis not only for inter-generational savings, but also to promote economic diversification, they may diverge in their strategic priorities for economic sustainability and long-term value creation, thereby influencing investment policies in their respective countries or vice versa; the usage of SWFs for diplomatic purposes adds a further layer of complexity (Amar et al., 2019;

Ciarlone & Miceli, 2016; Megginson et al., 2013). Hence, SWFs consider a range of factors when defining their investment policies and prioritizing their investment decisions, which might include national development objectives (Asutay, 2008; Bazoobandi, 2011; El-Kharouf et al., 2010).

Furthermore, the observable shift in the GCC SWFs from passive to active investors in the last decade has drawn attention from researchers and policymakers who seek to understand the driving forces behind these SWFs (Garg & Shukla, 2021). While valuable conceptual and descriptive studies have explored various aspects of SWFs, including their governance, political considerations, and investment strategies (Alosaimi & Alfraih, 2023; Braunstein, 2019; ElGindi, 2016; Kaddorah, 2021; Massi & El Abbouri, 2012; Seznec, 2016), there remains a need for more empirical investigation into the specific macroeconomic factors driving SWF investment behavior, particularly in the context of resource-rich economies like the GCC. Some studies explored the factors influencing their investment decisions, questioning whether their strategies are solely financially motivated or driven by macroeconomic, political, or institutional considerations in the target countries and target firms (Amar et al., 2019; Amar et al., 2022; Candelon et al., 2011; Zhang & Kim, 2021). Other papers examine how the culture, governance, and institutional structures of the home country shape SWF investment behaviors (Aggarwal & Goodell, 2018; Gnabo et al., 2017).

Consistent with existing literature, our findings confirm that as the economic development level in GCC countries increases, their SWF investments tend to increase as well. However, whilst it might be argued that both simply reflect a product of oil revenues, it was also found that a more developed private sector leads to a reduction in SWF investments by these countries. This key finding, rooted in the Resource Curse Theory (Ross, 1999; Rosser, 2006a), when viewed critically from an alternative perspective, reveals a

potential crowding-out effect of private sector development on SWF investments in the long run. Such viewpoint suggests the need for GCC countries to strategically manage the interplay between private sector growth and SWF investment to ensure sustainable economic diversification. Furthermore, the role of institutional trust in moderating these relationships is mixed. On the one hand, it shows that in GCC countries with higher institutional trust levels, the positive relationship between economic development and their SWF investments is weakened. On the other hand, the results are less conclusive regarding the moderating effect of institutional trust on the relationship between private sector development and SWF investments. This is because higher institutional trust may enhance private sector confidence in the domestic market, and in turn, may reduce the perceived need for extensive SWF intervention.

By focusing on the home countries (GCC countries in our case) and exploring the key home country macroeconomic determinants of their SWFs investment, and the role of institutional trust, this research provides new insights on how economic conditions in home countries influence SWF investment policies. This country-of-origin-oriented perspective shifts the focus from target country analysis, dominated in the literature, to the internal dynamics that shape GCC SWF investments, especially given the depleting oil reserves and ongoing transition to greener alternatives in these countries. This research not only contributes academically with empirical evidence but also offers practical insights into how the internal economic environment within GCC countries could impact their SWF investment policies in domestic and international markets.

The findings of this study have a number of important implications for policymakers, especially within the GCC region. First, the positive relationship between economic development and SWF investment suggests

a positive cycle where sustained economic growth facilitates SWFs growth and expansion, which can further promote long-term economic development. Second, the potential crowding-out effect of private sector development highlights the need for careful coordination between SWF investment policies and broader economic development strategies. Third, the moderating role of institutional trust suggests the importance of strong institutions in attracting and retaining SWF investments. Building on these policy implications, GCC countries should recognize the vital role of the private sector and potential competition with SWFs for investment resources. As such, they should focus on creating a conducive environment for private sector development as they deploy their SWF investment for economic growth. This is essential to ensure that SWF investments complement and crowd-in, rather than crowd-out, private sector activities.

Also important is building and maintaining strong institutions with transparent governance frameworks to promote institutional trust (Tsani, 2013). Given the GCC's reliance on hydrocarbon revenues, policymakers should continue to prioritize the diversification of SWF investments across different asset classes and geographies to mitigate risks associated with oil price fluctuations. Finally, as the world transitions towards a more sustainable energy future, incorporating environmental, social, and governance (ESG) factors into SWF investment strategies is crucial. By embracing these multifaceted policy recommendations, GCC countries can leverage their SWFs more effectively to achieve sustainable economic development and diversification, while also contributing to global financial stability and the transition towards a more sustainable future.

The remainder of the study is structured as follows: Section 2 offers a review of the literature, followed by the theoretical framework (Section 3) and a methodology section (Section 4). In Section 5, we present the empirical

results. In Section 6, we discuss the key findings offering insights into their economic significance and implications. Finally, in Section 7, we conclude by discussing study limitations and suggesting policy options and avenues for future research.

3.2 Literature Review

The SWF literature intersects with the broader literature on the evolving role of states in the global investment landscape. Traditionally, governments were seen as passive players in investments, primarily influencing within their own national boundaries (Bahoo et al., 2020). However, this has evolved significantly in recent years. The state's role has transformed into that of a strategic and active participant, directly owning and controlling state-owned institutional investors (Aguilera et al., 2016). This shift marks the emergence of a new era of state capitalism, where governments not only support private firms but also engage in investment activities (Musacchio, 2014), which is primarily achieved through the creation and operation of SWFs (Vasudeva et al., 2018). Initially, these funds were established by commodity-dependent countries, like Kuwait (1953) and the UAE (1967), as stabilization funds to protect their economies from the volatility of commodity prices (Garg & Shukla, 2021). Their scope has since expanded to include a variety of purposes, such as investing national surpluses for high returns, saving for future needs, and funding large-scale development projects (International Monetary Fund, 2008).

3.2.1 Prevailing Scholarly Views and Limitations

Our careful review reveals that the scholarly investigation into what SWFs can be, it can be argued, provides less than complete understanding of their primary domestic function in rentier economies, such as those in the GCC.

The first stream of literature frames SWFs as a passive, inwardly-focused Fiscal Stabilization and Intergenerational Savings Vehicle based on the original mandates of the early funds model (Bazoobandi & Nugent, 2017; Lu et al., 2010; Megginson et al., 2013). This model conceptualizes the SWF as a technical, apolitical tool (Balin, 2009; Candelon et al., 2011; Megginson et al., 2013) that is designed to fulfill two core macroeconomic functions of insulating the domestic economy from commodity price volatility and preserving resource wealth for future generations (Amar et al., 2023; Das et al., 2010; Garg & Shukla, 2021). This view traces the foundation of many SWFs to their role as stabilization funds created to manage revenue windfalls from commodity exports (Braunstein, 2017; Gangi et al., 2019; Garg & Shukla, 2021; Lu et al., 2010; Pihlman et al., 2011). Their mandates are often described in terms of managing national surpluses for high returns, and saving for future needs (Alhashel, 2015; Das et al., 2010; James et al., 2022; Naser, 2016). Their very existence is linked to macroeconomic conditions such as current account surpluses (Aizenman & Glick, 2009; International Monetary Fund, 2007).

While this model accurately describes the initial rationale for accumulating wealth, its analytical power is limited by its static nature. It frames the SWF as a passive repository of capital (Aizenman & Glick, 2009), it does not account for the proactive, strategic, and often market-shaping behavior exhibited by modern GCC SWFs (Aguilera et al., 2016; Musacchio et al., 2015). The "passive container" view cannot explain the complex logic of strategic deployment for national development policy, a role that points to a far more active form of state capitalism where the state is not just a supporter of firms but a direct, strategic investor (Musacchio, 2014). In short, this model explains why the money is saved, but not how it is strategically used to architect a post-oil economy.

The second, a more critical stream of literature frames the SWF as an active, outwardly-focused Instrument of Strategic Statecraft whose activity is almost exclusively in the external, international domain (Aguilera et al., 2016; Bahoo et al., 2020; Haberly, 2011). This perspective rightly questions whether investment decisions are solely financially motivated, highlighting the influence of political and institutional considerations (Amar et al., 2019; Arouri et al., 2018; Ciarlone & Miceli, 2016; Gira et al., 2022; A. Knill et al., 2012; Megginson et al., 2013; Tsani, 2013). Scholarship in this vein often focuses on the geopolitical implications of SWF investments. They analyze their potential to project state influence and raise national security concerns in target countries (Betbèze, 2009; Ciarlone & Miceli, 2016; Cohen, 2009; Drezner, 2008; El-Kharouf et al., 2010; Gasparro & Pagano, 2010; Gilligan et al., 2014; Kamiński, 2017; A. Knill et al., 2012; Wu & Seah, 2008). For instance, concerns have historically focused on SWFs from the Arab world being perceived as threats to the West and the US (Bazoobandi & Nugent, 2017). Specifically, the Qatar Investment Authority's investments into defense and high-technology companies, such as Lagardère and EADS, are cited as examples of following national interests (Braunstein, 2019). SWFs from nations like China, the China Investment Corporation (CIC), have been scrutinized over potentially targeting energy-related investments for strategic reasons (Ciarlone & Miceli, 2016).

More so, protectionist debates have arisen in recipient countries like the United States (Ciarlone & Miceli, 2016) and Europe (Haberly, 2011). The most famous historical example is the UK government ruling against a 22% purchase of British Petroleum by the Kuwait Investment Authority in 1988, based on 'public interest' concerns (Braunstein, 2019). Also, policymakers in France and Germany approved legislation to protect national security regarding foreign investments (Ciarlone & Miceli, 2016). Furthermore, the

expansion of SWF activities is seen by some as challenging the dominance of Western developed nations (Cumming et al., 2020). This evidence shows that political involvement is a key factor influencing investment strategies, sometimes leading to deviations from long-run return maximization (Bernstein et al., 2013; Grira et al., 2022). Investment patterns are thus scrutinized for strategic, rather than purely economic, logic.

While this model correctly identifies the SWF as a strategic state actor, its analytical lens is, once again, almost exclusively focused outward. It provides a sound framework for understanding SWFs as global actors but overlooks their critical and arguably primary function within the GCC context, as the central engine for domestic economic transformation. By concentrating on the SWF as a "geopolitical chess piece" on the world stage, this perspective misses its role as the national architect of a diversified domestic economy (Braunstein, 2019; Naser, 2016). The debate becomes centered on the drivers of SWFs to invest in particular foreign firms and markets, while its foundational mandate to restructure its own economy remains analytically peripheral.

With the literature divided on what the SWFs are and their functions, where one model is inwardly focused but passive, and the other is strategic but externally focused, the important function of the SWF as an active, strategic agent of domestic economic development and transition remains underexplored. This creates a critical gap in understanding the nature of these agents of state capitalism. This study aims to fill this void by reconceptualizing the GCC SWF as a 'transitional institution' whose investment behavior serves as an evolving policy tool.

3.2.2 The External Focus on Target Country Determinants

This "statecraft" perspective has created a dominant 'external gaze' in the research, where the primary question is not what the SWF does for its home country, but what impact it has on the target countries it invests in. As a result, one of the main streams of SWF research is dedicated to identifying the determinants of SWF investment decisions in these target (or "host") countries. The findings consistently point to a combination of economic, financial, and institutional determinants in the target (or "host") countries.

The first set of determinants, as would be expected, includes typical economic and financial factors. This literature establishes that SWFs, acting as rational investors, are drawn to countries with large, liquid capital markets, strong GDP growth, and opportunities for portfolio diversification (Megginson et al., 2013). A second, and overlapping, set of studies focuses on political and institutional determinants in the host country. Amar et al. (2019), for instance, find that SWFs show a strong preference for countries with higher political stability, while Grira et al. (2022) confirm that political risk (especially "conflicts and democratic tendencies") is a key component in shaping SWF investment behavior.

This institutional focus is critical and has been explained through a rich body of theoretical work that has sought to recast the debate away from simple economics and towards issues of Trust, Legitimacy, and Governance (Monk, 2009). From this perspective, scholars of institutional theory argue that many SWFs, particularly from non-OECD countries, are seen to suffer from a "legitimacy deficit" due to their strong government links (Cumming et al., 2020). This deficit creates a fundamental risk for host countries, rooted in Agency Theory, which highlights the potential for expropriation of minority shareholders when the government is the ultimate owner (Kotter & Lel, 2011; Shleifer & Vishny, 1997). To overcome this, SWFs actively engage in

"institutional bonding", where they borrow legitimacy from the high-quality institutions of their host countries to certify their status as professional, non-threatening investors (Aguilera et al., 2016). This makes host-country institutional quality a primary determinant of investment, as transparency acts as a certification signal (Kotter & Le, 2011) and adherence to host-country norms reduces the political and regulatory 'transaction costs' associated with their state ownership (Boubakri et al., 2016; Rose, 2008). Where formal institutions are weak, SWFs may substitute for them with informal institutional proximity, such as a preference for "investing in the familiar" based on common cultural or religious ties (Chhaochharia & Laeven, 2008; Megginson & Fatak, 2016).

3.2.3 The Gap: The Missing Domestic Function

While this extensive body of literature on host-country determinants is valuable for understanding where SWFs invest, it reinforces the 'statecraft' model and its external focus. It provides a sound framework for understanding SWFs as global actors but overlooks their critical and arguably primary function within the GCC context, as the central engine for domestic economic transformation. By concentrating on the SWF as a "geopolitical chess piece" on the world stage, this perspective misses its role as the national architect of a diversified domestic economy (Braunstein, 2019; Naser, 2016). The debate becomes centered on the drivers of SWFs to invest in particular foreign firms and markets, while its foundational mandate to restructure its own economy remains analytically peripheral.

3.3 Theoretical Framework and Hypotheses Development

3.3.1 Conceptualizing SWFs as a 'Transitional Institution'

To address the void identified in the literature, this paper proposes a new framework, “The Transitional Institution.” We reconceptualize the GCC SWFs not as a static stabilization or passive savings vehicle, nor merely as an external-facing statecraft tool, but rather as a dynamic, evolving financial institution responsible for executing the national economic agenda (c.f. Cumming et al., 2020). The primary function of this transitional (or transition-driving) institution is to facilitate the significant economic shift from a state-dominated, resource-dependent model to a diversified, private-sector-led model (Naser, 2016). SWFs operating in the GCC context have explicitly adopted mandates focused on national transformation and socioeconomic development, often using their capital for domestic projects and diversification strategies (Aguilera et al., 2016; Gangi et al., 2019).

This framework posits that the SWFs behavior and investment approach are evolutionary. In the early stages of the economic transition, the SWF acts as a primary market-maker and de-risker, actively using its substantial long-term capital to address market gaps, funding domestic infrastructure, or injecting capital into nascent industries (Cumming et al., 2020; Gilligan et al., 2014; Sharma, 2017). More importantly, the SWFs role in this initial phase also involves mitigating the effects of imperfect information, particularly for international investors who may be unfamiliar with local conditions or emerging markets (Braunstein et al., 2022).

However, the investment intensity and direct involvement of the SWFs in the pursuit of the national economic agenda, by design, evolves and eventually moderates as the capacity of the domestic private sector strengthens and

the country's institutional environment matures. This institutional environment includes institutional trust, which refers to the public and business confidence in the integrity, competence, and fairness of governing bodies and legal frameworks (Mallory, 2024). High institutional trust is considered essential for economic development, encouraging entrepreneurship, and promoting cooperation between the public and private sectors. By building credibility and transparency through improved governance and accountability, SWFs can actively contribute to this trust, which, in turn, facilitates the transition to genuine private sector growth (Maire et al., 2021). As institutional trust and institutional quality strengthen, they positively influence the efficacy of economic policy and attract foreign capital inflows, ultimately reducing the need for the SWF to function as the primary direct catalyst (Alosaimi & Alfraih, 2023).

The specific conditions under which this evolution occurs, particularly the role of domestic institutional trust, are a central component of this proposed model and form the basis for subsequent hypotheses. The necessity of considering such a complex, adaptive role for SWFs stems from the limitations of existing explanations. The following section will now elaborate on the theoretical foundation for the transitional institution model.

3.3.2 Theoretical Underpinnings of the Model

This study introduces an integrated theoretical framework to analyze the relationship between SWF investment policies and macroeconomic factors, with particular emphasis on the role of institutional trust. Following the distinction made by Aguinis and Cronin (2022), our "transitional institution" model serves as a concept centering on a single phenomenon, that may serve as a basis for unit theorizing. The latter may be located within wider programmatic theory, being an overarching framework that provides a more

holistic view (i.e. resource curse theory, or even institutional theories that, in turn, are conducive to the incorporation of resource curse theory). We explore the specific sub-phenomena that might contribute to a broader understanding of SWF investment within the unique context of the GCC countries. Specifically, we incorporate it within the Resource Curse Theory (RCT), which posits that resource-rich nations may experience lower economic growth and less favorable development outcomes compared to resource-poor nations due to factors such as volatile resource revenues, rent-seeking behavior, and economic instability (Rosser, 2006a). The RCT informs the key justification for the SWFs existence as a strategic domestic tool to solve the fundamental paradox confronting many resource-rich nations. It provides an essential problem-context for understanding why such large-scale state intervention is deemed necessary in the first place.

The 'transitional institution' framework is grounded in the strategic need to solve a specific, pervasive developmental problem, the Resource Curse. RCT posits that economies heavily reliant on natural resource exports often face unique challenges, leading to sluggish economic growth and development outcomes relative to resource-poor counterparts (Rosser, 2006b; Tsani, 2013). This is particularly acute in resource-rich developing regions, including the Middle East and North Africa (MENA) and Sub-Saharan Africa (SSA) (Alssadek & Benhin, 2023).

The resource curse operates through several economic and political mechanisms. First, RCT highlights vulnerability to macro-economic instability, including price shocks, inflation, and the "Dutch Disease" effect (Corden, 1992; Sachs & Warner, 2001). In turn, Dutch Disease describes the process whereby resource revenues lead to real exchange rate appreciation, consequently making the manufacturing sector and other non-resource tradable sectors less competitive and crowding them out (Alssadek &

Benhin, 2023; James et al., 2022). This causes low diversified growth at the sectoral level (Amar et al., 2022). A key prescription to counter the macroeconomic volatility and mitigate Dutch Disease is the establishment of an SWF that invests the fiscal surplus wholly abroad, thereby sterilizing inflows and reducing domestic aggregate demand (Fotak et al., 2017).

The second mechanism pertains to institutional deterioration and rent-seeking, where resource abundance puts existing institutional arrangements to the test by inducing distorted behaviors such as rent-seeking, corruption, and patronage (Chirkova, 2017; Mahdavi, 2020; Tsani, 2013). Governments that rely on "unearned" resource rents tend to impose lower taxes on constituents, thus eroding democratic accountability and strengthening non-democratic regimes (Bornhorst et al., 2009; James et al., 2022; Rosser, 2006a; Sala-i-Martin & Subramanian, 2013). Empirical research confirms that the detrimental effects of resources are conditional. The curse applies when institutions are "grabber-friendly" but not when they are "producer-friendly" (Mehlum et al., 2006a). The necessity of establishing an SWF is found to be associated with countries exhibiting low quality governance institutions (Amar et al., 2022; Zhang & Kim, 2021).

Consequently, SWFs emerged as a primary policy solution to this dilemma, enabling states to transform finite natural resource assets into a diversified portfolio of financial assets, and are considered a useful tool against the resource curse (Frynas et al., 2017; James et al., 2022; Tsani, 2013). This framework defines the fundamental 'why' of the GCC SWFs. Its existence is a large-scale financial institutional intervenor designed to mitigate the curse and strategically execute deep economic diversification. This role is clearly evidenced by the strategic domestic investments and mandates adopted by GCC funds, like Saudi Arabia's Public Investment Fund (PIF). The PIF is the key vehicle driving Saudi Arabia's ambitious Vision 2030 plan, designed to reduce

the country's oil dependence (Ganguly et al., 2024). The fund's mandate focuses on national transformation through domestic investments in specific non-oil sectors like tourism, entertainment, and logistics (PIF, 2023). Similarly, the UAE's economic blueprints aim to double GDP and diversify into "cutting-edge industries" such as renewable energy, space exploration, and financial services (Ganguly et al., 2024). Funds like Abu Dhabi's Mubadala operate with a development mandate, facilitating diversification into sectors like aerospace and semiconductors by acquiring necessary capabilities and knowledge through international joint ventures (Aguilera et al., 2016; Capapé & Santiso, 2017).

These examples demonstrate that the SWF, acting as the "transitional institution" is deploying its capital to work to counter the structural risks identified by RCT by focusing on industries of the future (like low-carbon energies, high-tech manufacturing, and ICT). This strategic shift requires significant internal commitment and capability, which supports the core theoretical premise that SWFs must evolve their domestic functions to overcome the fundamental resource curse problem.

3.3.3 Diagnosing the Gap and Neglect of Domestic Institutional Dynamics

The academic literature consistently identifies that the key to mitigating this "resource curse problem" is not a technical, financial solution, but an institutional one. The detrimental effects of resource wealth are conditional: the curse applies when institutions are "grabber-friendly" but is overcome when they are "producer-friendly". The focus on institutional quality has made Comparative Institutionalism a relevant theoretical framework for analyzing the governance of resource wealth and may provide a broader perspective on the resource curse (Mellahi & Wood, 2002).

Comparative Institutionalism emphasizes that economic behavior and outcomes are shaped by a nation's institutional setup of both formal institutions such as laws, regulations, and property rights, and informal institutions such as social norms, customs, and conventions (Morgan et al., 2010). It provides the necessary analytical tools to move beyond simplistic economic models and dissect the complex institutional environment in which economic actors, including GCC SWFs, operate and make strategic decisions.

However, while the institutionalists correctly identified institutional quality as the key to solving the resource curse (Mellahi & Wood, 2002), the literature's application of this insight to the GCC has been incomplete. It has largely failed to move beyond general assertions about the importance of "good governance" to investigate the specific, context-dependent institutional variables that shapes the behavior of the region's most important institutional response to economic development: the SWF itself. A critical blind spot remains concerning the precise domestic institutional dynamics that influence the SWF's ability to fulfill its transformative mandate.

The failure of the literature to investigate specific, domestic institutional variables that drive SWF behavior is not a simple oversight. Rather, it stems from a combination of persistent methodological constraints and theoretical biases that have inadvertently steered the research agenda away from the most pressing questions of domestic function (Braunstein, 2019).

3.3.3.1 The Methodological Constraints

A significant reason for this analytical gap is pragmatic. The relative "data opacity" characteristic of many rentier state economies presents considerable challenges for quantitative research (Megginson & Gao, 2020). GCC SWFs are relatively opaque (Amar et al., 2022). Historically, oil and gas

funds in the GCC region have scored lower on average in terms of transparency compared to other types of funds (Maire et al., 2021). For instance, the Abu Dhabi Investment Authority (ADIA) has previously received one of the lowest scores (0.50 on the Truman scoreboard) for governance, transparency, and accountability (James et al., 2022). This limited availability of granular, consistent, and publicly accessible data on their internal decision-making processes and domestic economic variables compels researchers toward what is readily measurable. This has created an empirical "path of least resistance" focused primarily on cross-border equity investments in publicly listed firms in developed markets, where comprehensive data are abundant (e.g., (Bortolotti et al., 2015)).

The extant literature focusing on the GCC SWFs' external investments generally covers several key areas. First is around investment determinants and motives, which largely debate whether SWFs decisions are guided solely by financial motives (risk-return optimization) or if they are politically or strategically biased (e.g., (Arouri et al., 2018; Megginson et al., 2013)). While some studies conclude that SWFs are rational investors acting similarly to other institutional investors (Amar et al., 2022; Liang & Renneboog, 2020), the literature focused specifically on GCC SWFs reveals differences, particularly when analyzing major acquisitions. The second area pertains to target characteristics (Firms and Geography) as GCC SWFs invest globally, particularly in developed countries like Europe and North America (Amar et al., 2022; Fotak et al., 2017). They target strategic industries such as finance, mining, telecommunication, and utilities (Arouri et al., 2018; Boubakri et al., 2016). The investment is driven by diversification goals and high returns, especially in politically stable countries with high legal protections (Amar et al., 2023).

A third area focuses on the size of stakes and control. Research has investigated the drivers of cross-border equity acquisitions by GCC SWFs, particularly concerning large (greater than 10%) or majority (greater than 50%) stakes (Amar et al., 2022). Their results suggest that unlike expectations based on institutional investor models, GCC SWFs acquiring majority stakes do not take into account the financial characteristics of the target firm (aside from financial wealth), nor the economic, institutional, or trade agreement factors of the target country. Notable examples include the full acquisition of the football club Paris St. Germain by The Qatar Investment Authority (QIA) in 2011 and Saudi Arabia's PIF USD 3.5 billion stake in the taxi company Uber in June 2016 (Amar et al., 2022).

While valuable, this methodological convenience has come at the cost of analytical depth regarding the more specific and critical institutional factors at play within the SWFs' home countries. The few studies that investigate this relationship, such as comparative institutional analyses (e.g., (Braunstein, 2019; Megginson & Fotak, 2016)); argue that a strong, politically well-organized private sector might constrain SWF mandates domestically, forcing them into external activities or resulting in uncoordinated, short-term ventures serving narrow private interests. These critical institutional factors at play within the SWFs' home countries remain severely under-analyzed. The research questions being asked have, to a degree, been shaped by the data that is easiest to obtain, not necessarily the data that is most theoretically important.

3.3.3.2 Critical Biases

Beyond methodological constraints, the blind spot in SWF research is also a product of two significant biases that dictate which questions are asked and how they are answered. The Western-Centric "External Gaze" and the Marginalization of Domestic Function.

The first bias reflects the formative years of SWF research, which were dominated by a Western-centric "external gaze," which reflects a historical bias in the literature to analyze SWFs primarily through the lens of their impact on target (Western) markets. This external gaze framed the rise of these state-owned investors primarily through a narrative of security and economic threat (Cohen, 2009). The core question was often what implications these funds would have on recipient countries, leading to a focus on issues of national security and corporate governance in Europe and North America (Bortolotti et al., 2017; Garg & Shukla, 2021). This perspective was amplified by the inherent opaqueness of many SWFs, particularly those from the Gulf and China, triggering suspicion regarding non-economic objectives (Aggarwal & Goodell, 2018; Arouri et al., 2018).

This outward orientation marginalized the questions concerning the SWFs primary domestic function and the political-economic dynamics within the home country (Garg & Shukla, 2021; Haberly, 2011; Megginson & Fotak, 2016). Researchers (Aizenman & Glick, 2009; Amar et al., 2023; Gangi et al., 2019; Megginson et al., 2013) overwhelmingly documented the SWFs massive cross-border capital flows into developed markets. Between 1988 and 2012, 85% of the total number of SWF investments and approximately 75% of the total value were dedicated to cross-border transactions (Megginson et al., 2013).

The rationale for this external focus is partially functional: many SWFs, particularly those based in smaller, resource-rich nations, are forced to invest internationally to avoid causing domestic asset price bubbles, a macroeconomic constraint known as the "Dutch disease" (James et al., 2022; Megginson & Fotak, 2016). They seek global equity investments, especially in developed economies, to achieve diversification away from the economic and political exposure of their domestic economies (Zhang & Kim, 2021). The

most notable example of an extreme outward focus is the Norwegian Government Pension Fund Global (GPFG), which is explicitly structured to invest 100% of its assets abroad (Aggarwal & Goodell, 2018; Fotak et al., 2017). This strategy is predicated on the idea that profitable domestic projects should already be financed through easy access to global capital, thus mitigating the risk of overinvestment at home (James et al., 2022).

However, the domestic mandate varies widely. While the investment patterns of most SWFs favor foreign markets, there are exceptions, reflecting different national objectives. For example, data covering 1985 to 2011 showed that China's SWFs had domestic investment values of \$81.6 billion, which exceeded their foreign investments of \$42.6 billion (Megginson et al., 2013). Likewise, the Australian Future Fund had greater domestic investment value than foreign investment value during the same period (Megginson et al., 2013). Furthermore, many SWFs, including those from Abu Dhabi, Bahrain, and Saudi Arabia, possess explicit mandates for domestic development or stabilization (Gilligan et al., 2014).

This external gaze, dominated the theoretical debate, especially during crisis periods. For example, during the 2007–2009 Global Financial Crisis (GFC), SWFs provided invaluable liquidity to Western financial markets. The Abu Dhabi Investment Authority (ADIA) notably invested \$7.5 billion in Citigroup in November 2007 (Boubakri et al., 2016), demonstrating this financial firepower. While these actions were celebrated as stabilizing forces, the primary research agenda continued to focus on whether SWFs were ultimately driven by financial motives (risk-return optimization) or political objectives (Bernstein et al., 2013; Cohen, 2009).

The second significant bias pertains to the application of institutional theory. While necessary for moving beyond purely financial models, it has often remained too generic. Scholars acknowledge that "institutions matter," but

frequently rely on broad, cross-national indices of "governance" or "rule of law" (such as the World Bank's Worldwide Governance Indicators) (Chirkova, 2017; Tsani, 2013). Although studies link these metrics to SWF behavior (Arouri et al., 2018), such generalized approaches fail to capture the specific political dynamics influencing policy, particularly within centralized political systems like the GCC. This reliance on overall indicators has been noted as a limitation in previous literature (Chen & Jiang, 2023).

Studies examining the drivers of SWF governance consistently conclude that heterogeneity among funds is a key determinant (Aguilera et al., 2016; Amar et al., 2019; Liang & Renneboog, 2020; Megginson & Fotak, 2016). They attribute the quality of SWF governance to disparities in the national culture, political regime, and internal political dynamics (Megginson & Gao, 2020). For highly-centralized countries, particularly the GCC (whose funds are relatively opaque that implies weaker governance, compelling researchers to default to these broad, non-specific indices (Amar et al., 2022; Megginson & Fotak, 2016).

A burgeoning literature on comparative institutionalism posits that deeper understanding requires analyzing state-private sector structural relations, which affect resource allocation and SWF function in GCC economies (Bahoo et al., 2020; Braunstein, 2019). Here, weak formal legal frameworks constrain economic activity, which is often dominated by clientelism, hindering competition from non-connected firms (Braunstein, 2019). Politically connected elites, who simultaneously head their own companies, can manipulate the "playing field"; consequently, SWF strategies perceived as non-transparent or biased erode institutional trust, increase uncertainty, and hinder organic private sector growth (Braunstein, 2017).

Therefore, focusing on broad governance may lead to insufficient attention being accorded the effects of context-specific variables, such as the interplay

between formal state capacity and informal trust networks. The impact of SWF investment on private sector development in GCC states is ultimately shaped by the degree of institutional trust and the strength of the local legal framework, and vice versa.

3.3.4 Hypotheses Development

From the discussion thus far, our proposed framework posits that the SWF represent a transitional institution, and their behavior is moderated by institutional trust. This provides a clearer and contextually appropriate lens for analyzing GCC SWF investment policies. It moves beyond generalized or externally biased assumptions, such as the debate over whether SWFs are purely financial or geopolitical actors (Amar et al., 2023; Arouri et al., 2018; Gangi et al., 2019), and instead focuses on the SWF's core developmental function within its home country institutional setting (Aguilera et al., 2016; Amar et al., 2022; Garg & Shukla, 2021). This reconceptualization generates a set of theoretically grounded, empirically testable hypotheses.

3.3.4.1 Hypothesis 1: The Strategic Recession of the Transitional Institution

The 'transitional' nature of the GCC SWF is derived from its mandate to actively steer resource-rich economies away from reliance on non-renewable assets and the public sector toward diversified, private-sector-led growth (Alosaimi & Alfraih, 2023; Cummings et al., 2020; Garg & Shukla, 2021; Gilligan et al., 2014; Naser, 2016). This implies that the SWF engagement with the domestic economy is non-linear and purpose-driven. Historically, countries, especially those with highly-centralized systems like many GCC states, that established SWFs often did so because they faced difficulties finding suitable opportunities for socially beneficial domestic investments (Amar, Lecourt, et al., 2018; Carpentier & Vermeulen, 2018). Therefore, SWF initial role is interventionist, which is designed to

compensate for market and institutional failures, often by de-risking new sectors or funding critical infrastructure where the private sector cannot or will not participate (Amar, Lecourt, et al., 2018; Sharma, 2017).

However, the successful fulfillment of the SWF transitional mandate requires a deliberate shift from a "crowding-in" effect to a "crowding-out" posture, whereby the fund strategically recedes to avoid hindering private capital formation. The existing literature emphatically supports this mechanism, confirming that the existence of a strong and politically well-organized private sector in specific activities inherently tends to suppress or constrain the establishment and scope of SWFs in those areas (Braunstein, 2019; Schena et al., 2018). This necessity of the SWF diminishing its direct investment role as the domestic private sector gains capacity and capability leads directly to our first hypothesis, which posits a potentially counterintuitive directional relationship:

Hypothesis 1 (H1)

There is a negative relationship between the level of private sector development in GCC countries and their SWF investments. This reflects the SWF role in strategically receding as the private sector matures.

3.3.4.2 Hypothesis 2: The Direct Enabling Role of Institutional Trust

Furthermore, the framework posits that institutional trust is a foundational enabler of a healthy investment climate, which would attract and facilitate the activities of large, long-term investors like SWFs. Academic literature universally supports the notion that a favorable institutional environment is critical for investment to thrive (Chen & Jiang, 2023; Hain et al., 2016). For the GCC SWF, operating as a 'transitional institution' with the mandate for domestic economic agenda, the level of institutional trust plays a significant role in ensuring responsible management and effectiveness. This is

particularly important because high trust is essential for encouraging private sector cooperation and coordinating the flow of capital towards national objectives. The perceived trustworthiness of institutions fundamentally impacts whether they can optimize the industrial structure and guide resources quickly and efficiently from low value-added sectors to high value-added and key industries, which is a function central to the developmental mandate of GCC funds (Chen & Jiang, 2023; Hain et al., 2016).

However, GCC SWFs often operate from states characterized by highly-centralized systems (Amar et al., 2022; Amar, Lecourt, et al., 2018), and susceptibility to internal governmental direction in decision-making (Bahoo et al., 2020). It is therefore reasonable to hypothesize that for the GCC SWF to confidently deploy substantial capital into strategic, long-term domestic investments, rather than relying on the comparative safety of liquid foreign markets, the home institutional environment must first establish the predictability and assurance that signals stability and fairness to both the SWF managers and their essential private sector partners, justifying the hypothesis

Hypothesis 2 (H2)

There is a positive relationship between the level of institutional trust in GCC countries and their SWF investments.

3.3.4.3 Hypothesis 3: The Moderating Role of Institutional Trust

Finally, and most critically, the model argues that institutional trust is not merely a direct determinant (H2), but a crucial moderator of the entire domestic economic transition process (Cummings et al., 2020). Trust fundamentally shapes how the state, through its SWF, responds to the evolving maturity of the overall economy and the private sector (Bortolotti et al., 2017). The required behavior of the GCC SWF as a transitional

institution, shifting its intensity and focus based on macro-economic need (e.g., intervening deeply when the private sector is nascent, and receding when it matures, as per H1), is constrained by the institutional reality of the GCC states. In a low-trust institutional environment, empirical studies show that markets impose a significant "SWF discount" when SWFs signal active intervention through controlling stakes or direct investments, as the threat of political interference is perceived to be highest (Bortolotti et al., 2017). To mitigate this discount, SWFs are often compelled to signal a passive approach. Conversely, in a high-trust institutional environment, SWFs receive a market reward for adopting an active stance.

This conflict implies that the relationship between necessary macroeconomic development factors (like low private sector maturity demanding intervention) and actual SWF investment activity is conditioned by trust. High trust enables the SWF to align its investment strategy with the developmental need, supporting intervention when required (crowding-in) or promoting recession when justified (crowding-out), whereas low trust forces the SWF into signaling passivity, regardless of the urgent need for intervention dictated by underdeveloped macroeconomic conditions. Therefore, the effect of domestic macroeconomic drivers on SWF investment can be significantly influenced by the underlying level of institutional trust, which defines our central moderating hypothesis:

Hypothesis 3 (H3)

Institutional trust moderates the relationship between macroeconomic factors (economic development and private sector development) and SWF investments. Specifically, in high-trust environments, the relationship between these factors and SWF investment will differ significantly from that in low-trust environments.

3.4 Econometrics Methodology

To empirically test the hypotheses derived from the ‘transitional institution’ framework, this study employs panel data estimation techniques. This approach allows us to address a broader range of issues than possible with pure time series or cross-sectional data alone. Drawing insights from (Baltagi, 2005) and (Hsiao, 2005), employing panel data in our study has several advantages over time-series and cross-sectional data. First, it allows us to control for variations among GCC countries (heterogeneity), preventing bias from unobserved factors like legal frameworks, demography, and political regimes. Secondly, the panel data approach boosts econometric efficiency, offering richer information, increased variability from the data containing both cross-sectional dimension (i) and time-series dimension (t), and more degrees of freedom. It facilitates nuanced exploration of inter-unit differences and intra-unit dynamic adjustments of SWF investment policies in the GCC countries.

To determine the appropriate panel estimation model, we run the Hausman test. If the null hypothesis is rejected, then the classical linear regression produces consistent point estimates of β parameters when the regression model, we conclude that μ_i is correlated with the independent variables, i.e. the fixed effects is the appropriate method or random effect will be appropriate if we failed to reject the null (Pasiouras & Kosmidou, 2007; Petria et al., 2015). More so, assuming homoscedasticity of error terms in the presence of heteroscedasticity, as well as having autocorrelated disturbances, produces consistent but inefficient estimates, and the standard errors of these estimates will be biased (Baltagi, 2005). Therefore, we shall estimate robust standard errors to correct for the possible presence of these issues.

3.4.1.1 Empirical Models

The empirical model employed for this analysis is specified as follows:

$$I_{it} = \alpha_i + \tau_t + \beta_1 M_{it} + \beta_2 C_{it} + \epsilon_{it} \quad (1)$$

Where: α_i is a country dummy variable to control for time-invariant country-specific factors (that is., unique country-specific factors that are time-invariant, such as socio-political structure, geography or legal systems across the GCC countries); τ_t is a year dummy variable to control for time-varying common shocks; I_{it} refers to GCC SWF investment; M_{it} is a set of macroeconomic factors that reflects economic development and private sector development; C_{it} is a set of control variables such as inflation and unemployment; ϵ_{it} is the normally distributed error term; i and t are indexes for cross-section and time-series, respectively, with $i = 1, \dots, N$, $t = 1, \dots, T$.

If β_1 - the coefficient of macroeconomic factors - is significant, it implies that the corresponding macroeconomic factor serves as a determinant of the GCC SWF investments. If such a coefficient is positive, it suggests that an increase in the respective macroeconomic factor is associated with larger SWF investments, and a decrease in the respective macroeconomic variable is associated with a lower SWF investment. Conversely, if the coefficient β_1 is negative, it signifies that an increase in the respective macroeconomic factor is linked to lower SWF investments and vice versa.

To empirically test the central theoretical argument that institutional trust moderates the SWF's transitional function (H3), a second model incorporating an interaction term is employed. This interaction term is the direct operationalization of our moderation hypothesis, designed to measure whether the effect of macroeconomic determinants on SWF investment is conditional on the level of institutional trust.

$$I_{it} = \alpha_i + \tau_t + \beta_1 M_{it} + \beta_2 C_{it} + \beta_3 M_{it} \times T_{it} + \epsilon_{it} \quad (2)$$

Where: α_i is a country dummy variable to control for time-invariant country-specific factors (e.g., social capital, political structure, geography or legal origin); τ_t is a year dummy variable to control for time-varying common shocks; I_{it} refers to SWF investment; M_{it} is a vector of macroeconomic factors that reflects economic development and private sector development; C_{it} is a set of control variables such as inflation and unemployment; $M_{it} \times T_{it}$ is an interaction term between institutional trust and key macroeconomic factors; ϵ_{it} is the normally distributed error term; i and t are indexes for cross-section and time-series, respectively, with $i = 1, \dots, N$, $t = 1, \dots, T$.

Furthermore, specifying institutional trust as a conditioning variable captures the degree of influence it has in the relationship between macroeconomic factors and SWF investment of the GCC countries. The point estimate of this effect is β_1 ; therefore, we focus on the coefficients β_1 and β_3 .

$$\frac{\Delta I_{it}}{\Delta M_{it}} = \beta_1 + \beta_3 T_{it} \quad (3)$$

If both β_1 and β_3 have positive signs, then we conclude that a positive effect of macroeconomic factors on SWF investment is amplified by the higher quality of institutional trust. If both show negative signs, then we infer that the negative impact of macroeconomic factors on SWF investment is more pronounced in the environment with stronger institutional trust. However, if β_1 has negative sign while β_3 indicates a positive sign, then it implies that in the GCC countries with stronger institutional trust, the negative impact of macroeconomic factors on SWF investment is mitigated; and vice versa.

3.4.1.2 Variables and Data

Building upon the theoretical framework, the selection of variables is designed to operationalize the core concepts of economic transition and institutional moderation. Data for the six GCC countries for the 16-year period from 2007 to 2022 were collected from multiple sources.

The sample for this study consists of all six member nations of the Gulf Cooperation Council (GCC): Saudi Arabia, the United Arab Emirates, Qatar, Kuwait, Bahrain, and Oman. This purposive sampling strategy is justified as the GCC represents a unique and theoretically-relevant bloc of nations. All members are resource-dependent, non-OECD rentier economies characterized by highly-centralized governance structures and a reliance on SWFs as key instruments of economic policy. This homogeneity allows the model to control for extraneous political and economic variation, providing a clearer and more robust test of our 'transitional institution' concept within its specific home context.

The study's temporal scope is from 2007 to 2022. The start year of 2007 is selected as it marks a critical inflection point for modern SWFs, corresponding with the early onset of the Global Financial Crisis (GFC). The GFC highlighted the growing financial power of SWFs as global stabilizers (Boubakri et al., 2016) and directly led to the establishment of the 'Santiago Principles' in 2008 to govern their transparency and behavior. This period thus covers the era of the SWF's greatest global prominence and institutional evolution. The end year of 2022 is determined by the most recent complete and consistent data availability across all our key sources, including the World Development Indicators, the Legatum Prosperity Index, and the SWFI database.

Drawing inspiration from Megginson et al. (2013), we incorporated the SWF Investment Ratio (SWFIR) as our dependent variable. This ratio is defined as the value of investments made by GCC SWFs relative to the global aggregate of all SWF investments. It is important to acknowledge that this global ratio serves as a proxy for a country's overall SWF investment activity and capacity. While a measure of domestically-focused investment would be a more direct test of the 'transitional institution' theory, such granular and consistent data is not publicly available for the GCC region. Therefore, this study proceeds with the SWFIR as the best available indicator of the scale and intensity of a nation's sovereign investment strategy. The data for this variable is obtained from the Sovereign Wealth Fund Institute (SWFI) database.

Table 5 presents the list of the six GCC countries, their SWF assets under management (AuM) (USD) and regional weightage as of the end of 2023, and Table 6 provides a summary of variables and sources of data obtained for the study.

Table 5: List of GCC Countries, SWF AuM and Regional Weightage 2023

	Country	SWF AuM (\$US)	Regional Weightage
1	Bahrain	18,895,745,719	0.5%
2	Kuwait	803,000,000,000	21.0%
3	Oman	46,344,997,380	1.2%
4	Qatar	475,000,000,000	12.4%
5	Saudi Arabia	776,657,356,350	20.3%
6	United Arab Emirates	1,709,253,119,923	44.6%

Authors' Calculation using data from SWFI, 2024

Our focus variables, the macroeconomic factors (M), are informed by a number of studies (Amar et al., 2019; Das et al., 2009; Megginson et al., 2013). For the measure of economic development (ED), we employed GDP per Capita (GDPC) – defined as the average economic output per person and

GDP growth - defined as the annual percentage change in the real GDP and as an alternative measure. Both variables are widely recognized proxies for economic prosperity and development. While GDP per Capita provides insights into the average economic well-being of individuals by considering the economic output relative to the population size, GDP growth reflects the overall expansion or contraction of a country's economy over time.

For the measure of private sector development (PSD), we employed domestic credit to the private sector as a percentage of GDP, following the approach of Anyanwu et al. (2018) and Das et al. (2009). It reflects the level of private sector involvement in the economy. This variable is central to testing the hypothesis that the SWF's role evolves as the private sector matures. Data for the sets of macroeconomic variables for each GCC nation was obtained from the World Development Indicators (WDI) database provided by the World Bank.

To test the moderating effect of institutional trust in the relationship between the set of macroeconomic factors and SWF investment, we employed institutional trust scores for GCC countries, sourced from the Legatum Institute Prosperity Index. Inspired by the works of Sønderskov and Dinesen (2016), van der Cruysen et al. (2021), and Vasudeva et al. (2018), this variable is part of the governance pillar of the prosperity index, which measures public confidence in financial institutions and the national government. While acknowledging the limitations of any external, standardized index in capturing the full nuance of trust within the GCC's unique socio-political context, this variable is selected as the most suitable and consistent cross-national proxy available for the concept of perceived institutional quality and predictability, which is central to the theoretical framework (Sønderskov & Dinesen, 2016).

Lastly, to enhance the robustness of our analysis, we incorporate a set of control variables based on their potential impact on the relationship between macroeconomic indicators and SWF investments. We controlled for inflation (INF) - the rate at which the general level of prices for goods and services is rising and its subsequent effect in the decrease in the purchasing power of their currencies (Amar et al., 2019); Unemployment rates (UNEM) – to capture the effect of the health of the labor market, which affects consumer spending, economic growth, and political stability (Ackah, 2021). Controlling for these factors helps isolate the effects of the variables of primary interest, providing a more nuanced understanding of the factors driving SWF investments.

Table 6: Summary of Variables and Data Sources

Code	Variable	Description	Reference	Data Source
Y	Dependent Variable			
Y	Sovereign Wealth Fund Investment Ratio (SWFIR)	Refers to the value of investments made by GCC SWFs divided by the value of global SWF investments.	Megginson et al (2013)	SWFI database
M	Focus Macroeconomic Variables (M)			
M1	GDP per Capita (GDPC)	Defined as the average economic output per person based on constant 2015 prices, expressed in U.S. dollars.	Megginson et al (2013),	World Development Indicators (WDI) - World Bank
M1b	GDP Growth	Annual percentage growth rate of GDP at market prices based on constant local currency.	Megginson et al (2013), Arouri et al. (2018), Amar et al. (2019)	
M2	Domestic Credit to Private Sector (% of GDP)	Refers to financial resources extended to private businesses by financial institutions, including loans, non-equity securities purchases, and trade credits.	Anyanwu et al. (2018), Das et al. (2009)	
T	Moderating Variable			
T	Institutional Trust Scores	Defined by public confidence in financial institutions and national governments as essential components of the governance and stability of political systems	Sønderskov and Dinesen (2016), van der Cruysen et al. (2021), Vasudeva et al. (2018)	Legatum Institute Prosperity Index
C	Control Variables			
C1	Inflation (INF)	Refers to the annual percentage change in the cost of a fixed basket of goods and services that a typical consumer acquires.	Amar et al. (2019)	World Development Indicators (WDI) - World Bank
C2	Unemployment Rates (UNEM)	This captures the effect of the health of the labor market, which affects consumer spending, economic growth, and political stability	Ackah (2021)	

3.5 Results

We present the empirical findings from the panel data analysis designed to test the hypotheses derived from the 'transitional institution' framework. The analysis commenced with a descriptive statistic of our sample data, followed by the empirical estimations and robustness tests.

3.5.1 Descriptive Statistics

Table 7 provides descriptive statistics for the dependent and explanatory variables used to examine the macroeconomic factors that influence SWF investment policies in the GCC countries. In particular, the table presents the number of observations, minimum, maximum, means, as well as standard deviations for each of the indicators regionally and by country.

Building on the literature, the relative size of GCC SWF investment is measured by each country's total SWF investment as a ratio of the global sum for the year. The mean value of 5.6% suggests that, on average, the GCC SWFs investment covers up to 5.6% of the global sum over the 2007 – 2022 period. The standard deviation (0.07) indicates moderate variability among the observed SWF investment ratios. However, the range of 32% (Max) and 0.001% (Min) share of the global sum indicates a considerable spread in SWF investment ratios across the GCC countries. As shown in Figure 10, GCC countries, like the UAE, Kuwait, Qatar, and Saudi Arabia, have substantially higher SWF investment ratios, while Bahrain and Oman have much lower ratios, contributing to the wide observed range over time.

Extending the analysis to our independent variables provides valuable insights into the macroeconomic dynamics of the GCC region. On average, the GCC countries exhibit high GDP per capita (\$32,977), suggesting a high state of economic development and greater investment capacity among the

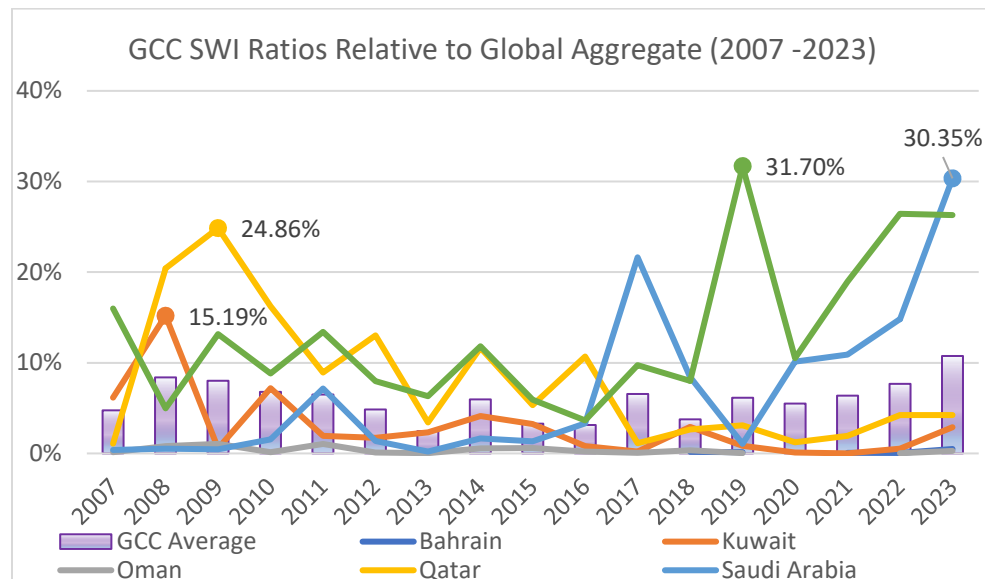
countries. However, this potential is tempered by a wide difference in economic well-being among the GCC countries ranging from a minimum of \$17,072 to a maximum of \$73,493. When looked through an alternative lens, the measure of economic prosperity, GDP Growth indicates a moderate average annual growth. While the mean GDP growth of 3.4% signals strong economic momentum within the region, the range from a minimum of -8.9% to a maximum of 19.6% suggests variability in economic performance across the region. Similarly, the substantial mean value of domestic credit to the private sector, at 61.2% of GDP, suggests a vibrant financial sector that facilitates private sector participation and overall investment activities that drive positive economic growth.

Table 7: Descriptive Statistics GCC SWF Investment Ratio and Macroeconomic Indicators

	Observation	Mean	Standard Deviation	Kurtosis	Skewness	Range	Minimum	Maximum
Dependent Variable								
<i>GCC Sovereign Wealth Investment Ratio (SWFIR)</i>	96	4.89%	0.07	3.13	1.81	32%	0.01%	32%
Independent Variables - Focus								
<i>GDP per Capita (Cons 2015 US\$)</i>	96	\$29,639	0.45	-0.95	0.65	\$56,422	\$ 17,072	\$ 73,493
<i>Domestic Credit to Private Sector (%GDP)</i>	96	62.36%	0.23	1.01	0.21	135.15%	3.71%	138.86%
Moderator Variable								
<i>Institutional Trust</i>	96	0.72	0.07	-0.40	0.80	0.27	0.61	0.88
Control Variables								
<i>Inflation (Consumer Prices annual %)</i>	96	2.65%	0.03	4.20	1.49	19.91%	-4.86%	15.05%
<i>Unemployment (% Labor Force)</i>	96	2.54%	0.02	-0.32	0.71	7.36%	0.10%	7.45%

Authors' calculation using data obtained from SWFI (2024), The World Bank (2023) and Legatum Institute (2023)

Figure 10: GCC SWI share of the Global SWF Investment (2007 – 2023)



Author's construction using data from SWFI, 2024

Furthermore, the quality of institutional trust in these countries, as reflected by the mean value of 0.72, suggests high levels of trust in institutions and government systems would drive a favorable economic condition that encourages domestic and foreign investment. On the back of that, inflation, and unemployment rates, which serve as control variables, indicate moderate price stability (2.7%) and a relatively low level of unemployment (2.5%) within the GCC countries.

Next, we analyzed the correlation matrix to understand the relationships among key variables. As presented in Table 8, the SWF Investment Ratio shows a moderately positive correlation with our focused macroeconomic indicator for economic development, GDP per Capita (0.488). This is economically intuitive as countries tend to have higher levels of investment capacity as wealth increases. This correlation reflects the region's economic prosperity and the accumulation of sovereign wealth largely driven by robust economic growth and oil resource endowments.

Counterintuitively, the measure for private sector development, domestic credit to private sector as a percentage of GDP, shows a weak positive correlation (0.0491) with SWF Investment Ratio. While we expect a stronger positive correlation, indicating that higher domestic credit availability stimulates investment, the weak correlation suggests that investment decisions may be influenced by factors beyond domestic credit, such as government policies or market conditions.

Table 8: Correlation Matrix (GCC Countries)

	<i>GCC SWIR</i>	<i>GDP per Capita</i>	<i>Private Sector Dev</i>	<i>Inflation (annual %)</i>	<i>Institutional Trust</i>	<i>Unemployment</i>
<i>GCC SWF Investment Ratio (SWFIR)</i>	1					
<i>GDP per Capita (Cons 2015 US\$)</i>	0.4878	1				
<i>Domestic credit to private sector (%GDP)</i>	0.0491	0.3547	1			
<i>Inflation (Consumer Prices annual %)</i>	-0.071	0.0163	-0.2903	1		
<i>Institutional Trust</i>	0.4298	0.7225	0.1132	-0.0872	1	
<i>Unemployment (% Labor Force)</i>	-0.0061	-0.6452	-0.453	0.0813	-0.1786	1

Authors' calculation using data obtained from SWFI, The World Bank and Legatum Institute

Furthermore, the correlation suggests a moderately positive correlation (0.4298) between SWF Investment Ratio and institutional trust reflecting the region's institutional frameworks and sovereign wealth investment. Contrasting this trend yet intuitive, the weak negative correlations of SWF Investment Ratio correlations with inflation and unemployment imply that larger SWF Investment Ratios are associated with lower inflation and unemployment rates. The historically low levels of inflation reflect the stability of the economic environment in the GCC, while lower unemployment rates suggest other factors are at play, possibly influenced by the region's unique labor dynamics that are characterized by a high

proportion of expatriate workers and segmented labor markets. These initial insights provide a basis for our advanced empirical investigation of the macroeconomic determinants of SWF investments in the GCC region through panel estimation methods in the discussions that follow.

3.5.2 Estimation Results

Based on Hausman test, we determined that the fixed effect panel estimation model is more appropriate for our balanced data spanning from 2007 to 2022. The fixed effects model is ideal for our study as it allows us to account for unobservable factors, such as regional events that might impact SWF investment decisions, and it enables us to focus on the evolution and influence of country-specific factors over time (Masih, 2009).

Error! Reference source not found. presents our panel estimation results, based on the fixed effect panel regression method for all three hypotheses (H1 to H3) in five parsimonious models (1-5). We began with examining the relationship between economic development and SWF investment, then gradually adding more variables and interaction terms to understand how the selected macroeconomic factors influence SWF investments in the GCC region. Our variables of focus are GDP per capita as a measure of economic development and domestic credit to the private sector as an indicator of private sector development. We started the empirical analysis with a pilot test of whether economic development has a direct and significant impact on SWF investments in model 1. Then, we proceeded to test our first hypothesis (H1) to see if private sector development influences SWF investments in model 2. For the second hypothesis (H2), we introduced institutional trust and tested its significance in model 3. Finally, we tested the third hypothesis (H3), by interacting institutional trust with our focused

macroeconomic indicators of economic development and private sector development, in models 4 and 5, respectively.

Across all five model specifications, GDP per capita (constant 2015 US\$) consistently emerges as a significant macroeconomic factor influencing GCC SWF investments. In Model 1, the positive and statistically significant coefficient (0.206, $p < 0.05$) validate the assertion that higher levels of economic development are associated with increased SWF investments. This positive coefficient indicates that, on average, a one dollar increase in the GDP per capita is associated with a 0.206 percent increase in the GCC SWF investments, holding all other variables constant. Interpreted through our framework, this finding suggests that a higher level of economic development provides the necessary resource base for the 'transitional institution' to operate. This positive coefficient reflects the capacity-building phase, where national prosperity enables the SWF to undertake the strategic investments required to catalyze the economic transition.

Furthermore, this finding is reinforced in models 2 and 3 as its direction of impact and significance persists despite the introduction of additional variables, domestic credit to the private sector and institutional trust. When additional complexities are introduced by interacting with our moderator variable, institutional trust, with both focus variables in models 4 and 5, GDP per capita remains a significant determinant of SWF investments. The consistent significance and positive coefficients across all models further confirm the critical role of economic development as a key factor in shaping SWF investment policies. This finding aligns intuitively in the GCC context, where steady economic prosperity, driven by factors such as natural resource wealth and stable governance, facilitates high levels of sovereign wealth assets and investments.

More central to the study, the coefficient of our indicator for private sector development, domestic credit to the private sector (% of GDP), in model 2, presents a negative and significant (-0.054 , $p < 0.10$) influence on the GCC SWF investment. This is a key finding for the 'transitional institution' model. It confirms our first hypothesis (H1) suggesting a potential dampening effect on SWF investments. It implies that, on average, a one percentage point increase in domestic credit to the private sector as a share of GDP is associated with a 0.054 percentage point decrease in SWF investments, holding all other variables constant. This finding is consistent in models 3 and 4 with mixed levels of statistical significance, empirically substantiates the argument that GCC SWFs are not static investors but are performing an evolving, transitional function. The evidence suggests that as the domestic private sector matures and gains capacity (proxied by access to credit), the state, via its SWF, strategically reduces its investment intensity. This aligns with the theoretical proposition that the SWF recedes from the economic space as private actors become more capable, thereby avoiding crowding-out effects and facilitating a shift toward a private-sector-led growth model.

In other words, such an inverse relationship in the GCC context could be justified by the predominant economic reliance on the oil and gas sector as the major financial source for the supply of liquidity for credit used to fund private sector activity on the one hand and the supply of funds into the sovereign wealth treasury for investment. It may reflect a cautious investment approach that prioritizes long-term economic stability and strategic private sector development objectives, potentially leading the GCC SWFs to be selectively bearish in their investment activities.

The study by Braunstein (2019) reveals systematic connections between the types of SWFs and the domestic structures influencing their decisions. This study suggests that a robust and well-structured private sector might limit

the development and utility of SWFs, which resonates with our findings in the GCC context. One of the key revelations of our study is the potential crowding-out effect between SWF investments and private sector growth. While our analysis indicates that as the private sector in GCC countries becomes more robust, which may potentially reduce the reliance on SWF investments, it poses a unique challenge for policymakers. This highlights the need for investment policies that facilitates private sector development and also strategically align SWF investments to complement rather than compete with private sector growth.

3.5.3 The Moderating Role of Institutional Trust

In Table 9, after introducing the institutional trust variable and finding a statistically significant relationship with the GCC SWF investment in model 3, we further examined its moderating effect on the relationship between the macroeconomic determinants and SWF investment. In Models 4 and 5, presented in Table 9, we introduced interaction terms between institutional trust and our focused indicators of economic and private sector development: GDP per capita and domestic credit to the private sector (% of GDP), respectively. In Model 4, where we interacted institutional trust with GDP per capita, we found the coefficient of the interaction term to be statistically significant (-0.828, $p < 0.10$), indicating a noteworthy moderating effect of institutional trust on the relationship between economic development and SWF investments. That is, the influence of economic development on SWF investments varies depending on the level of institutional trust within the home countries. The significant negative coefficient, however, suggests that higher levels of institutional trust in the GCC countries may dampen the positive effect of economic development on SWF investments. This confirms that the impact of national prosperity on SWF strategy is not uniform but is conditional upon the institutional context.

However, the moderation effect on the relationship between private sector development and SWF investment (Model 5) was not found to be statistically significant (-0.422 , $p > 0.10$) in this analysis. This finding suggests that while trust is a crucial contextual variable, its moderating influence may be more significant in shaping the state's response to overall prosperity than in its direct reaction to the maturity of the private sector alone. This refines, rather than refutes, the 'transitional institution' model, suggesting that a more complex set of factors, such as geopolitical stability, market conditions, and government policies, may govern the decision to recede than trust alone.

In sum, the findings across the five standard fixed effect models, including the test for moderation effects, provide significant empirical evidence on the role of macroeconomic determinants and institutional trust in driving SWF investments. In particular, home country economic development, significantly drives SWF investments in the GCC region, with higher levels of GDP per capita associated with increased SWF investments. Conversely, while initially significant, the direct influence of private sector development on SWF investments appears to be mixed in subsequent models. Furthermore, our investigation into the moderating role of institutional trust reveals a mixed moderation effect. The finding suggests that institutional trust influences the relationship between economic development and SWF investments, while its impact on the relationship between private sector development and SWF investments is less evident.

Table 9: Fixed Effect Panel Estimation of Macroeconomic Determinants of GCC SWF Investments

Macroeconomic Determinants of SWF Investment Policies in the GCC Region					
	(1) SWFIR	(2) SWFIR	(3) SWFIR	(4) SWFIR	(5) SWFIR
GDP per capita (constant 2015 US\$)	0.206*** [0.06]	0.203*** [0.06]	0.277*** [0.07]	0.864** [0.34]	0.243*** [0.08]
Inflation (Consumer Prices annual %)	-0.248 [0.18]	-0.337* [0.19]	-0.488** [0.20]	-0.568*** [0.20]	-0.469** [0.20]
Unemployment (% Labor Force)	1.533 [1.10]	0.910 [1.15]	1.397 [1.16]	1.145 [1.16]	1.585 [1.16]
Domestic credit to private sector (% of GDP)		-0.054* [0.03]	-0.048 [0.03]	-0.058* [0.03]	0.267 [0.21]
Institutional Trust			-0.697* [0.39]	7.859 [4.92]	-0.344 [0.45]
Institutional Trust # GDP per capita (constant 2015 US\$)				-0.828* [0.47]	
Institutional Trust # Domestic credit to private sector (% of GDP)					-0.422 [0.27]
Constant	-2.108*** [0.65]	-2.031*** [0.64]	-2.297*** [0.65]	-8.326** [3.51]	-2.212*** [0.65]
Observations	84	84	84	84	84
NO of Countries	6	6	6	6	6
R-Squared	0.152	0.186	0.220	0.252	0.245
F-Test	4.481	4.229	4.117	4.035	3.893
Average Observation Per Country	14	14	14	14	14

***, **, * indicate significance at the 1% and 5% and 10% levels respectively. Standard errors are in square brackets

3.5.4 Robustness Checks

To ensure the validity and reliability of our empirical findings, we conducted robustness checks by re-estimating the impact of macroeconomic factors on SWF investments in the GCC under different econometrical assumptions. First, we applied the alternative random-effect panel estimation technique that recognizes and accounts for the potential heterogeneity in SWF investment policies that is not explicitly captured by the macroeconomic variables considered in our initial fixed-effect analysis. Secondly, we introduced an alternative measure for economic development, GDP growth (annual %), to replace GDP per capita in a fixed-effect panel estimation with the aim to test the robustness and consistency of our findings. Lastly, we extend the test of the role of institutional trust beyond that of a moderator, to that of mediation in the association between macroeconomic factors and SWF investments in the GCC.

3.5.4.1 Alternative Model Test - Random-Effect Specification

With the random-effects specification, we aim to assess whether our results withstand variations in modelling assumptions and provide a more comprehensive understanding of the relationship between macroeconomic factors and SWF investment policies. It helps us understand whether the observed patterns persist, diminish, or amplify when subjected to different methodological scrutiny to reinforce the robustness and generalizability of our empirical findings in the broader context of GCC SWF investment dynamics.

The random effect estimation result, presented in Table 10, as a robustness check to the previously analyzed fixed effect model, reveals a

generally consistent pattern, shedding additional light on the macroeconomic determinants of SWF investment policies. For instance, our focus macroeconomic indicator, GDP per capita, continues to exhibit a positive and statistically significant relationship with SWF investment across all four random effects model specifications. Like the previous fixed effect estimation finding, this result also suggests that higher levels of macroeconomic development influence SWF investment positively. It supports the notion that economic prosperity is a key driver of SWF investment policies. Similarly, the negative association between our measure for private sector development, domestic credit to the private sector (% of GDP) and SWF investment persists in the random-effects models, indicating that a higher percentage of domestic credit relative to GDP is linked to lower SWF investment ratios.

Additionally, in Models 2 and 3 of Table 10, where the moderating effects of institutional trust are introduced, we find that its interaction with GDP per capita and domestic credit to the private sector significantly influences SWF investments. The negative coefficient for the interaction term between institutional trust and GDP per capita (-0.856, $p < 0.05$) indicates that lower institutional trust moderates the positive relationship between economic development and SWF investments. Similarly, the negative coefficient for the interaction term between institutional trust and domestic credit to the private sector (-0.554, $p < 0.05$) is significant. Contrary to the fixed effect finding earlier, this finding suggests that institutional trust also moderates the relationship between private sector development and SWF investments.

In Model 4, we introduced country dummies to assess if SWF investments in individual countries significantly differ from the rest on average. The findings reveal a non-statistically significant coefficients for the country

dummies, suggesting that the SWF investment by individual countries is not significantly different in the long-run. Overall, the random-effects estimation reinforces earlier fixed-effect finding suggesting the significance of economic and private sector development indicators, as well as the moderating effect of institutional trust, in shaping GCC SWF investment policies. This finding strengthens the robustness and generalizability of our empirical findings.

Table 10: Random Effect Panel Estimation of Macroeconomic Determinants of GCC SWF Investments

Macroeconomic Determinants of GCC SWF Investment Policies				
	(1)	(2)	(3)	(4)
GDP per capita (constant 2015 US\$)	0.196*** [0.03]	0.786*** [0.25]	0.186*** [0.03]	0.277*** [0.07]
Inflation (Consumer Prices annual %)	-0.420** [0.19]	-0.438** [0.19]	-0.422** [0.19]	-0.488** [0.20]
Unemployment (% Labor Force)	2.901*** [0.57]	1.394* [0.84]	2.766*** [0.56]	1.397 [1.16]
Domestic credit to private sector (% of GDP)	-0.027 [0.03]	-0.055* [0.03]	0.385* [0.20]	-0.048 [0.03]
Institutional Trust	-0.288** [0.14]	8.920** [3.84]	0.112 [0.23]	-0.697* [0.39]
Institutional Trust # GDP per capita (constant 2015 US\$)		-0.856** [0.36]		
Institutional Trust # Domestic credit to private sector (% of GDP)			-0.554** [0.27]	
Bahrain				0.000 [.]
Kuwait				-0.050 [0.03]
Oman				0.036 [0.04]
Qatar				-0.041 [0.08]
Saudi Arabia				0.096 [0.06]
United Arab Emirates				0.014 [0.05]
Constant	- 1.808*** [0.27]	- 8.091*** [2.63]	- 2.003*** [0.28]	- 2.306*** [0.64]
Observations	84	84	84	84
NO of Countries	6	6	6	6
R-Squared Overall	0.424	0.464	0.455	0.508
Average Observation Per Country	14	14	14	14
Robustness: Random Effect Panel estimation for Macroeconomic Determinants of SWF Investment Policies in GCC. ***, **, * indicate significance at the 1% and 5% and 10% levels respectively. Standard errors are in square brackets				

3.5.4.2 Alternative Proxy Test – Fixed-Effect Specification

In Table 11 we present another fixed-effect panel estimation where we introduced an alternative measure for economic development, GDP growth (annual %), to replace GDP per capita, aiming to test the robustness and consistency of our findings. This approach allows us to assess whether the relationship between economic development and SWF investments remains significant and consistent when using a different indicator.

Across Models 1 to 4 of Table 11, we find that GDP growth (annual %) exhibits a positive and statistically significant relationship with SWF investments, except for model 3 (coefficient = -1.977, $p > 0.05$). This finding aligns with our earlier discussions regarding the importance of economic development indicators in driving SWF investment policies. The positive coefficient suggests that higher levels of GDP growth are associated with increased SWF investments, indicating that economic expansion and prosperity contribute to the accumulation of sovereign wealth and drives it investment agenda.

Moreover, the interaction term between institutional trust and GDP growth (annual %) shows a statistically significant moderating relationship in Model 3 (-3.152, $p < 0.10$). This implies that the moderating effect of institutional trust on the relationship between economic growth and SWF investments is also pronounced as with GDP per capita. Similarly, the interaction term between institutional trust and domestic credit to the private sector (% of GDP) in this model turned statistically significant (-0.522, $p < 0.10$). This indicates that institutional trust moderates the relationship between private sector development and SWF investments making our overall finding in this regard less conclusive.

Overall, the findings from the fixed-effect models support the robustness and consistency of our earlier results, indicating that both GDP per capita and GDP growth (annual %) serve as reliable indicators of economic development positively influencing SWF investment policies. Additionally, the moderating effect of institutional trust on the relationship between our macroeconomic determinants and SWF investment policies indicates the importance of governance and regulatory frameworks in the regional SWF investments dynamics.

Table 11: Fixed Effect Panel Estimation of Macroeconomic Determinants of GCC SWF Investments

Macroeconomic Determinants of GCC SWF Investment Policies				
	(1)	(2)	(3)	(4)
	SWFIR	SWFIR	SWFIR	SWFIR
GDP growth (annual %)	0.359** [0.15]	0.366** [0.16]	-1.977 [1.36]	0.277* [0.16]
Inflation (Consumer Prices annual %)	-0.358* [0.20]	-0.330 [0.20]	-0.285 [0.20]	-0.318 [0.20]
Unemployment (% Labor Force)	1.568 [1.21]	1.436 [1.24]	1.457 [1.22]	1.614 [1.22]
Domestic credit to private sector (% of GDP)	-0.024 [0.03]	-0.025 [0.03]	-0.004 [0.04]	0.359* [0.21]
Institutional Trust		0.193 [0.34]	0.272 [0.34]	0.490 [0.37]
Institutional Trust # GDP growth (annual %)			3.152* [1.81]	
Institutional Trust # Domestic Credit to Private Sector (% GDP)				- 0.522* [0.29]
Constant	0.025 [0.05]	-0.112 [0.25]	-0.186 [0.25]	-0.331 [0.27]
Observations	84	84	84	84
NO of Countries	6	6	6	6
R-Squared	0.131	0.135	0.170	0.173
F-Test	2.791	2.276	2.454	2.507

Average Observation Per Country	14	14	14	14
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***, **, * indicate significance at the 1% and 5% and 10% levels respectively.
Standard errors are in square brackets (not parentheses)

3.5.4.3 Alternative Conditioning - Testing for Mediation Effect of Institutional Trust

Further building on our third hypothesis (H3), institutional trust can also mediate between macroeconomic conditions and SWF investment decisions by reducing information asymmetry, lowering perceived risk, and facilitating smoother transactions, which ultimately leads to more informed investment decisions. Hence, to test the robustness of the moderating role of institutional trust in the relationship between macroeconomic factors (economic development and private sector development) and SWF investments, we also test for mediation with the a priori expectation of no mediation effect.

Testing the mediating role of institutional trust (T) in the relationship between macroeconomic factors (M) (economic development and private sector development) and SWF investments (I) in GCC countries, we adopt the Baron and Kenny (1986) approach, modified as suggested by Iacobucci et al. (2007) and followed the procedure laid out by Zhao et al. (2010) within a structural equation modelling (SEM) framework. These approaches involve a series of regressions to assess the relationships between economic development and private sector development, the mediator (institutional trust), and the dependent variable (SWF investment). They allow for the simultaneous estimation of direct and indirect effects, providing a robust assessment of mediation compared to traditional regression techniques. The mediation model is specified as follows:

$$I = \alpha + cM + \epsilon \quad (4)$$

$$T = \alpha + aM + \epsilon \quad (5)$$

$$I = \alpha + bT + c'M + \epsilon \quad (6)$$

where:

c represents the direct effect of macroeconomic factors (M) on SWF investments (I)

a represents the effect of macroeconomic factors (M) on Institutional trust (T).

b represents the effect of Institutional trust (T) on SWF investments (I), controlling for macroeconomic factors (M).

We employ the Sobel test and bootstrapping techniques to assess the significance of the indirect effect ($a*b$). The Sobel test provides a z -statistic for the indirect effect, while bootstrapping generates an empirical sampling distribution of the indirect effect, allowing for a more robust estimation of its significance. Furthermore, to determine the relative magnitude of the indirect effect, we will calculate the ratio of the indirect to total effect (RIT) and the ratio of the indirect to direct effect (RID). The RIT indicates the proportion of the total effect that is mediated by institutional trust, while the RID measures the relative size of the indirect effect compared to the direct effect.

The results of the mediating effects of institutional trust are presented in Table 12. Panel A presents the direct effects of institutional trust, economic development (GDP per capita), and private sector development (domestic credit to the private sector) on SWF investments. We find a significant positive relationship between economic development and SWF investment (coef. = 0.059, $p < 0.01$), as well as a

significant positive relationship between institutional trust and SWF investment (coef. = 0.329, $p < 0.01$). This confirms earlier findings that higher economic development directly leads to increased SWF investments, and greater institutional trust facilitates more SWF investments.

In Panel B, we observe the direct effects of GDP per capita and domestic credit to the private sector on institutional trust. GDP per capita again displays a positive and statistically significant effect, suggesting that higher levels of economic development are associated with increased institutional trust. Private sector development also presents a positive relationship with institutional trust but is not statistically significant.

In Panel C we examined the indirect effects of GDP per capita and domestic credit to the private sector on SWF investments through the mediator of institutional trust. While there are no direct paths from institutional trust to SWF investments, both GDP per capita and domestic credit to the private sector demonstrate positive but statistically insignificant indirect effects. The fact that these indirect effects are statistically insignificant suggests that while the hypothesized relationships exist, there is not enough statistical evidence in the data to confidently conclude that these indirect effects are different from zero. In other words, the observed indirect effects could be due to chance and institutional trust does not directly impact SWF investments to act as a mediator, transmitting the effects of GDP per capita and domestic credit to the private sector.

In Panel D, we assess the indirect effects of GDP per capita and domestic credit to the private sector on institutional trust. However, no indirect paths are found, indicating that these macroeconomic factors do not indirectly influence institutional trust. In Panel E, the ratio of indirect

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effect to total effect (RIT) of 10% for Economic Development suggests that 10% of its total effect on SWF investments is mediated by institutional trust. This indicates a relatively small but noteworthy indirect effect. Whereas the RIT of 70% for private sector development suggests that 70% of its total effect on SWF investments is mediated by institutional trust, indirectly.

However, the statistically insignificant nature of these effects makes these results less conclusive on the mediating role of institutional trust in the relationship between private sector development and economic development on SWF investments. This finding could be attributed to the complex dynamics of the GCC private sector, where factors beyond institutional trust (e.g., access to finance, government regulations) may play a more dominant role.

Table 12: Mediating Effect of Institutional Trust in the Impact of Macroeconomic Factors on SWI Investments in GCC

Testing Mediating Effect of Institutional Trust in the Impact of Economic Development and Private Sector Development on SWI Investments in GCC		
	Economic Development (1)	Private Sector Development (2)
Panel A - Direct Effects on SWI Ratio (Global)		
Institutional Trust	0.063 [0.14]	0.329*** [0.10]
GDP per capita (constant 2015 US\$)	0.059*** [0.02]	
Domestic credit to private sector (% of GDP)		0.007 [0.03]
Constant	-0.599*** [0.16]	-0.187** [0.08]
Panel B - Direct Effects on Institutional Trust		
GDP per capita (constant 2015 US\$)	0.108*** [0.01]	
Domestic credit to private sector (% of GDP)		0.050 [0.03]
Constant	-0.384*** [0.13]	0.704*** [0.02]
Panel C - Indirect Effects on SWF Investments <-		
Institutional Trust	(no path)	(no path)
GDP per capita (constant 2015 US\$)	0.0068 [0.0148]	
Domestic credit to private sector (% of GDP)		0.0163 [0.0117]
Panel D - Indirect Effects on Institutional Trust <-		
GDP per capita (constant 2015 US\$)	(no path)	
Domestic credit to private sector (% of GDP)		(no path)
Panel E – Extent of Mediation		
RIT (Indirect effect / Total effect)	10%	71%
RID (Indirect effect / Direct effect)	0.12 ^a	2.45 ^b
*** and ** and * indicate significance at the 1% and 5% and 10% levels respectively. Standard errors are in square brackets (not parentheses) ^a and ^b indicates that the mediated effect is about 0.1 and 2.5 times as large as the direct effect of GDP per capita and Domestic Credit to private sector on SWF Investment, respectively.		

3.6 Discussion

Firstly, our analysis reveals a significant positive association between the level of economic development, as proxied by GDP per capita, and SWF investments. This finding suggests that as these GCC countries experience higher levels of economic prosperity, they tend to allocate more funds to their SWFs. Increased SWF investments can facilitate diversification strategies, allowing these countries to reduce their dependence on traditional revenue sources like oil and gas. The observed growth in asset size and investment scale of prominent GCC SWFs such as the PIF (Saudi Arabia), KIA (Kuwait), QIA (Qatar) and ADIA and Mubadala (the UAE) over the recent decade reflects the essence of this initial finding. These SWF investments would, in turn, contribute to long-term economic growth and stability through the diversified nature of their investment portfolios across different asset classes and geographic regions. This finding, is of course, not unexpected, but sets the scene for further, more counter-intuitive findings.

Secondly, our finding suggests a puzzling relationship between private sector development and SWF investments. The negative impact of domestic credit to the private sector on SWF investments supports the 'crowding out' effect hypothesized by our theoretical framework. This finding is consistent with prior literature which argues that a strong and politically well-organized private sector inherently tends to suppress or constrain the scope of SWFs in those same areas (Braunstein, 2019; Schena et al., 2018). In this scenario, increased lending to the private sector may divert resources away from SWFs, limiting the government's ability to accumulate wealth for long-term investment purposes. This phenomenon points towards a trade-off between financing private sector activities and building national reserves through SWFs. It presents

a challenge of balancing competing priorities for policymakers in the region.

Furthermore, the negative relationship between private sector development and SWF investment reflects a natural evolution in the role of SWFs as economies mature. It also suggests the potential for SWFs to serve as transition mechanisms in economic development through their investment activities. In the early stages of development, when private sectors are nascent and economic development is mainly government-led, GCC SWFs can actively drive diversification by investing in new industries, facilitating critical market infrastructure and laying the ground for a more conducive investment climate. However, as the private sector matures and gains the capacity to lead economic growth, the role of SWFs may shift. Instead of direct investment, SWFs can transition towards enabling private sector leadership through co-investments, partnerships, and targeted support.

This transition is evident in the GCC's efforts to reduce reliance on hydrocarbon revenues and promote private sector-driven growth. For instance, Saudi Arabia's PIF has increasingly focused on partnerships with private sector entities, both domestically and internationally (Montambault Trudelle, 2022; Othman & Albuainain, 2022). This approach allows the PIF to leverage private sector expertise and capital while also providing a signaling effect to encourage further private sector investments. Similarly, the UAE's Mubadala has actively sought co-investment opportunities with private equity firms and other institutional investors, recognizing the importance of collaboration in driving economic diversification.

Thirdly, our analysis provides evidence to suggest that institutional trust plays a moderating role in shaping the relationship between economic

development and SWF investments. The resource curse literature provides an important framework for understanding these dynamics. It highlights how natural resource wealth can negatively affect a country's institutions and development (Mehlum et al., 2006a, 2006b). The observed moderation suggests that in countries with higher levels of institutional trust, the positive link between economic development and SWF investment appears to be weakened.

While economic development can provide the financial resources for SWF investments, high levels of institutional trust may indicate a more robust and well-functioning domestic economy and private sector, reducing the perceived need for the SWF to act as the primary direct catalyst (Alosaimi & Alfraih, 2023). In this context, a possible explanation is the higher levels of institutional trust observed in the GCC countries, which may lead to greater confidence in domestic markets and regulatory frameworks within. This would, in turn, reduce the need to allocate substantial financial capital to SWFs for extensive investments to mitigate perceived risks.

In such a scenario, high levels of institutional trust coincide with a "crowding out" of SWF investment, as the state's intervention is less necessary in a high-trust, favorable economic environment. This suggests that in countries with strong institutions and high levels of public trust, SWFs may play a more strategic role in managing long-term savings and investing in international markets, rather than actively intervening in the domestic economy. Conversely, in weaker institutional environments, policymakers may prioritize SWF investments as a means of diversifying risk and securing long-term financial stability, particularly in the face of political or economic uncertainties (e.g., (Chen & Jiang, 2023; Hain et al., 2016)).

Lastly, we find a less conclusive moderating effect of institutional trust on the relationship between private sector development and SWF investments. The finding, although not statistically significant, might indicate that countries with greater institutional trust may exhibit a weaker negative association between private sector development and SWF allocations. That is, in GCC countries where public confidence in institutions and governance is high, there is a tendency for SWF investments to decrease when the private sector development is less pronounced. By implication, the observed higher levels of institutional trust in these countries may have increased investors' willingness to engage in private sector activities, driving economic growth and reducing the need for extensive SWF interventions. Conversely, in countries with weaker institutional trust, investors may be more hesitant to invest in the private sector due to concerns about political instability, corruption, or regulatory uncertainty. This can lead to a higher reliance on SWFs to stimulate economic development, as these funds can provide a more stable and reliable source of investment capital.

These findings enrich the academic understanding of SWF investment behaviors and have significant implications for policymakers in GCC countries, and indeed, the role of SWFs as a transitional (financial) institution. By understanding the complex interplay of macroeconomic factors and institutional trust, policymakers can refine their investment strategies to promote sustainable economic growth and diversification. Firstly, the potential crowding-out effect of private sector development suggests the need for careful coordination between SWF investment policies and broader economic development strategies. Policymakers should prioritize private sector growth, recognizing its vital role despite potential competition with SWFs for investment resources. They should strive to create an enabling environment where SWF investments

complement rather than compete with private sector initiatives. This can be achieved through measures to improve the ease of doing business, reduce regulatory barriers, and enhance access to finance for small and medium-sized enterprises. This can also involve directing SWF investments towards sectors underserved by the private sector or focusing on long-term infrastructure projects that enhance the overall investment climate. For example, Saudi Arabia's PIF has partnered with BlackRock to target infrastructure development, creating opportunities for local businesses to engage in large-scale projects. In Dubai, the establishment of the Dubai Investment Fund (DIF) supports economic diversification by channeling resources into industries like infrastructure and utilities, which are critical for private sector participation.

Secondly, the moderating role of institutional trust shows the importance of strong institutions in enhancing the effectiveness of SWF investments. GCC countries should prioritize building and maintaining strong institutions and transparent governance frameworks that are crucial for institutional trust. This can be achieved by promoting accountability, combating corruption, and upholding the rule of law. For instance, Saudi Arabia's PIF is demonstrating a maturing governance framework through its recalibrated investment strategy, which includes demanding "skin in the game" from its global partners. By requiring external contributors to commit their own resources, PIF promotes mutual accountability and ensures a sustainable, disciplined approach to investment.

3.7 Conclusion

This study investigated the domestic macroeconomic determinants of GCC SWF investment, moving beyond prevailing conceptual models. By proposing, justifying, and testing a new conceptual framework, the 'transitional institution' moderated by institutional trust, this paper

makes a significant theoretical and empirical contribution. Our findings support this framework, revealing that SWFs strategically recede as the private sector matures (H1) and that this relationship is complexly moderated by institutional trust (H3). The findings shed light on the intricate relationship between macroeconomic factors, institutional trust, and SWF investment policies, confirming the SWF's role as an active agent of domestic economic transition.

Theoretically, this paper offers a new, complementary framework for understanding SWFs in resource-dependent, rentier economies. Instead of refuting the "passive savings vehicle" (e.g., (Megginson et al., 2013)) or "external statecraft" (e.g., (Aguilera et al., 2016)) models, our 'transitional institution' framework complements them by adding the critical, and heretofore underexplored, domestic function. It moves beyond the "external gaze" (Braunstein, 2019) to provide a new lens for analyzing SWF behavior as a strategic tool for domestic economic transition.

Empirically, this study extends the existing literature on SWF determinants (e.g., (Amar et al., 2019)) by shifting the analytical focus from target-country factors to home-country macroeconomic drivers. Furthermore, it provides new insights in two ways: (1) It provides, to our knowledge, one of the first empirical tests of institutional trust as a critical moderator of SWF investment strategy, moving beyond studies that treat it as a simple direct driver (e.g., (Chen & Jiang, 2023)). (2) It provides robust empirical support for the "crowding out" hypothesis (H1), lending quantitative evidence to the theoretical claims of Braunstein (2019) and Schena et al. (2018) regarding the SWF's complex, receding relationship with a maturing private sector.

On a policy-level, our contributions are clarified. The findings provide a nuanced roadmap for GCC policymakers. The "crowding out" or "receding" finding (H1) suggests that SWFs must be carefully coordinated to complement rather than compete with private sector development. The "moderator" finding (H3) implies that efforts to build institutional trust are not just a "good governance" exercise; they are a direct mechanism for enabling a more stable, private-sector-led economy, reducing the need for costly state intervention

Notwithstanding, it is also important to acknowledge certain limitations of our research. Our focus on the GCC region offers a regional perspective but may not fully represent the global behaviors and trends of SWFs. Additionally, we did not explore the direct impact of SWF investments on the sub-dimensions of economic development and diversification within the GCC countries, although our study found a clear relationship between the two.

These limitations open avenues for future research to explore the direct contributions of SWFs to the economic landscape of the GCC region. Such studies would be invaluable in evaluating the role of SWFs as effective tools for accelerating economic diversification in the GCC region. This would involve analyzing the relationship between SWF investments and changes in the economic structure of GCC countries, particularly the degree of dependence on the oil sector. Research in this area is essential to determine whether SWFs are effectively reducing oil revenue reliance and contributing to a more diversified economic landscape.

Future studies could also investigate how SWFs allocate investments across different sectors, particularly in relation to economic diversification efforts and the sustainability agenda. Additionally, there is a need to examine the impact of global economic shifts on SWF

investment policies, especially in the context of oil price fluctuations, energy transition and international trade dynamics. How these macroeconomic shifts influence SWF investment policies remain an important question, especially given the GCC's reliance on oil revenues. More so, future research should also explore the role of SWF investments in domestic private sectors to understand how SWF investments in domestic private sectors can be structured to maximize economic and social impact while minimizing potential crowding-out effects.

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Chapter 4: Economic Impact of Gulf Cooperation Council (GCC) Sovereign Wealth Funds (SWFs): Lessons for Policy

Abstract

This study examines the changing relationship between Sovereign Wealth Fund (SWF) investments and macroeconomic indicators across the Gulf Cooperation Council (GCC) countries. SWF investments by GCC countries have a global scope and are an increasingly prominent player in the international business ecosystem. Our analysis, which distinguishes itself from previous research by employing advanced time series techniques, focuses on their short-term to long-term impacts on economic prosperity, resilience, and sustainability performance in the domestic economies of selected GCC countries (Saudi Arabia, UAE, and Qatar). In other words, do they leave home countries better off? The findings reveal significant heterogeneity across these nations and complexities within them. While SWF investments show potential for positive long-run contributions (e.g., to prosperity in Saudi Arabia, sustainability in the UAE), these are often accompanied by counterintuitive short-run dynamics (e.g., negative prosperity impact in Saudi Arabia), adjustment costs, or muted aggregate effects (e.g., Qatar). Furthermore, the relationship between SWF investment and economic resilience appears complex, with evidence suggesting SWFs may not act as simple stabilizers against economic uncertainty and may even correlate with increased long-run uncertainty in some contexts (UAE). The link to foundational oil revenues also proves intricate, varying significantly across countries and challenging simple funding models. This essay contributes important empirical evidence on the dynamic, multi-dimensional, and context-dependent nature of SWF impacts within resource-rich home economies, offering critical insights for policymakers navigating diversification, stability, and sustainability goals.

4.1 Introduction

Sovereign Wealth Funds (SWFs) can serve multiple purposes, *inter alia*, inter-generational savings, diplomacy, stabilization, and short term returns to boost the national fiscus and/or regional development (Addison & Lebdioui, 2022; Cumming et al., 2017; López, 2023; Mami, 2023). This multifunctionality is particularly important given the puzzling “Resource Curse”, in which resource-poor economies often outperform resource-rich ones in economic growth (Sachs & Warner, 2001). However, these rationales may overlap and conflict, such that an investment made in pursuit of one rationale may serve another. An investment made to secure future generations (savings), for instance, may constrain the government ability to manage a current crisis (stabilization). In another vein, inter-generational savings and diplomacy may not have an immediate economic impact while the other rationales may. Given that SWFs are pulled in different directions, navigating these conflicting mandates has become the central challenge for the Gulf Cooperation Council (GCC).

Over the past decades, the GCC region has witnessed a paradigm shift away from the passive "Norway Model" of strict sterilization toward a more strategically dynamic model of State Capitalism (Di Bonaventura Altuve, 2023; Schena et al., 2018; Young, 2020). In this context, GCC SWFs are no longer merely passive fiscal buffers; they are dynamic agents of structural transformation. The sheer magnitude of this shift cannot be overstated, given the enormous size of these funds (collectively exceeding USD 4 trillion) and their investment activities, which drive domestic macroeconomic narratives and reverberate across the global financial landscape (Abdel-Fattah, 2023). This study investigates the macroeconomic impact of this shift, examining the short- and long-term impacts of SWF investments on the domestic economies of Saudi Arabia, the UAE, and Qatar. These countries, heavily reliant on hydrocarbon

revenues, collectively account for a significant share of the GCC economic activity and SWF assets.

However, despite the importance of these funds, a significant research gap remains regarding the domestic transmission mechanisms of their investment activities in their home economies (Mami, 2023). Extant scholarship has largely concentrated on the international significance and the global footprint of these funds (Boubakri et al., 2023b; Cummine, 2013), detailing their cross-border merger and acquisition activity (Amar, Carpentier, et al., 2018), such as the Qatar Investment Authority's (QIA) effect on Western property markets or the Public Investment Fund's (PIF) influence on global technology valuations (Aguilera et al., 2016; Capapé & Santiso, 2017). In sharp contrast, the mechanisms driving their domestic influence remain largely obscured (Montambault Trudelle, 2022), representing a notable scarcity of empirical research (Alosaimi & Alfraih, 2023; Garg & Shukla, 2021).

Much of the existing analysis fails to move beyond simple macroeconomic rationales or descriptive policy implications (Boubakri et al., 2023b; Cummine, 2013; Montambault Trudelle, 2022). It often employs static analytical frameworks that are inadequate for capturing the complex, time-varying interplay between large-scale state capital deployment and multi-faceted national economic objectives (Aizenman et al., 2019; Alosaimi & Alfraih, 2023; Boubakri et al., 2023b). It remains unclear whether, and through which dynamic pathways, these SWF investments contribute to enhancing long-term economic prosperity, resilience against volatilities, and sustainable development within the GCC nations themselves. This area presents an empirical question for which little significant literature currently exists.

More significantly, this empirical and methodological gap obscures a key theoretical tension inherent to many modern SWFs, particularly those in the GCC that pertain to the Stabilization–Transformation Trade-off. This tension stems from the dual, often conflicting, objectives assigned to

these funds. Firstly, the stabilization mandate is derived from Macroeconomic and Financial Stability Theory, which requires the SWF to act as a fiscal buffer (Das et al., 2009; James et al., 2022). To manage volatility arising from commodity price fluctuations and economic shocks (like avoiding procyclical fiscal policies that exacerbate the resource curse), stabilization requires conservatism, a high degree of liquidity, and investments in assets that are negatively correlated with domestic growth (Boubakri et al., 2023b; Das et al., 2009; Lu et al., 2010; Sharma, 2017). The second, transformation, is aimed at mitigating the "Resource Curse" and driving national economic development, requiring the SWF to become a dynamic engine of structural change (Boubakri et al., 2023b). This developmental role necessitates risk-taking, direct participation in the domestic economy, and investments in illiquid, long-term, domestic private-market asset classes, such as infrastructure, private equity, and venture capital (giga-projects or strategic assets) (Bortolotti et al., 2023; Megginson et al., 2023; Sharma, 2017). With this mandate, they often pursue a "double bottom line," targeting both financial returns and socio-economic impact, which requires moving beyond purely commercial objectives (Bortolotti et al., 2023; Mami, 2023).

As such, when a fund prioritizes structural diversification or domestic development by launching "giga-projects" or acquiring strategic national assets, it inherently generates friction with its stabilization mandate. This is often complicated in the case of GCC SWFs, which have multiple objectives, such as both macroeconomic stabilization and long-term saving. It raises questions about what portion of assets can be used for short-term purposes or otherwise.

4.1.1 SWFs and the Political Economy of the Gulf

To understand the urgency of this "Stabilization-Transformation Trade-off," one must situate the analysis within the specific political economy of the Gulf.

The GCC nations – comprising Saudi Arabia, the United Arab Emirates (UAE), Qatar, Kuwait, Oman, and Bahrain – despite variations in governance structures, share geographical proximity and cultural attributes, presenting a compelling case for exploring the economic impact of SWFs. Collectively, these countries are home to some of the world's largest and longest-standing SWFs, such as the Kuwait Investment Authority (KIA), the Public Investment Fund (PIF) of Saudi Arabia, and the Abu Dhabi Investment Authority (ADIA) of the UAE, to name a few. Their cumulative assets under management (AuM) exceed USD 4 trillion and account for over 40% of the global SWF asset size (Alosaimi & Alfraih, 2023).

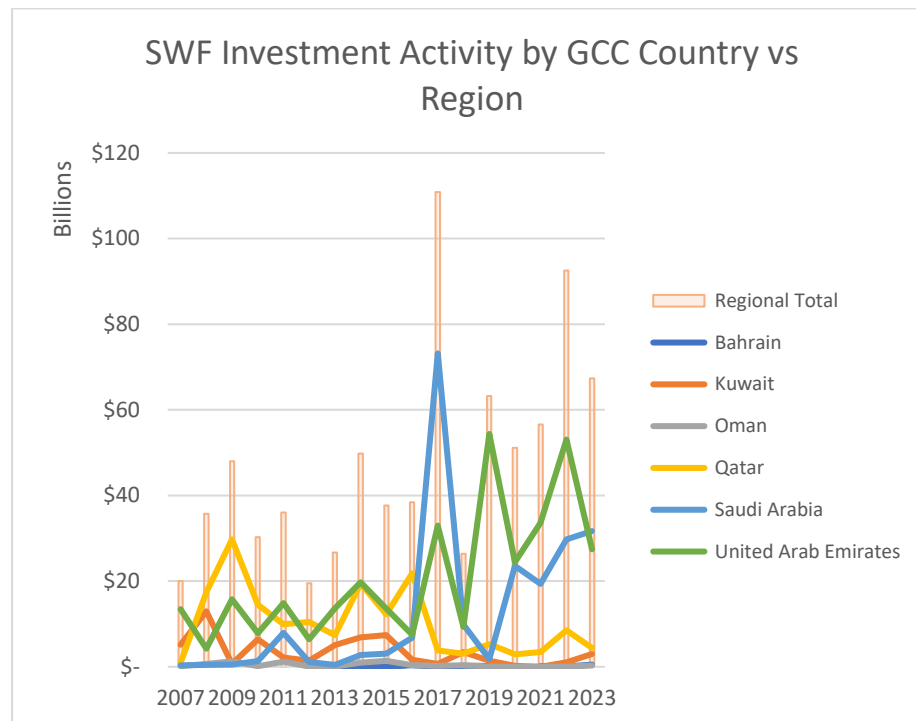
However, these funds vary considerably in size and investment policies. While Saudi Arabia and the UAE manage some of the largest SWFs globally, Oman's fund is comparatively smaller, reflecting differences in their economic capacities and resource endowments. Furthermore, the growth trajectories of these funds also differ, with some experiencing rapid expansion fueled by oil wealth and strategic investments, while others face constraints due to limited fiscal space and economic vulnerabilities.

Despite these variations, these GCC SWFs exhibit a strong policy affinity for investments beyond seeking financial returns. These investments often serve strategic purposes for domestic economic development. For instance, Saudi Arabia's PIF investment in the US-based Lucid Motors is not only diversifying the domestic economy beyond its traditional oil-based focus but also positioning the country as a player in the future of automotive technology and sustainable transportation (Arab News, 2024). This strategic move supports multiple objectives of Saudi economic transformation plan, including technology transfer for local industrial development and job creation (PIF, 2023).

The significant economic weight and investment activity, as illustrated in Figure 11 and Figure 12, highlight the role of the GCC SWFs in the global

SWF domain, which underscores the importance of examining the economic impact of their investment activities.

Figure 11: SWF Investment Activity by each GCC Country vs Region Total



Note: The chart illustrates SWF investment (billions USD) for individual GCC countries and the regional aggregate from 2007 to 2023. Consistently, the UAE remains the most active investor among GCC countries.

Source: Authors' using data from SWFI (2024)

Error! Reference source not found. illustrates the aggregate investment activity of SWFs for each GCC country from 2007 to 2023. The chart reveals diverse investment patterns across the GCC, reflecting variations in SWF mandates, economic strategies, and responses to domestic events. For instance, the surge of Saudi SWF investments following the launch of Vision 2030 highlights the proactive role of SWFs in driving economic transformation. Similarly, the UAE's substantial and sustained investment activity likely reflects its ongoing diversification efforts and its position as a major global investor.

Conversely, the dip in Qatari investments around 2017 coincides with the blockade, suggesting a strategic drawdown by Qatar to navigate the

economic challenges. Conversely, the decline in Kuwaiti investments indicate a shift in investment priorities likely driven by a combination of factors that include the need to cover government budget deficits due to low oil prices, a reported loss in the fiscal year 2015/16 (Oxford Business Group, 2018), and a broader trend among SWFs to diversify into alternative assets like real estate, infrastructure, and private equity. This shift may also involve focusing on earlier stages of the private equity cycle and embracing disruptive technologies (Capapé & Santiso, 2017). Furthermore, variations in investment levels across other GCC countries, such as Oman, show the diverse economic and political factors that shape SWF investment decisions. It lays an important foundation for understanding the heterogeneous macroeconomic impacts observed in the subsequent analysis.

4.1.2 The Historical Burden: Oil Dependency and the Need for Reform

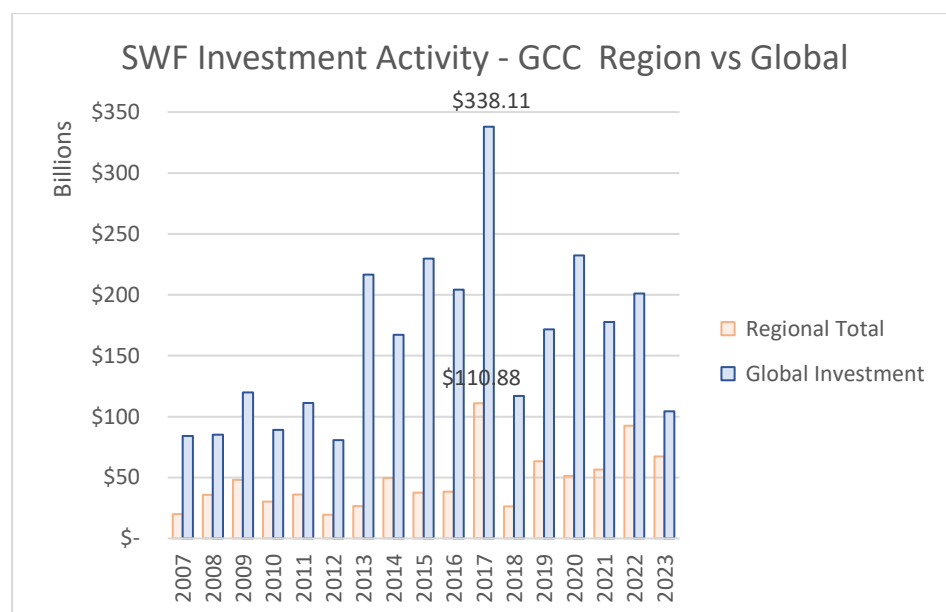
The GCC countries have a deep historical connection to the global oil industry, which overwhelmingly shaped their economic structure and policy around hydrocarbon resources. It highlights the critical role of oil revenues in economic and strategic decisions related to SWFs. The economic trajectories of these nations closely followed the swings in oil prices, underscoring the necessity of economic diversification and resilience to mitigate vulnerabilities to these fluctuations (Kabbani & Mimoune, 2021; Kaddorah, 2021).

Oil revenues provided the basis for prosperity and, indeed, made the SWFs possible, but a persistent reliance on the same meant that national economies are tied up with the vagaries of global commodity markets. SWFs clearly have the potential to serve as vital tools towards achieving diversification, as evidenced by the transformative impact of funds like Norway's Government Pension Fund Global (GPFG) and Singapore's Temasek in diversifying their economies (Sy et al., 2012). However, an

important distinction exists. The Norwegian SWF is prohibited from investing domestically to avoid distorting the domestic market. Its benefits are channeled purely through returns from overseas. This stands in stark contrast to the Gulf model, where SWFs are increasingly tasked with domestic nation-building (Strategic State Capitalism).

This further highlights the importance of understanding the impact SWFs have on economic growth in oil-reliant economies and what this means for policy (Amar et al., 2022; Arouri et al., 2018). The GCC countries, through their SWFs, often support national development agendas such as Saudi Arabia's Vision 2030 and the UAE's National Vision 2021, which aim to reduce oil dependence and promote sustainable economic growth. At a policy level, they can play a crucial role in their diversification strategies, driving economic transformation and long-term prosperity.

Figure 12: SWF Investment Activity by GCC Region & Global



Note: The chart illustrates the GCC SWF investment activity versus the global SWF investment activity from 2007 to 2023. The values are represented in billions of dollars.

Source: Authors' using data from SWFI (2024)

As Figure 12 demonstrates, many countries have used their SWFs as a policy mechanism for both internal and external purposes. Of the industry's global AuM of US\$11.2 trillion, about US\$4.6 trillion (40%) is invested domestically, while US\$6.6 trillion represents "international firepower" (López et al., 2024). Despite the critical role SWFs play in driving economic stability and development, the literature on the dynamic relationship between SWF global investments and their domestic macroeconomies is scant (Kozack et al., 2010).

4.1.3 The Research Focus

To bridge this gap, this essay employs empirical methods grounded in two complementary theoretical frameworks, the Macroeconomic and Financial Stability Theory (MFST) and the Resource Curse Theory, to analyze the dynamic relationship between SWF investments and selected macroeconomic indicators.

The MFST emphasizes the role of SWFs as countercyclical investors, stabilizing economies and mitigating volatility (Minsky, 1986). Ideally, they act as buffers, injecting liquidity during downturns. The Resource Curse Theory highlights the broader challenges faced by resource-rich economies, and provides insights as to the potential and pitfalls of SWFs in promoting diversification and long-term sustainability (Sachs & Warner, 2001).

For clarity, sustainability, in its most widely accepted conceptualization, refers to development that "meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987). In contemporary investment contexts, this is understood through the lens of Environmental, Social, and Governance (ESG) criteria. These frameworks offer complementary perspectives to explore the dynamics between SWF investments and macroeconomic indicators in oil-dependent economies.

This research specifically addresses the lacuna by seeking to answer the overarching research question: How do GCC SWF investments influence economic prosperity, economic resilience, and sustainability performance within their respective home countries over the short and long term?

To explore this, we focus on three core indicators:

- Economic Prosperity, which is the overall state of economic well-being and growth.
- Economic Resilience, which refers to the capacity to withstand or adapt to economic shocks. It is proxied here by economic policy uncertainty.
- Sustainability Performance, which considers ESG outcomes at the national level.

4.1.4 Methodology and Contribution

We employ advanced time series techniques, specifically Autoregressive Distributed Lag (ARDL) bounds testing, Vector Error Correction Modeling (VECM), and Impulse Response Functions (IRF), to investigate these dynamic relationships. Our empirical analysis focuses on Saudi Arabia, the UAE, and Qatar due to data availability. While limited in scope, these three countries represent a significant portion of the GCC's economic activity and SWF assets, providing a meaningful basis for understanding regional dynamics.

The study offers three distinct contributions to the literature. First, it creates an empirical bridge between Strategic State Capitalism and macroeconomic performance. By distinguishing between short-run dynamics and long-run equilibria, we provide evidence of the "adjustment costs" associated with state-led diversification. This allows us to reframe negative short-run findings not as anomalies, but as evidence of a Prosperity J-Curve inherent to structural transformation.

Second, it challenges the universality of the Stabilization Orthodoxy. Our findings reveal significant heterogeneity across the GCC. Saudi Arabia shows signs of transformation involving short-term costs for long-term gains, while the UAE and Qatar exhibit more muted or complex aggregate responses. This heterogeneity challenges simplistic assumptions that SWFs automatically boost prosperity or stabilize economies against all shocks. For instance, we find evidence suggesting that in the UAE, active SWF intervention may even correlate with increased long-run uncertainty, a phenomenon we term "Transformation-Induced Uncertainty."

Lastly, it contributes to the debate on the Resource Curse by empirically testing the link between oil revenue shocks and SWF capitalization. We find that the "pass-through" from oil windfalls to SWF assets is actively managed rather than automatic, highlighting the role of fiscal discretion.

The remainder of this study is structured as follows: Section 2 provides a critical review of relevant literature, synthesizing the tension between stabilization and development narratives. Section 3 outlines the theoretical framework, linking MFST and Resource Curse Theory with the concept of Strategic State Capitalism. Section 4 details the data and methodology, defending the use of quarterly frequency and dynamic modeling techniques. Section 5 presents the empirical findings. Finally, Section 6 concludes with policy recommendations tailored to the specific strategic profiles of Saudi Arabia, the UAE, and Qatar.

4.2 Literature Review

The evolution of SWFs reflects a broader transformation in the global political economy of state capital. Initially conceptualized in the mid-20th century as "stabilization funds," these entities were primarily designed as fiscal buffers to mitigate the volatility associated with resource exports, particularly oil (Gelb et al., 2014), and as mechanisms for sterilizing foreign exchange windfalls for future generations and to prevent Dutch

Disease. In this early "passive" era, the theoretical mandate, grounded in the Macroeconomic and Financial Stability Theory (MFST), was simply to accumulate surplus liquidity during commodity booms and inject it during busts to smooth consumption (Minsky, 1986).

However, the function of SWFs has significantly expanded beyond this limited scope. Today, they function as dynamic agents of Strategic State Capitalism, actively contributing to both short-term stabilization and long-term domestic transformation agendas (Santiso, 2017). This evolution in the function of SWFs has ushered in a shift within the academic discourse (Garg & Shukla, 2021; Mami, 2023). While early research focused on fiscal rules and reserve accumulation (Khamis et al., 2010), contemporary scholarship increasingly views SWFs as proactive economic agents. They are now seen as tools for "statecraft," strategically deploying capital to foster economic diversification, seed new industries, and enhance national resilience in a post-globalization era (Boubakri & Harrouch-Trabelsi, 2022).

This shift is not merely functional but theoretical. It represents a move from the passive investor model of the 20th century, Like the Norway Model of strict sterilization, to the strategic development financier model of the 21st century (Schena et al. (2018). In the GCC, this shift is existential. Faced with the puzzling phenomenon where resource-poor economies often outperform resource-rich ones (Sachs & Warner, 2001), Gulf states have mobilized their SWFs to actively re-engineer their economies. Yet, this developmental turn creates a complex web of overlapping rationales. Investments made for inter-generational savings or diplomatic leverage may conflict with the immediate need for fiscal stabilization, creating a Stabilization-Transformation Trade-off that the literature has yet to fully resolve (Addison & Lebdioui, 2022; Cumming et al., 2017; López, 2023; Mami, 2023).

4.2.1 Literature Streams

The burgeoning literature on the impact of SWFs can be categorized into three distinct yet interconnected streams. While the first two streams offer robust evidence on the external footprint of these funds, they inadvertently treat the home economy as a "black box," obscuring the domestic transmission mechanisms.

a. Stream 1 – External Microeconomic Impact

The first and most extensive body of literature, the external microeconomic impact, that focuses on their investment effects on target firms abroad. This stream emphasizes governance and stakeholder outcomes, and financial performance (Arouri et al., 2018; Bortolotti et al., 2017; Bortolotti et al., 2015; Del Giudice et al., 2014; Fernandes, 2014; Gangi et al., 2019; Goergen et al., 2018; Kerry, 2016; Liang & Renneboog, 2020; Mietzner et al., 2015; Park et al., 2019; Urban, 2017). A central debate here concerns the "SWF discount." Studies such as Bortolotti et al. (2015) and Kotter and Lel (2011) suggest that SWF investments often lead to negative market reactions or long-term underperformance, potentially due to fears of political interference or inefficient management. Conversely, others argue that SWFs provide "patient capital" that insulates firms from short-term market pressures, thereby enhancing long-term value (Fernandes, 2014; Mietzner et al., 2015).

Further research examines the governance implications, debating whether SWFs act as active monitors or passive shareholders. Examining the "monitoring" hypothesis, empirical evidence remains mixed. Some studies find that SWFs, particularly those from transparent jurisdictions like Norway, can improve corporate governance standards in target firms (Gangi et al., 2019). Others, focusing on funds from less transparent regimes, argue they may exacerbate agency problems (Goergen et al., 2018). However, the critical limitation of this stream for our purposes is its locus of analysis. It is primarily concerned with the recipient firm in

London, New York, or Tokyo. While it tells us much about the "External Leg" of SWF activity, it offers little insight into how these outbound capital flows impact the prosperity or resilience of the originating economy in Riyadh or Abu Dhabi.

b. Stream 2 – External Macroeconomic Impact

The second stream shifts the focus to the global stage, analyzing the influence of SWF on the economic landscapes of target countries and global financial stability, examining strategic investment drivers and patterns (Bahgat, 2010; Barbary & Bortolotti, 2013; Ciarlone & Miceli, 2016; Gilligan et al., 2014; Kamiński, 2017; A. Knill et al., 2012). This strand of the literature gained prominence following the 2008 global financial crisis, where SWFs played a critical role in recapitalizing distressed Western financial institutions (Khamis et al., 2010). Studies here often explore the strategic drivers of these flows, debating whether they are motivated by yield-seeking behavior (purely economic) or geopolitical positioning (strategic) (Bahgat, 2010; Barbary & Bortolotti, 2013; Ciarlone & Miceli, 2016; Gilligan et al., 2014; Kamiński, 2017; A. Knill et al., 2012).

While establishing SWFs as major players in the global financial architecture, this "outward gaze" treats the domestic economy merely as a source of capital. It fails to capture the feedback loops, such as the opportunity cost of capital or the importation of global volatility, that reverberate back to the domestic macroeconomy. For instance, while investing in global equities may diversify a portfolio, the Stabilization-Transformation trade-off suggests it might also expose the domestic budget to global market beta, potentially increasing policy uncertainty (a hypothesis tested in this study).

c. Stream 3 – Domestic Macroeconomic Impact

The third stream, arguably the most critical for this study, focuses on their domestic macroeconomic dynamics, particularly in addressing the

economic vulnerabilities associated with natural resource dependence, such as the "resource curse" and "Dutch disease" and the implications of SWF activities within their home countries (Aizenman et al., 2019; Coutinho et al., 2013; Dagher et al., 2012; Elbadawi et al., 2017; Heffron, 2018; Kinda et al., 2018; Mohaddes & Raissi, 2017; Rasaki & Malikane, 2018; Raymond et al., 2017; Vasudeva et al., 2018). Within this stream, a theoretical tension emerges between two competing mandates: the stabilization and the development mandates.

To illustrate further on the third stream, there are mainly two types of impact on domestic economy. First, is the indirect impact through international investments, where some SWFs, like Norway's GPFG, primarily invest abroad. Their domestic impact is indirect, channeled through returns and knowledge transfer from foreign investments that support the economy in the post-resource era and contribute to fiscal sustainability. The second is via direct impact through domestic investments, where SWFs, like those of China and Singapore, actively invest in domestic projects to kickstart development, promote diversification, and drive economic transformation. This direct involvement influences the structure of the domestic economy and plays a crucial role in shaping its future trajectory. The implications of SWF activities within their home countries are significant, as they can influence economic growth, diversification, and long-term sustainability.

4.2.1.1 The Stabilization Mandate

Historically, the dominant view in the literature has been the "Stabilization Orthodoxy." Grounded in the work of Davis (2001) and Fasano (2000), this perspective views SWFs primarily as counter-cyclical buffers designed to decouple government spending from oil price volatility. The logic suggests that by sterilizing windfalls during booms, the fund prevents overheating and real exchange rate appreciation; by drawing down assets during busts, it supports aggregate demand.

Empirical studies in this vein, such as Rasaki and Malikane (2018) and Raymond et al. (2017), generally assess success based on the fund's ability to smooth fiscal cycles. In the GCC context, Khamis et al. (2010) highlight how funds like the KIA successfully insulated the economy during the 2008 crisis. Similarly, Affuso et al. (2022) document the stabilizing role of Trinidad and Tobago's Heritage Fund. However, this literature often assumes a passive investment strategy (holding safe assets like US Treasuries) and struggles to account for the recent shift toward illiquid, risky developmental investments.

4.2.1.2 The Development Mandate

A more recent and critical stream argues that SWFs, particularly in the GCC, have pivoted toward active industrial policy, a "Developmental Mandate" (Addison & Lebdioui, 2022; Botlhale, 2024). Here, SWFs are not passive buffers but active transformers, deploying capital to kickstart non-oil sectors and foster domestic innovation. Schena et al. (2018) characterize this as a shift from "sovereign wealth management" to "sovereign development finance."

This perspective aligns with the concept of "Strategic State Capitalism", that views the SWF as a dynamic tool to overcome market failures in developing economies (Reddy, 2019). For example, direct investments by the PIF in Saudi infrastructure or Mubadala in UAE aerospace are seen as necessary to crowd-in private capital and facilitate technology transfer (Murtaza & Mahmoud, 2024). However, as Montambault Trudelle (2024) notes, these active interventions are not without cost. They can displace private investment, create labor market distortions, and introduce new forms of volatility. This essentially means trading short-term stability for long-term transformation (Bernstein et al., 2013). This study situates itself in the tension between these two perspectives, empirically testing the trade-off that static models often overlook.

4.2.2 SWFs Mandates in the GCC Context

The GCC represents a region where SWFs hold substantial strategic and economic importance, operating under Strategic State Capitalism. Given the region heavy reliance on hydrocarbon revenues, SWFs play a multifaceted role in managing oil wealth, driving growth and diversification efforts while navigating complex economic and geopolitical landscapes.

For instance, the Qatar Investment Authority (QIA) has spearheaded investments in critical infrastructure projects like Hamad International Airport and the Lusail City development, which continues to contribute to economic growth and job creation in Qatar. Similarly, the UAE's SWF – Mubadala has invested in the Masdar City project, which aims to create a sustainable urban environment, and the world's largest solar power plant in Al Dhafra, Abu Dhabi, which indicates its commitment to sustainable energy and economic diversification. In Saudi Arabia, the PIF has also invested heavily in renewable energy projects like the King Salman Renewable Energy Initiative among others (Macbeth et al., 2024).

Scholarship surrounding GCC SWFs often scrutinises the multiplicity of their purpose. Young (2020) contends that, alongside their role as catalysts for economic diversification and growth, GCC SWFs also serve as instruments of diplomacy abroad. This "Alliance Capitalism" perspective Haberly (2011) suggests that GCC SWFs transcend traditional investment roles by actively engaging in state-led global financial integration. Here, the state evolves into a strategic investor, signaling a shift where SWFs are used to secure long-term regime stability and economic relevance (Aguilera et al., 2016; Montambault Trudelle, 2024).

However, this strategic ambition varies significantly by national context, creating a landscape of heterogeneity that this study seeks to map:

a. Saudi Arabia

The literature on Saudi Arabia's PIF highlights its pivot post-2016 to become the engine of Vision 2030. Othman and Albuainain (2022) assess its role in driving economic transformation, noting its aggressive domestic investment mandate. However, critical voices raise questions about the long-term efficacy of this top-down diversification strategy. Specifically, there is a concern regarding the "crowding out" of the private sector, a key adjustment cost explored in this study's empirical analysis.

b. Kuwait

In contrast, the literature on Kuwait emphasizes a more traditional stabilization role. Shehabi (2022) underscores the vulnerabilities of the Kuwaiti economy to shocks like COVID-19 and oil price declines. Here, the KIA is often depicted as a fiscal backstop, covering budget deficits (Oxford Business Group, 2018). This contrasts with the developmental activism seen in the case of Saudi Arabia. This highlights the "Stabilization-Transformation" dichotomy within the GCC itself.

c. The UAE and Qatar

In these contexts, Haberly (2011) "Alliance Capitalism" is most evident. Qatar's QIA and UAE's Mubadala actively invest in global strategic assets (e.g., infrastructure, technology) to secure knowledge transfer (Umar & Ghurab, 2023). For Qatar, the literature notes the strategic use of the SWF during the 2017 blockade to ensure economic sovereignty, suggesting a form of "Strategic Insulation" (Umar & Ghurab, 2023). For the UAE, the multi-fund structure (ADIA focusing on savings, Mubadala on development) represents a sophisticated attempt to manage the trade-off institutionally (Schena et al., 2018).

Furthermore, SWFs in Oman and Bahrain, while substantial, face unique constraints imposed by smaller oil reserves and limited fiscal space

(Callen et al., 2014). Their SWFs must navigate diversification and sustainability objectives with a higher degree of urgency compared to some of their wealthier GCC counterparts like in UAE.

4.2.3 SWFs on the Global Stage: Development Financiers and Strategic Investors

The literature on SWFs extends beyond their domestic roles to examine their influence as global financial actors that are shaping economic landscapes beyond their home countries. The motivations driving their activities at the global stage are multifaceted and combining both strategic and economic considerations. Scholars like Eldredge (2019), posits that SWFs, particularly those in middle-power nations, are driven as much by the desire to protect their principal nations from global economic uncertainty as they are by pure profit motives. This perspective challenges the traditional view of SWFs as mere financial vehicles for economic prosperity and highlights their role in safeguarding national interests and promoting economic resilience.

The transformative potential of SWFs as development financiers is further explored by Schena et al. (2018). They examine how SWFs have evolved from managing commodity surpluses to becoming essential tools for development in a globalized and capital-constrained world. Their study highlights the innovative roles SWFs play as strategic financiers, whose investment impact extends beyond financial returns and includes broader economic and social development objectives.

This literature often draws a dichotomy between the "Norway Model" and the "Singapore/Asian Model" (Clark & Monk, 2010). The Norway model, focused on strict sterilization and international portfolio diversification, prioritizes intergenerational equity and Dutch Disease mitigation. The Singapore model (Temasek Holdings), conversely, involves active management of domestic assets by investing in technology companies and startups to foster innovation and drive the

development of knowledge-based economies. More so, the Botswana Pula Fund has been instrumental in financing social programs aimed at poverty reduction and improving the quality of life for its citizens (Botlhale, 2024). Similarly, Affuso et al. (2022) also document the economic impact of Trinidad and Tobago's Heritage and Stabilization Fund in stabilizing the economy against commodity price fluctuations.

The GCC SWFs appear to be attempting a hybrid model - investing globally for returns (like Norway) while intervening domestically for development (like Singapore). This dual mandate creates the theoretical tension central to this study: attempting to be both a stabilizer and a transformer simultaneously may generate friction that static models fail to capture.

4.2.4 Sustainability and Responsible Investing

Garg and Shukla (2021) provide a comprehensive synthesis of the disparate economic and political impacts of SWFs on the global landscape. Their review further substantiate the transformative potential of SWFs and highlight key areas where further research is needed, specifically on the influence of SWFs on macroeconomic fundamentals. This study highlights both the significant progress made in understanding SWFs as global actors and the ongoing scholarly debates surrounding their impact. It also informs the focus of our study on the dynamic link between SWF and the macroeconomy. More so, Aslanli (2015) and Yücesoy (2013) , in the case of Azerbaijan's State Oil Fund (SOFAZ), highlight how strong institutions and clear mandates can enhance the SWF's role in ensuring both intergenerational equity and long-term stability.

Another trend in SWFs that is shaping the literature is the rising focus on sustainability and responsible investing. Chen et al. (2022) and Liang and Renneboog (2020) examine SWFs engagement with ESG criteria. These studies generally find that while SWFs tend to select firms with better

ESG performance (the "selection effect"), their active engagement in improving those firms is limited. This suggests that SWFs may act as "sustainable selectors" rather than "sustainable activists."

However, a critical gap exists regarding national sustainability performance. While we know SWFs prefer green assets abroad, does their investment activity translate into improved sustainability metrics at home? Niles and Moore (2021) introduce the concept of 'blue SWFs' in the Caribbean, integrating ocean conservation assets with traditional resources for sustainable economic development and environmental protection in tourism-dependent island nations. Similarly, in Sub-Saharan African nations, Botlhale (2024) proposes a Strategic Development Sovereign Wealth Fund (SDSWF) model to directly align investments with development goals, fostering economic diversification and poverty reduction. These innovative approach highlights the potential for SWFs to drive economic transformation while contributing to sustainability goals.

In the GCC context, recent studies Boubakri et al. (2023b) highlight the complex roles of SWFs amidst shifting macroeconomic landscapes, sustainability priorities, and investment diversification goals. Yet, empirical evidence on the "Green Transition" via SWF capital remains nascent. This study addresses this by explicitly testing the link between SWF investment and national ESG scores, investigating whether the rhetoric of "Green Vision" translates into tangible statistical improvements in national sustainability performance.

4.2.5 The Methodological Gap

Despite the breadth of this literature, a critical methodological gap remains. Most existing studies rely on static frameworks or cross-country regressions that view the impact of SWFs as linear and immediate (Aizenman et al., 2019; Beck & Fidora, 2008). They typically ask: "Does having an SWF increase growth?"

This approach fails to capture the dynamic nature of the "Stabilization-Transformation Trade-off." Structural transformation is inherently disruptive; it may involve a J-curve effects where short-term prosperity dampens due to adjustment costs before long-term gains materialize. Furthermore, resilience is not a static state but a dynamic response to shocks. A fund that increases global exposure (like ADIA) might increase long-term prosperity but also increase short-term policy uncertainty (Transformation-Induced Uncertainty).

By employing dynamic time-series techniques - specifically Autoregressive Distributed Lag (ARDL) and Vector Error Correction Modeling (VECM) - this study moves beyond static assessments. It disentangles the short-run frictions from the long-run equilibria, offering a more granular and realistic picture of the role SWFs play in the political economy of the modern Gulf. This dynamic approach allows us to test whether the contradictory mandates of stabilization and transformation can be reconciled over time.

4.3 Theoretical Underpinnings

Aguinis and Cronin (2022) highlight the importance of distinguishing between unit theories and programmatic theories. Unit theories focus on explaining specific causal relationships focusing on a single phenomenon, while programmatic theories encompass many to provide an overarching view. Why this distinction matters is that more than one unit theory may be deployed if more than one phenomena is at play; this may enable latter programmatic theorizing deepening wider understanding of economic agents, economy, and society.

Accordingly, this study utilizes two key unit theories, the Macroeconomic and Financial Stability Theory (MFST) and Resource Curse Theory to explain specific SWF behaviors (stabilization and diversification). However, to fully capture the complexity of the GCC context, we link these theories against the concept of Strategic State Capitalism (Hentov & Petrov, 2018; Young, 2020). This integration allows us to understand why GCC SWFs often pursue conflicting mandates. While MFST explains the imperative for stabilization (the need for liquidity and buffering), Resource Curse Theory explains the imperative for transformation (the need for risk-taking and diversification). By employing these theories in tandem under the State Capitalism umbrella, we gain a comprehensive understanding of the "Stabilization-Transformation Trade-off", the tension between managing short-term volatility and securing long-term prosperity.

4.3.1 Strategic State Capitalism

It is essential to define the programmatic environment in which GCC SWFs operate, Strategic State Capitalism. Unlike the liberal market economies of the West, where the state primarily acts as a regulator, GCC nations operate under a model where the state is the primary architect of economic activity (Haberly, 2011). In this context, SWFs are not merely passive savings vehicles designed solely to earn portfolio returns (as in

the "Norway Model"). They are dynamic policy instruments designed to integrate the domestic economy into global financial networks, acquire strategic technologies, and project geopolitical influence.

This perspective, often termed "Alliance Capitalism" (Aguilera et al., 2016; Haberly, 2011), suggests that GCC SWFs transcend traditional investment roles. They engage in state-led global financial integration, where the state evolves into a strategic investor. This signals a shift where SWFs are used to secure long-term stability and economic relevance, rather than just fiscal solvency (Montambault Trudelle, 2024).

Under Strategic State Capitalism, the "utility function" of an SWF is complex. It maximizes a weighted average of financial returns, economic stability, and developmental spillover. Consequently, investment decisions that might appear suboptimal or destabilizing from a pure free-market perspective (e.g., investing in illiquid domestic infrastructure during a downturn to stimulate new industries) may be rational when viewed through the lens of long-term state-building.

4.3.1.1 Unit Theory 1: Macroeconomic and Financial Stability Theory (MFST)

The first unit theory employed is the Macroeconomic and Financial Stability Theory (MFST). With its roots in Keynesian economics, is centered on the stabilizing role of large, long-term institutional investors like SWFs in the economy (Minsky, 1986). The MFST posits that these entities, endowed with substantial financial resources and extended investment horizons, can act as countercyclical forces, strategically deploying capital to mitigate volatility and deepen economic resilience. In this regard, (Khamis et al., 2010), noted that the 2008-2009 global financial crisis saw several SWFs actively intervening to support both domestic and international markets, showcasing their potential as countercyclical investors.

In the context of the GCC, where economic fortunes are closely tied to the volatile oil market, the potential stabilizing role of SWFs is particularly pertinent. From the MFST's perspective, SWFs could act as buffers, injecting liquidity during economic downturns and curbing excessive exuberance during booms. During the 2008 global financial crisis, the KIA strategically deployed capital to support struggling financial institutions within Kuwait (Dudley, 2013). By injecting much-needed liquidity and providing a cushion against economic instability, the KIA played a crucial role in facilitating economic recovery and resilience. This intervention helped stabilize the domestic financial sector and mitigate the broader impact of the crisis on the Kuwaiti economy (Capapé & Santiso, 2017).

Similarly, during the 2014-2016 oil price shock, the Saudi government drew down the PIF's assets to finance its budget deficit and support public spending, thereby mitigating the adverse impact of the oil price slump on the domestic economy (Touazi, 2019). Also noteworthy is Qatar's strategic utilization of its SWF, via the QIA, during the 2017 blockade. The QIA injected capital into the domestic economy to offset the economic impacts of the blockade, supporting critical sectors and maintaining financial stability (Umar & Ghurab, 2023).

These interventions align with the MFST's emphasis on the stabilizing role of SWFs. However, the MFST assumes that the primary goal is stability. As we will see, when combined with the mandate for development transformation, this stabilizing role becomes complicated.

4.3.1.2 Unit Theory 2: Resource Curse Theory

The second unit theory, Resource Curse Theory offers a complementary but distinct perspective to the MFST. It suggests that economies heavily reliant on natural resource exports, like those in the GCC, often face unique challenges impacting their economic growth (Ross, 1999; Sachs, 1995). These challenges can include vulnerability to commodity price fluctuations, susceptibility to external shocks, and the potential for

'Dutch Disease' effects, where a dominant resource sector can crowd out other productive sectors (Ross, 1999).

From an RCT perspective, SWFs offer a potential solution by enabling resource-rich economies to transform finite natural resource assets into a diversified portfolio of assets. By strategically investing surplus resource revenues across different sectors and geographies, contributing to economic resilience, intergenerational wealth transfer, and sustainable development (Bagattini, 2011). This approach can help mitigate the risks associated with resource dependence and promote long-term economic prosperity.

In the GCC context, the establishment and growth of SWFs like the ADIA and the QIA serve as prime examples of this diversification strategy. These funds have strategically invested globally in sectors such as real estate, technology, and infrastructure, reducing their reliance on oil and gas revenues (Al-Hassan et al., 2013). This approach generates returns for future generations and fosters the development of non-oil sectors within the domestic economy, contributing to long-term sustainable growth.

Furthermore, SWFs can directly promote economic diversification by investing in strategic sectors that have the potential to become new engines of growth. For instance, Saudi Arabia's PIF has been investing heavily in sectors like tourism, entertainment, and renewable energy, aligning with the Kingdom's Vision 2030 plan to reduce its dependence on oil (Montambault Trudelle, 2022). The impact of SWF-driven diversification extends beyond economic stability. It can also lead to improvements in human capital, technological advancements, and overall institutional quality, further mitigating the negative consequences of the resource curse (Boubakri & Harrouch-Trabelsi, 2022).

However, the success of SWF-led diversification hinges on effective governance and transparency (Khamis et al., 2010). Without these, the

SWF can become a vehicle for rent-seeking, exacerbating rather than solving the resource curse. This theory provides the foundation for our analysis of Sustainability Performance, as the ultimate escape from the resource curse requires a shift to sustainable, non-extractive models of growth.

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4.3.2 The Stabilization-Transformation Trade-off

Linking these two-unit theories with the concept of Strategic State Capitalism reveals a critical theoretical tension that forms the core of this study's contribution, the Stabilization-Transformation Trade-off.

While MFST calls for stability (liquidity, risk aversion, smoothing), the structural transformation required to escape the Resource Curse often demands disruption (illiquidity, risk-taking, structural change). Large-scale developmental investments—such as Saudi Arabia's Vision 2030 mega-projects—function as "supply-side shocks." They reallocate labor and capital, disrupt incumbent industries, and may strain fiscal balances in the short run.

Therefore, this study posits that SWFs cannot be assumed to be automatic stabilizers at all times. Instead, we hypothesize a dynamic trade-off between Long-Run Equilibrium and Short-Run Friction.

- a. Short-Run Friction** – The active deployment of capital for transformation may generate "adjustment costs," leading to negative impacts on prosperity or increased policy uncertainty in

the short run. This aligns with the creative destruction inherent in structural change.

- d. Long-Run Equilibrium** – If the strategic bets pay off, these costs should give way to a new, higher equilibrium of diversified prosperity and sustainability in the long run.

This logic allows us to interpret our empirical results more deeply. For instance, a negative short-run coefficient (as observed in our Saudi Arabia results) is not necessarily a failure of the fund (MFST failure); it may be the statistical signature of structural adjustment (RCT success).

4.3.3 Hypotheses Development

Based on this synthesized framework, we refine our hypotheses to explicitly test these dynamic relationships and across three temporal dimensions: the long-run equilibrium (a), short-run dynamics (b), and response to shocks (c).

4.3.3.1 Hypothesis 1: The Long-Run Equilibrium

Combining RCT and MFST, we expect that over a prolonged period, SWF investments must align with macroeconomic fundamentals. If SWFs are effective agents of the state, their activities should share a common stochastic trend with the broader economy.

H1: There is a long-run equilibrium relationship, specifically cointegration, between the level of GCC SWF investments and key macroeconomic variables (economic prosperity, resilience, and sustainability performance) in their respective domestic economies.

4.3.3.2 Hypothesis 2: SWF Investments and Economic Prosperity

Based on the need to overcome the Resource Curse, we expect SWFs to drive prosperity. However, acknowledging the "Stabilization-Transformation Trade-off," we distinguish between short-term adjustment costs and long-term gains.

- a. H2a (Long-Run): Higher GCC SWF investment levels are positively associated with long-term improvements in economic prosperity (realizing the diversification dividend).
- b. H2b (Short-Run): GCC SWF investments may have a neutral or negative short-run impact on prosperity due to crowding-out effects and structural adjustment frictions.
- c. H2c (Response to Shocks): Shocks to GCC SWF investments will generate a delayed positive response in prosperity, reflecting the time required for developmental investments to mature

4.3.3.3 Hypothesis 3: SWF Investments and Economic Resilience (The Uncertainty Paradox)

MFST suggests SWFs should enhance resilience by buffering shocks. It maintains a stabilization view that, resource-dependent economies, SWFs are designed to function as counter-cyclical buffers that save excess revenues during commodity booms and inject liquidity during busts to insulate the domestic economy from exogenous volatility (Davis, 2001; Minsky, 1986). As such, higher SWF assets should correlate with lower uncertainty and greater resilience, as the fund signals fiscal capacity and reduces aggregate level of policy uncertainty during downturns (Khamis et al., 2010).

However, the perspective of strategic State Capitalism suggests a countervailing dynamic (Haberly, 2011; Young, 2020). As GCC SWFs shift from passive portfolio management to an increasingly to active stakes in global financial market sectors like technology, venture capital, and distressed assets (the transformation model defined by alliance capitalism), they expose their economy to new transmission channels of global volatility. This fundamentally alters their state's risk profile.

Furthermore, domestic interventions can generate policy uncertainty when an SWF acts as a market maker. In such circumstances, a sudden surge in investment can signal a discretionary shift in government priorities, which can lead the private sector to interpret the intervention

not as support, but as a precursor to regulatory flux or a sign of unrevealed economic distress (Braunstein et al., 2022).

We term this the "Uncertainty Paradox." While the long-term accumulation of assets builds resilience, intervention creates friction. We therefore hypothesize a divergence between the long-run equilibrium, short-run adjustment and the immediate response to shocks.

- a. H3a (Long-Run): GCC SWF investments drive domestic economic resilience (reduce uncertainty) in the long run.
- b. H3b (Short-Run): GCC SWF investments may have a neutral or destabilizing short-run impact on resilience as active interventions create policy flux.
- c. H3c (Shocks): Shocks to GCC SWF investments will impact resilience, potentially causing temporary spikes in uncertainty before stabilization.

We acknowledge that active investment strategies (as seen in the UAE) may paradoxically correlate with increased short-run policy uncertainty, a phenomenon we term "Transformation-Induced Uncertainty", while aiming for long-run stability.

4.3.3.4 Hypothesis 4: SWF Investments and Sustainability Performance

As agents of modernization under the Resource Curse framework, SWFs are increasingly tasked with implementing national "Green Visions." Sustainability here refers to the Brundtland definition: "meeting the needs of the present without compromising the ability of future generations" (WCED, 1987).

We hypothesize a lag effect, where investment flows precede tangible improvements in national ESG scores, as sustainable infrastructure projects (e.g., solar parks) have long gestation periods.

- a. H4a (Long-Run): GCC SWF investments contribute to improvements in domestic sustainability performance (ESG) in the long run.
- b. H4b (Short-Run): GCC SWF investments have a minimal or neutral short-run impact on sustainability due to implementation lags.
- H4c (Shocks): Shocks to GCC SWF investments will impact sustainability, potentially showing a delayed improvement trajectory.

In sum, these hypotheses, grounded in these dual theoretical frameworks of MFST for the "mechanism" of capital flow and Resource Curse Theory for the "motivation" of diversification, and both being potentially remodeled through Strategic State Capitalism, offer a comprehensive roadmap for investigating the complex relationship between SWF investments and macroeconomic outcomes across the GCC countries. The empirical analysis in the subsequent section will test these hypotheses to provide valuable insights into the role of SWFs investments in promoting economic prosperity, resilience, and sustainability in resource-rich economies.

4.4 Data and Methodology

The analysis focuses on three GCC countries: Saudi Arabia, Qatar, and the UAE. These countries were chosen due to their substantial SWF assets, active investment strategies, and diverse economic structures. Data limitations, particularly regarding consistent and reliable quarterly data on SWF investments and other macroeconomic indicators, necessitated the exclusion of Kuwait, Bahrain, and Oman.

The intricate relationship between SWF investments and the macroeconomic indicators of resource-rich economies necessitates a robust and careful choice of methodology that aligns with the research questions and hypotheses. Specifically, this study employs time series

techniques, including cointegration, vector error correction modelling (VECM), and impulse response functions (IRFs) to discern the relationship between SWF investments and economic prosperity, resilience, and sustainability across the GCC countries.

These methods are favored over traditional regression methods for several reasons. Firstly, most financial and economic time series data, including data on SWF investments, exhibit non-stationarity for which their statistical properties (mean, variance) change over time, rendering ordinary least squares (OLS) regression results unreliable (Gujarati & Porter, 2009). Secondly, traditional regression approaches generally require a pre-determined endogeneity (dependence on other variables) and exogeneity (independence from other variables) of the variables under study based on prevailing theories or underlying assumptions. However, in the case of SWFs, a relatively new phenomenon where established theories are scarce, cointegration technique offer an advantage by not requiring pre-determined endogeneity or exogeneity (Johansen, 1991). Instead, cointegration for instance, empirically identifies the presence of a long-term equilibrium relationship among variables.

Lastly, economic intuition suggests that the relationship between SWF investments and economic prosperity, resilience, or sustainability is dynamic and complex. To effectively study these relationships, it is essential to employ a combination of relevant time series techniques, to help establish the presence of a long-term equilibrium relationship which determines further exploration of the temporal impacts using the VECM approach or response to shocks using the IRFs techniques.

4.4.1 Data and Variables

The study utilizes quarterly time series data spanning from Q1 2007 to Q4 2023, this encompasses 17 years, making a total of 68 observations. This timeframe captures a significant period of economic fluctuations, policy shifts, and SWF investment activities across the selected GCC countries, providing a rich dataset for analysis.

The empirical analysis focuses on three GCC countries: Saudi Arabia, Qatar, and the United Arab Emirates (UAE). These nations were selected based on the significant size of their SWF assets, their strategic pivot toward developmental mandates, and the availability of consistent data. While the inclusion of Kuwait, Bahrain, and Oman would offer a broader regional perspective, data limitations regarding high-frequency macroeconomic indicators necessitated their exclusion to maintain econometric rigor.

Data on SWF investments (SWFI) for each GCC country was obtained from the Sovereign Wealth Fund Institute database. The economic prosperity index (PROS) was sourced from the Legatum Institute, the sustainability (ESG) performance score was sourced from the London Stock Exchange Group (LSEG) Beyond Rating, Sovereign Risk Monitor (SRM) database, while the economic policy uncertainty (UNCE) data, our proxy for measuring economic resilience, was acquired from the policy uncertainty database, which collects and hosts indices of economic policy uncertainty for countries around the world. Additionally, oil revenue data for each GCC country, sourced from the U.S. Energy Information Administration (EIA), was incorporated into the analysis. Oil revenue (ORV) represents the income generated from crude oil production.

Error! Reference source not found. summarizes the indicators, variables, and details of our data acquisition. These variables were carefully selected based on their established theoretical and empirical relevance in the literature on SWFs and economic development. The choice of

economic prosperity index is justified by studies that show a positive correlation between economic growth and SWF investment activity (Al-Hassan et al., 2013). The inclusion of economic policy uncertainty as a proxy for economic resilience is supported by literature highlighting its influence on SWF investment decisions due to risk aversion or a need for countercyclical measures (Carpantier & Vermeulen, 2021). For sustainability, recent studies suggest a growing need for the integration of ESG considerations into investment mandates, like SWFs, and their potential impact on long-term sustainability (Korpela; et al., 2021). Lastly, the inclusion of oil revenue emphasizes the dependence of many GCC SWFs on oil wealth and explores the implications for investment strategies (Bagattini, 2011).

Table 13: Variable Description and Data Sources

Indicator	Variable	Description	Unit of Measurement	Source
SWF Investment	SWFI - Sovereign Wealth Fund Investment	Aggregate of investment amount by SWFs of each GCC country	USD millions	Sovereign Wealth Fund Institute Database
Economic Prosperity	PROS - Economic Prosperity Index	Overall economic well-being of each GCC country	1 to 100	Legatum Institute
Sustainability Performance	ESG – Sustainability Performance Score	Environmental, social, and governance (ESG) performance of each GCC country	1 to 100	LSEG Beyond Rating Sovereign Risk Monitor (SRM) database
Economic Resilience	UNCE - Economic Policy Uncertainty Index	Level of uncertainty surrounding economic policies in each GCC country	0 to 1	Policy Uncertainty Database
Oil Revenue	ORV - Oil Revenue	Revenue generated by each GCC country from its crude oil production at prevailing price	USD millions	U.S. Energy Information Administration (EIA)

4.4.2 Econometrics Modeling

The first step in analyzing the "Stabilization-Transformation" dynamic is to determine the order of integration of the variables by testing for stationarity. This is a prerequisite for cointegration analysis. The Augmented Dickey-Fuller (ADF) test is employed to determine whether the variables exhibit unit roots (non-stationarity). If the variables are non-stationary, they are differenced until stationarity is achieved. This ensures the validity of subsequent statistical inferences and avoids spurious regressions (Gujarati & Porter, 2004). The ADF test includes the estimation of the following specifications:

$$\Delta Y_t = \alpha + \beta t + \gamma Y_{\{t-1\}} + \sum_{i=1}^{p-1} \delta_i \Delta Y_{\{t-i\}} + \varepsilon_t \quad (1)$$

Where, Δ represents the difference operator, α , β , γ , and δ are coefficients to be estimated. Y stands for the variable whose stationarity should be checked and ε is the residual term. The critical values for the Dickey-Fuller test (DF) depend on whether the DF regression contains an intercept term or a time trend.

Assuming we have appropriately addressed stationarity (through levels or differencing), we proceed to select the optimal lag order for the Vector Autoregression (VAR) model in each of the three GCC countries using a general VAR model with p lags specified as:

$$Y_t = A_1 \times Y_{\{t-1\}} + A_2 \times Y_{\{t-2\}} + \dots + A_p \times Y_{\{t-p\}} + u_t \quad (2)$$

Where, Y_t = a vector of variables (SWFI, PROS, ESG, UNCE, ORV) at time t ; A_1 denotes the coefficient matrices; and u_t represents the vector of error terms.

The optimal lag is determined using criteria such as the Akaike Information Criterion (AIC), Schwarz Bayesian Information Criterion (SBC) or the Hannan-

Quinn Criterion (HQC) to select the optimal lag order (p). The optimal lag order balances model fit with complexity by ensuring that the model captures the relevant dynamics without overfitting the data. This crucial step determines the number of lagged values of each variable to include in the model for each country. It has implications for the level of complexity and performance of the models.

After confirming the stationarity of our time series variables and identifying an optimal lag order for the VAR model, the Johansen and Juselius (JJ) cointegration procedure is employed to test for the presence of long-run equilibrium relationships among the variables for each of the three GCC countries. The JJ approach provides a robust framework for identifying the number of cointegrating vectors present (Johansen & Juselius, 1990). It is distinguished by its use of a likelihood-based approach, which involves estimating the probability that a given model would produce the observed set of data. The JJ cointegration method computes the likelihood function for different numbers of cointegrating relationships. Specifically, it seeks to maximize the following likelihood function.

$$\Delta Y_t = C + \sum_{i=1}^k \Gamma_i \Delta Y_{t-i} + \Pi Y_{t-1} + \varepsilon_t \quad (3)$$

Where, Y_t is a vector of non-stationary variables and C is a constant term. Γ_i comprises the short-run adjustment parameters whilst Π comprises the long-run equilibrium relationship information. Π could be decomposed into the product of two $n \times r$ matrix χ and v so that $\Pi = \chi v$, where v matrix contains r number of cointegration and χ represents the speed of adjustment parameters. To identify the number of cointegrating vectors, the study utilizes Trace statistic (λ_{Trace}) and the maximal Eigenvalue statistic (λ_{Max}).

Empirical studies such as Gonzalo (1994) suggest that the Johansen procedure may offer superior performance in determining the cointegration rank in scenarios with multiple cointegrating vectors. Hence, despite short-term deviations, the variables are in equilibrium in the long run. In other words, the variables are interdependent, and each variable possesses information for predicting others. This cointegration analysis is directly relevant to Hypothesis 1, which posits a long-run relationship between SWF investments and the domestic macroeconomy.

In addition to the Johansen cointegration procedure for establishing the presence of long-run relationships within a multivariate system, this study also employs the Autoregressive Distributed Lag (ARDL) bounds testing approach, developed by (Pesaran et al., 2001). This method offers several advantages, notably its ability to test for cointegration regardless of whether the underlying variables are purely integrated of order zero ($I(0)$), purely integrated of order one ($I(1)$), or fractionally integrated, although it assumes none are integrated of order two ($I(2)$). Given that our unit root tests indicated the variables are $I(1)$, ARDL provides a robust framework for both confirming cointegration and estimating long-run coefficients.

The core of the approach involves estimating an unrestricted error correction model (UECM) form of an ARDL model, specified generally as:

$$\Delta Y_t = \alpha_0 + \sum_{i=1}^p \beta_i \Delta Y_{t-i} + \sum_{j=0}^q \gamma_j \Delta X_{t-j} + \delta_1 Y_{t-1} + \delta_2 Y_{t-1} + \epsilon_t$$

Where Y_t is the dependent variable, X_t represents the independent variable(s), Δ is the first difference operator, p and q are the optimal lag lengths determined by information criteria such as AIC or SBC, and ϵ_t is the white noise error term.

The bounds test for cointegration is based on an F-test (or Wald test) for the joint significance of the lagged level variables' coefficients (δ_1 and δ_2 in the bivariate example above). The null hypothesis is one of no cointegration ($H_0: \delta_1 = \delta_2 = 0$) against the alternative of cointegration ($H_1: \delta_1 \neq \delta_2 \neq 0$). The calculated F-statistic is compared against two sets of asymptotic critical values provided by (Pesaran et al., 2001): a lower bound assuming all regressors are $I(0)$ and an upper bound assuming all regressors are $I(1)$.

- If the F-statistic exceeds the upper bound critical value, the null hypothesis of no cointegration is rejected, indicating a long-run relationship exists.
- If the F-statistic falls below the lower bound critical value, the null hypothesis cannot be rejected.
- If the F-statistic falls between the lower and upper bounds, the test is inconclusive.

Once cointegration is confirmed through the bounds test, the long-run coefficients (representing the long-run elasticities or multipliers between the variables) can be estimated from the levels equation corresponding to the estimated ARDL model. The optimal lag structure (p, q) for the ARDL model itself is typically selected using information criteria like the Akaike Information Criterion (AIC) to ensure model parsimony and adequacy. This study utilizes the ARDL approach specifically to estimate the long-run impacts (Hypotheses H2a, H3a, H4a).

After cointegration is detected, the vector error correction model (VECM) is employed to analyze the short-run dynamics and long-run adjustments towards equilibrium. The VECM incorporates the error correction term, which captures the speed at which deviations from the long-run equilibrium

are corrected (Hanclova, 2011). VECM is represented in equation (4) whilst the generalized (reduced) VECM is represented in equation (5).

$$\Delta Y_t = C + \Pi Y_{t-k} + \Gamma_1 \Delta Y_{t-1} \dots + \Gamma_{k-1} \Delta Y_{t-(k-1)} + \varepsilon_t \quad (4)$$

Where, $\Pi = (\sum_{i=1}^k \theta_i) - I_g$ is the long-run coefficient of lagged Y_t , and $\Gamma_1 = (\sum_{j=1}^k \theta_j) - I_g$ is a coefficient matrix of k-1 lagged difference variables, ΔY_t .

$$\Delta Y_t = C + \Pi Y_{t-k} + \sum_{i=1}^{k-1} \Gamma_i \Delta Y_{t-i} + \varepsilon_t \quad (5)$$

Where, ΔY_t is the vector of the variables at first difference. The long-run parameter matrix, Π with r cointegrating vectors ($1 \leq r \leq 5$), i.e., Π has a rank of r and can be decomposed as $\Pi = \nu\mu$, where both ν and μ are $5 \times r$ matrices. The μ matrix contains the parameters in the cointegrating relationships and the ν matrix contains the adjustment coefficients, which measure the strength of the cointegrating vectors in the VECM. The VECM analysis is crucial for testing Hypotheses 2, 3, and 4, which examine the short-run and long-run impacts of SWF investments on economic prosperity, resilience, and sustainability performance. Furthermore, given that the sustainability of SWFs in resource-dependent economies is closely tied to the stability and predictability of their funding sources (Ross, 1999), we went further to examine the relationship between oil revenue and SWF investment.

Finally, the impulse response function (IRF) analysis visualizes the dynamic causal relationships between the variables. Computation of IRFs involves simulating the system with an initial shock (for instance, an unexpected increase in SWF Investments) and tracing how that shock propagates through time, impacting all the variables in the system (Sims, 1980). It provides insights into the direction, magnitude, and persistence of these effects. The IRF analysis is particularly relevant for testing the sub-

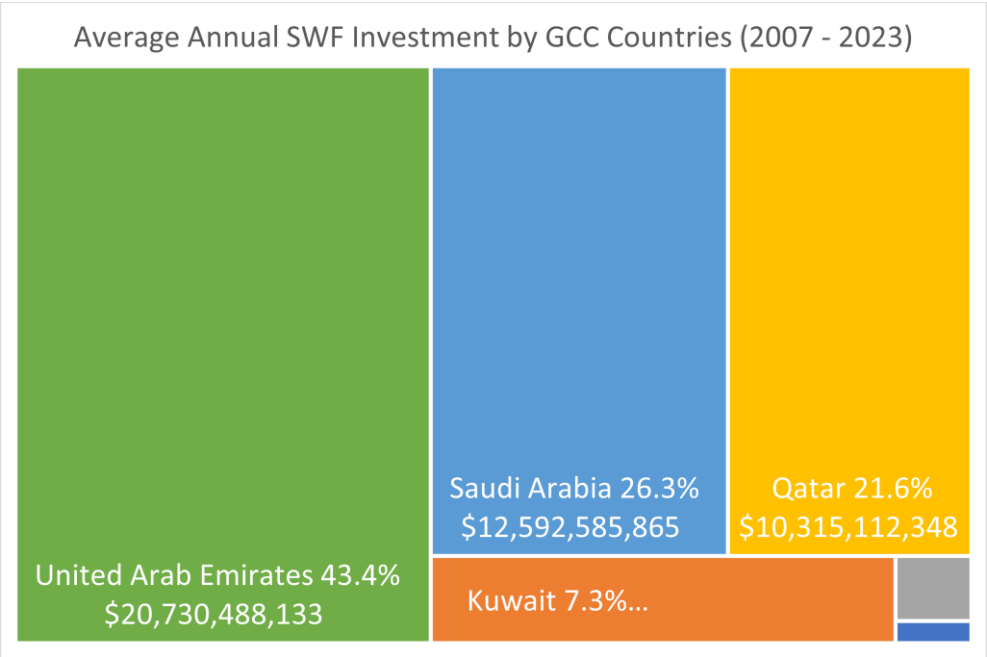
hypotheses related to the impact of shocks to SWF investment on macroeconomic indicators (H2c, H3c, H4c) for each of the three GCC countries.

4.5 Empirical Estimation

4.5.1 Descriptive Statistics

The GCC nations under study exhibit significant variation in SWF Investment (SWFI) levels. The UAE demonstrates the highest average SWFI (\$5.51 billion per quarter and over the study period), followed by Saudi Arabia and Qatar, as shown in **Error! Reference source not found.** and depicted in **Error! Reference source not found.**. Considerable deviations in SWFI highlight fluctuations in investment sizes over time across these nations.

Figure 13: Average Global Annual SWF Investment by GCC Countries (2007 - 2023)



Note: The UAE and Saudi Arabia account for the majority of SWF investment in the region.

Source: Own elaboration using data from SWFI 2024

Economic prosperity (PROS) indicators are consistently strong across the three GCC countries. Qatar leads with the highest average PROS score (94), while Saudi Arabia records the lowest (52), albeit still indicative of overall economic health (see Table 14). Interestingly, oil revenues (ORV) appear positively associated with SWF Investment (SWFI) levels. Saudi Arabia, the region top oil producer, exhibits the highest average ORV, while Qatar records the lowest. Sustainability performance (ESG) scores show less direct correlation with SWFI levels. Qatar boasts the highest average ESG score (63), followed by the UAE (62.9), despite their differing SWFI sizes. Saudi Arabia lags in ESG performance. The GCC nations generally demonstrate a steady economic resilience with Qatar exhibiting the least uncertainty. These descriptive findings suggest a potential positive relationship between oil revenues and SWFI, warranting further statistical analysis to confirm this correlation. Moreover, the high PROS scores in the context of varying SWFI levels necessitate deeper investigation to elucidate potential causal links between SWF investments and economic prosperity.

Table 14: Time Series Descriptive Statistics (Saudi Arabia, UAE and Qatar)

Saudi Arabia					
	SWFI	PROS	UNCE	ESG	ORV
Mean	\$ 4,393,065,874	51.84	0.17	47.19	\$ 739,034,982
Kurtosis	24.61	-0.69	1.69	-0.26	-0.86
Skewness	4.85	0.13	1.01	0.37	0.15
Minimum	\$ 1,010,000	45.85	0.05	42.78	\$ 225,964,340
Maximum	\$ 65,000,001,536	57.55	0.46	52.51	\$ 1,267,391,510
Observations	68	68	68	68	68
UAE					
	SWFI	PROS	UNCE	ESG	ORV
Mean	\$ 5,514,677,701	85.70	0.19	62.97	\$ 230,362,195
Kurtosis	20.38	-0.56	1.40	-1.27	-0.81
Skewness	3.94	-0.72	1.14	-0.33	0.09
Minimum	\$ 294,348,000	81.56	0.06	58.55	\$ 81,802,980
Maximum	\$ 46,715,030,300	87.82	0.55	66.35	\$ 398,392,060
Observations	68	68	68	68	68
Qatar					
	SWFI	PROS	UNCE	ESG	ORV
Mean	\$ 3,044,660,165	94.06	0.14	63.02	\$ 100,361,296
Kurtosis	10.74	0.02	5.41	-1.00	-0.96
Skewness	2.82	-0.21	1.50	0.06	0.30
Minimum	\$ 60,000,000	91.31	0.06	60.90	\$ 28,420,770
Maximum	\$ 19,417,055,000	97.12	0.34	65.91	\$ 180,367,880
Observations	68	68	68	68	68

4.5.2 Testing Unit Root

This statistical test evaluates the presence of a unit root (non-stationarity) in the data. **Error! Reference source not found.** summarizes key results of the ADF tests for all variables in both level and differenced forms for these countries.

Our ADF findings reveal that we cannot statistically reject the null hypothesis of non-stationarity for all variables in their log form except for the economic policy uncertainty variable, our proxy for measuring economic resilience, in the case of Qatar, where we have statistical evidence to reject the null

hypothesis of non-stationarity. This implies that most variables for all countries exhibit non-stationarity in their original scale. In their first difference, our variables are stationary, exhibiting statistically significant ADF test statistics to reject the null hypothesis of non-stationarity for all variables of the three GCC countries in consideration.

Table 15: ADF Unit Root Test Results for GCC Countries

Variable		Saudi Arabia		Qatar		UAE	
		T-Stats	Lags	T-Stats	Lags	T-Stats	Lags
LOG FORM	SWF Investment	-2.8486	3	-3.383	5	-3.85	4
		[-3.369]		[-3.409]		[-3.428]	
	Economic Prosperity	-3.4162	2	-3.2435	2	-3.270	2
		[-3.445]		[-3.445]		[-3.445]	
	Sustainability Performance (ESG)	-2.1425	2	-1.8594	1	-2.6326	1
		[-3.445]		[-3.437]		[-3.437]	
	Economic Policy Uncertainty	-2.9911	2	-4.533*	5	-3.3226	1
		[-3.445]		[-3.409]		[-3.437]	
1ST DIFF. FORM	Oil Revenue	-2.6264	2	-2.674	1	-3.0565	1
		[-3.4451]		[-3.437]		[-3.437]	
	SWF Investment	-5.911*	3	-11.72*	1	-7.047*	2
		[-3.464]		[-3.465]		[-3.520]	
	Economic Prosperity	-4.606*	2	-4.692*	2	-4.836*	2
		[-3.426]		[-3.520]		[-3.520]	
	Sustainability Performance (ESG)	-4.674*	2	-4.332*	1	-4.933*	2
		[-3.520]		[-3.465]		[-3.520]	

	Economic Policy	-4.665*	2	-	1	-6.344*	2
	Uncertainty			9.226*			
		[-3.520]		[-		[-	
				3.465]		3.520]	
	Oil Revenue	-5.078*	2	-	1	-5.166*	2
		[-		[-		[-	
		3.5195]		3.465]		3.520]	

Note: The ADF test is based on the Null Hypothesis of Non-Stationarity, which is rejected when the Test Statistics (T-stat) is greater than the Critical Value (CV) at corresponding Lag order. Critical Values are in square brackets. Stationarity is denoted by *. The T-Stat presented are based on the lowest values of the AIC (Akaike Information Criterion) and SBC (Schwarz Bayesian Criterion) information criteria for each lag order from a total of 5 lags.

By establishing stationarity through first differencing, we proceed with variables that are integrated at order one ($I(1)$), setting the foundation for investigating long-term relationships between the variables. We can then proceed with the cointegration analysis. However, it's important to note that the choice of lag order (the number of lagged terms included in the ADF test) can sometimes affect the results. Hence, the next crucial step is selecting the appropriate lag order for our Vector Autoregression (VAR) model.

4.5.3 VAR Lag Order

Following the confirmation of stationarity in the differenced variables, we proceed to select the optimal lag order for the Vector Autoregression (VAR) model in each country case. **Error! Reference source not found.** presents the lag order test for the VAR model for each country under study where both the AIC and the SBC suggest the baseline lag order of 6 as adequate. However, the Adjusted LR test statistics indicate that for orders 5 through 1, there is no significant deterioration in model performance compared to the baseline model of order 6 across GCC countries, suggesting that simpler models might be adequate. Notably, in Qatar, there is significant evidence to

reject the lag order of 1, indicating a need for a higher number of lags. While higher lag orders are generally preferred based on information criteria, the lack of significant differences for lower orders (2 or 3) raises concerns about overfitting, particularly under conditions of small sample sizes.

Hence, we have opted for a lag order of 2 for our VAR model for all three GCC countries for several reasons that align with the quarterly nature of our data and the economic context of the variables under investigation. First, economic theory suggests that certain variables might have more immediate impacts on each other, particularly within the same or following quarter (Bernanke et al., 2004). For instance, a change in oil revenue (in the current quarter) could directly affect SWF investments in the same or the next quarter. A lag order of 2 effectively captures these short-term dynamics by incorporating information from two preceding quarters. Secondly, considering seasonality exhibited in quarterly economic data (Engle, 2004), a lag order of 2 helps capture some of these seasonal effects by considering information from the preceding quarter. For instance, seasonal trends in oil revenues might influence SWF investment decisions.

Thirdly, given our limited number of observations, higher lag orders could introduce irrelevant information from more distant quarters, potentially obscuring the immediate relationships of interest and numerous degrees of freedom might be lost. However, a lower lag order like 2 helps avoid overfitting the model, which can occur when there are too many parameters to estimate relative to the available data (Hansen & Yu, 2001). Lastly, the model with 2 lags remains statistically significant based on the Adjusted likelihood ratio tests and captures the core dynamic relationships between the variables. This simpler model with a lag order of 2 facilitates a more straightforward interpretation of the coefficients and allows us to understand the direction and magnitude of the relationships between SWF

investments, economic prosperity, resilience, sustainability, and oil revenues. We thus proceed with the subsequent cointegration analysis using a 2-lag VAR order framework.

Table 16: VAR Lag Order Determination

Lag Order	Saudi Arabia			Qatar			UAE		
	AIC	SBC	Adj LR	AIC	SBC	Adj LR	AIC	SBC	Adj LR
6	228.3	112.7	-----	413.5	308.0	-----	361.1	197.5	-----
5	235.9	147.2	9.88 [0.873]	413.0	324.3	19.5 [0.243]	359.2	222.0	26.5 [0.384]
4	235.3	163.5	29.48 [0.595]	418.7	346.9	31.7 [0.482]	360.3	249.5	49.9 [0.474]
3	233.4	178.5	50.60 [0.371]	425.4	370.5	42.7 [0.689]	364.3	279.9	70.6 [0.622]
2	235.6	197.6	66.93 [0.377]	418.8	380.8	69.4 [0.301]	361.9	303.8	97.6 [0.548]
1	229.7	208.6	92.74 [0.156]	401.1	380.0	109.1 [0.017]	357.4	325.7	126.6 [0.442]
0	191.7	187.5	156.45 [0.000]	361.7	357.5	174.5 [0.000]	320.2	314.9	187.8 [0.020]

Note: Order refers to the different lag orders evaluated. AIC (Akaike Information Criterion) and SBC (Schwarz Bayesian Criterion) are the calculated values of the information criteria for each lag order. Adj LR is the Adjusted Likelihood Ratio (LR) tests comparing models with different lag orders. P-values of the Adjusted LR are presented in square brackets.

4.5.4 Empirical Findings

4.5.4.1 The Long Run Nexus - SWF Investments and Macroeconomic Indicators

We begin with the study's overarching thesis by investigating the presence of long-run equilibrium relationships between GCC SWF investments and their domestic macroeconomic indicators, as hypothesized in H1 using the Johansen cointegration procedure (Johansen & Juselius, 1990). Under the concept of Strategic State Capitalism outlined in Section 3, this test serves as a critical litmus test for the "Alliance Capitalism" framework (Haberly, 2011). If SWFs effectively function as integrated agents of national development, rather than disconnected offshore savings accounts acting solely as portfolio investors, their investment activities must share a common stochastic trend

with the domestic economy over time. A failure to find cointegration would suggest that SWFs are statistically decoupled from the domestic macro-environment, undermining the premise of state-led transformation.

The results, presented in **Error! Reference source not found.**, confirm the presence of long-run equilibrium relationships between SWF investments and key macroeconomic indicators, including economic prosperity, resilience, sustainability performance, and oil revenue. This resonates with the findings of Al-Hassan et al. (2013), who highlighted the interconnection between SWF activities and broader economic trends in the GCC. The first panel focuses on the cointegration rank based on the maximum eigenvalue of the stochastic matrix, while the second panel presents the cointegration rank based on the trace of the stochastic matrix. In both panels, we compare the test statistics of the number of cointegrating vectors to the critical values at the 95% significance level for each country to identify the number of cointegrating relationships.

For Saudi Arabia and the UAE⁶, the test statistics for both the maximal eigenvalue and trace tests exceed the critical values at the 95% significance level for the null hypotheses of no cointegration ($r = 0$), at most one cointegrating vector ($r \leq 1$), and at most two cointegrating vectors ($r \leq 2$). This provides strong evidence to reject these null hypotheses in favor of the alternative hypotheses that there are up to three cointegrating vectors ($r=1$, $r=2$, & $r = 3$). In the case of Qatar, the Johansen procedure indicates the presence of up to two cointegrating vectors⁷. While the test statistics for $r =$

⁶ According to Johansen cointegration LR Test based on Trace of the Stochastic Matrix

⁷ According to Johansen cointegration LR Test based on Trace of the Stochastic Matrix

2 are significant, the evidence for a third cointegrating vector ($r = 3$) is less conclusive.

Table 17: Johansen Cointegration Result

Cointegration LR Test Based on Maximal Eigenvalue of the Stochastic Matrix							
Null	Alternative	Saudi Arabia		Qatar		UAE	
		Statistic	95% CV	Statistic	95% CV	Statistic	95% CV
$r = 0$	$r = 1$	50.31*	37.86	62.18*	31.79	36.75	37.86
$r \leq 1$	$r = 2$	33.62*	31.79	24.43	25.42	33.86*	31.79
$r \leq 2$	$r = 3$	28.46*	25.42	13.91	19.22	26.01*	25.42
$r \leq 3$	$r = 4$	14.11	19.22	8.07	12.39	12.73	19.22
$r \leq 4$	$r = 5$	4.65	12.39	-	-	7.78	12.39

Cointegration LR Test Based on Trace of the Stochastic Matrix							
Null	Alternative	Saudi Arabia		Qatar		UAE	
		Statistic	95% CV	Statistic	95% CV	Statistic	95% CV
$r = 0$	$r = 1$	131.2*	87.2	108.6*	63.0	117.1*	87.2
$r \leq 1$	$r = 2$	80.8*	63.0	46.4*	42.3	80.4*	63.0
$r \leq 2$	$r = 3$	47.2*	42.3	22.0	25.8	46.5*	42.3
$r \leq 3$	$r = 4$	18.8	25.8	8.1	12.4	20.5	25.8
$r \leq 4$	$r = 5$	4.7	12.4	-	-	7.8	12.4

Note: r indicates the number of cointegrating vectors. * denote the presence of statistical evidence to reject the null of r in favour of the alternative at 95% Critical value

This finding confirms a significant long-term equilibrium relationship between GCC SWF investments and their home countries' macroeconomic indicators. The existence of multiple cointegrating vectors in each country implies that there might be multiple distinct long-run equilibrium relationships between SWF investments and these variables. These findings set the stage for further exploration of the role of SWF investments in shaping the economic developments of resource-rich economies. Furthermore, each cointegrating vector represents a unique equilibrium path where the variables may interact in different ways. This highlights the need for a closer look at the specific dynamics at play for each macroeconomic indicator in each country.

While the cointegration analysis confirms the presence of long-run equilibrium relationships, it does not explicitly reveal the specific nature of these relationships. The subsequent analysis goes deeper into the specific dynamics at play for each macroeconomic indicator in each country based on the indicator-specific hypotheses (H2, H3, and H4).

4.5.4.2 SWF Investments and Economic Prosperity across the GCC

After confirming a long-run equilibrium relationship between SWF investments and the selected macroeconomic indicators within the GCC countries (H1), we explore the dynamic impacts of GCC SWF investment on their economic prosperity as postulated in Hypothesis 2. Starting with the long-run impact (Hypothesis H2a) using the ARDL Bound testing approach, the short-run dynamics (Hypothesis H2b) from the VECM analysis, and finally, the response to shocks (Hypothesis H2c) using Impulse Response Functions (IRF). The evidence suggests that while there exists a long-run equilibrium relationship between SWF investments and economic prosperity, the short-run dynamics vary across the GCC countries.

4.5.4.2.1 Saudi Arabia

In the case of Saudi Arabia, the analysis indicates long-term strategic gains potentially emerging from periods of short-term economic adjustment. The ARDL estimation, presented in Table 18, reveals a statistically significant positive long-run relationship between SWF investment and economic prosperity (coefficient = 0.033, $p < 0.05$). This finding supports Hypothesis H2a, indicating that sustained increases in SWF investment contribute positively to the Kingdom's overall economic well-being over the long haul. This aligns with the core objective of Saudi Vision 2030, where the PIF is positioned as a primary engine for transforming oil wealth into diversified, sustainable prosperity. From a theoretical standpoint, this resonates with the potential for SWFs, as suggested by Resource Curse Theory literature, to

act as vehicles for diversification and escaping resource dependency, albeit the direct magnitude observed here is modest.

Table 18: Estimated ARDL Long-Run Impact of SWF Investment on Economic Prosperity (H2a)

	<u>Saudi Arabia</u> Prosperity	<u>The UAE</u> Prosperity	<u>Qatar</u> Prosperity
SWF Investment	0.033** (0.013)	-0.088209 (0.053211)	-0.13651 (0.6373)
Economic Resilience	0.056 (0.043)	0.0095976 (0.017925)	
Sustainability Performance (ESG)	-2.33*** (0.616)	1.2183 (0.80282)	-21.4218 (99.9187)
Oil Revenue	0.404*** (0.071)	0.13371 (0.10086)	0.69851 (3.2963)
Intercept	4.17*** (1.241)	-1.2253 (4.0255)	83.5346 (367.7194)
F-statistic	14.20	5.03	9.02
95% Lower Bound	3.03	3.03	3.42
95% Upper Bound	4.27	4.27	4.60
W-statistic	71.02	25.17	36.10
95% Lower Bound	15.16	15.16	13.67
95% Upper Bound	21.36	21.36	18.43

Note: This table displays the estimated ARDL long-run coefficients showing the long-run impact of SWF investments on Economic Prosperity, after controlling for and other variables, for Saudi Arabia, the UAE, and Qatar (testing H2a). ***, ** and * denotes 1%, 5% and 10% significance level respectively.

Intriguingly, the short-run dynamics diverge sharply from the long-run trend. The VECM results (Table 19) reveal a statistically significant *negative* coefficient for SWF investment (-0.0008, $p < 0.01$), contradicting the expectation of a positive short-run impact (H2b). This suggests that, in the immediate term, surges in SWF investment are associated with a temporary decline in measured economic prosperity.

The IRF analysis visually confirms this complex dynamic (Figure 14). Specifically, Figure 14 shows that a positive shock (unexpected increase) in

SWF investment has a negligible or slightly positive impact on prosperity in the first few quarters, which persists throughout the forecast horizon.

Table 19: Short-run Dynamics SWF Investments and Economic Prosperity

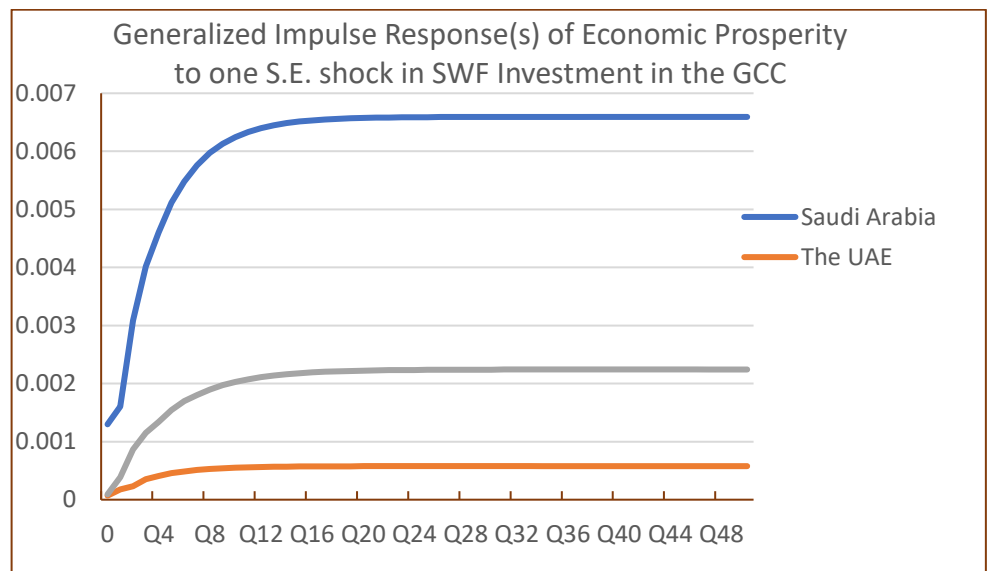
Short-run impact of SWF Investments on Economic Prosperity			
	<u>Saudi Arabia</u> Prosperity	<u>The UAE</u> Prosperity	<u>Qatar</u> Prosperity
Intercept	0.04*** (0.02)	0.049 (0.05)	0.079177 (0.075223)
SWF Investment	-0.0008*** (0.0003)	-0.0003 (0.00045)	-0.0002877 (0.0002717)
Economic Prosperity	0.57*** (0.12)	0.83*** (0.11)	0.78022*** (0.080851)
Sustainability Performance (ESG)	-0.0005 (0.08)	-0.094 (0.14)	0.019563 (0.048298)
Economic Resilience	-0.0011 (0.001)	0.00007 (0.00079)	
Oil Revenue	0.0052* (0.003)	0.0025 (0.0019)	-0.0005958 (0.0011118)
ecm1(-1)	0.0055*** (0.003)	-0.0006 (0.0005)	0.0004523 (0.0004291)

Note: This table displays the estimated short-run coefficients from the Vector Error Correction Model (VECM) analysis, specifically showing the immediate impact of SWF investments (after controlling for other variables) on Economic Prosperity for Saudi Arabia, the UAE, and Qatar (testing H2b). ***, ** and * denotes 1%, 5% and 10% significance level respectively.

Several economic factors could explain this pattern of initial drag followed by modest recovery. Firstly, the PIF's significant international investment activities might lead to substantial capital outflows, temporarily dampening domestic economic activity. Secondly, as discussed in Essay 2, large-scale domestic investments by the PIF could potentially "crowd out" private sector activity in the short term by competing for resources or investment opportunities, creating temporary friction. Thirdly, the ambitious scale of Vision 2030 projects inherently involves significant adjustment costs – resources are reallocated, supply chains may be strained, and labor markets might face temporary disruptions – which can depress aggregate economic

indicators before the long-term benefits are realized. The delayed positive response seen in the IRF suggests these benefits take time to materialize, supporting H2c in the longer term but highlighting significant short-term counter-dynamics. From a policy perspective, this highlights the need for careful management of the transition, potentially involving measures to mitigate adjustment costs and coordinate effectively with the private sector.

Figure 14: Economic Prosperity Response to Shocks in SWF Investment across the GCC



4.5.4.2.2 United Arab Emirates (UAE)

The relationship between SWF investment and prosperity in the UAE appears more complex and less direct at the aggregate level. While the ARDL bounds test confirmed cointegration, the estimated long-run coefficient for SWF investment on prosperity was statistically insignificant (Table 18). Consequently, Hypothesis H2a is not supported in the UAE context. The absence of a clear, positive long-run link at the aggregate level could stem from the UAE's relatively mature and already diversified economy, where the marginal impact of further SWF investment on overall prosperity might be less pronounced. Furthermore, the UAE's unique multi-SWF structure

(including ADIA, Mubadala, and others), each with potentially distinct mandates and geographical foci (e.g., ADIA's strong international orientation), means that aggregating their investments might obscure the specific domestic impacts of entities like Mubadala, which are more directly involved in national development projects.

Mirroring the long-run findings, the VECM analysis (Table 19) reveals no statistically significant short-run relationship between aggregate SWF investment and economic prosperity, failing to support H2b. The IRF analysis (Figure 14) visually reinforces this muted connection. Figure 14 indicates that a positive shock to SWF investment generates only a very small, slightly positive response in prosperity, which maintains a steady state in the next few quarters. This transient and minimal effect provides little support for H2c.

This overall muted impact likely reflects the factors influencing the long-run results: the buffering effect of economic diversification, the complexity of the multi-fund system, and the long gestation periods typical of large strategic investments. This suggests that the UAE's overall economic prosperity is relatively insulated from short-term fluctuations in aggregate SWF investment activities, implying a degree of economic resilience but also indicating that SWFs might be less effective as tools for immediate, broad-based prosperity enhancement compared to more targeted interventions.

4.5.4.2.3 Qatar

Qatar's situation presents yet another distinct pattern, characterized by stability and an apparent detachment of aggregate prosperity from SWF investments in the short-to-medium term. Similar to the UAE, the ARDL estimation for Qatar (Table 19) yielded a statistically insignificant long-run coefficient, failing to support Hypothesis H2a. The dominant role of the

natural gas sector in Qatar's economy might overshadow the influence of SWF investments on broad prosperity indices. Additionally, the Qatar Investment Authority (QIA) maintains a significant international portfolio, and the domestic economic benefits might accrue indirectly or over very extended time horizons. It is also possible that the specific developmental goals targeted by QIA's investments are not fully captured by the aggregate prosperity measure used.

The VECM results (Table 19) show no significant short-run link between SWF investment and prosperity (rejecting H2b). Consistently, the IRF analysis (Figure 14) depicts an almost entirely flat response line, indicating that prosperity barely reacts to a positive shock in SWF investment throughout the forecast horizon. This lack of response fails to support H2c. This stability likely reflects Qatar's strong fiscal position, substantial accumulated wealth within the QIA, and a strategic investment approach focused on long-term value creation and global positioning, rather than short-term domestic macroeconomic management through investment adjustments. Qatar's economic prosperity seems largely independent of short-term SWF investment dynamics.

Overall, the impact of SWF investment on economic prosperity within the GCC is far from uniform, particularly when considering short-term dynamics and responses to shocks. Saudi Arabia demonstrates a pattern consistent with a major economic transformation: long-run prosperity gains are evident, but they are accompanied by significant short-run adjustment costs or counterintuitive dynamics, visually confirmed by the IRF's delayed positive response. This reflects the challenges inherent in rapidly deploying large amounts of capital for diversification. Conversely, in the UAE and Qatar, the link between aggregate SWF investment and overall economic prosperity appears less direct or statistically insignificant within the analyzed

timeframe, with IRFs showing minimal (UAE) or negligible (Qatar) responses to investment shocks. This may reflect their different economic structures, the specific mandates and international focus of their respective SWFs (ADIA and QIA), and potentially the limitations of aggregate measures in capturing the impact of targeted, long-term strategic investments. These country-specific variations indicate the critical need to consider national context, fund mandates, and the distinction between short-term fluctuations and long-run equilibrium when assessing the economic role of GCC SWF investments.

4.5.4.3 SWF Investments and Economic Resilience across the GCC

Next, we assess the influence of SWF investments on the economic resilience of GCC nations, testing Hypothesis 3. Economic resilience, in this context, refers to the capacity of an economy to absorb or mitigate shocks stemming from economic policy uncertainty, proxied by the Economic Policy Uncertainty (UNCE) index. A lower index value indicates greater resilience (less uncertainty). Hypothesis 3 posits that higher SWF investment enhances resilience (i.e., reduces uncertainty), particularly in the long run (H3a), with potential short-run effects (H3b) and response to shocks (H3c). Due to data limitations for the UNCE variable in Qatar, this analysis focuses on Saudi Arabia and the UAE.

4.5.4.3.1 Saudi Arabia

Table 20 presents ARDL long-run estimates that directly test Hypothesis H3a, which posits that SWF investments positively impact long-run economic resilience (i.e., negatively impact the UNCE index). The findings for Saudi Arabia suggest that while the economy exhibits resilience, it doesn't appear to be directly driven by the stabilization effects of aggregate SWF investments in the manner hypothesized. The ARDL estimation results presented in Table 20 show a statistically insignificant long-run coefficient

for SWF investment on the economic policy uncertainty index. This lack of a significant relationship fails to support Hypothesis H3a. This finding might reflect the primary strategic orientation of the PIF under Vision 2030, which emphasizes long-term economic transformation and diversification rather than short-to-medium term counter-cyclical stabilization against policy uncertainty. Although, large-scale transformative investments, while aiming for long-run resilience, could even introduce elements of policy adjustment and uncertainty in the shorter term. This further suggests that enhancing resilience to policy uncertainty in Saudi Arabia might rely more on broader institutional reforms and macroeconomic management than on the aggregate level of SWF investment itself.

Table 20: ARDL Estimated ARDL Long-Run Impact of SWF Investment on Economic Resilience (H3a)

	<u>Saudi Arabia</u> Resilience	<u>The UAE</u> Resilience
SWF Investment	0.021565 (0.026168)	0.3758** (0.16905)
Economic Prosperity	-2.4058** (1.0343)	9.9770*** (2.3285)
Sustainability Performance (ESG)	-.63351 (1.176)	-7.0553*** (2.1982)
Oil Revenue	0.13162 (0.13952)	-0.36904 (0.2659)
Intercept	6.9492 (6.2335)	-18.0891 (15.9185)
F-statistic	5.3316	5.4338
95% Lower Bound	3.0697	3.0697
95% Upper Bound	4.2937	4.2937
W-statistic	26.6578	27.1692
95% Lower Bound	15.3487	15.3487
95% Upper Bound	21.4687	21.4687

Note: This table displays the estimated ARDL long-run coefficients showing the long-run impact of SWF investments on Economic Resilience, after controlling for and other variables, for Saudi Arabia and the UAE (testing H3a). ***, ** and * denotes 1%, 5% and 10% significance level respectively.

Consistent with the long-run findings, the VECM analysis (Table 21) also indicates no statistically significant short-run impact of SWF investment on economic resilience, failing to support H3b. This lack of a direct, short-term (immediate stabilizing) effect from SWF investments challenges the simpler interpretation of MFST, at least for the case of Saudi Arabia, where large state funds automatically buffer short-term dis-stabilization. It implies that the PIF's investment decisions in the short term are likely driven by factors other than reacting to or mitigating immediate economic fluctuations and uncertainty.

Table 21: Short-run Dynamics SWF Investments and Economic Resilience

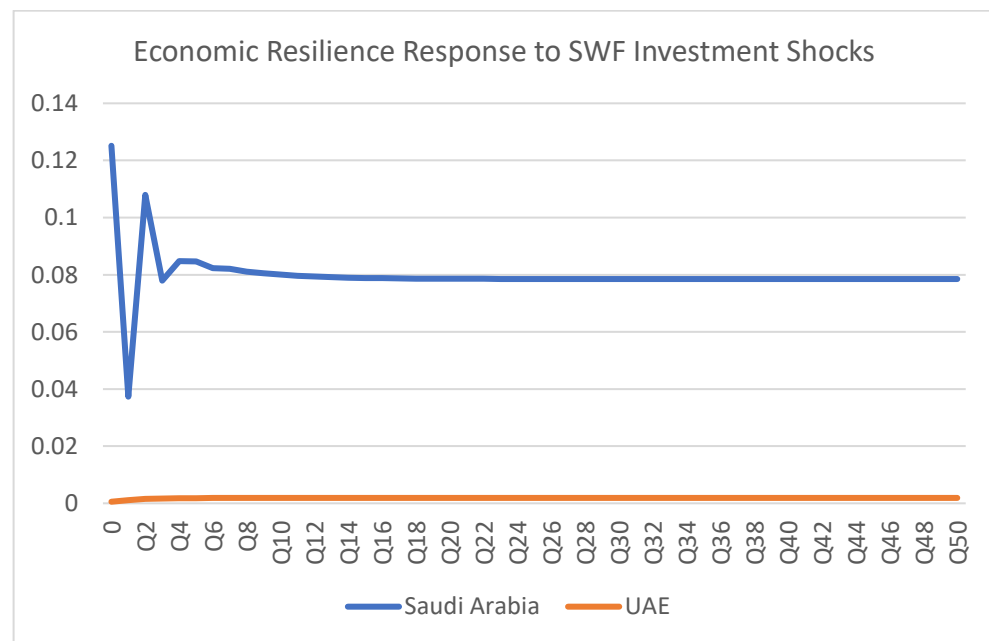
Short-run impact of SWF Investments on Economic Resilience		
	<u>Saudi Arabia</u> Resilience	<u>The UAE</u> Resilience
Intercept	1.28 (2.03)	-35*** (7.8)
SWF Investment	-0.027 (0.03)	0.027 (0.07)
Economic Prosperity	-4.58 (12.5)	-40.5** (17)
Sustainability Performance (ESG)	6.3 (8.46)	33.58 (22)
Economic Resilience	-0.42*** (0.12)	-0.039 (0.12)
Oil Revenue	0.75*** (0.32)	-0.38 (0.29)
ecm1(-1)	0.17 (0.28)	0.42*** (0.093)

Note: This table displays the estimated short-run coefficients from the Vector Error Correction Model (VECM) analysis, specifically showing the immediate impact of SWF investments (after controlling for other variables) on Economic Resilience for Saudi Arabia and the UAE (testing H2b). ***, ** and * denotes 1%, 5% and 10% significance level, respectively.

However, the Impulse Response Function (IRF) analysis (Figure 15) provides a more dynamic view. Figure 15 clearly shows that a positive shock to SWF

investment leads to a brief, yet noticeable, temporary increase in economic policy uncertainty (a decrease in resilience) within the first 1-2 quarters. This initial spike is followed by a relatively swift reversion back towards the baseline level within approximately 4-5 quarters. This short-lived fluctuation, while contradicting the stabilization aspect of H3c, can be interpreted through the lens of market adjustment and transformation dynamics. Large, unexpected SWF investment announcements or deployments, particularly for major initiatives like the Vision 2030 project, might initially create uncertainty as markets digest the implications for resource allocation, potential policy shifts, and sectoral impacts. This "news effect" could temporarily elevate the UNCE index as the market digests the information.

Figure 15: Economic Resilience Response to Shocks in SWF Investment across the GCC



However, the *rapid return to baseline* is equally significant. It suggests that the Saudi economy possesses an underlying capacity to absorb these investment-related news shocks effectively. This resilience likely stems not from the SWF investment flow itself acting as a direct stabilizer, but rather

from other factors such as strong government commitment to the overarching Vision 2030 agenda providing a clear long-term direction, proactive communication strategies, and stable macroeconomic fundamentals that help anchor expectations relatively quickly after the initial news impact. Therefore, while SWF investment *activity* can cause short-term ripples of uncertainty, the economy demonstrates resilience in processing these shocks.

4.5.4.3.2 United Arab Emirates

The UAE presents a different and somewhat counterintuitive picture regarding the long-term relationship between SWF investment and resilience. The ARDL estimation for the UAE (Table 20) yields a statistically significant *positive* long-run coefficient (0.376, $p < 0.05$) for SWF investment on the uncertainty index. This finding directly contradicts Hypothesis H3a, suggesting that higher levels of aggregate SWF investment are associated with *increased* long-run economic policy uncertainty (lower resilience).

Several factors might contribute to this unexpected result. First, the substantial international investments undertaken by UAE funds, particularly ADIA, expose the national economy more significantly to global economic volatility and geopolitical risks, which could translate into higher perceived domestic policy uncertainty. Secondly, large domestic investments aimed at diversification (e.g., by Mubadala) can necessitate significant economic restructuring and accompanying policy adjustments (e.g., regulatory changes, labor market reforms), potentially generating uncertainty during the transition phase. Also, managing and coordinating the strategies of multiple large SWFs within a federal system might inherently introduce complexities that contribute to policy uncertainty. Nonetheless, a key implication of this finding is a caution against assuming that simply increasing SWF investment guarantees enhanced resilience to uncertainty. It highlights

potential trade-offs between pursuing high-return global strategies or ambitious domestic transformations and maintaining policy stability.

Similar to Saudi Arabia, the VECM results for the UAE (Table 22) show no statistically significant short-run relationship between SWF investment and economic resilience, failing to support H3b. This suggests that, like the PIF, the UAE's SWFs, in aggregate, do not appear to actively deploy capital in the short term specifically to counteract fluctuations in policy uncertainty. Their investment cadence seems driven by other strategic considerations.

The IRF analysis (Figure 15) strongly reinforces this lack of short-term connection. Figure 15 depicts an almost completely flat line, indicating a minimal and statistically insignificant response of the uncertainty index to an SWF investment shock throughout the forecast horizon. This negligible reaction, which fails to support H3c, suggests that the UAE economy's uncertainty level is largely insulated from unexpected changes in aggregate SWF investment flows. This short-run insulation can be attributed to several key characteristics of the UAE context. Firstly, its relatively diversified economic structure provides a natural buffer; shocks related to SWF investment in one area may have limited spillover effects on overall effect of uncertainty. Secondly, the long-term, strategic, and often international focus of major funds like ADIA means their investment flows are less likely to be calibrated for short-term domestic stabilization against immediate fluctuations or destabilization. Thirdly, the UAE's established governance frameworks, proactive risk management institutions, and reputation as a stable investment hub likely contribute significantly to its economic resilience anchoring expectations and limiting short-term uncertainty fluctuations related to SWF activities, irrespective of immediate investment flows.

In sum, this analysis reveals divergent paths regarding SWF investment and economic resilience in Saudi Arabia and the UAE. Neither country shows strong evidence from the VECM that aggregate SWF investment acts as a direct short-run stabilizer against policy uncertainty (H3b unsupported). In the long run (H3a), the impact appears insignificant in Saudi Arabia, potentially reflecting the PIF's focus on transformation over stabilization. Conversely, in the UAE, higher aggregate SWF investment is paradoxically linked to increased long-run policy uncertainty, possibly due to heightened global exposure or the complexities of managing multiple large funds and domestic restructuring.

The IRF analysis provides crucial details regarding responses to shocks (H3c). The Saudi IRF, with its initial spike in uncertainty followed by a rapid return to baseline, suggests resilience in absorbing investment *news* shocks quickly, even if the investment itself isn't stabilizing. The UAE's flat IRF indicates a high degree of insulation from immediate impacts, likely due to economic diversification and strong institutional anchoring. These findings show that the relationship between SWF investment and economic resilience is highly context-dependent, influenced by national strategic priorities, fund structures, and the specific nature of economic uncertainty being measured. It challenges the simple MFST notion of SWFs as automatic stabilizers against all forms of economic shocks (Montambault Trudelle, 2024), particularly policy-related uncertainty. It reveals a more complex interplay between investment activity, market perception, and underlying economic structure.

4.5.4.4 SWF Investments and Sustainability Performance across the GCC

Next, we examine the dynamic relationship between SWF investment activities and national sustainability performance, measured by the Environmental, Social, and Governance (ESG) score. We test Hypothesis 4, which proposes that higher levels of SWF investment contribute positively to

domestic sustainability performance, both in the long run (H4a) and the short run (H4b), and that shocks to SWF investment impacts sustainability performance (H4c).

4.5.4.4.1 Saudi Arabia

For Saudi Arabia, the aggregate data suggests a limited direct link between the overall volume of SWF investment and national sustainability performance, despite the increasing emphasis on sustainability within Vision 2030. The ARDL estimation, presented in **Error! Reference source not found.**, yields a positive but statistically insignificant long-run coefficient for SWF investment on the ESG score. This lack of significance fails to provide support for Hypothesis H4a.

This result indicates that despite the high profile of sustainability-linked projects under the PIF (e.g., NEOM, renewable energy initiatives), their impact has not yet translated into a statistically discernible improvement in the overall national sustainability performance (within the study's timeframe). Several factors could contribute to this disconnect. Firstly, the timeframe of 16 years might be insufficient as many large-scale sustainability projects have long gestation periods, and their positive effects on national metrics may only become statistically significant further in the future. Secondly, the PIF's investment mandate, while incorporating sustainability, might still prioritize financial returns or broader economic diversification goals, leading to a diluted focus on ESG outcomes in aggregate investment decisions. Thirdly, it is highly plausible that national ESG performance is more strongly influenced by overarching regulatory frameworks, national environmental policies, and shifts in the broader industrial structure, rather than being directly driven by the marginal impact of SWF investment flows alone.

Table 22: Estimated ARDL Long-Run Impact of SWF Investment on Sustainability Performance (H3a)

	<u>Saudi Arabia</u> Sustainability	<u>The UAE</u> Sustainability	<u>Qatar</u> Sustainability
SWF Investment	0.0047223 (0.004496)	0.07311*** (0.01033)	0.0087098* (0.0045641)
Economic Prosperity	-0.59597*** (0.14812)	0.78142 (0.64447)	-0.78523 (0.5061)
Economic Resilience	0.045854** (0.019168)	-.087902** (0.04047)	
Oil Revenue	0.25113*** (0.039791)	-.063418** (0.027768)	0.028223** (0.012148)
Intercept	1.1218*** (0.37956)	0.10923 (3.2428)	7.0127*** (2.3378)
F-statistic	6.7928	3.6205	3.9448
95% Lower Bound	3.0697	3.0683	3.3978
95% Upper Bound	4.2937	4.3321	4.5925
W-statistic	33.9641	18.1023	15.7793
95% Lower Bound	15.3487	15.3413	13.5912
95% Upper Bound	21.4687	21.6606	18.3699

Note: This table displays the estimated ARDL long-run coefficients showing the long-run impact of SWF investments on Sustainability Performance, after controlling for and other variables, for Saudi Arabia and the UAE (testing H3a). ***, ** and * denotes 1%, 5% and 10% significance level respectively.

Furthermore, The VECM analysis (Table 23) reveals a negative, though statistically insignificant, short-run coefficient for SWF investment on sustainability performance. This offers no support for H4b and hints at potential, albeit statistically weak, immediate trade-offs.

Table 23: Short-run Dynamics SWF Investments and Sustainability Performance

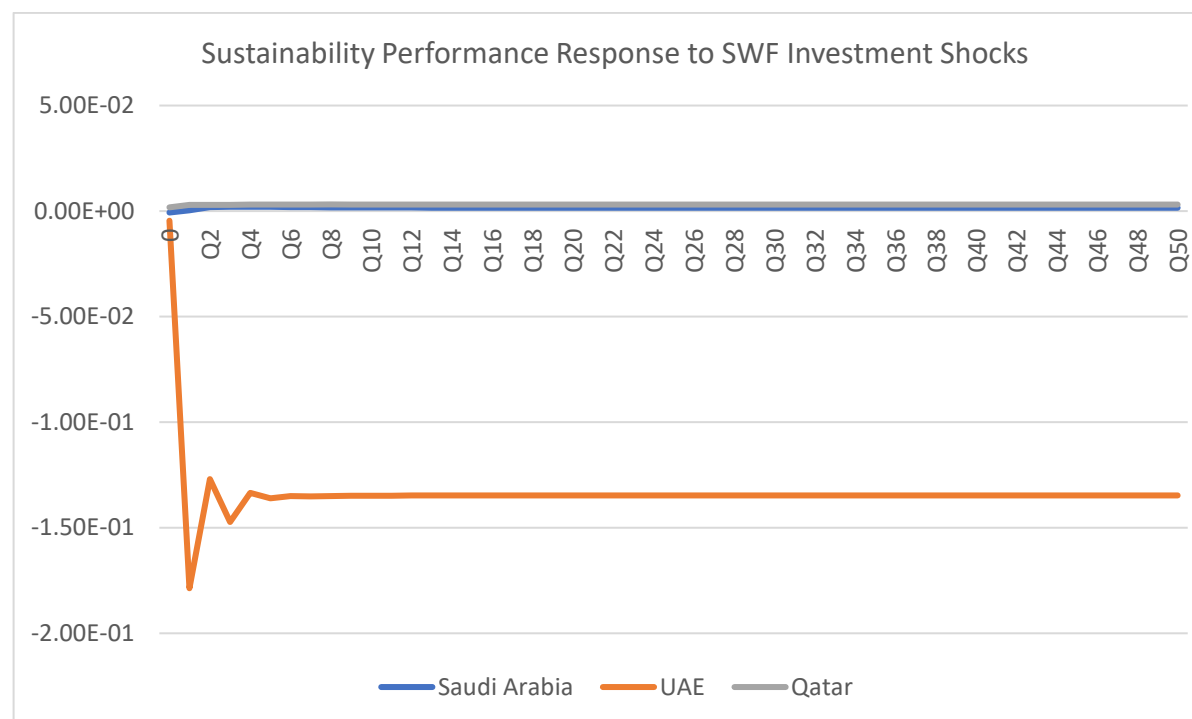
Short-run impact of SWF Investments on Sustainability Performance			
	Saudi Arabia Sustainability y	The UAE Sustainability y	Qatar Sustainability y
Intercept	0.07*** (0.03)	0.095* (0.048)	-0.05851 (0.1752)
SWF Investment	-0.0002 (0.0004)	-0.00021 (0.00042)	0.000614 (0.0006328)
Economic Prosperity	-0.46*** (0.16)	0.13 (0.104)	0.0031257 (0.18831)
Sustainability Performance (ESG)	0.44*** (0.11)	0.50*** (0.13)	0.52138*** (0.11249)
Economic Resilience	-0.0006 (0.0014)	-0.00005 (0.0008)	
Oil Revenue	-0.0041 (0.004)	-0.0006 (0.0018)	0.001373 (0.0025894)
ecm1(-1)	0.0095*** (0.004)	-0.001* (0.0005)	-0.000336 (0.0009995)

Note: This table displays the estimated short-run coefficients from the Vector Error Correction Model (VECM) analysis, specifically showing the immediate impact of SWF investments (after controlling for other variables) on Economic Resilience for Saudi Arabia and the UAE (testing H2b). ***, ** and * denotes 1%, 5% and 10% significance level, respectively.

The IRF analysis (**Error! Reference source not found.**) provides further insight into the response to shocks (H4c). Figure 16 shows a relatively flat response line, indicating that the national ESG score exhibits minimal reaction to a positive shock in SWF investment throughout the forecast period. This stability in the face of investment shocks suggests several possibilities. Firstly, the impact of individual SWF projects on the overall national ESG score might be marginal in the short term. Secondly, the long-term nature of sustainability-focused investments (e.g., renewable energy

infrastructure) means their positive effects on ESG metrics accrue gradually and are unlikely to cause sharp, immediate fluctuations in response to investment flow changes. Thirdly, it could reflect a balanced investment approach by the PIF, where sustainability goals are integrated alongside other economic objectives, leading to incremental rather than disruptive changes in national ESG performance. This lack of short-term volatility, while failing to support H4c directly, might be viewed positively as indicating a stable, albeit slow, path towards sustainability integration.

Figure 16: Sustainability Performance Response to Shocks in SWF Investment across the GCC



4.5.4.4.2 United Arab Emirates

The UAE presents a more dynamic picture, suggesting potential short-term trade-offs but positive long-run contributions from SWF investment towards sustainability. In contrast to Saudi Arabia, the ARDL estimation for the UAE (**Error! Reference source not found.**) finds a positive and statistically

significant long-run coefficient (0.073, $p < 0.01$) for SWF investment on Sustainability performance. This provides strong support for Hypothesis H4a.

This significant positive long-run impact likely reflects the UAE's relatively early and sustained focus on sustainability initiatives, often spearheaded or significantly supported by its SWFs. Initiatives like Masdar City (Mubadala) and substantial investments in renewable energy projects contribute directly to improving environmental metrics. Furthermore, adherence to international standards and attracting foreign partners may incentivize SWFs and associated projects to adopt stronger governance and social practices, boosting the overall ESG score over time.

More so, similar to Saudi Arabia, the VECM results for the UAE (**Error! Reference source not found.**) show a negative and statistically insignificant short-run coefficient for SWF investment on sustainability performance. This offers no support for H4b and weakly hints at potential immediate trade-offs, where increased SWF investment activity might initially coincide with pressures on sustainability metrics, although this effect lacks statistical robustness.

More revealing is the IRF analysis (Figure 16), which shows a distinct and informative pattern for the response to shocks (H4c). Figure 16 shows an initial, sharp negative response of the ESG score to a positive SWF investment shock in the first quarter. This dip is followed by a relatively quick rebound, with the ESG score recovering and stabilizing at a level slightly above its pre-shock baseline within a few quarters. This "V-shaped" response suggests immediate trade-offs. A surge in investment activity, perhaps related to large-scale infrastructure or industrial projects necessary for diversification, might initially increase environmental footprint or create temporary social disruptions, leading to a short-term dip in the ESG score.

However, the subsequent recovery and stabilization above the baseline indicate that these negative effects are either temporary or are outweighed by the positive sustainability aspects integrated into the investments over a slightly longer horizon (supporting H4c in the medium term). This pattern could reflect a dynamic process where ambitious development goals initially create sustainability pressures, but strategic planning and potentially corrective measures ensure a net positive ESG outcome eventually.

4.5.4.4.3 Qatar

Qatar's results suggest a potentially emerging positive relationship between SWF investment and sustainability, though the statistical evidence is somewhat marginal. The ARDL estimation (**Error! Reference source not found.**) yields a positive long-run coefficient (0.009, $p < 0.10$) for SWF investment on the ESG score, which is statistically significant only at the 10% level. This provides only marginal support for Hypothesis H4a. This tentative positive link might reflect Qatar's increasing focus on sustainability, particularly in the context of its National Vision 2030 and preparations for major international events. Investments related to cleaner energy (LNG emphasis) or specific green infrastructure projects could be starting to positively influence the national ESG score. However, the marginal significance suggests this link is perhaps less established or widespread compared to the UAE, or that the impact is diluted by the dominance of the hydrocarbon sector.

The VECM results (**Error! Reference source not found.**) indicate a positive but statistically insignificant short-run relationship between SWF investment and ESG performance, failing to support H4b. The IRF analysis (Figure 16) mirrors the findings for Saudi Arabia, showing a relatively flat response line, indicating minimal reaction of the ESG score to a positive SWF investment shock. This lack of significant short-term fluctuation fails to support H4c.

Similar to the Saudi case, this stability could be attributed to the long-term strategic nature of QIA's investments, where sustainability impacts accrue gradually. Qatar's strong fiscal position might also allow for a steady approach to sustainability integration, avoiding sharp fluctuations tied directly to investment flows. While the short-run impact is not statistically significant, the absence of a negative response (unlike the initial UAE dip) is noteworthy.

Overall, the influence of SWF investment on national sustainability performance varies across the GCC countries examined. The UAE stands out with a clear, positive long-run impact, suggesting its SWFs are effectively contributing to national sustainability goals, although this may involve navigating short-term negative adjustments following investment shocks, as revealed by the IRF. Qatar shows a marginally positive long-run link, hinting at an emerging trend, but with minimal short-term sensitivity to investment flows or shocks. Saudi Arabia displays the weakest link in this analysis, with neither long-run nor short-run aggregate SWF investment showing a statistically significant positive impact on the national ESG score, and a flat response to shocks. This suggests that while sustainability is a stated goal, its integration into the overall impact of PIF's investment activities on national ESG metrics may still be developing or overshadowed by other factors. These findings show that translating SWF financial power into tangible national sustainability gains requires deliberate strategy, potentially specific ESG mandates, and time, and is not an automatic outcome of increased investment volume alone⁸. The varying patterns also reflects the importance

⁸ It is also possible that the aggregate national ESG score used here is too broad to capture the impact of specific, potentially highly sustainable, SWF projects (e.g., in renewable energy).

of considering both long-run trends and short-run dynamic responses when evaluating the sustainability dimension of SWF Investment.

While these results, collectively highlight the potential for SWFs to act as catalysts for economic prosperity, resilience and sustainable development, the role of oil revenue as a precursor for GCC SWF assets and investments needs to be confirmed. Hence, the next analysis examines this relationship.

4.5.4.5 Oil Revenue and SWF Investments across the GCC

Given the fundamental role of hydrocarbon revenues in capitalizing the SWFs of GCC nations, this section investigates the dynamic relationship between oil revenue (ORV) fluctuations and SWF investment activity. Understanding this linkage is crucial, touching upon core tenets of both the Resource Curse Theory (which highlights dependency) and MFST (regarding the source of funds for stabilization or diversification). While a long-run equilibrium relationship involving oil revenue was established by the cointegration tests (**Error! Reference source not found.**), this analysis now explicitly examines the long-run coefficient derived from ARDL estimation alongside the short-run dynamics from VECM (**Error! Reference source not found.**) and the response of SWF investments to oil revenue shocks via IRFs (**Error! Reference source not found.**). The findings reveal complex and varied responses across the selected countries, suggesting that the connection between oil windfalls and SWF deployment, both immediately and over time, is not straightforward.

4.5.4.5.1 Saudi Arabia

Saudi Arabia presents a particularly interesting case where short-run statistical relationships and shock responses contrast sharply, and the long-run link appears statistically weak. The ARDL estimation results (presented in **Error! Reference source not found.**) indicate a negative (-0.58) but

statistically insignificant long-run coefficient for the impact of oil revenue on SWF investment ($p > 0.10$). This lack of a statistically significant long-run relationship is noteworthy. While intuitively, higher oil revenues should fundamentally enable larger SWF investments over time, this result suggests that, a direct, consistent long-run elasticity is not statistically discernible⁹.

Table 24: Estimated ARDL Long-Run Impact of Oil Revenue SWF Investment

	<u>Saudi Arabia</u> SWF Investment	<u>The UAE</u> SWF Investment	<u>Qatar</u> SWF Investment
Oil Revenue	-0.58059 (0.493)	0.75586** (0.19862)	-0.76578** (0.31195)
Economic Prosperity	-3.4454 (2.3108)	-33.9856** (9.5929)	14.1749** (5.9236)
Economic Resilience	0.068688 (0.17931)	3.3856** (0.88474)	
Sustainability Performance (ESG)	29.3949*** (1.9733)	18.6922*** (1.7723)	21.2567*** (4.8407)
Intercept	-66.7222*** (12.4114)	87.3333* (40.092)	-117.1277*** (28.7245)
F-statistic	5.6657	6.6054	14.746
95% Lower Bound	3.0697	3.071	3.3978
95% Upper Bound	4.2937	4.3254	4.5925
W-statistic	28.3286	33.0272	58.9839
95% Lower Bound	15.3487	15.3551	13.5912
95% Upper Bound	21.4687	21.6268	18.3699

One possible explanation for such a weak long-run relationship is the structural transformation of the PIF during the sample period. Until 2016, the PIF operated as a passive, domestically focused institution, often providing loans to national firms rather than acting as a strategic investor. Its

⁹ This finding is subject to our model specification and timeframe

post-2016 restructuring under the nation's Vision 2030 marked a shift toward an active, globally oriented SWF. Including both phases in the 2007–2023 dataset may dilute the statistical relationship with oil revenues. This is supported by the post-2016 investment surge visible in Figure 11 and the extreme variability in **Error! Reference source not found.**, suggesting discontinuity in behavior.

This result could also imply that Saudi Arabia's long-term SWF investment strategy, particularly under Vision 2030, is becoming increasingly decoupled from immediate oil revenue streams, driven more by strategic objectives, planned capital deployment schedules, or borrowing, rather than passively absorbing surpluses (Abu Omar & Martin, 2025; Burke & Voitova, 2025; Martin et al., 2025). Alternatively, the relationship might be non-linear or influenced by other dominant factors not fully captured here.

In contrast to the insignificant long-run finding, the VECM estimation (**Error! Reference source not found.**) indicates a positive and statistically significant relationship between oil revenue and SWF investments in the short run (coefficient = 2.64, $p < 0.10$). This aligns with the basic intuition that higher oil revenues provide greater immediate fiscal capacity, allowing for increased allocations to the PIF for investment purposes within shorter timeframes (e.g., quarterly or annually).

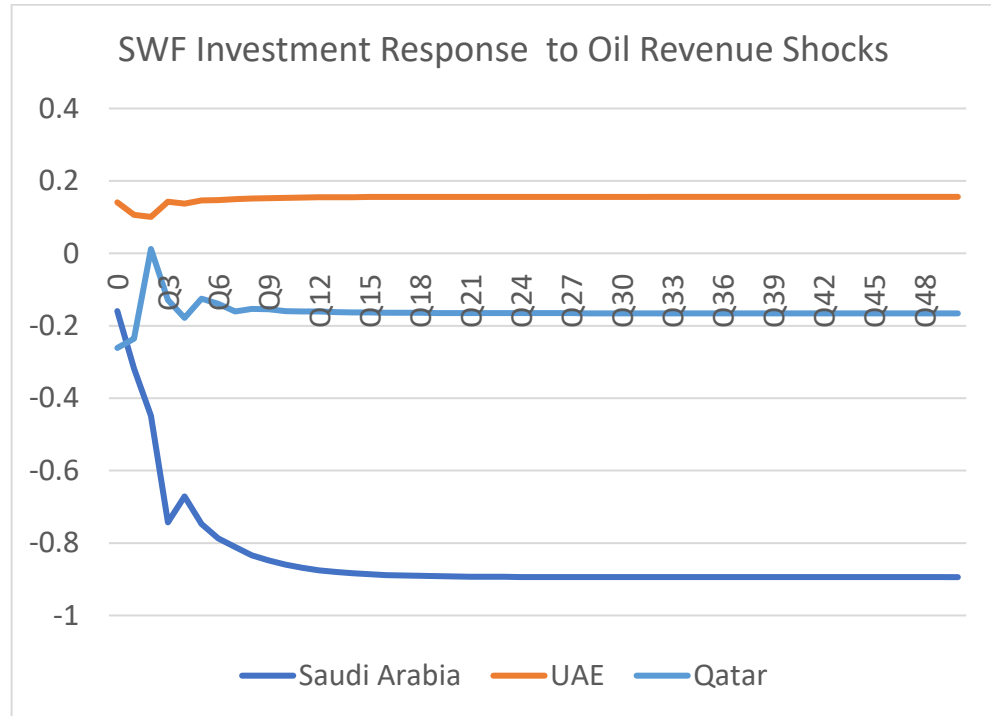
Table 25: Short-run Dynamics between Oil Revenue and SWF Investment

Short-run impact of Oil Revenue on SWF Investments			
	<u>Saudi Arabia</u>	<u>The UAE</u>	<u>Qatar</u>
	SWF Investment	SWF Investment	SWF Investment
Intercept	-31.8*** (6.83)	-25.5* (13.5)	-301.4447*** (33.9237)
SWF Investment	-0.13 (0.12)	-0.39*** (0.123)	0.35384*** (0.12252)
Economic Prosperity	134*** (42)	0.79 (29.4)	42.8299 (36.4618)
Sustainability Performance (ESG)	25.6 (28.3)	-7.4 (38.1)	60.3351*** (21.7814)
Economic Resilience	0.68* (0.37)	0.49** (0.22)	
Oil Revenue	2.64* (1.1)	-0.13* (0.51)	-0.53992 (0.50138)
ecm1(-1)	-4.28*** (0.93)	0.31 (0.16)	-1.7196*** (0.19352)

Note: ***, ** and * denotes 1%, 5% and 10% significance level respectively. Standard error in parenthesis. Speed of adjustment is computed based on the quarterly time series frequency.

However, the IRF analysis (Figure 17) reveals yet another layer of complexity, starkly contrasting with the positive short-run VECM coefficient. Figure 17 shows that a positive shock (unexpected increase) to oil revenue leads to a sharp, immediate, and prolonged decrease in SWF investments. This negative response persists for a significant duration before slowly beginning to revert towards the baseline.

Figure 17: SWF Investment Response to Shocks in Oil Revenue across the GCC



This paradoxical finding – an insignificant long-run link, a positive average short-run association, but a strong negative response to unexpected short-run increases – demands critical interpretation. The strong negative IRF response suggests that unexpected oil windfalls trigger immediate reactions governed by competing fiscal priorities. The government might prioritize using sudden revenue surges for immediate fiscal needs (deficit reduction, social spending, non-SWF projects) or strategic debt repayment, thereby temporarily reducing allocations to the PIF. Absorption capacity limits and planning lags for large-scale PIF projects could also contribute to delays in deploying unexpected funds.

This complex pattern suggests that while higher oil revenues generally support higher SWF investment levels over time (as reflected weakly in the VECM), the immediate response to positive *shocks* is dominated by fiscal

management considerations. It significantly complicates the view of the PIF as a simple stabilization fund automatically absorbing surpluses and highlights the active role of fiscal policy in mediating the flow of funds.

4.5.4.5.2 United Arab Emirates

The UAE exhibits a dynamic response pattern suggesting strategic resource allocation, consistent with a positive underlying long-run relationship between oil revenue and SWF funding. The ARDL estimation results show a positive (0.76) and statistically significant long-run coefficient for the impact of oil revenue on SWF investment ($p < 0.05$). This finding aligns strongly with the fundamental economic logic for oil-rich nations: over the long term, higher oil revenues translate into greater capacity for funding SWFs. It suggests that, despite potential short-term reallocations, the overall scale of UAE's SWF investment activity is positively linked to the nation's primary source of wealth generation in the long run.

Interestingly, the VECM results for the UAE (**Error! Reference source not found.**) show a negative and statistically significant relationship between oil revenue and SWF investments in the short run (coefficient = -0.13, $p < 0.10$). This implies that, on average, within quarters, periods of higher oil revenue coincide with lower immediate SWF investment outflows. The IRF analysis (Figure 17) provides crucial context, reconciling the negative short-run VECM result with the positive long-run ARDL finding. Figure 17 shows an initial negative response of SWF investments to a positive oil revenue shock, consistent with the VECM finding. However, this dip is relatively short-lived. The response reverses after a few quarters, becoming positive and stabilizing at a level higher than the pre-shock baseline.

Furthermore, the "U-shaped" response suggests a strategic reallocation mechanism. An initial surge in oil revenue might first be directed towards boosting domestic economic activity or non-SWF government priorities,

temporarily reducing the flow into SWFs. However, the subsequent reversal and stabilization at a higher level indicate that the increased fiscal capacity eventually translates into higher SWF investment levels, consistent with the positive long-run relationship and long-term wealth management goals. This dynamic reflects a sophisticated approach, balancing immediate domestic needs or opportunities with long-term SWF growth.

4.5.4.5.3 Qatar

Qatar's SWF investment activity appears largely insulated from short-term revenue fluctuations, but the long-run analysis presents a puzzle. The ARDL estimation results indicate a negative (-0.77) and statistically significant long-run coefficient for the impact of oil revenue on SWF investment ($p < 0.05$). This finding is counterintuitive. A negative long-run relationship suggests that periods of sustained higher resource revenues are associated with lower SWF investment levels over time. This is difficult to reconcile with standard economic logic where revenues fund the SWF. Potential explanations are speculative: perhaps it reflects a highly counter-cyclical strategy where the QIA deliberately reduces its relative investment pace during revenue booms to avoid overheating or concentrates investment during leaner periods. Alternatively, it could signal a strategic shift away from direct revenue dependence in its long-term SWF funding model¹⁰. This puzzling result warrants further investigation beyond the scope of this study. The VECM estimation for Qatar (**Error! Reference source not found.**) reveals a statistically insignificant relationship between oil revenue and SWF investment in the short run.

¹⁰ It could also potentially be an artifact of the specific model specification or data properties for Qatar

Furthermore, the IRF analysis (Figure 17) corroborates the lack of short-term connection. Figure 17 depicts an almost entirely flat response line, indicating that SWF investment levels show virtually no reaction to a positive shock in oil revenue throughout the forecast horizon. Economic Intuition & Justification: This neutrality in the short run suggests that the QIA operates with significant autonomy from immediate commodity revenue fluctuations. This insulation likely stems from the stability of LNG revenues (often under long-term contracts), the massive scale of the QIA's existing assets allowing it to fund activities independent of current inflows, and a strong national fiscal position. Investment decisions appear driven purely by long-term global strategic opportunities. This demonstrates a mature SWF management approach focused squarely on long-term wealth maximization and strategic global positioning, effectively decoupling short-term investment strategy from the immediate volatility of commodity markets. However, reconciling this with the negative long-run coefficient remains a challenge.

Overall, the relationship between oil revenue and SWF investment activity in the GCC is demonstrably heterogeneous and complex, moving beyond a simple model of direct funding. Saudi Arabia exhibits a paradox: an insignificant long-run link, a positive average short-run association, but immediate reductions in investment following unexpected revenue shocks, likely due to competing fiscal priorities. The UAE shows a dynamic reallocation consistent with a positive long-run relationship: an initial domestic focus following a revenue shock gives way to increased SWF investment later. Qatar displays remarkable short-run insulation, with SWF investment strategy appearing independent of immediate revenue fluctuations yet presents a puzzling statistically significant negative long-run relationship that warrants further exploration. These diverse patterns

highlight that while resource revenues remain the ultimate source of wealth, the deployment of capital into SWFs, both in the short and long run, is actively mediated by national fiscal policies, debt management, diversification strategies, the specific nature of the resource, and the strategic orientation of the SWF itself.

Error! Reference source not found. summarizes the key findings from the time series analysis (ARDL, VECM, IRF) for three GCC countries regarding the dynamic relationships between SWF Investment, Economic Prosperity, Economic Resilience, Sustainability Performance, and Oil Revenue.

Table 26: Summary of Empirical Findings

Relationship		Long-Run Impact (ARDL)	Short-Run Impact (VECM)	Response to Positive Shock (IRF)
Saudi Arabia				
SWFI Prosperity	→	Positive (Sig.)	Negative (Sig.)	Delayed positive response
SWFI Resilience (↓Uncertainty)	→	Insignificant	Insignificant	Temporary <i>increase</i> in uncertainty, then rapid return to baseline
SWFI Sustainability (↑ESG)	→	Insignificant	Insignificant	Minimal / Flat response
Oil Revenue SWFI	→	Insignificant	Positive (Sig.)	Sharp, prolonged <i>decrease</i> in SWFI
The UAE				
SWFI Prosperity	→	Insignificant	Insignificant	Minimal / Transient positive response
SWFI Resilience (↓Uncertainty)	→	Negative (Sig.) (<i>Increased Uncertainty</i>)	Insignificant	Minimal / Flat response
SWFI Sustainability (↑ESG)	→	Positive (Sig.)	Insignificant	Initial <i>decrease</i> in ESG, then recovery above baseline
Oil Revenue SWFI	→	Positive (Sig.)	Negative (Sig.)	Initial <i>decrease</i> in SWFI, then recovery above baseline
Qatar				
SWFI Prosperity	→	Insignificant	Insignificant	Minimal / Flat response
SWFI Sustainability (↑ESG)	→	Positive (Sig.)	Insignificant	Minimal / Flat response
Oil Revenue SWFI	→	Negative (Sig.) (<i>Counterintuitive</i>)	Insignificant	Minimal / Flat response

Key:

- Sig. = Statistically Significant (typically $p < 0.05$ or $p < 0.10$ based on context)
- Insig. = Statistically Insignificant

4.6 Conclusion

This study investigates the dynamic relationship between SWF investments, macroeconomic indicators across the GCC countries. It shed light on the impact of SWF Investments on economic prosperity, resilience, and sustainability in resource-rich economies. The study also examined the dynamic link between the foundational oil revenues and subsequent SWF investments. The findings (summarized in **Error! Reference source not found.**), reveal a landscape characterized by significant heterogeneity across the countries. It shows divergent impacts between short-run adjustments and long-run equilibrium tendencies, offering important insights into the role and consequences of SWFs investments, as powerful state-capital vehicles.

Broadly, the study confirmed a long-run equilibrium relationship between SWF investments and macroeconomic indicators, reflecting their enduring influence on domestic economies. This aligns with both the Macroeconomic and Financial Stability Theory (MFST) and the Resource Curse Theory, emphasizing the long-term perspective of SWF investments. Specifically, regarding economic prosperity, a clear positive long-run contribution from SWF investment was statistically evident only in Saudi Arabia, potentially reflecting the ambitious goals of its Vision 2030 transformation agenda. However, this long-term positive outlook was paradoxically accompanied by a negative short-run impact, suggesting the presence of significant adjustment costs or temporary crowding-out effects associated with large-scale investment deployment. In contrast, both the UAE and Qatar showed statistically insignificant links between aggregate SWF investment and prosperity in both the short and long run. This muted relationship might stem from factors such as their more diversified economies, the complexity of multi-fund structures in the UAE, the dominance of the gas sector in Qatar,

or potentially the limitations of aggregate metrics in capturing the effects of targeted investments.

Furthermore, the analysis found limited support for the hypothesis that SWFs act as straightforward stabilizers that enhance economic resilience against policy uncertainty. No significant short-run stabilization effect was found in either Saudi Arabia or the UAE. Furthermore, the long-run impact was insignificant in Saudi Arabia. Counterintuitively, higher aggregate SWF investment in the UAE was associated with lower resilience (increased long-run policy uncertainty). This perhaps reflects a heightened global risk exposure from international portfolios or the inherent uncertainties accompanying significant domestic economic restructuring. Impulse response functions indicated that the Saudi economy absorbs investment-related news shocks relatively quickly, while the UAE's policy uncertainty level appears largely insulated from immediate SWF investment shocks.

Moreso, the link between SWF investment and national sustainability performance, measured by ESG scores, also varied considerably. The UAE demonstrated a strong positive long-run relationship, suggesting a successful integration of sustainability goals into its SWF strategies over time, although this involved navigating initial negative responses to investment shocks, which indicates short-term trade-offs. Qatar showed signs of an emerging positive long-run link, but statistically marginal, while Saudi Arabia displayed no statistically significant connection in aggregate based on this analysis. This suggests that translating strategic sustainability intent into broad national ESG improvements via SWF investment may be a gradual process, requiring time and deliberate focus beyond just increasing investment volume.

Finally, the relationship between resource revenue and SWF investment revealed an interesting dynamic that challenge simple funding models, which typically assumes a direct and positive pass-through situation where increase in oil revenues means a significant portion of the surplus is automatically allocated to the SWF for investments, perhaps after basic government expenditures are met. Saudi Arabia, for instance, showed a puzzling negative response of SWF investment to unexpected positive revenue shocks (IRF), despite a positive average short-run VECM link. This deviation from a simple pass-through likely reflects a condition of competing fiscal priorities. Specifically, when faced with sudden, unexpected oil windfalls, the government may prioritize immediate demands over automatically channeling funds to the PIF. These competing priorities could include plugging budget deficits incurred during prior periods of lower oil prices, accelerating the repayment of outstanding public debt to strengthen the national balance sheet, boosting short-term social spending or public sector bonuses, or funding urgent non-PIF domestic projects critical to the broader Vision 2030 agenda but managed through regular government budgets. Such immediate fiscal demands can thus temporarily divert resources that might otherwise have been allocated to the SWF under a simpler funding model.

The UAE also defied a simple model, displaying a pattern of strategic reallocation; the negative short-run VECM link and initial negative IRF response suggest that revenue increases might first be channeled towards domestic non-SWF priorities before eventually boosting SWF investment levels later. This indicates active management and sequencing of fund flows, not a direct pipeline. Qatar, benefiting from more stable LNG revenues and vast reserves, exhibited remarkable insulation, with its SWF activity appearing largely independent of short-term revenue fluctuations, pointing

towards a strategy driven by long-term global opportunities rather than immediate revenue cycles. This decoupling most strongly challenges a simple funding model, although its statistically significant negative long-run coefficient presents an analytical puzzle requiring further investigation. Collectively, these varied responses demonstrate that the link between resource revenue and SWF investment in the GCC is actively managed and strategically filtered, rather than following a simple, automatic funding pathway.

4.6.1 Theoretical Implications

These diverse empirical results offer critical reflections on the applicability of the chapter's guiding theoretical frameworks – Macroeconomic and Financial Stability Theory (MFST) and Resource Curse Theory (RCT) – within the specific context of the GCC. The findings challenge a simplistic interpretation of MFST (Minsky, 1986) as it pertains to SWFs acting as automatic counter-cyclical stabilizers, particularly against economic (uncertainty) shocks. While SWFs undoubtedly possess the financial capacity for stabilization, their actual deployment appears mediated by complex factors including long-term strategic objectives (evident in Saudi Arabia and Qatar), immediate national fiscal priorities (highlighted by the Saudi shock response), and potentially the specific nature of the economic shock itself. The theory seems more applicable in explaining potential long-run contributions to stability (such as the positive link to Saudi prosperity) but offers less predictive power for immediate, consistent buffering effects across all indicators and countries examined here.

Regarding RCT (Sachs & Warner, 2001), the results provide valuable insights into the role of SWFs as potential tools for mitigation. The positive long-run links observed in certain areas (e.g., Saudi prosperity, UAE sustainability)

lend support to the idea that SWFs can, over time, contribute to economic diversification and sustainable development goals, helping nations transition away from resource dependency (Bagattini, 2011). However, the evidence of significant short-run costs (e.g., Saudi prosperity dip), potential negative externalities (e.g., initial UAE sustainability shock), the persistent and complex link to oil revenues, and the counterintuitive resilience finding in the UAE collectively suggest that SWFs are not a guaranteed panacea for the resource curse. Their effectiveness appears highly contingent on strategic deployment, robust governance structures, and the willingness to navigate inherent trade-offs between short-term pressures and long-term objectives. The pronounced heterogeneity across the countries underscores that institutional context and specific national strategies heavily mediate the impact of SWF investments. This also aligns with institutional perspectives on the resource curse which emphasize the role of institutional quality in determining outcomes (Mehlum et al., 2006b).

4.6.2 Policy Implications

The heterogeneity and complexity unearthed by this analysis holds several important policy implications for GCC governments and the managers of their SWFs:

First and foremost, the diverse results strongly caution against adopting a one-size-fits-all approach to SWF management and policy expectations. Context-specific strategies are paramount. The diverse results across the three nations shows the inadequacy of a uniform approach to SWF management and policy expectations. SWF investment mandates and policies must be meticulously tailored to the unique circumstances of each nation. For instance, Saudi Arabia's finding of a positive long-run prosperity impact despite significant short-run costs aligns with its ambitious, centrally

driven Vision 2030 transformation. It suggests a high tolerance for short-term volatility in pursuit of long-term structural change. Its SWF (PIF) strategy, therefore, reflects this national priority, focusing on large-scale domestic projects and strategic international acquisitions geared towards rapid diversification, even if it creates temporary economic friction or requires managing some fiscal trade-offs with immediate oil revenue shocks. In contrast, the UAE, with its more mature, diversified economy and federal structure housing multiple SWFs (like ADIA and Mubadala with differing foci), shows less direct aggregate impact on prosperity and resilience but a stronger long-run link to sustainability. This suggests its strategies might be more decentralized, perhaps balancing global investment diversification (ADIA) with targeted domestic development (Mubadala) and navigating the complexities of increased global risk exposure, leading to the counterintuitive long-run resilience finding. Qatar, leveraging its stable LNG revenues and vast QIA assets, demonstrates a strategy largely insulated from short-term domestic economic or revenue fluctuations, and prioritizes long-term global strategic positioning and wealth preservation. Its unique economic structure (LNG dominance) and perhaps different risk tolerances allow for this detachment. These distinct patterns clearly show that SWF policies must be calibrated to the specific economic structure (e.g., oil-dominant vs. more diversified), existing level of diversification, institutional capacity to manage large funds and complex projects, national risk tolerances regarding short-term volatility versus long-term goals, and the overarching national development priorities (e.g., rapid transformation vs. steady diversification vs. global positioning) of each individual country.

Second, policymakers must explicitly acknowledge and manage the potential trade-offs between short-run adjustments and long-run goals. The analysis reveals that pursuing long-term prosperity or sustainability through large-

scale SWF investments can entail short-term negative consequences, such as adjustment costs, temporary crowding-out effects, or initial dips in sustainability metrics. Clear communication regarding these dynamics and potentially implementing compensatory or mitigating measures during transition phases may be necessary.

Third, the complex link between oil revenue shocks and SWF investment, particularly evident in Saudi Arabia, suggests the need for strong coordination between SWF capital deployment strategies and broader national fiscal management. This includes integrating SWF planning with budgeting processes, debt management strategies, and overall public spending priorities. SWF financial flows cannot be effectively managed in isolation from the government's comprehensive financial picture.

Fourth, achieving national sustainability goals requires more than simply increasing the volume of SWF investment. Deliberate sustainability integration is key. This necessitates explicit ESG mandates within fund strategies, targeted investments in sustainable sectors and technologies, performance monitoring, and supportive national regulatory frameworks that encourage sustainable practices across the economy (Liang & Renneboog, 2020). The UAE's apparent success in achieving a positive long-run ESG impact suggests this is feasible but requires focused and intentional effort.

Fifth, there is a need for strengthened risk management frameworks. The potential for short-term fluctuations in economic resilience and sustainability performance shows the importance of having robust risk management frameworks for SWFs. By proactively identifying and managing risks, SWFs can contribute to economic stability and sustainable development.

Finally, the findings prompt a rethinking of the role of SWFs in building economic resilience. They may not automatically enhance resilience to all types of shocks, especially economic policy-related uncertainty. Building robust national resilience likely requires a broader strategy that includes institutional strengthening (Tsani, 2013), continued economic diversification beyond SWF-led projects, and sound macroeconomic management frameworks. The counterintuitive finding linking higher SWF investment to increased long-run uncertainty in the UAE also suggests that potential risks associated with certain SWF investment strategies (e.g., high global exposure) need careful assessment and management.

4.6.3 Limitations and Future Research

This chapter's analysis, while providing valuable insights, is subject to certain limitations which naturally open avenues for future research. The primary reliance on aggregate SWF investment data for each country inevitably masks the potentially diverse strategies and impacts of individual funds, particularly within multi-fund nations like the UAE. Data availability constraints restricted the analysis of economic resilience to only two countries and necessitated the use of quarterly frequency, which might obscure higher-frequency dynamics or short-lived effects. Also, the current study focuses on three GCC countries due to data limitations. Future research could expand the scope to include other GCC nations, such as Kuwait, Oman, and Bahrain, to provide a more comprehensive understanding of the region.

Furthermore, the use of specific indices for prosperity, resilience, and sustainability, while essential for quantification, may not capture all relevant facets of these inherently complex, multidimensional concepts. The inherent limitations of time series econometric models, including sensitivity to lag

length selection and the potential for omitted variable bias, must also be acknowledged as potentially influencing the results. More so, the study's timeframe (2007-2023) captures a period of significant economic fluctuations and policy shifts. However, extending the analysis to a longer time horizon could reveal more nuanced long-term trends and the impact of SWF investments across different economic cycles.

Building upon these findings and limitations, future research could fruitfully explore several promising directions. An important next step would be disaggregated analysis, investigating the impact of individual SWFs (where data access permits) or specific types of SWF investments (e.g., distinguishing between domestic and international allocations, or focusing on particular sectors like technology or infrastructure) to provide much deeper and more granular insights than aggregate analysis allows. Research focusing on identifying and quantifying the specific transmission channels through which SWF investments influence the macroeconomy – such as productivity spillovers, the quality versus quantity of job creation, technological adoption rates, or impacts on institutional quality – is also needed to move beyond correlational findings.

Examining potential non-linearities and threshold effects could yield important policy insights; for instance, does the impact of SWF investment change significantly once a certain scale of investment is reached, or does its effect vary depending on the country's initial level of economic development or diversification? Comparative studies contrasting the GCC experience with SWFs in other resource-rich regions (e.g., Norway, other parts of the developing world) facing similar diversification challenges could help distinguish between generalizable principles and context-specific factors.

Finally, further research is warranted to investigate the puzzling counterintuitive findings unearthed in this study, particularly the negative long-run link between oil/gas revenue and SWF investment in Qatar and the positive association between SWF investment and long-run policy uncertainty in the UAE, potentially employing alternative methodologies or incorporating additional explanatory variables. Future research could explore alternative econometric methods, such as panel data analysis or dynamic panel threshold models, to account for unobserved heterogeneity and potential nonlinearities in the relationship between SWF investments and macroeconomic indicators.

In conclusion, this chapter contributes to an empirically grounded understanding of the dynamic and multifaceted role GCC SWFs play within their domestic economies. Moving beyond simplistic narratives of SWFs as mere stabilization tools or automatic engines of diversification, the findings highlight the complex interplay between strategic investment decisions, national context, theoretical expectations, and observable macroeconomic outcomes. While SWFs undoubtedly hold immense potential as instruments of economic transformation and long-term wealth management for the GCC nations, realizing this potential requires careful navigation of short-run challenges, strategic alignment with clearly defined national goals, robust governance, and a clear-eyed view of the inherent trade-offs involved in deploying state capital on such a massive scale.

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Chapter 5: Conclusion

5.1 Summary of Key Findings

This thesis explored scholarship on business management practices in the Middle East and examined the relationship between SWFs and economic development in the GCC region, based on three essays.

- **Essay 1 (Chapter 2):** This essay presented a comprehensive systematic literature review of business and management practices within the Middle East, categorizing findings into Human Resource Management (HRM), General Management (GM), and Cross-Cultural Management (CCM) themes. Key findings highlighted the emphasis on relationality and trust, notable divergences from Western management models, challenges like workforce indigenization, and the predominance of Institutional and Cross-Cultural theories in Middle Eastern business and management scholarship. Although this chapter was also prepared for standalone article submission, within the thesis its relevance is twofold. Firstly, it provides a crucial overview of the contextual circumstances—institutional, cultural, and operational—in which GCC SWFs operate. Secondly, as SWFs are organizations themselves, the review offers insights into the internal managerial challenges (e.g., in HRM, governance) and opportunities they likely face, similar to other entities in the region.
- **Essay 2 (Chapter 3):** This essay investigated how macroeconomic factors and institutional trust within each GCC country influence their respective SWFs' investment policies. It found that economic development and private sector development are key determinants of SWF investment behavior, and that institutional trust plays a

moderating role in these relationships. The essay also provided empirical evidence on the potential crowding-out effect of SWF investments on private sector development.

- **Essay 3 (Chapter 4):** This essay examined the changing relationship between SWF investments and macroeconomic indicators across the GCC countries, focusing on their short-term to long-term impacts on economic prosperity, resilience, and sustainability performance in the domestic economies. It found that SWF investments can contribute to long-term economic growth, but also create unexpected short-term challenges. The essay also highlighted the persistent dependence on oil revenues in GCC countries and the challenges associated with economic diversification.

The findings across the three essays are interconnected and contribute to a comprehensive understanding of the research topic. Collectively, they validate the transitional institution framework proposed in this thesis, by demonstrating that GCC SWFs are not merely financial intermediaries but active agents of strategic state capitalism. They demonstrate the complex interplay between SWFs, state capitalism, and economic development in the GCC region, highlighting the structural frictions (such as crowding-out and policy uncertainty) associated with managing these relationships effectively. The findings also provide insights into the role of institutional trust in shaping investment behavior and the importance of considering both short-term and long-term impacts when evaluating the effectiveness of SWF investments.

The study has achieved its objectives by addressing the following main research questions:

RQ1a: What are the predominant theoretical frameworks employed within business and management scholarship focused on the Middle East?

RQ1b: What are the salient thematic areas of research addressed in the extant literature on business and management in the Middle East?

RQ1c: What key areas for future research are identified within the literature on business and management in the Middle East?

RQ2a: How do macroeconomic factors, such as economic development and private sector development, influence the investment policies of GCC SWFs?

RQ2b: How does institutional trust moderate the relationship between macroeconomic factors and SWF investment policies?

RQ3: What are the short-term and long-term impacts of SWF investments on economic prosperity, resilience, and sustainability performance in GCC countries?

By addressing these research questions, the study has provided a comprehensive and nuanced understanding of the complex dynamics between GCC SWFs, state capitalism, and economic development. The findings have implications for policymakers, investors, and academics interested in the role of SWFs in promoting economic development and sustainability in resource-rich economies.

5.2 Contributions to Literature

This thesis makes several significant contributions to the existing literature on SWFs, economic diversification, and institutional trust in the GCC region.

These contributions can be categorized as theoretical and empirical, highlighting the innovative aspects of the research and its significance for both academics and practitioners.

5.2.1 Theoretical Contributions

This thesis makes several significant theoretical contributions to the interconnected fields of international business, cross-cultural management, finance, political economy, and development studies. These contributions particularly concern the operations of SWFs within the unique context of resource-rich, developing, and emerging economies, exemplified by the GCC nations. The theoretical advancements are developed progressively across its three constituent essays.

5.2.1.1 Essay 1 (Chapter 2)

This essay provides a comprehensive analysis of the extant literature on business and management practices within the Middle East, elucidating their distinctive characteristics and complexities. It emphasizes the limitations inherent in the universal application of Western management models, advocating for the criticality of contextual sensitivity and adaptation to local specificities. This synthesis contributes to cross-cultural management theory by examining the interplay between indigenous and global management systems and analyzing scholarly investigations (Adler & Gundersen, 2001; Fainshmidt et al., 2018; Van de Ven & Jing, 2012) into the challenges and opportunities that arise in the interactions between local and foreign firms operating in the Middle East (Afiouni et al., 2013; Budhwar et al., 2019; Weir & Ali, 2020).

Furthermore, the review identifies key theoretical frameworks prevalent in the literature, such as Institutional Theory and Cross-Cultural Management

Theory (Budhwar et al., 2019; Tlaiss, 2014; Zahra, 2011) and highlights the necessity for a deeper theoretical conceptualization of constructs such as 'Wasta' (Weir & Ali, 2020) and the development of a more contextually relevant institutional archetype for the Middle East. The essay also synthesizes research pertaining to indigenizing staffing and promoting economic diversification within the Middle East, highlighting factors that influence sustainable economic development trajectories in the region.

5.2.1.2 Essay 2 (Chapter 3)

Building upon this contextual understanding, Essay 2 (Chapter 3) offers distinct theoretical contributions to frameworks explaining the behavior of state-owned investors in resource-rich economies by examining the macroeconomic determinants of GCC SWFs' investment policies. It provides empirical evidence on the factors that drive investment decisions, such as economic development, private sector development, and institutional trust (Amar et al., 2019; Morgan et al., 2010). This contribution is crucial for policymakers and investors seeking to optimize the use of SWFs for economic development and diversification.

A key theoretical advancement is the empirical demonstration of institutional trust not merely as a background condition but as an active moderator influencing the relationship between these macroeconomic variables and SWF investment (Aggarwal & Goodell, 2018; Naser, 2016). This enriches institutional theory by showing how perceived institutional quality can alter economic policy transmission mechanisms. The essay also contributes to theories of state capitalism and development; its findings on the potential crowding-out effect of SWF investments on private sector development lend insightful perspectives to the role of SWFs (Braunstein, 2019; Cumming & Monteiro, 2023), suggesting they might act as transitional

mechanisms whose utility and investment posture evolve with the maturity of the private sector. This offers a dynamic perspective to theories of state-led development and implicitly refines Resource Curse Theory by suggesting that the "curse" is not deterministic but is mediated by institutional quality, with trust playing a pivotal role in how resource wealth is managed and deployed through SWFs (Aytaç et al., 2016; Mehlum et al., 2006a, 2006b).

5.2.1.3 Essay 3 (Chapter 4)

Finally, Essay 3 (Chapter 4) delivers significant theoretical contributions through its application of advanced time series analysis methods to understand SWF macroeconomic impacts. It dissects the dynamic relationship between SWF investments and domestic macroeconomic performance (prosperity, resilience, sustainability) in Saudi Arabia, the UAE, and Qatar. Firstly, this essay advances the theoretical understanding of SWF impacts by moving beyond static or purely cross-sectional analyses prevalent in much of the literature (Beck & Fidora, 2008; Othman & Albuainain, 2022). It contributes an important temporal dimension to theories of resource curse and macroeconomic stability¹¹ that the path towards SWF-driven economic goals may involve significant short-term costs, adjustments, or trade-offs not captured by static models.

Secondly, the essay challenges theoretical generalizations about SWF behavior and impact by empirically demonstrating significant heterogeneity

¹¹ Findings of frequent divergences between short-run effects (e.g., negative impact on Saudi prosperity, initial sustainability dips in the UAE) and long-run equilibrium tendencies (e.g., positive long-run prosperity in Saudi Arabia, positive long-run sustainability in the UAE) alludes to this fact.

across the GCC countries studied. Its findings¹² contribute to comparative institutionalism (Morgan et al., 2010) and theories of state capitalism by providing empirical evidence against monolithic views of SWFs. It emphasizes the need for context-specific theoretical propositions rather than universal assumptions about their role or effectiveness. Thirdly, the findings also offer an important refinement of MFST as applied to SWFs (Minsky, 1986). While SWFs possess the capacity for counter-cyclical stabilization, the analysis suggests their role is more complex. Specifically, it introduces the concept of the stabilization-transformation trade-off, refining MFST by demonstrating that the pursuit of long-term structural transformation often necessitates a temporary departure from short-term macroeconomic stability (e.g., increased policy uncertainty). This suggests that SWFs contribution to stability may be conditional, context-dependent, and potentially secondary to other strategic objectives¹³, thus adding an important aspect to the MFST framework in the context of state-owned investment funds.

Lastly, the essay contributes to the RCT literature (Mehlum et al., 2006b) by providing dynamic empirical evidence on SWFs as potential mitigation tools,

¹² More so, the divergent findings (for prosperity, resilience, and sustainability impacts in Saudi Arabia, the UAE, and Qatar) shows that national context, specific fund mandates, existing economic structures, and national strategic priorities does mediate the effects of SWF investments.

¹³ This is in reference to the lack of significant short-run stabilization effects against economic policy uncertainty (resilience measure) in both Saudi Arabia and the UAE, and the counterintuitive finding of increased long-run uncertainty associated with SWF investment in the UAE, challenge the notion of SWFs as automatic stabilizers against all types of shocks.

albeit some important complexities. The findings¹⁴ suggest that SWFs are not a simple antidote to the resource curse. Their effectiveness is dynamically shaped by policy choices and institutional context, reinforcing sophisticated RCT perspectives that emphasize the mediating role of institutions and governance in determining outcomes from resource wealth. The dynamic analysis provides concrete examples of the pathways and potential pitfalls involved in using SWFs to manage resource dependency.

Collectively, this thesis contributes to a more refined, context-aware, and dynamically informed theoretical understanding of how SWFs operate, the factors that drive their policies, and their complex, often heterogeneous, impacts on their domestic economies. It champions the integration of institutional, macroeconomic, and socio-cultural perspectives to build more robust theories of state capitalism and development in resource-rich nations. It contributes perspectives to refine existing theories (MFST, RCT, state capitalism) by highlighting the importance of time horizons, national heterogeneity, strategic trade-offs, and the complex interplay between SWF investment activities and domestic macroeconomic realities.

5.2.2 Empirical Contributions

This thesis provides substantial empirical contributions to the study of business and management in the Middle East, and more specifically, to the understanding of GCC SWF investment drivers and impacts. These

¹⁴ The finding highlights complexities in SWFs role in managing resource dependency. While the positive long-run links to prosperity (Saudi Arabia) and sustainability (UAE) support the potential for SWFs to aid diversification and sustainable development, the evidence of short-run costs, suggest an intricate and varied links to oil revenues. It challenges simple funding models, demonstrates active fiscal mediation, and shows the nature of resilience.

contributions are grounded in rigorous methodologies applied to unique datasets across the three essays.

5.2.2.1 Essay 1 (Chapter 2)

The initial empirical contribution is laid by Essay 1 (Chapter 2) through its comprehensive systematic literature review (SLR). This foundational review systematically maps research trends, offering an empirically grounded overview of the thematic focus—Human Resource Management (HRM), General Management (GM), and Cross-Cultural Management (CCM)¹⁵, geographical concentration, and publication patterns in business and management research pertaining to the Middle East over a significant period¹⁶. This mapping itself is an empirical contribution, providing a data-driven snapshot of the field's evolution and current state. Furthermore, by systematically reviewing existing work, the SLR empirically identifies gaps in the literature, such as the underemphasis on intra-firm dynamics or the need for more focused empirical studies on phenomena like 'Wasta', thereby guiding future empirical inquiry.

5.2.2.2 Essay 2 (Chapter 3)

This second essay contributes important empirical evidence by employing panel data econometrics (fixed and random effects models) on data spanning 2007-2022 for the six GCC countries. This analysis that empirically quantifies the relationship between specific domestic macroeconomic factors and aggregate GCC SWF investment policies provides statistically tested evidence confirming a positive association between economic development (proxied by GDP per capita) and SWF investment levels¹⁷. More

¹⁵ See Chapter 2, Table 4

¹⁶ See Chapter 2, Table 1-3

¹⁷ See Chapter 3, Table 9

importantly, it generates empirical support for a more complex, negative relationship between private sector development (proxied by domestic credit) and SWF investment. This lends quantitative weight to the theoretical discussion around potential crowding-out effects or SWFs acting as transitional mechanisms. Furthermore, the essay empirically tests and confirms the moderating role of institutional trust¹⁸. This demonstrates, statistically, how variations in trust levels alter the strength and nature of the relationship between macroeconomic determinants and SWF investment activity within the GCC context. These quantitative findings provide concrete empirical parameters where previously much discussion was theoretically descriptive or anecdotal.

5.2.2.3 Essay 3 (Chapter 4)

The third essay makes its primary empirical contribution through the application of advanced time series techniques (ARDL, VECM, IRF) to quarterly data (2007-2023) for Saudi Arabia, the UAE, and Qatar. This approach moves beyond static correlations to provide dynamic, empirically estimated evidence on the dynamic and country-specific impacts of SWF investments on prosperity, resilience, and sustainability. It empirically quantifies both short-run impacts and long-run equilibrium relationships and reveals a significant heterogeneity across countries as well as frequent divergences between short-term costs or adjustments and long-term outcomes (as summarized in **Error! Reference source not found.**). For instance, it provides empirical evidence for the counterintuitive short-run negative impact on Saudi's economic prosperity and the complex "V-shaped" response of UAE sustainability to investment shocks. Moreover, the dynamic

¹⁸ See Chapter 3, Table 9 – Moderating Role of Institutional trust

analysis of the oil revenue link empirically demonstrates complex fiscal mediation and strategic reallocation patterns, which challenges simplistic funding assumptions with data-driven insights into the varied responses across the nations. This dynamic empirical evidence on domestic impacts represents a significant empirical correction to literature that often focused on external effects or static domestic analysis, particularly in the GCC context.

GCC SWFs are uniquely positioned, due to their substantial capital and long investment horizons, to act as powerful catalysts in this transition. However, as this thesis demonstrates, realizing this potential requires more than financial capacity; it demands strategic intent, robust governance, and a willingness to navigate the complex interplay between economic development, diversification, and the multifaceted dimensions of sustainability.

Collectively the empirical contributions of this thesis are substantial. It provides a data-driven map of Middle Eastern management research, offers statistically robust estimates of the drivers of GCC SWF investments including the novel quantification of institutional trust's role, and delivers dynamic, country-specific empirical evidence on the multifaceted and often complex domestic macroeconomic consequences of these globally significant state investment vehicles. This empirical work provides a much-needed quantitative and dynamic grounding to a field often characterized by descriptive or theoretical analysis. It offers a richer understanding of the intricate interplay between state capital, national development, and institutional context in the GCC.

5.2.3 Significance of the Findings for Academics and Practitioners

The findings of this thesis matter significantly for both academics and practitioners.

5.2.3.1 Significance for Academics

For academics, this thesis contributes substantially to several academic fields by offering a richer, more contextually grounded, and dynamically informed perspective on SWFs and their operating environment (like the GCC in our case). Firstly, for scholars of international business and management, the systematic literature review (Essay 1) provides a consolidated map of research on Middle Eastern management, highlighting indigenous practices, theoretical inclinations, and critical research gaps. It further challenges the universality of Western management paradigms and enriches cross-cultural management theory.

Secondly, this thesis advances finance and political economy literature concerning state-owned investors. Essay 2 provides robust empirical evidence on the domestic macroeconomic determinants of SWF investment policies in a key global region. More importantly, it introduces and quantifies the moderating role of institutional trust – a factor often discussed theoretically but less frequently tested empirically in this specific context. Thirdly, and perhaps most significantly, Essay 3 contributes to the understanding of the resource curse and macroeconomic dynamics by employing advanced time series techniques to move beyond static analyses. Its findings on the heterogeneous and often complex dynamic impacts of SWF investments on prosperity, resilience, and sustainability challenge simplistic theoretical assumptions derived from MFST and RCT. The thesis

collectively unearths the critical importance of methodological pluralism and context-specificity in studying state-linked financial actors.

5.2.3.2 Significance for Practitioners

For practitioners, this thesis offers valuable, actionable insights for several groups. For **GCC** policymakers and government officials, the research provides important evidence for formulating effective economic diversification and development strategies. Understanding the potential for SWF crowding-out effects (Essay 2), the complex trade-offs between short-run impacts and long-run goals (Essay 3), and the critical role of institutional trust (Essay 2) can inform an effectively comprehensive policy design. The heterogeneity of findings strongly suggests that policy blueprints cannot be simply copied across GCC nations; strategies must be tailored to specific national contexts and capacities. The analysis of the oil revenue link (Essay 3) also highlights the need for sophisticated fiscal coordination.

For SWF managers and investment strategists within the GCC and beyond, this thesis confirms the importance of aligning investment mandates not only with financial return objectives but also with clearly defined national development goals, including sustainability. Also recognizing the potential for short-term negative externalities (e.g., on prosperity or ESG metrics) necessitates proactive risk management and potentially incorporating adjustment cost considerations into project evaluations. The findings also implicitly support the need for strong governance frameworks within SWFs to effectively manage competing priorities and maintain public trust.

For international investors, multinational corporations, and analysts engaging with the GCC, the research provides a deeper understanding of the economic landscape and the role of dominant state actors. Insights into the drivers of SWF investment (Essay 2), the potential for crowding-out, the state

of regional management practices (Essay 1), and the dynamic economic impacts (Essay 3) can inform market entry strategies, risk assessments, partnership decisions, and evaluations of regional economic stability and growth prospects. Understanding the complex interplay between SWFs, government policy, and macroeconomic outcomes is essential for navigating business and investment in this globally significant region.

Overall, this thesis provides both academics and practitioners with a more sophisticated and empirically grounded framework for understanding the multifaceted role of GCC SWFs. More importantly, a framework that moves beyond broad generalizations, and towards a recognition of the dynamic, context-dependent realities that shapes their investment operations and impacts.

5.3 Policy Implications

The findings of this thesis have important policy implications for GCC governments and SWF managers, and potentially other resource-dependent economies employing similar state-capital vehicles. Translating the research outcomes into actionable recommendations necessitates a careful approach that acknowledges the heterogeneity observed across the GCC and the complex interplay between SWF investments and domestic macroeconomic realities.

5.3.1 Promoting Economic Diversification:

5.3.1.1 Essay 1 (Chapter 2)

The essay highlights the importance of understanding Middle Eastern management practices and their interplay with global management systems to develop contextually relevant policies and strategies for economic

diversification. Policymakers should consider the unique cultural and institutional factors that influence management practices in the Middle East when formulating policies and strategies for economic diversification. This includes recognizing the importance of relationships, trust, and social networks in business transactions and decision-making.

The essay also emphasizes the need for business schools in the region to incorporate indigenous management theories into their curriculum, rather than relying solely on Western management theories. This will help to develop a cadre of managers who are better equipped to navigate the complexities of the Middle Eastern business environment and contribute to economic diversification efforts.

5.3.1.2 Essay 2 (Chapter 3)

A core rationale for GCC SWFs is to foster economic diversification away from hydrocarbon dependency. However, the findings suggest this process requires careful policy consideration. Essay 2 revealed a complex relationship where greater private sector development was associated with lower aggregate SWF investment. This hints at a potential crowding-out effects or SWFs acting as transitional tools. As such, GCC governments should actively coordinate SWF investment strategies with broader private sector development policies. Rather than viewing SWFs and the private sector as potentially competing forces, policy should aim for complementarity. This could involve SWFs focusing on catalytic investments that enable private sector growth (e.g., foundational infrastructure, early-stage technology seeding), co-investing alongside private capital to share risk and signal confidence, or strategically reducing direct investment in sectors where the private sector demonstrates sufficient capacity. Explicitly addressing

potential crowding-out concerns through regulatory design and targeted support for SMEs is crucial.

5.3.1.3 Essay 3 (Chapter 4)

This essay further complicated the picture by showing that while SWF investment can contribute positively to long-run prosperity (as seen in Saudi Arabia), it may involve significant short-run adjustment costs or negative impacts. This imply that policymakers must manage expectations and timelines for diversification. For instance, the dynamic analysis suggests that the positive impacts of SWF-led diversification on broad indicators like prosperity may take considerable time to materialize and could involve short-term economic friction. As such, GCC governments must carefully balance the long-term development goals of SWF investments with their uneven short-term effects and the ongoing challenge of economic diversification. Also, given that SWF impacts vary by country and economic objective, policymakers should adopt a differentiated, long-term investment approach - one that anticipates delayed or conditional payoffs and builds in mechanisms to monitor domestic spillovers.

5.3.2 Promoting Sustainable Development:

The thesis (Essay 3) encourages incorporating environmental, social, and governance (ESG) factors into SWF investment strategies as the world transitions towards a more sustainable energy future. This goes beyond simply avoiding harmful investments towards proactively seeking opportunities in renewable energy, green technology, sustainable infrastructure, and social impact sectors. Performance metrics for SWF management should incorporate relevant ESG indicators alongside financial returns

It also highlights the importance of pursuing policies that anticipate and mitigate potential short-term negative sustainability externalities associated with large-scale development projects. The "V-shaped" IRF response in the UAE, for example, suggests that while initial negative impacts can occur (e.g., construction footprint), they can be overcome. This requires proactive environmental and social impact assessments, mitigation planning integrated into project design, and potentially phased implementation to manage adjustment pressures.

5.3.3 Building and Maintaining Strong Institutions

5.3.3.1 Essay 1 (Chapter 2)

The literature review acknowledges the importance of strong institutions and governance frameworks in the Middle East, as highlighted in studies related to entities such as SWFs. The paper notes that some research explores the role of these funds in promoting economic diversification and development in the region.

5.3.3.2 Essay 2 (Chapter 3)

This essay empirically demonstrated the significant moderating role of institutional trust on the effectiveness of SWF investment drivers. As shown in Essay 2, higher institutional trust can significantly influence the relationship between the macroeconomy and SWF investment behavior, potentially creating a more stable and predictable environment for both state and private investment. This emphasizes the importance of building and maintaining strong institutions with transparent governance frameworks to promote institutional trust.

5.3.3.3 Essay 3 (Chapter 4)

The essay highlights the need for context-specific and deliberate investment strategies, where policymakers should carefully consider the unique economic structures, development goals, and risk tolerances of their country when formulating SWF mandates and investment policy. Policymakers must explicitly decide on the primary objectives for their SWF(s) – stabilization, savings, diversification, strategic returns, domestic development – and recognize potential conflicts or trade-offs between these goals. For instance, the optimal strategy for Saudi Arabia's PIF, focused on rapid transformation, will differ from that of Qatar's QIA, focused on long-term global positioning, or the UAE's multi-fund system. This can help to ensure that SWF investments are aligned with national priorities and contribute to sustainable development.

5.4 Limitations of the Study

While this thesis makes significant contributions to the understanding of GCC SWFs, it is essential to acknowledge its limitations. These limitations provide opportunities for future research to build upon the findings and further advance the knowledge in this field.

5.4.1 Limited Geographical Scope

The thesis primarily focuses on the GCC region, examining SWFs investments and economic development within these countries. While this focus provides valuable insights into the specific dynamics of the GCC region, it limits the generalizability of the findings to other contexts. Future research could expand the geographical scope to include other regions with significant SWF activity, such as Asia or Europe. This would allow for a comparative analysis of SWF behavior and impact across different institutional and cultural contexts, contributing to a more comprehensive understanding of SWFs as instruments of state capitalism.

5.4.2 Data Constraints

The thesis relies on publicly available data from various sources, such as the SWF Institute, Refinitiv and the World Bank. While these sources provide valuable information, there may be limitations in terms of data availability, consistency, and timeliness. For example, data on certain aspects of SWF investments, such as the specific investment strategies or the performance of individual investments, may not be readily available. Future research could explore alternative data sources or employ different data collection methods to overcome these constraints and provide a more detailed analysis of SWF investment behavior.

5.4.3 Methodological Limitations

The thesis employs a mixed-methods approach, combining qualitative and quantitative research methods. While this approach offers a comprehensive perspective, it also has limitations. The qualitative component, which involves a systematic literature review, is limited by the availability and quality of existing research on business and management practices in the Middle East. The quantitative component, which involves panel data analysis and time series analysis, is limited by the assumptions and limitations of these methods. Future research could explore alternative methodologies or employ a combination of different methods to address these limitations and provide a more robust analysis of the research topic.

5.4.4 Strengths and Weaknesses of the Research

Despite these limitations, the thesis has several strengths. It provides a comprehensive and nuanced understanding of the complex relationship between GCC SWFs, state capitalism, and economic development. It also makes significant theoretical and empirical contributions to the literature, offering valuable insights for policymakers and practitioners.

The limitations of the study should be viewed in the context of its strengths, recognizing that all research has limitations. By acknowledging these limitations and suggesting potential avenues for future research, the thesis contributes to the ongoing academic discourse on SWFs and their role in economic development.

5.5 Recommendations for Future Research

The findings of this thesis provide valuable insights into the complex relationship between GCC SWFs, state capitalism, and economic

development. However, there are still several areas where further research is needed to enhance our understanding of this topic.

5.5.1 Expanding the Geographical Scope

Future research could expand the geographical scope of the study to include other regions with significant SWF activity, such as Asia or Europe. This would allow for a comparative analysis of SWF behavior and impact across different institutional and cultural contexts, contributing to a more comprehensive understanding of SWFs as instruments of state capitalism. Such research could examine how the institutional and cultural environments of different regions shape the investment strategies and governance structures of SWFs, and how these factors influence the economic and social impacts of SWF investments.

5.5.2 Using Alternative Data Sources or Methodologies

Future research could explore alternative data sources or employ different data collection methods to overcome the limitations of publicly available data. This could involve conducting surveys or interviews with SWF managers, government officials, and other stakeholders to gather more detailed information on SWF investment behavior and decision-making processes. Additionally, future research could employ different methodologies, such as case studies or comparative case studies, to provide a more in-depth analysis of specific SWFs or investment decisions.

5.5.3 Investigating Specific Aspects of SWF Investment Behavior

Future research could investigate specific aspects of SWF investment behavior, such as the factors that drive investment decisions in particular sectors or countries, the impact of SWF investments on corporate

governance and sustainability practices, and the role of SWFs in promoting innovation and technological development. Such research could contribute to a more nuanced understanding of the motivations, strategies, and impacts of SWF investments, providing valuable insights for policymakers and investors.

5.5.4 Emphasising the Importance of Continued Research on SWFs in the GCC Region

Given the significance of SWFs for economic development and diversification in the GCC region, continued research on this topic is crucial. Future research should continue to monitor the evolving role of SWFs in the GCC economies, examining their impact on economic growth, stability, and sustainability. This research should also explore the challenges and opportunities associated with managing SWFs in a rapidly changing global environment, providing policymakers and investors with the knowledge and tools they need to effectively leverage SWFs for long-term prosperity.

By addressing these recommendations for future research, scholars can further advance the understanding of GCC SWFs as instruments of state capitalism for economic development and sustainability. This research will not only contribute to the academic literature but also provide valuable insights for policymakers and practitioners involved in the management and governance of SWFs.

5.6 Concluding Remarks

This thesis has explored the complex and multifaceted relationship between Sovereign Wealth Funds (SWFs), state capitalism, and economic development in the GCC region. Through a combination of qualitative and quantitative research methods, the study has provided a comprehensive

analysis of the factors that influence SWF investment decisions, the impact of these investments on economic outcomes, and the role of institutional trust in shaping investment behavior.

The findings of this thesis have significant implications for policymakers, investors, and academics interested in the role of SWFs in promoting economic development and diversification in resource-rich economies. The study highlights the importance of understanding the unique characteristics of indigenous management practices in the Middle East and the need for contextually relevant policies and strategies to promote economic diversification and sustainable development. It also emphasizes the crucial role of institutional trust in shaping investment behavior and the need for GCC governments to build and maintain strong institutions with transparent governance frameworks to attract and retain SWF investments.

The thesis also contributes to the debate on the role of state-owned investors in economic development, providing empirical evidence on the potential crowding-out effect of SWF investments on private sector development. This finding has implications for policymakers seeking to balance the benefits of SWF investments with the need to foster private sector growth and avoid crowding-out effects.

In conclusion, this thesis has provided a comprehensive and nuanced understanding of the complex dynamics between GCC SWFs, state capitalism, and economic development. The findings have implications for policymakers, investors, and academics interested in the role of SWFs in promoting economic development and sustainability in resource-rich economies. The study highlights the importance of understanding local context, building strong institutions, and fostering private sector growth to

effectively leverage SWFs for long-term economic prosperity and diversification.

As the GCC countries continue to navigate the challenges and opportunities associated with managing their oil wealth and promoting economic diversification, SWFs will continue to play a crucial role in their development trajectories. By understanding the factors that influence SWF investment decisions and the impact of these investments on economic outcomes, policymakers and investors can leverage SWFs to promote sustainable and inclusive economic development in the region.

The journey towards economic diversification and sustainable development in the GCC region is a complex and ongoing process. SWFs, as instruments of state capitalism, have the potential to play a transformative role in this process, but their effectiveness hinges on sound management, strong institutions, and a commitment to long-term prosperity. By embracing these principles, GCC countries can leverage their SWFs to build a more diversified, resilient, and sustainable economic future for generations to come.

Chapter 6: Appendix

Table A1: List of Middle Eastern Countries and Percentage of Expatriates

Appendix Table A 1: List of Middle Eastern Countries and Percentage of Expatriates

	Country	Population	Expatriates	Percentage of Expatriates
1	Bahrain	1,577,059 (Bahrain, 2023)	785,032 (Bahrain, 2023)	53.90%
3	Egypt	116,538,258 (Worldometer, 2025)	9,000,000 (SIS, 2024)	8.40%
5	Iraq	46,042,015 (Worldometer, 2025)	19,078 (International Organization for Migration, 2020)	0.04%
7	Jordan	11,552,876 (Worldometer, 2025)	2,900,000 (MEED, 2016)	30.50%
8	Kuwait	4,918,570 (Arab Times Online, 2024)	3,358,645 (Arab Times Online, 2024)	68.30%
9	Lebanon	5,805,962 (Worldometer, 2025)	1,441,676 (IOM, 2023)	24.80%
10	Oman	4,872,984 (Oman Observer, 2024)	2,284,336 (Oman Observer, 2024)	44.60%
12	Qatar	3,120,000 (Qatar Moments, 2025)	2,760,000 (Qatar Moments, 2025)	88.40%
13	Saudi Arabia	33,000,000 (Roowaad, 2023)	10,000,000 (Roowaad, 2023)	30.30%
14	Syria	24,672,760 (Worldometer, 2025)	No Data Available	No Data Available
16	United Arab Emirates	11,350,000 (Global Media Insight, 2025)	10,040,000 (GMI, 2025)	88.50%
17	Yemen	34,277,612 (Migrants-Refugees, 2023)	387,113 (Migrants-Refugees, 2023)	1.10%

Author's elaboration from Bahrain, (2023); Worldometer, (2025); Arab Times Online, (2024); Oman Observer, (2024); Qatar Moments, (2025); Roowaad, (2023); Global Media Insight, (2025); Migrants-Refugees, (2023);

1HomeCyprus, (2024); SIS, (2024); Ministry of Foreign Affairs of Iran, (2021); International Organization for Migration, (2020); Statista, (2023); MEED, (2016); Arab Times Online, (2024); IOM, (2023) and Oman Observer, (2024).

Table A2: Full list of 48 articles

Appendix Table A 2: Full list of 48 articles

#	Articles	Authors	Year	Journal
1	Business models innovation in investment banks: a resilience perspective	1. Boumediene Ramdani 2. Ahmed Binsaif 3. Elias Boukrami 4. Cherif Guermat	2020	Asia Pacific Journal of Management
2	Indigenisation of staffing in MNEs: The case of Saudi Arabia	1. Geoffrey Wood 2. Tamer K. Darwish 3. Abdullah N. Alanezi 4. Satwinder Singh	2020	Asia Pacific Journal of Management
3	How Minority Religion Can Shape Corporate Capitalism: An Emergentist Account and Empirical Illustration	1. Brandon Vaidyanathan	2020	Business and Society
4	Management research in the Arab World: What is now and what is next?	1. Said Elbanna 2. Dina M. Abdelzaher 3. Nora Ramadan	2020	Journal of International Management
5	Human Resource Management and Organizational Performance: The Mediating Role of Social Exchange	1. Tamara Mohammad 2. Tamer K. Darwish 3. Satwinder Singh 4. Osama Khassawneh	2020	European Management Review
6	Exploring the Sustainable Behavior and Practices for Public Tourism Organizations: A Case of Jordan	1. Mamoon Allan 2. Saif Allahham	2020	Contemporary Review of the Middle East
7	Wasta: Advancing a Holistic Model to Bridge the Micro-Macro Divide	1. Sa'ad Ali 2. David Weir	2020	Management and Organisation Review
8	A knowledge management and sharing business model for dealing with disruption: The case of Aramex	1. Larissa v. Alberti-Alhtaybat 2. Khaldoun Al-Htaybat 3. Khalid Hutaibat	2019	Journal of Business Research
9	The state of HRM in the Middle East: Challenges and future research agenda	1. Pawan Budhwar 2. Vijay Pereira 3. Kamel Mellahi 4. Sanjay Kumar Singh	2019	Asia Pacific Journal of Management
10	Role of Leaders as Agents of Negotiation for Counterbalancing Cultural Dissonance in the Middle East and North Africa Region	1. Gaye Karacay 2. Secil Bayraktar 3. Hayat Kabasakal 4. Ali Dastmalchian	2019	Journal of International Management
11	A Macro-National Level Analysis of Arab Women's Work Engagement	1. Muntaha Banihani 2. Jawad Syed	2017	European Management Review
12	Managers' autonomy, strategic control, organizational politics and	1. Said Elbanna	2016	Tourism Management

	strategic planning effectiveness: An empirical investigation into missing links in the hotel sector			
13	Retail stressors in the Middle East/North Africa region	1. Mourad Touzani 2. Elizabeth C. Hirschman 3. Lamia Hechiche Salah	2016	Journal of Business Research
14	Earnings management behaviors under different monitoring mechanisms: The case of Islamic and conventional banks	1. Omneya Abdelsalam 2. Panagiotis Dimitropoulos 3. Marwa Elnahass 4. Stergios Leventis	2016	Journal of Economic Behavior and Organisation
15	Internal auditing in the Middle East and North Africa: A literature review	1. Mahmoud Al-Akraa 2. Waleed Abdel-Qadera 3. Mamun Billah	2016	Journal of International Accounting, Auditing and Taxation
16	Instituting a transnational accountability regime: The case of Sovereign Wealth Funds and GAPP	1. Afshin Mehrpouya	2015	Accounting, Organisations and Society
17	Challenges in conducting and publishing research on the middle east and Africa in leading journals	1. Cristiana R. Lages 2. Gregor Pfajfar 3. Aviv Shoham	2015	International Marketing Review
18	HRM in the Middle East: toward a greater understanding	1. Fida Afiouni 2. Huub Ruël 3. Randall Schuler	2014	International Journal of Human Resource Management
19	Transactional and transformational leadership behaviour of expatriate and national managers in the UAE: a cross-cultural comparative analysis	1. Dianne Bealer 2. Ramudu Bhanugopan	2014	International Journal of Human Resource Management
20	Between the traditional and the contemporary: Careers of women managers from a developing middle eastern country perspective	1. Hayfaa A. Tlaiss	2014	International Journal of Human Resource Management
21	Localizing women's experiences in academia: multilevel factors at play in the Arab Middle East and North Africa	1. Charlotte M. Karam 2. Fida Afiouni	2014	International Journal of Human Resource Management
22	Environmental factors influencing the management of key accounts in an Arab Middle Eastern context	1. Fawaz Baddar ALHussan 2. Faten Baddar AL-Husan 3. Chavi C.-Y. Fletcher-Chen	2014	Industrial Marketing Management
23	Local female talent retention in the Gulf: Emirati women bending with the wind	1. Katty Marmenout 2. Pamela Lirio	2014	International Journal of Human Resource Management
24	Predicting women's job satisfaction with personal demographics: Evidence from a Middle Eastern country	1. Hayfaa A. Tlaiss 2. Morris B. Mendelson	2014	International Journal of Human Resource Management
25	The formation of trust and commitment in business relationships in the Middle East: Understanding Et-Moone relationships	1. Ibrahim Abosag 2. Joong-Woo Lee	2013	International Business Review

26	The HR value proposition model in the Arab Middle East: Identifying the contours of an Arab Middle Eastern HR model	1. Fida Afiouni 2. Charlotte M. Karam 3. Hussein El-Hajj	2013	International Journal of Human Resource Management
27	Vulnerable workers in an emerging Middle Eastern economy: What are the implications for HRM?	1. Julia Connell 2. John Burgess	2013	International Journal of Human Resource Management
28	Gatekeepers of Islamic financial circuits: Analyzing urban geographies of the global Shari'a elite	1. David Bassens 2. Ben Derudder 3. Frank Witlox	2012	Entrepreneurship and Regional Development
29	Slack, planning and organizational performance: Evidence from the Arab middle east	1. Said Elbanna	2012	European Management Review
30	Factors affecting organizational creativity and innovativeness in Egyptian business organizations: An empirical investigation	1. Mohamed Mostafa	2012	International Journal of Contemporary Hospitality Management
31	Managerial values in the greater Middle East: Similarities and differences across seven countries	1. David A. Ralston 2. Carolyn P. Egri 3. Liesl Riddle 4. Arif Butt 5. Tefvik Dalgic 6. David M. Brock	2012	International Business Review
32	Doing research in the (New) middle east: Sailing with the wind	1. Shaker A. Zahra	2011	Academy of Management Perspectives
33	The network perspective and the internationalization of small and medium sized software firms from Syria	1. Kevin Ibeh 2. Laila Kasem	2011	Industrial Marketing Management
34	Economic and institutional reforms in the Arab Gulf countries	1. Martin Hvidt	2011	Middle East Journal
35	The effects of cultural orientations on preferred compensation policies	1. Hamid Yeganeh 2. Zhan Su	2011	International Journal of Human Resource Management
36	The rentier state and national oil companies: An economic and political perspective	1. Donald L. Losman	2010	Middle East Journal
37	Exploring Arab Middle Eastern women's perceptions of barriers to, and facilitators of, international management opportunities	1. Kate Hutchings 2. Beverly Dawn Metcalfe 3. Brian K. Cooper	2010	International Journal of Human Resource Management
38	Commitment and turnover intention in the UAE oil industry	1. Abubakr A. Suliman 2. Yousef Al-Junaibi	2010	International Journal of Human Resource Management
39	Administrative change in the Gulf: Modernization in Bahrain and Oman	1. Richard Common	2008	International Review of Administrative Sciences
40	Business-Government Relations and Industrial Change: The Politics of Upgrading in Morocco and Tunisia	1. Melani Cammett	2007	World Development

41	Emiratization as a strategic HRM change initiative: Case study evidence from a UAE petroleum company	1. Christopher J. Rees 2. Aminu Mamman 3. Aysha Bin Braik	2007	International Journal of Human Resource Management
42	Repertoires of trust: The practice of trust in a multinational organization amid political conflict	1. Nissim Mizrahi 2. Israel Drori 3. Renee r. Anspach	2007	American Sociological Review
43	Gender and human resource management in the Middle East	1. Beverly Dawn Metcalfe	2007	International Journal of Human Resource Management
44	Family business in the Middle East: An exploratory study of retail management in Kuwait and Lebanon	1. Dianne H. B. Welsh 2. Peter Raven	2006	Family Business Review
45	Career challenges for female managers in Egyptian hotels	1. Hanan Kattara	2005	International Journal of Contemporary Hospitality Management
46	Job analysis: A strategic human resource management practice	1. C.M. Siddique	2004	International Journal of Human Resource Management
47	Work performance: Is it one thing or many things? The multidimensionality of performance in a Middle Eastern context	1. Abubakr M.T. Suliman	2001	International Journal of Human Resource Management
48	Control techniques and upward flow of information in franchising in distant markets: Conceptualization and preliminary evidence	1. Rajiv P. Dant 2. Nada I. Nasr	1998	Journal of Business Venturing

Table A3: Human Resource Management (HRM) articles*Appendix Table A 3: Human Resource Management (HRM) articles*

#	Articles categorized as HRM	Theories used	Authors	Year
1	Indigenization of staffing in MNEs: The case of Saudi Arabia	1. Resource Curse Theory	1. Geoffrey Wood 2. Tamer K. Darwish 3. Abdullah N. Alanezi 4. Satwinder Singh	2020
2	Human Resource Management and Organizational Performance: The Mediating Role of Social Exchange	1. Resource-Based Theory 2. Social Exchange Theory	1. Tamara Mohammad 2. Tamer K. Darwish 3. Satwinder Singh 4. Osama Khassawneh	2020
3	A knowledge management and sharing business model for dealing with disruption: The case of Aramex	1. Theory of Disruption	1. Larissa v. Alberti-Alhtaybat 2. Khaldoon Al-Htaybat 3. Khalid Hutaibat	2019
4	The state of HRM in the Middle East: Challenges and future research agenda	1. Institutional Theory	1. Pawan Budhwar 2. Vijay Pereira 3. Kamel Mellahi 4. Sanjay Kumar Singh	2019
5	A Macro-National Level Analysis of Arab Women's Work Engagement	1. Theory of Work Engagement	1. Muntaha Banihani 2. Jawad Syed	2017
6	Retail stressors in the Middle East/North Africa region	Empirical	1. Mourad Touzani 2. Elizabeth C. Hirschman 3. Lamia Hechiche Salah	2016
7	HRM in the Middle East: toward a greater understanding	Empirical	1. Fida Afiouni 2. Huub Ruël 3. Randall Schuler	2014
8	Transactional and transformational leadership behavior of expatriate and national managers in the UAE: a cross-cultural comparative analysis	1. Transactional Leadership Theory 2. Transformational Leadership Theory	1. Dianne Bealer 2. Ramudu Bhanugopan	2014
9	Between the traditional and the contemporary: Careers of women managers from a developing middle eastern country perspective	1. Institutional Theory 2. Career Theory	1. Hayfaa A. Tlaiss	2014
10	Localizing women's experiences in academia: multilevel factors at play in	Empirical	1. Charlotte M. Karam 2. Fida Afiouni	2014

	the Arab Middle East and North Africa			
11	Local female talent retention in the Gulf: Emirati women bending with the wind	Empirical	1. Katty Marmenout 2. Pamela Lirio	2014
12	Predicting women's job satisfaction with personal demographics: Evidence from a Middle Eastern country	1. Content Theory 2. Process Theory	1. Hayfaa A. Tlaiss 2. Morris B. Mendelson	2014
13	The HR value proposition model in the Arab Middle East: Identifying the contours of an Arab Middle Eastern HR model	1. HR Value Proposition Model	1. Fida Afiouni 2. Charlotte M. Karam 3. Hussein El-Hajj	2013
14	Vulnerable workers in an emerging Middle Eastern economy: What are the implications for HRM?	Empirical	1. Julia Connell 2. John Burgess	2013
15	Factors affecting organizational creativity and innovativeness in Egyptian business organizations: An empirical investigation	1. Chaos Theory	1. Mohamed Mostafa	2012
16	Exploring Arab Middle Eastern women's perceptions of barriers to, and facilitators of, international management opportunities	Empirical	1. Kate Hutchings 2. Beverly Dawn Metcalfe 3. Brian K. Cooper	2010
17	Commitment and turnover intention in the UAE oil industry	Empirical	1. Abubakr A. Suliman 2. Yousef Al-Junaibi	2010
18	Emiratization as a strategic HRM change initiative: Case study evidence from a UAE petroleum company	Empirical	1. Christopher J. Rees 2. Aminu Mamman 3. Aysha Bin Braik	2007
19	Gender and human resource management in the Middle East	Empirical	1. Beverly Dawn Metcalfe	2007
20	Family business in the Middle East: An exploratory study of retail management in Kuwait and Lebanon	1. Transaction Cost Theory 2. Resource Dependence Theory	1. Dianne H. B. Welsh 2. Peter Raven	2006
21	Career challenges for female managers in Egyptian hotels	Empirical	1. Hanan Kattara	2005
22	Job analysis: A strategic human resource management practice	Empirical	1. C.M. Siddique	2004
23	Work performance: Is it one thing or many things? The multidimensionality of performance in a Middle Eastern context	Empirical	1. Abubakr M.T. Suliman	2001

Table A4: General Management (GM) articles

Appendix Table A 4: General Management (GM) articles

#	Articles categorized as GM	Theories used	Authors	Year
1	Business models innovation in investment banks: a resilience perspective	Empirical	1. Boumediene Ramdani 2. Ahmed Binsaif 3. Elias Boukrami 4. Cherif Guermat	2020
2	Management research in the Arab World: What is now and what is next?	Empirical	1. Said Elbanna 2. Dina M. Abdelzaher 3. Nora Ramadan	2020
3	Exploring the Sustainable Behavior and Practices for Public Tourism Organizations: A Case of Jordan	Empirical	1. Mamoon Allan 2. Saif Allahham	2020
4	Managers' autonomy, strategic control, organizational politics and strategic planning effectiveness: An empirical investigation into missing links in the hotel sector	1. Organisational Politics Theory	1. Said Elbanna	2016
5	Internal auditing in the Middle East and North Africa: A literature review	Not available	1. Mahmoud Al-Akraa 2. Waleed Abdel-Qadera 3. Mamun Billah	2016
6	Instituting a transnational accountability regime: The case of Sovereign Wealth Funds and GAPP	Not available	1. Afshin Mehrpouya	2015
7	Challenges in conducting and publishing research on the middle east and Africa in leading journals	Not available	1. Cristiana R. Lages 2. Gregor Pfajfar 3. Aviv Shoham	2015
8	Environmental factors influencing the management of key accounts in an Arab Middle Eastern context	1. Contingency Theory 2. Upper Echelons' Theory	1. Fawaz Baddar ALHussan 2. Faten Baddar AL-Husan 3. Chavi C.-Y. Fletcher-Chen	2014
9	Slack, planning and organizational performance: Evidence from the Arab middle east	1. Resource-Based View 2. Contingency Theory	1. Said Elbanna	2012
10	Doing research in the (New) middle east: Sailing with the wind	1. Agency Theory 2. Stakeholders Theory 3. Institutional Theory	Shaker A. Zahra	2011
11	Economic and institutional reforms in the Arab Gulf countries	Empirical	Martin Hvidt	2011

12	The rentier state and national oil companies: An economic and political perspective	Empirical	Donald L. Losman	2010
13	Administrative change in the Gulf: Modernization in Bahrain and Oman	Empirical	Richard Common	2008
14	Business-Government Relations and Industrial Change: The Politics of Upgrading in Morocco and Tunisia	1. Cluster Theory	Melani Cammett	2007
15	Control techniques and upward flow of information in franchising in distant markets: Conceptualization and preliminary evidence	1. Agency Theory	2. Rajiv P. Dant 3. Nada I. Nasr	1998

Table A5: Cross-Cultural Management (CCM) articles

Appendix Table A 5: Cross-Cultural Management (CCM) articles

#	Articles categorized as CCM	Theories used	Authors	Year
1	How Minority Religion Can Shape Corporate Capitalism: An Emergentist Account and Empirical Illustration	Empirical	1. Brandon Vaidyanathan	2020
2	Wasta: Advancing a Holistic Model to Bridge the Micro-Macro Divide	1. Social Capital Theory 2. Social Network Theory 3. Institutional Theory 4. Attribution Theory	1. Sa'ad Ali 2. David Weir	2020
3	Role of Leaders as Agents of Negotiation for Counterbalancing Cultural Dissonance in the Middle East and North Africa Region	1. Implicit Leadership Theory 2. Cultural Dissonance Theory	1. Gaye Karacay 2. Secil Bayraktar 3. Hayat Kabasakal 4. Ali Dastmalchian	2019
4	Earnings management behaviors under different monitoring mechanisms: The case of Islamic and conventional banks	1. Agency Cost Theory 2. Organizational Religiosity Theory	1. Omneya Abdelsalam 2. Panagiotis Dimitropoulos 3. Marwa Elnahass 4. Stergios Leventis	2016
5	The formation of trust and commitment in business relationships in the Middle East: Understanding Et-Moone relationships	1. Social Exchange Theory 2. Life-Cycle Theory 3. Commitment-Trust Theory	1. Ibrahim Abosag 2. Joong-Woo Lee	2013
6	Gatekeepers of Islamic financial circuits: Analyzing urban geographies of the global Shari'a elite	Empirical	1. David Bassens 2. Ben Derudder 3. Frank Witlox	2012
7	Managerial values in the greater Middle East: Similarities and differences across seven countries	Empirical	1. David A. Ralston 2. Carolyn P. Egri 3. Liesl Riddle 4. Arif Butt 5. Tevfik Dalgic 6. David M. Brock	2012
8	The network perspective and the internationalization of small and medium sized software firms from Syria	Empirical	1. Kevin Ibeh 2. Laila Kasem	2011
9	The effects of cultural orientations on preferred compensation policies	1. Value-Orientation Theory	1. Hamid Yeganeh 2. Zhan Su	2011
10	Repertoires of trust: The practice of trust in a multinational organization amid political conflict	1. Labor Process Theory	1. Nissim Mizrahi 2. Israel Drori 3. Renee r. Anspach	2007

Table B1: A Thematic Map of Sovereign Wealth Fund Literature

This table provides a summary of the three predominant research streams within the scholarly literature on Sovereign Wealth Funds (SWFs), as discussed in Chapter 3. It outlines the core focus of each stream and lists representative authors whose work has contributed to its development.

Research Stream	Core Topics of Investigation	Representative Authors
1. SWF Attributes, Governance, and Politics	This foundational stream examines the internal characteristics and political context of SWFs. Research focuses on: A. Governance Structures - Internal rules, board composition, and accountability mechanisms. B. Transparency & Accountability: The degree to which SWFs disclose their assets, strategies, and performance (e.g., the "SWF Scoreboard"). C. Political Economy: The reasons for SWF creation, their relationship with the state, and their role in national politics. D. Growth & Typologies: Documenting the rapid growth of SWFs and creating classifications based on their objectives (e.g., stabilization, savings, strategic).	Abdelal (2009) Aggarwal & Goodell (2018) Bagnall & Truman (2013) Bahoo et al. (2020) Braunstein (2017) Chwiero (2014) Clarke (2016) Cohen (2009) Kratsas & Truby (2015) Seznec (2016)
2. Investment Strategies and Determinants	This stream investigates the drivers behind SWF investment decisions, exploring the "why" and "how" of their capital allocation. Research focuses on: A. Financial vs. Strategic Motives: The ongoing debate over whether investments are driven by pure profit-seeking or by broader state objectives.	Amar et al. (2019) Aroui et al. (2018) Candelon et al. (2011) Ciarlone & Miceli (2016) Gnabo et al. (2017) Megginson et al. (2013)

	B. Macroeconomic Determinants: The influence of factors in both target and home countries (e.g., GDP, financial development, exchange rates) on investment flows. C. Institutional & Cultural Drivers: How home country institutions, cultural norms, and political relationships shape investment choices. D. Asset Allocation & Risk: Analysis of SWF portfolios, their diversification strategies, and their appetite for risk.	Tsani (2013) Zhang & Kim (2021)
3. The Impact of SWF Investments	This stream examines the consequences of SWF capital deployment across multiple levels. Research focuses on: A. Target Firm Effects: The impact of SWF investment on the financial performance, corporate governance, and R&D of recipient companies. B. Recipient Country Effects: The macroeconomic impact on target countries, including effects on financial markets, FDI flows, and geopolitical relations. C. Home Country Effects: The domestic macroeconomic consequences for the SWF's own country, such as fiscal stabilization, economic diversification, and impacts on growth and resilience.	Aizenman et al. (2019) Bortolotti et al. (2015) Coutinho et al. (2022) Dagher et al. (2012) Kinda et al. (2018) Knill et al. (2012) Kotter & Lel (2011) Mohaddes & Raissi (2017) Rasaki & Malikane (2018)