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The Gulf Corporation Council Sovereign Wealth Funds: Are They Instruments for Economic Diversification or Political Tools?

Farouk El-Kharouf, Sulayman Al-Qudsi, Shifa Obeid

➤ Author and Article Information

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Abstract

Our research has two objectives. The first objective is to review the historical evolution of the Gulf Corporation Council (GCC) sovereign wealth funds (SWFs) and to demonstrate how their conception and evolution was in fact an integral part of an overall prescription for the cyclical economic and fiscal imbalances of the oil-based GCC economies. The second objective is to review economic and political claims and arguments that have been developed to trim the tide and influence of the GCC SWFs in Western economies. Applying institutional and factual analyses, the paper provides counterarguments that rebut these claims and arguments. For a long time, advocates of globalization have argued its benefits to all parties. The experience of SWFs puts such claims to the test. In the meantime, however, GCC SWFs should open up a bit more and reveal their investments profiles showing both gains and losses. This should quell fears and convince skeptics that the GCC SWFs confidentiality practices are not hiding any “threatening secrets.” Finally, recent financial and global turmoil generated acceptance of SWFs in Western economies with policymakers touring the GCC to “welcome” more SWF flows into advanced economies. However, only time will tell if such Western policy gestures are sustainable in the end, or were merely temporary policy switches rendered under severe pressures from global and financial crises.

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