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The Role of the Gulf Cooperation Council's Sovereign Wealth Funds in the New Era of Oil

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ABSTRACT

Sovereign wealth funds (SWFs) are investment vehicles by which governments invest some of a nation's wealth in domestic and international financial markets. They are important for savings and stabilization economies, where long-term investments are key feature of successful SWFs' investment strategies. Successful SWFs do not seek only for financial returns, but also social returns are critically considered as they play a vital role in their countries' socioeconomic development. Considering the amount of capital accumulated in the global SWFs in general and the Gulf Cooperation Council (GCC) funds in particular, oil prices plunge has forced the GCC's to reassess income sources and spending. Precisely, extra attention has been paid for not only further investment plans, but also for developing critical strategies that aim to diversifying the GCC economies through the efficient allocation for resources and thereby provide economic development and independency. Therefore, this paper aim to analyse the current status of GCC's SWFs and provide further suggestions in the new era of oil prices to enhance their role in the region. To do so, insights from other global successful SWFs, such that of Norway, have been considered. The main findings reveal that transparency is a key feature for SWFs growth and the gradual movement towards better practices in structure, governance, and investment behaviour. Knowledge transfers and foreign direct investment are also significant factors for local economic growth.

Keywords: Economic Growth, Sovereign Wealth Funds, Investment, Oil Prices
JEL Classifications: E21, E22, G28, F65, G12, H6

1. INTRODUCTION

Nowadays, the current complex world economy is stressed under a strong impact of not only the economic booms and busts, but also monetary, technological, military and diplomatic changes. Accordingly, globalization has contributed significantly in balancing the power among the world countries, public and private sectors through the channel of sovereign wealth funds (SWFs), which is considered as an unprecedented development of a relatively new economic tool (Murtinu and Scalera, 2016). Basically, SWFs are public investment agencies which manage part of the assets owned by national governments resulting from excess of exchange foreign reserves, oil or gas receipts as well as trade surpluses. Debarsy et al. (2016) suggest that there are still large debates which question whether or not capital flows emanating from these state-owned entities are in the interest of the target country. In addition, although the existence of such economic tool go back for six decades, it has recently grown up rapidly and played a vital role as global equity investors (Al-Hassan et al., 2013; Bortolotti et al., 2015; Megginson and Fotak, 2015). However, existing empirical studies offer insufficient evidence about the impact of SWF investments on the value of publicly traded companies. Most of studies; which paid attention to the SWFs by applying event-study techniques, find positive announcement-period returns (Dewenter et al., 2010).

According to the Sovereign Wealth Fund Institute (SWFI), the market size of SWF investments has witnessed a sustained increase of the assets' value in the last ten years. In the context of latest economic crisis impacts, they have undergone spectacular dynamics, growing from \$3.265 billion in September 2007 to \$5.182 billion in December 2012. During the financial crisis and the recession, public debts, budgetary deficits and investments are followed more attentively at world level (Dobrescu and Pociovălişteanu, 2011). Yet, with a growth rate faster than any other institutional investor, SWFs have been one of the major funding sources in corporations worldwide especially after the 2008 crash in financial markets, where its' assets under management were estimated at over $4 trillion (Bernstein et al., 2013). This has in fact exceeds by far the value of all private equity or hedge funds (Aizenman and Glick, 2009). Today, SWFs constitute a major source of capital for world economies with assets under management amounting to $7,265.4 trillion, leading most governments as noted by (Megginson and Fotak, 2015) to "court" SWF investments[1].

2. THE EVOLUTION OF SWFS

In early 2000s, high oil prices, brought about a massive redistribution of income to oil exporters, resulting in current account surpluses and a rapid build-up of foreign assets. Figure 1 shows that the aggregate current account balance of oil exporting countries has inflated to $630 billion at the end of 2011, which clearly exceeds that of emerging Asia combined. Accordingly, governments established new SWFs or increased the size of existing ones to help manage the larger pool of financial assets. Besides, looking at Table 1, the updated data provided by SWFI propose that the main group of countries that have established SWFs are resource-rich economies, which benefit from high oil and commodity prices. In these countries, SWFs partly also serve the purpose of stabilizing government and export revenues, which would otherwise reflect the volatility of oil and commodity prices. Another purpose of such funds in resource-rich countries is the accumulation of savings for future generations as natural resources are non-renewable and are hence anticipated to be exhausted after some time. Prominent examples of such SWFs include Norway's Government Pension Fund, investment agencies set up by member countries of the Gulf Cooperation Council (GCC), such as the Abu Dhabi Investment Authority (ADIA), which manages the foreign assets of the Emirate of Abu Dhabi in the United Arab Emirates (UAE), and the Russian oil stabilization fund which has recently been partly transformed into a fund for future generations.

A second group of countries, most notably in Asia, has established SWFs because reserves are being accumulated in excess of what may be needed for intervention or balance-of-payment purposes. The source of reserve accumulation for these countries is mostly not linked to primary commodities but rather related to the management of inflexible exchange rate regimes. The total assets of SWFs are concentrated in few countries as shown in Table 1, where oil and gas oriented SWFs are estimated at $4,219.8 trillion in April, 2016, out of $7,265.4 trillion in total (Figure 2). There are large differences across SWFs, available information on their asset allocation points to a significant share in equities and bonds.

3. SPOTLIGHT THE GCC'S SWFS

During the 1990s, when oil prices plunged to $10/barrel and the economies of the GCC stagnated, government investment vehicles had to play a critical role in order to stabilize economies and help citizens of the region. Looking at Saudi Arabia, for example, the Saudi Arabian Monetary Agency and Saudi

1 The figures have been updated on April, 2016, by the Sovereign Wealth Fund Institute (SWFI). For more details, visit:http://www.swfinstitute.org/sovereign-wealth-fund-rankings/.

Figure 1: Plot of evolution of current accounts

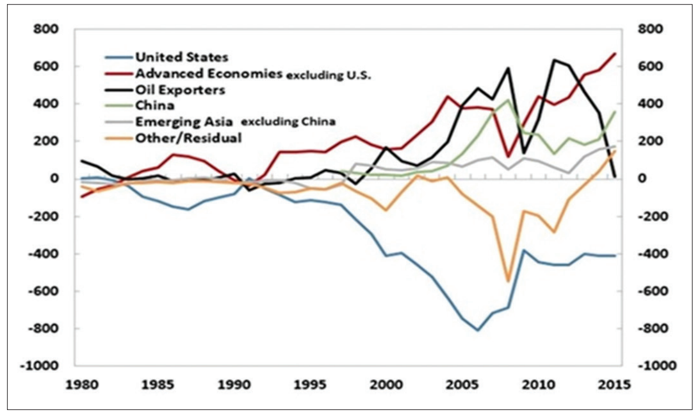


Figure 2: Oil and Gas related SWFs

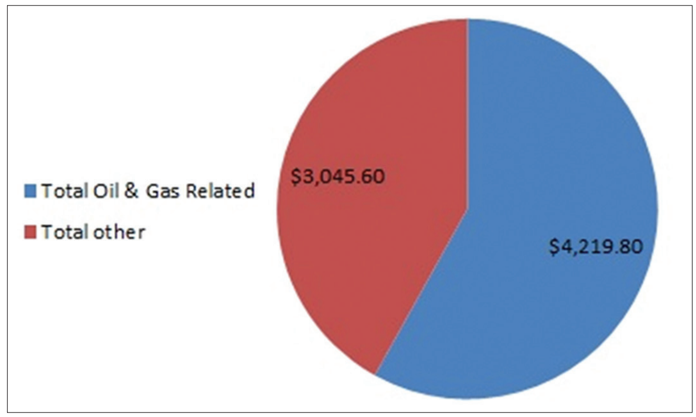
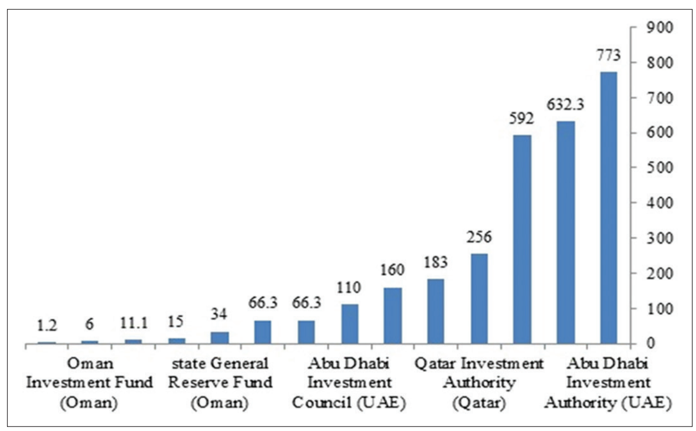


Figure 3: Plot of wealthy Gulf Cooperation Council funds



Arabia's central bank had accumulated significant excess foreign reserves since the 1970s. Thus, they could successfully inject sufficient money into the Saudi economy to cushion the severity of a decade of slow growth. Similarly, the Kuwait Investment Authority (KIA) was instrumental in rebuilding the Kuwaiti economy in the aftermath of the invasion of Kuwait and the 1990 Gulf war. Since that time, SWFs have become the primary means by which the GCC countries manage their national wealth. And whereas the SWFs of the 1990s were primarily risk-averse investors of foreign exchange reserves, SWFs now are far more sophisticated. The rise in oil prices since 2000 and into mid-2008 pushed foreign exchange reserves to historic

Table 1: Sovereign wealth fund ranking: Largest sovereign wealth funds by assets under management

Country	Sovereign wealth name	Assets-US $ billion	Inception	Origin
Norway	Government Pension Fund	847.6	1990	Oil
UAE - Abu Dhabi	Abu Dhabi Investment Authority	773	1976	Oil
China	China Investment Corporation	746.7	2007	Non-commodity
Saudi Arabia	SAMA Foreign Holdings	632.3	n/a	Oil
Kuwait	Kuwait Investment Authority	592	1953	Oil
China	SAFE Investment Company	474	1997	Non-commodity
China-Hong Kong	Hong Kong Monetary Authority Investment Corporation	442.4	1993	Non-commodity
Singapore	Government of Singapore Investment Corporation	344	1981	Non-commodity
Qatar	Qatar Investment Authority	256	2005	Oil and gas
China	National Social Security Fund	236	2000	Non-commodity
Singapore	Temasek Holdings	193.6	1974	Non-commodity
UAE - Dubai	Investment Corporation of Dubai	183	2006	Non-commodity
Saudi Arabia	Public Investment Fund	160	2008	Oil
UAE - Abu Dhabi	Abu Dhabi Investment Council	110	2007	Oil
Australia	Australian Future Fund	95	2006	Non-commodity
South Korea	Korea Investment Corporation	91.8	2005	Non-commodity
Kazakhstan	Kazakhstan-Kazyna Fund	85.1	2008	Non-commodity
Kazakhstan	Kazakhstan National Fund	77	2000	Oil
Russia	National welfare fund	73.5	2008	Oil
UAE - Abu Dhabi	International Petroleum Investment Company	66.3	1984	Oil
UAE - Abu Dhabi	Mubadala Development Company	66.3	2002	Oil
Libya	Libyan Investment Authority	66	2006	Oil
Russia	Reserve Fund	65.7	2008	Oil
Iran	National Development Fund of Iran	62	2011	Oil and gas
US-Alaska	Alaska Permanent fund	53.9	1976	Oil
Algeria	Revenue Regulation Fund	50	2000	Oil and gas
Malaysia	Khazanah Nasional	41.6	1993	Non-commodity
Brunie	Brunei Investment Agency	40	1983	Oil
US - Texas	Texas Permanent School Fund	37.7	1854	Oil and other
Azerbaijan	State Oil Fund	37.3	1999	Oil
Oman	state General Reserve Fund	34	1980	Oil and gas
France	Strategic Investment Fund	25.5	2008	Non-commodity
Irelan	Ireland Strategic Investment Fund	23.5	2001	Non-commodity
New Zealand	New Zealand Superannuation Fund	20.2	2003	Non-commodity
US - New Mexico	New Mexico State Investment Council	19.8	1958	Oil and gas
Canada	Alberta's Heritage Fund	17.5	1976	Oil
US-Texas	Permanent University Fund	17.2	1876	Oil and gas
East Timor	Timor-Leste Petroleum Fund	16.9	2005	Oil and gas
Chilie	Social and Economic Stabilization Fund	15.2	2007	Copper
UAE-Federal	Emirates Investment Authority	15	2007	Oil
Russia	Russian Direct Investment fund	13	2011	Non-commodity
Bahrain	Mumtalaket Holding Company	11.1	2006	Non-commodity
Peru	Fiscal Stabilization Fund	9.2	1999	Non-commodity
Chile	Pension Reserve Fund	7.9	2006	Copper
Mexico	Oil Revenues Stabilization Fund of Mexico	6	2000	Oil
Oman	Oman Investment Fund	6	2006	Oil
Italy	Italian Strategic Fund	6	2011	Non-commodity
Botswana	Pula Fund	5.7	1994	Diamonds and minerals
US-Wyoming	Permanent Wyoming Mineral Trust Fund	5.6	1974	Minerals
Trinidad\Tobago	Heritage and Stabilization Fund	5.5	2000	Oil
Brazil	Sovereign Fund of Brazil	5.3	2008	Non-commodity
China	China-Africa Development Fund	5	2007	Non-commodity
Angola	Fundo Soberano de Angola	5	2012	Oil
US - North Dakota	North Dakota Legacy Fund	3.2	2011	Oil and gas
US-Alabama	Albama Trust Fund	2.5	1985	Oil and gas
Kazakhstan	National Investment Corporation	2	2012	Oil
Nigeria - Bayelsa	Bayelsa Development and Investment Corporation	1.5	2012	Non-commodity
Nigeria	Nigeian Soverign Investment Authority	1.4	2012	Oil
US - Louisiana	LouisianaEducation Quality Trust Fund	1.3	1986	Oil and gas
Panama	Fondo de Ahorro de Panama	1.2	2012	Non-commodity
UAE - Ras Al Khaimah	RAK Investment Authority	1.2	2005	Oil

(*Contd...*)

Table 1: (*Continued...*)

Country	Sovereign wealth name	Assets-US $ billion	Inception	Origin
Bolivia	FINPRO	1.2	2012	Non-commodity
Senegal	Senegal FONSIS	1	2012	Non-commodity
Iraq	Development Fund for Iraq	0.9	2003	Oil
Palestine	Palestine Investment Fund	0.8	2003	Non-commodity
Venezuela	FEM	0.8	1998	Oil
Kiribati	Revenue Equalization Reserve Fund	0.6	1956	Phosphates
Vietnam	State Capital Investment Corporation	0.5	2006	Non-commodity
Gabon	Gabon Sovereign Weakth Fund	0.4	1998	Oil
Ghana	Ghana Petroleum Funds	0.45	2011	Oil
Indonesia	Government Investment Unit	0.3	2006	Non-commodity
Mauritania	National Fund for Hydrocarbon Reserves	0.3	2006	Oil and gas
Australia	Western Australia Future Fund	0.3	2012	Minerals
Mangolia	Fiscal Stability Fund	0.3	2011	Minerals
Equatorial Guinea	Fund for Future Generations	0.08	2002	Oil
Papa New Guinea	Papa New Guinea Sovereign Wealth Fund	Na	2011	Gas
Turkmenistan	Turkmenistan Stabilization Fund	Na	2008	Oil and gas
US - West Virginia	West Virginia Future Fund	Na	2014	Oil and gas
Mexico	Fondo Mexico del Petroleo	Na	2014	Oil and gas
	Total oil and gas related	$4,219.80		
	Total other	$3,045.60		
	Total	$7,265.40		

proportions-an increase of more than sevenfold over the span of two decades. With a mounting need to find places to invest their money, together with the larger investment universe that globalization affords, SWFs began to seek maximum returns on their investments. They invested in domestic industries, as well as looked overseas to acquire new knowledge and technology. They even engaged proactively with the management teams of the companies in which they invested. As a result, SWFs play a far greater, more vital strategic role in the region by directly linking their higher-return investments to the GCC's goals of economic diversification and socioeconomic development. The strategic importance of SWFs will only grow more essential to the region in coming years.

The GCC's funds are among the wealthiest of all SWFs in the world as shown in Table 2. Currently, combined GCC funds reached close to $2.9 trillion in total asset, which accounts for almost 40% of total global funds. The major GCC SWFs include the UAE' ADIA, KIA, Qatar's Investment Authority (QIA), and Bahrain's Mumtalakat Holding Company, as shown in Figure 3.

When they were created, SWFs were concentrated in oil-producing countries and particularly those of the Gulf region. The export-led growth of Asian countries like Singapore and China have given these countries significant additional income and an incentive to seek higher returns on their accumulated wealth. From 2002 to 2007, net capital flows from emerging markets grew nearly fivefold to $1.4 trillion-the majority of which originated in Asia, with a measurable share from oil-rich Middle Eastern countries. The number of SWFs around the world reached, has grown from 53 funds in 2007 to 82 funds in 2016, where they significantly vary in both size and geographic distribution.

3.1. Investment Vehicles

Types of State Investment Vehicles in the Gulf Region State funds in the GCC region vary in size, investment objectives, and structure. They range from the most aggressive to the most timid. At present, there are four main categories of state investment vehicles in the GCC as discussed below:

1. First of all, the State Central Banks are playing a vital role in stabilizing the economies of their corresponding countries, which require liquid and safe investments. Therefore, government notes and liquid assets represent the bulk of foreign exchange surpluses in the GCC.
2. In conjunction with the inflated GCC revenues due to the rise in oil prices few years ago, State-Owned Enterprises (SOEs) and Government-Linked Companies (GLCs) have encouraged noticeably many development plans that focus on promoting economic activities of government-controlled companies in the GCC region. Such activities are mainly attributed to the acquisition of huge capitals for the SOEs of rich countries such that of UAE and Saudi Arabia. For instance, the Saudi Arabian Basic Industries Corporation acquired General Electric's plastics unit for $11.6 billion in July 2007, making it one of the world's largest producers of high-performance polymers.
3. Developing funds that are established and controlled by the government in order to provide sufficient funding for local socioeconomic development projects. In this context, promoting infrastructure projects, and small and medium-sized establishments have regional and international role in providing support for development.
4. SWFs play a crucial role in diversifying income and wealth accumulation, however, passive funds with historically conservative investment profiles have no significant interaction with the management of acquired companies. Other proactive SWFs such that of Abu Dhabi's Mubadala Development Company, Dubai Investment Corporation, and the QIA are prime investors that aim to retain an active involvement in the management of companies to which their investments are assigned.

In the light of the above investment vehicles, it is clear that the GCC SWFs can create advantage through diversification of

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Saudi Arabia	Public Investment Fund	160	2008	Oil
UAE - Abu Dhabi	Abu Dhabi Investment Council	110	2007	Oil
Kazakhstan	Kazakhstan National Fund	77	2000	Oil
Russia	National welfare fund	73.5	2008	Oil
UAE - Abu Dhabi	International Petroleum Investment Company	66.3	1984	Oil
UAE - Abu Dhabi	Mubadala Development Company	66.3	2002	Oil
Libya	Libyan Investment Authority	66	2006	Oil
Russia	Reserve Fund	65.7	2008	Oil
Iran	National Development Fund of Iran	62	2011	Oil and gas
US - Alaska	Alaska Permanent fund	53.9	1976	Oil
Algeria	Revenue Regulation Fund	50	2000	Oil and gas
Brunie	Brunei Investment Agency	40	1983	Oil
US - Texas	Texas Permanent School Fund	37.7	1854	Oil and other
Azerbaijan	State Oil Fund	37.3	1999	Oil
Oman	State General Reserve Fund	34	1980	Oil and gas
US - New Mexico	New Mexico State Investment Council	19.8	1958	Oil and gas
Canada	Alberta's Heritage Fund	17.5	1976	Oil
US - Texas	Permanent University Fund	17.2	1876	Oil and gas
East Timor	Timor-Leste Petroleum Fund	16.9	2005	Oil and gas
UAE - Federal	Emirates Investment Authority	15	2007	Oil
Bahrain	Mumtalaket Holding Company	11.1	2006	Non - commodity
Mexico	Oil Revenues Stabilization Fund of Mexico	6	2000	Oil
Oman	Oman Investment Fund	6	2006	Oil
Trinidad and Tobago	Heritage and Stabilization Fund	5.5	2000	Oil
Angola	Fundo Soberano de Angola	5	2012	Oil
US - North Dakota	North Dakota Legacy Fund	3.2	2011	Oil and Gas
US - Alabama	Albama Trust Fund	2.5	1985	Oil and Gas
Kazakhstan	National Investment Corporation	2	2012	Oil
Nigeria	Nigeian Soverign Investment Authority	1.4	2012	Oil
US - Louisiana	LouisianaEducation Quality Trust Fund	1.3	1986	Oil and Gas
UAE - Ras Al Khaimah	RAK Investment Authority	1.2	2005	Oil
Iraq	Development Fund for Iraq	0.9	2003	Oil
Venezuela	FEM	0.8	1998	Oil
Gabon	Gabon Sovereign Weakth Fund	0.4	1998	Oil
Ghana	Ghana Petroleum Funds	0.45	2011	Oil
Mauritania	National Fund for Hydrocarbon Reserves	0.3	2006	Oil and Gas
Equatorial Guinea	Fund for Future Generations	0.08	2002	Oil
Papa New Guinea	Papa New Guinea Sovereign Wealth Fund	Na	2011	Gas
Turkmenistan	Turkmenistan Stabilization Fund	Na	2008	Oil and Gas
US - West Virginia	West Virginia Future Fund	Na	2014	Oil and Gas
Mexico	Fondo Mexico del Petroleo	Na	2014	Oil and Gas
	Total oil and gas related	$4,219.80		
	Total other	$3,045.60		
	Total	$7,265.40		

investments, and through financial commitments to industries that complement the region's socioeconomic objectives. Consequently, SWFs are the main state financial vehicles for influencing change and managing national wealth.

4. SWF AND SOCIOECONOMIC DEVELOPMENT

During previous periods of excess reserves, socioeconomic considerations were a factor, but due to the constraints in investment opportunities, SWFs could not play as great a role as they do now. The strong wave of economic and financial integration prompted by the development of the World Trade Organization agreements, as well as the ease of financial flows due to technology, allows SWFs around the world to engage in socioeconomic development in myriad new ways.

The SWFs of countries like Malaysia and Singapore have very active roles in socioeconomic development in local and regional markets. One of the key principles for Malaysia's Khazanah Nasional Berhad is growth through investment in equities that improve the productivity and skills of the people. These funds seek specific knowledge transfer through investments in private equities of technology and start-up companies and in R&D investments and joint ventures with multinational corporations.

In Singapore, Temasek Holdings invested $3.2 billion in the technology industry in 2007 in addition to other investments in life sciences and telecommunications. Temasek invests in established and start-up companies in Silicon Valley that provide the United States with high-tech products.

Similarly, some SWFs in the GCC region are attempting to widen their investments by including strategic socioeconomic objectives. For example, Dubai International Capital (DIC) invests in both established and developing primary markets, and its potential contribution to economic growth can go beyond investment returns. For example, its anchor investments in ART Marine Holdings provide it with the opportunity to develop the boating and marina sectors in the region.

Other anchor investments of the DIC are in manufacturing services, airports, and education. This provides a means to `import' aerospace technology and form international partnerships that contribute to worldwide growth. Similarly, Mubadala Development Company's 5% stake in Italian sports car maker Ferrari points to an increasingly strategic investment mind-set. The Ferrari investment brings with it the potential for increased tourism in Abu Dhabi as the Ferrari theme park nears completion in Yas Island. More recently, Mubadala's $8 billion partnership with General Electric allows collaboration on health care and clean energy technologies, as well as aircraft maintenance expertise and other beneficial exchanges essential for the UAE's socioeconomic development.

Recent changes in the economic landscape-highlighted by regional opportunities and the growth of Asian and emerging economies-have contributed to increased GCC SWF investments in these more diverse areas of the world. The QIA portfolio, which in November 2007 had about 80% of its assets invested in Europe and the US is purported to want to increase its investment exposure in Asia to 40% of the portfolio[2].

Similarly, the KIA is considering expanding its investments in several Asian countries. In year 2007, a visit by Kuwait's Prime Minister and Finance Minister to Japan was followed by declarations of intentions to double or triple KIA's investments there[3].

Across the Middle East, major development projects continue to provide new opportunities for investments by regional SWFs. Jordan Dubai Capital, for example, represents Dubai Investment Capital's (DIC) efforts, along with other regional investors, to find and implement investment opportunities in Jordan. These commitments include infrastructure projects, private equities, and strategic investment in publicly listed companies.

And, although the United States and European countries continue to receive the majority of capital outflows from the GCC, the share of total investments directed inwards and to developing countries is expected only to rise in the years to come.

5. INSIGHTS FROM OTHER SWFS

There are lessons to be learned from the evolution of SWFs' investment strategies in selected countries outside the GCC region. Three countries in particular are good examples, thanks to the diverse characteristics of their SWFs: Norway, Singapore, and China.

Norway's SWF is an important example for the Gulf not only because oil revenues source this fund, but also because the fund operates in an extremely transparent manner. Singapore's success in promoting socioeconomic growth offers a positive example for the GCC SWFs. Singapore's SWFs successfully manage GLCs, as well as champion the development of industries in technology, transportation, and logistics. Finally, China's SWFs are important to study both for the manner in which they reflect China's aggressive pursuit of socioeconomic development and the way in which they deal with the intense scrutiny of their investment targets.

Insights from the above successful cases shed the light on a number of implications that boost the SWF such as:

1. Imposing possible restrictions or approval requirements on funds that attempt to increase holdings beyond some level
2. Using special agencies to review investments based on national security considerations (e.g., Committee on Foreign Investments in the US)
3. Restricting investments based on national security or public order
4. Subjecting investments in certain sectors of social importance to special laws
5. Scrutinizing SWFs for antimonopoly or take-over restrictions Structural and operational transparency as well as transparent guidelines for investment behaviour can improve the overall assessment of the GCC funds and should serve to mitigate attempts to more formally regulate investments. Outlining the respective roles of government and fund managers in conducting investment operations, as well as setting strict and transparent guidelines for corporate governance, could greatly increase the standing of SWFs from GCC countries.

6. SWFS IN THE NEW ERA OF OIL

Due to the recent decline in oil prices as shown in Figure 4, major oil-exporting countries bear budget deficits for the first time in years. Although their SWFs' assets have witnessed a rapid growth not long ago, it is now decelerating, where some have already started drawing on their buffers.

This plunge in oil prices might not really affect most oil-exporters as they have enough buffers to cope with a temporary situations, however, long-run policies if low oil prices persist are challenging.

2 For more information, visit: http://www.reuters.com/article/fund-sovereign-transparency-idUSN1348822720071113.

3 Further information can be found on: https://next.ft.com/content/fbcd21a2-6187-11dd-af94-000077b07658.

In general, the low price environment is likely to test the relationship between governments in oil-exporting countries and their SWFs. Absent cuts in public expenditures will likely cause governments to transfer less revenues to these funds. At the same time, pressures to draw down on SWFs' assets will probably rise. In this context, among Middle East oil exporters, only the UAE, Qatar, and Kuwait's fiscal buffers will last for over 25 years on current fiscal plans and oil price projections. Bahrain and Yemen will exhaust them in the next two years, while most other countries will run out of buffers in 4-7 years.

Even though they'll still be able to borrow to finance their spending, governments of these oil-exporting countries have to tighten their belts if they hope to achieve the dual objective of sharing oil wealth equitably with future generations and economic stabilization. Therefore, domestic implications such as subsidies cut are important at this stage.

On the other hand, the global impact of the fall in oil prices on asset prices will depend, among other things, on whether oil importers have a lower marginal propensity to save than oil exporters. The fall in oil prices tends to transfer wealth from oil exporters to high-saving emerging Asian countries-but also to many other countries, including large advanced economies, some of which have a low propensity to save. From a global perspective, this implies lower global saving and higher interest rates.

The impact on global asset prices will depend on the extent to which the unwinding of oil exporters' SWFs is not compensated by portfolio adjustment in other parts of the world.

Precisely how much the savings of the sovereign funds of oil producers decline depends, of course, on changes in their fiscal and external current account balances. SWFs' market operations will also depend on how much their governments opt to borrow or draw on their fiscal buffers, including those kept with SWFs. Saudi Arabia issued its first sovereign bonds since 2007 to local banks to finance its fiscal deficit.

In addition, oil-exporters' SWFs are significant holders of the US treasury debt and private equity. Our back-of-the-envelope calculations show that, prior to the oil price decline, countries of the GCC alone were projected to have a combined fiscal surplus of about $100 billion in 2015 and of about $200 billion between 2015 and 2020, but are now likely to reach a combined deficit of $145 billion in 2015 and over $750 billion in 2015-20. This implies change in net assets available to SWFs in the GCC alone of $250 billion in 2015 and $950 billion in 2015-20.

Considering the expected tightening in the US monetary policy-especially against the background of concerns about market liquidity, increasing risk aversion, and falling reserve holdings by some emerging markets is a substantial change in the path of asset accumulation by SWFs will likely have a direct effect on financial markets.

A study by economists at the Federal Reserve has shown that if foreign official inflows into the US Treasuries were to decrease in a given month by $100 billion, five-year Treasury rates would rise by about 40 to 60 basis points in the short-run, with a long-run effect of about 20 basis points.

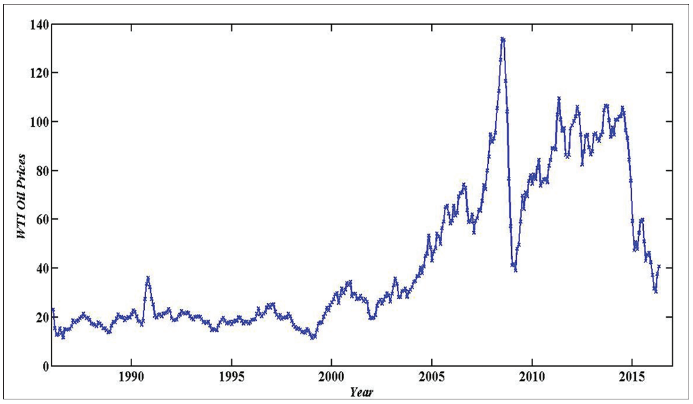
7. CONCLUDING REMARKS

Since the main objective of SWFs is not only to diversify the income by investing abroad, but also to generate wealth for future generation, it is essential to re-assess the long-term investment strategies at the meantime. Precisely, as a result of the sharp decline in both oil and gas prices, share-price has also slump and economic growth witnessed a significant slow-down in many stunning investing regions such as Europe, US and Canada.

Looking at the updated figures of SWFI, global SWFs are holding assets of around $7,3 trillion, where the GCC own not less than $2,9 trillion in total. Although, the evolution of these SWF's assets sparked by the earlier surge in oil prices and thus inflated the surplus of GCC's income for many years, the price of a barrel of oil has fallen more than 70% since June 2014. Meanwhile, the Organization of Petroleum Exporting Countries (OPEC) is forecasting that a $100 per barrel price for oil will not return until after 2040. The fall in oil prices wiped out $360 billion of GCC revenue in 2015 alone, forcing GCC capitals to reassess income sources and spending. In Saudi Arabia, the deputy crown prince indicated that the Kingdom will seek to bolster revenue. He stated that nothing is off the Tables 1 and 2, including privatizing parts of Aramco-considered to be the highest valued company in the world. It is favourable to define the significant role played by the GCC' SWFs, including creating economic stabilization, investing for the long term, and seeking high financial and social returns. However, it is important not only to assess the current status of the GCC's SWFs, but also additional steps are needed to further enhance their role in the region as explained below:

1. As the GCC SWFs investment vehicle travel to many international regions for investment purposes, being engaged in those investments by collaboration with management and understanding the different business plans, strategies and methods is essential to ensure getting the benefit of knowledge transfer. This will provide more support for local economic growth strategies and domestic investments. In addition, exchanging knowledge and experiences should spearhead local investments, targeting industries that complement their international investments in order to spur economic growth (Butt et al., 2008). However, the transfer of knowledge through investments must ensure that enablers, such as a skilled workforce, infrastructure, and efficient institutions, are in place to allow for the absorption and development of transferred knowledge.
2. GCC SWFs should moderate economic slow-down by using their wealth to stimulate economic growth and maintain funding of critical strategic investments.
3. Enhance regional and international establishment of joint funds, which will provide more opportunities for investment and allow sharing risks at the same time. For example, with a glance at the joint fund of China Dubai Capital, which has been established in April 2008, sustained credits of returns on both UAE and China are expected. For the UAE, plans

Figure 4: Plot of monthly historical oil prices



to invest in infrastructure, oil industry, health care, and other activities have promoted the UAE's economy with unity, while it provide China with good investment opportunities in the region.

4. Providing a clear plan to manage groups of SOEs under one holding, which will allow governments to derive important business union, as well as economies of scale and scope.
5. It is highly suggested that the GCC SWFs engage through structural changes in order to provide the public with timely transparent of financial reports. This will enhance the general understanding of the regional economic status and prevent any dissemination of critical investment information.

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