



The Gulf and Global Financial Flows

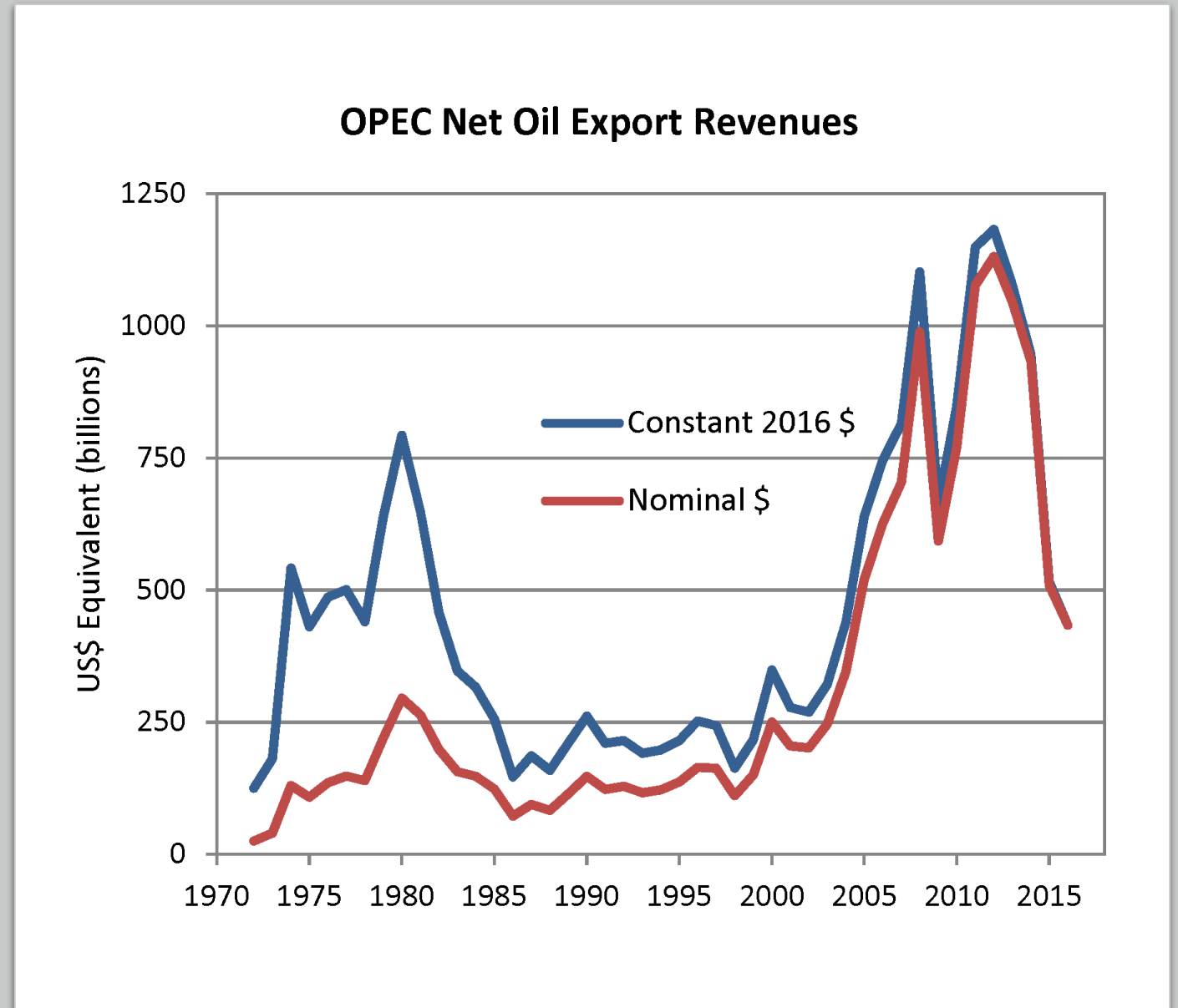
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Historical Trends

- Emergence of world oil industry through early 20th century.
- Sterling zone and Gulf banking systems.
- Post WWII: Shift to Middle East as main oil producing region (especially for European consumption)
- 1960s – 1970s: Establishment of OPEC; Oil Crisis and nationalisation of upstream oil production.
- Contemporary: Rise of National Oil Companies (NOCs): Saudi Aramco; Sinopec; China National Petroleum Corporation.


Gulf Financial Surpluses

- OPEC Oil Price Rises in 1970s
- Petrodollar surpluses – current account surplus for OPEC members estimated at approximately \$450 billion between 1974 and 1981.
- ‘Recycling’ of these financial surpluses:
 - US Treasury Bonds
 - Commercial banks (US, European, London) helped develop Eurodollar market
 - Military imports
- 1980s ‘Third World’ Debt Crisis
- Consequences: Financial architecture (Euromarkets; ‘offshore’ zones; City of London; hegemony of US/UK/European financial institutions).



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Transformations in the Post- 2000s Period

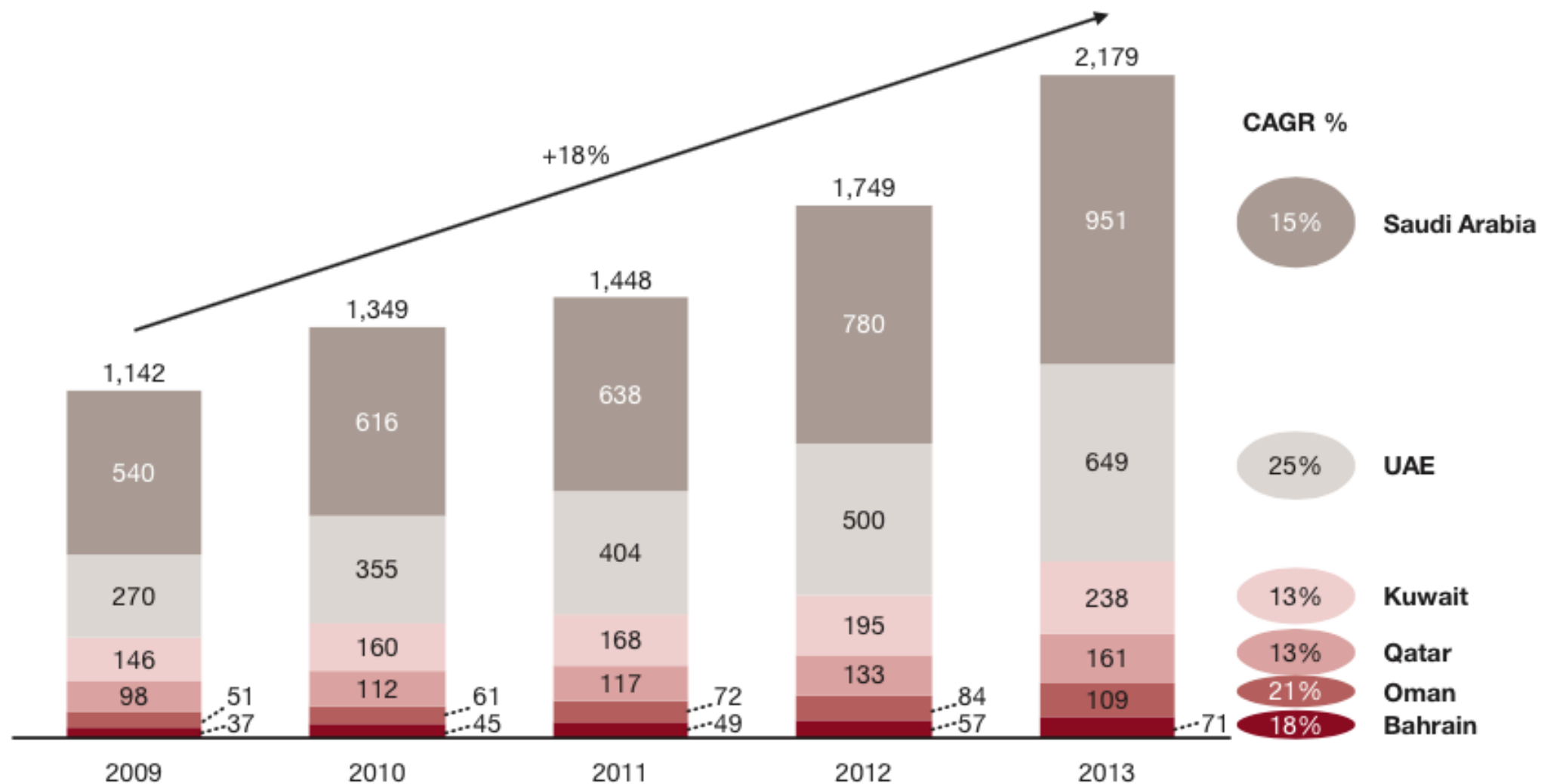
- Long oil price boom, early 2000s through to mid-2014.
 - Particular structure of world economy: US deficit, high levels of consumer debt in US and some European states; production shift to East Asia/China.
 - Asset bubbles and financialization.
 - 2008 'Great Recession'.
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Gulf Financial Flows: Main Actors

- Sovereign Wealth Funds and other State funds
 - Abu Dhabi Investment Authority: \$708.8 billion
 - Kuwait Investment Authority: \$737.9 billion
 - Public Investment Fund \$620 billion
 - Qatar Investment Authority: \$450 billion
 - China Investment Corporation: \$1.2 trillion
- Large business conglomerates (state and privately-owned)
- Private individuals (est. \$2.2 trillion in 2020 according to Boston Consulting Group).
- Caution with data!

Private Wealth Growth by GCC Country (US\$ billions)



How does this wealth circulate globally today?

- Traditional sectors: US Treasuries, US Equities (but note issue with data)
- City of London
- Foreign Direct Investment, during 2008 Crisis: Credit Suisse, Barclays, Deutsche Bank, Citigroup, Daimler, Volkswagen, P&O, the London Stock Exchange Group, Travelodge Hotels, Canary Wharf, British Airways, Glencore, Alitalia, McLaren, Twitter.
- Regional investments in MENA
- Military spending (GCC approx. 20% of world arms imports, 2016-2020).
- Other kinds of commercial services (construction, engineering etc.)

US Treasury Holdings by GCC: 1974-2015

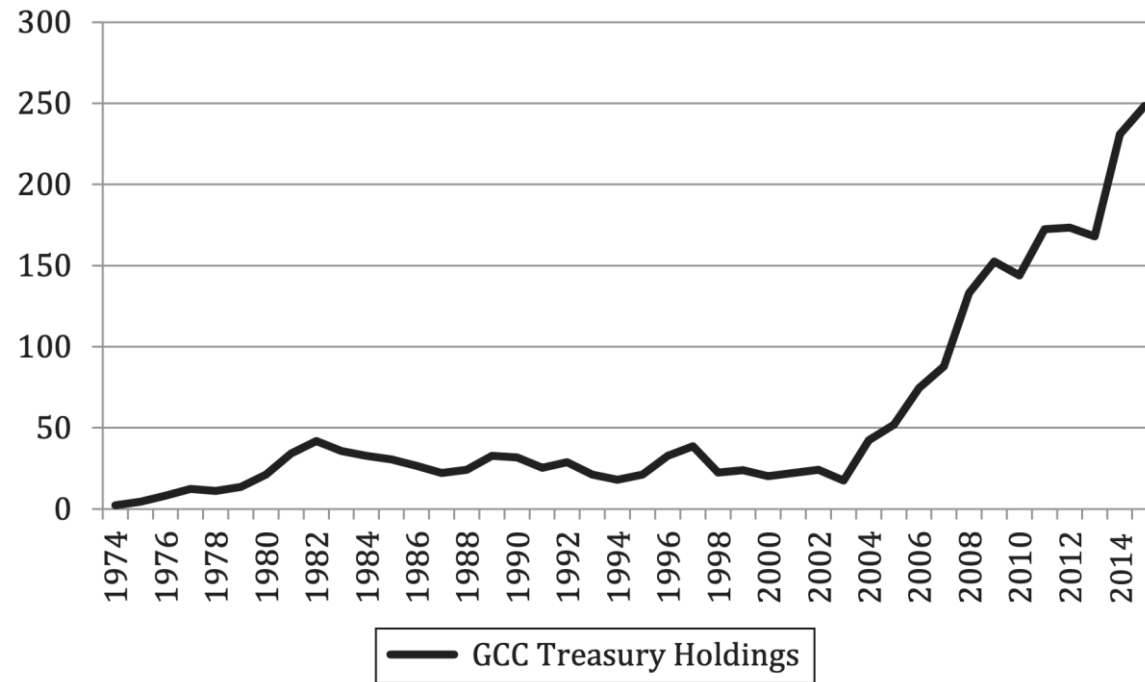


Figure 2.2 GCC holdings of US Treasury securities, 1974–2015, billions of dollars.

Source: US government Treasury International Capital (TIC) statistics.

Source: Hanieh *Money, Markets, and Monarchies* 2018, p.41)

Arab Region Banking System (2017)

Country	Total No. of Banks	No. of Non-Government owned banks	No. of GCC-related banks	Share of Total Country Bank Assets held by State-owned Banks (%)	Share of Total Country Bank Assets held by GCC-related banks (%)	Share of Total Non-Government Bank Assets held by GCC-related Banks (%)
Jordan	18	18	12	0%	86%	86%
Syria	15	13	10	70.30%	24.10%	81.20%
Palestine	6	6	2	0%	63%	63%
Egypt	37	28	17	49.50%	30%	59%
Lebanon	35	35	26	0%	51%	51%
Yemen	11	8	3	37%	28.60%	45%
Algeria	19	13	7	88%	5.40%	44.90%
Tunisia	36	33	11	29.70%	17.70%	25.30%
Iraq	31	29	6	61.00%	7.50%	19.30%
Libya	16	10	4	71.70%	7.36%	26.00%
Morocco	26	22	0	15.54%	0%	0%

Source: Hanieh *Money, Markets, and Monarchies* 2018)

Table 2. The 40 largest importers of major arms and their main suppliers, 2016–20

Note: Percentages below 10 are rounded to 1 decimal place; percentages over 10 are rounded to whole numbers.

Importer	Share of arms imports (%)		Per cent change from 2011–15 to 2016–20 ^a	Main suppliers (share of importer's total imports, %), 2016–20		
	2016–20	2011–15		1st	2nd	3rd
1 Saudi Arabia	11	7.1	61	USA (79)	UK (9.3)	France (4.0)
2 India	9.5	14	–33	Russia (49)	France (18)	Israel (13)
3 Egypt	5.8	2.4	136	Russia (41)	France (28)	USA (8.7)
4 Australia	5.1	3.6	41	USA (69)	Spain (21)	Switzerland (3.4)
5 China	4.7	4.4	5.5	Russia (77)	France (9.7)	Ukraine (6.3)
6 Algeria	4.3	2.6	64	Russia (69)	Germany (12)	China (9.9)
7 South Korea	4.3	2.7	57	USA (58)	Germany (31)	Spain (6.5)
8 Qatar	3.8	0.8	361	USA (47)	France (38)	Germany (7.5)
9 UAE	3.0	4.7	–37	USA (64)	France (10)	Russia (4.7)
10 Pakistan	2.7	3.4	–23	China (74)	Russia (6.6)	Italy (5.9)
11 Iraq	2.5	2.5	–0.6	USA (41)	Russia (34)	South Korea (12)
12 Japan	2.2	1.0	124	USA (97)	UK (2.1)	Sweden (1.0)
13 United States	2.1	2.9	–30	UK (22)	Germany (14)	Netherlands (14)
14 United Kingdom	2.1	1.5	41	USA (72)	Spain (18)	Germany (4.0)
15 Israel	1.9	1.2	65	USA (92)	Germany (5.9)	Italy (2.3)
16 Viet Nam	1.8	3.0	–41	Russia (66)	Israel (19)	Belarus/South Korea (4.8)
17 Singapore	1.7	1.8	–9.0	USA (36)	Spain (25)	France (17)
18 Indonesia	1.7	2.0	–18	USA (23)	Netherlands (19)	South Korea (17)
19 Italy	1.5	0.7	120	USA (62)	Germany (26)	Italy (5.9)
20 Turkey	1.5	3.6	–59	USA (29)	Italy (27)	Spain (21)

Source: SIPRI Trends in International Arms Transfers, 2020, p.6

Emerging Trends

- Definite eastward shift in GCC financial flows.
- Coupled with major change in Gulf oil exports
- Evident in banking (inc. Islamic finance), logistics, trade.
- Key sector is oil (upstream and downstream)
- Emerging interdependencies between China and Gulf in the oil industry: crucial implications for climate change.

