This thesis has been submitted in fulfilment of the requirements for a postgraduate degree (e.g. PhD, MPhil, DClinPsychol) at the University of Edinburgh. Please note the following terms and conditions of use:

- This work is protected by copyright and other intellectual property rights, which are retained by the thesis author, unless otherwise stated.
- A copy can be downloaded for personal non-commercial research or study, without prior permission or charge.
- This thesis cannot be reproduced or quoted extensively from without first obtaining permission in writing from the author.
- The content must not be changed in any way or sold commercially in any format or medium without the formal permission of the author.
- When referring to this work, full bibliographic details including the author, title, awarding institution and date of the thesis must be given.
The Rentier State Revisited: The Politics of Sovereign Wealth Funds in Saudi Arabia

Alexis Montambault Trudelle

PhD in Politics and International Relations

The University of Edinburgh

2023
Table of Contents

Introduction ........................................................................................................................................p.8

Chapter 1: The Drivers of Sovereign Wealth Fund Design and Use .............................................p.48

Chapter 2: Analytical Framework: SWFs as Instruments of Regime Maintenance in Rentier State .........................................................................................................................p.85

Chapter 3: The Rentier Political Economy in Saudi Arabia ..............................................................p.121

Chapter 4: Form Follows Family: Governing Sovereign Wealth and Intra-Elite Dynamics ..........p.168

Chapter 5: The PIF and Saudi Arabia’s Economic Diversification Conundrum ..............................p.198

Chapter 6: The PIF and the International Markets ........................................................................p.240

Conclusion .......................................................................................................................................p.295

Bibliography ....................................................................................................................................p.327
Abstract

In sharp contrast to the preceding four decades of quiet and conservative approach to sovereign wealth management, since 2015 Saudi Arabia’s Public Investment Fund (PIF) proactively drives a nation-building project through active ownership, control and allocation of capital at home and abroad. This thesis explores the politics of sovereign wealth funds (SWF) in Saudi Arabia and argues that SWFs serve as a means for maintaining regime stability; Sovereign funds are adaptive responses to external pressures and, simultaneously, a path of least resistance around deep-seated domestic political and economic constraints fundamentally distinguished by institutional fragmentation and entrenched patron-client relationships. The thesis makes two key findings. First, SWF expansion facilitates centralisation of investment activities, allowing incumbent elites to override institutional fragmentation. Second, sovereign funds function as an adaptive strategy to sustain political authority and external support while reproducing patterns of state-society relations based on clientelism. The findings challenge the static view of rentier states and reveals that the persistence of renterism and economic diversification are not mutually exclusive process. Furthermore, it underscores that SWF choices are heavily influenced by antecedent paths of political institutions and social coalitions, contrary to the putative portrait of sovereign funds as apolitical asset allocators responding to macroeconomic objectives. The thesis contributes to our understanding of the relationship between state investment funds, state-building and political power in rentier states.
Lay Summary

In sharp contrast to the preceding four decades of quiet and conservative approach to sovereign wealth management, since 2015 Saudi Arabia’s Public Investment Fund (PIF) proactively drives a nation-building project through active ownership, control and allocation of capital at home and abroad. This thesis explores the politics of sovereign wealth funds (SWF) in Saudi Arabia and argues that SWFs serve as a means for maintaining regime stability; sovereign funds are created in response to external pressures like oil price volatility and climate effects, while also providing an easier solution for domestic political and economic limitations. These constraints stem from a fragmented state apparatus and patron-client relationships deeply ingrained within Saudi Arabia's rentier system. The thesis makes two key findings. First, SWF expansion facilitates the centralisation of investment activities under one overarching agency, allowing incumbent elites greater control and direction over capital allocation. Second, sovereign funds function as a tool to maintain political power and international strategic alliances while reproducing allocative patterns of state-society relations. The findings defy the static view of rentier states and reveal that the persistence of renterism and economic diversification are not mutually exclusive process. Moreover, it underscores that SWF choices are influenced by established political systems and social coalitions, challenging the dominant view of sovereign funds as purely rational and apolitical entities. The thesis contributes to our understanding of the relationship between state investment funds, state-building and political power in rentier states.
List of tables and figures

Figure 1: Saudi Arabia National Government Debt (2011-2022) ................................................................. p.11
Figure 2: Saudi sovereign wealth and oil price (2003-2020) ................................................................. p.16
Figure 3: The Analytical Framework: SWFs as Tools of Regime Maintenance ........................................... p.102
Figure 4: Factors shaping policy networks and types of sovereign wealth funds ........................................ p.107
Figure 5: Saudi Fiscal Trends (1980-2000) ......................................................................................... p.137
Figure 6: Saudi Fiscal Trends (2000-2013) ......................................................................................... p.139
Figure 7: Private Sector GDP vs. Total Government Expenditure .......................................................... p.140
Figure 8: Public Sector Employment (2000-2013) ............................................................................... p.141
Figure 9: Private Sector Employment (2008-2013) ............................................................................... p.143
Figure 10: Brent Crude Oil Prices (2013-2020) .................................................................................. p.144
Figure 11: Saudi Fiscal Trends (2013-2020) ......................................................................................... p.145
Figure 12: Distribution of Saudi population by age groups (2016) ........................................................ p.146
Figure 13: Total rent income as % of GDP (1990-2020) ................................................................. p.149
Figure 14: Private Sector GDP vs. Total Government Expenditure (2003-2020) ........................................ p.153
Figure 15: The Public Investment Fund's organisational structure ........................................................ p.180
Figure 16: Vision 2030 objectives and the Public Investment Fund ........................................................ p.202
Figure 17: PIF Investments in Saudi Arabia by Sector ........................................................................ p.206
Figure 18: Sites of Accumulation in Gulf Rentier States ...................................................................... p.208
Figure 19: The Network of PIF Investments ......................................................................................... p.213
Figure 20: The Network of PIF Investments and Family Conglomerates ............................................. p.215
Figure 21: The Geography of the PIF's Portfolio in 2015 ..................................................................... p.246
Figure 22: The Geography of the PIF's Portfolio in 2022 ..................................................................... p.246
Figure 23: PIF International Investments by Sector in 2015 ................................................................. p.260
Figure 24: PIF PIF International Investments by Sector in 2022 ........................................................ p.260
Figure 25: FDI inflows in Saudi Arabia (2000-2020) ............................................................................. p.273
Figure 26: Saudi Arabia and OECD CO2 emissions per capita (1990-2019) ........................................ p.286

Table 1: Sovereign Wealth Funds Characteristics in Gulf States ............................................................ p.54
Table 2: SWF creation across Gulf states ................................................................................................. p.65
Table 3: Gulf SWFs and Transparency ................................................................................................. p.68
Table 4: Conditioning Factors for Policy Networks ................................................................................ p.106
Table 5: Compositions of the PIF’s board and committees ................................................................... p.177
Table 6: Selected PIF Subsidiaries .......................................................................................................... p.204
Table 7: Major Activities of Al Rajhi Holding Group ............................................................................. p.209
Table 8: Variation in PIF US Holding from Q1 to Q2 2020 ..................................................................... p.281
Acknowledgements

All significant projects accrue sizable debts, and this one is no exception. Ewan Stein, Charlotte Rommerskirchen and Lucy Abbott have gone so far and beyond the call of duty that I could never imagine completing this without their guidance. Ewan asks big and deep questions that pushed me to make my argument ever more precise and (I hope) clear. He refused to let me ignore the role of ideology or did not shy away from discussions about the abstract contours of political power. More importantly, Ewan consistently pushed me to pursue and chart my own path, and I am particularly grateful. Charlotte spent countless hours going over my work, from chapter drafts to conference papers and grant proposals, and I thank her for giving my ideas such close attention. She demands rigour and clarity of thought, which immensely shaped this thesis. Above all, Charlotte is exemplary in all ways of what students imagine becoming when they idealise academia: a person of character and great intellect who can talk macroeconomics, navigating the peer-review process and how to live the good life. Finally, Lucy played a pivotal role in this endeavour. She provided consequential and sharp insights, which pushed me to pay close attention to my preconceptions consistently and inevitably helped to sharpen my thoughts. Her rigour and contribution to this project are only matched by her invaluable life advice and discussions we had along the road. My friends and family who heard of you know how grateful I was to be working with such a team of knowledgeable and supporting academics. Much of what is good in the thesis is to their fault; much of what is not is a result of me being too stubborn to take their advice.

I am also much indebted to my good friends and colleagues Salvatore Barilla and Katherine Gillespie. Our weekly meetings over a dram at the Scotch Malt Whisky Society to discuss (or complain) about the twists and turns of graduate studies developed into a friendship beyond the realm of academia that led us to multiple memorable adventures, from late night laughs around a fire in the Scottish Highlands to shivers in the winds of the Canadian winter. I am truly thankful for our friendship. You made Edinburgh my home. Tremendous thanks go to Nicolas Viens for his invaluable contribution. I hold dear our Smith-and-Hume friendship as we often met to engage in discussions on literature or concepts as well as
challenging each other’s work and ideas. Nicolas generously devoted much of his precious
time to meticulously reviewing my work with complete selflessness. It is rare that
scholarship and friendship go together so neatly.

My life partner Justine deserves special thanks. Anyone who has been around me while I
tried to complete something like this thesis will know that it isn’t often easy. She was the
one person to help me through the rough patches (and she knows how many there were)
and pushed me to persevere even when separated by an ocean. I’m grateful for your
reassurance that we could always move somewhere remote and open a coffee shop or a
bakery so I could reinvent myself as a barista or pastry chef. On top of that, our two cats,
Mr. President and Paul, gave me crucial moral, emotional and intellectual support, without
which I’d probably still be throwing away drafts of my first chapter.

Most of all, my parents, Esther and Denis, have my deepest indebtedness. They have
supported and encouraged me ever since I wanted to be a paleontologist when I was about
five or when moving across the ocean to Edinburgh to study international political
economy seemed like an absolute fantasy. Without their unfailing support, this project
would have never seen the light of day. Losing my father and best friend towards the end
of this journey makes completing this PhD and writing these last words particularly
significant. I cherish the time we spent laughing and enjoying what at that time seemed like
the trivial moments of family life, the countless memories of our time on the golf course
or your unconditional encouragement to pursue my many passions. Your ”if one can do it,
I can do it” approach to life surely guided me throughout this journey and beyond. I only
wish I could have shared this finished product with you. I am sure you would have loved
it. Every single word lying on these pages is for you.

For Denis.
INTRODUCTION

In October 2021, thousands of fans gathered outside the stadium of Newcastle United FC as the Premier League confirmed the takeover of the football club by a consortium of investors led by Saudi Arabia’s sovereign wealth fund (SWF), the Public Investment Fund (PIF). The $410 million transaction brought Saudi Arabia into the Gulf ownership circles of top European football clubs alongside Manchester City owned by Abu Dhabi’s Sheikh Mansour bin Zayed and Paris Saint-Germain held by Qatar Sports Investments (Ahmed & England, 2021). Fifty years ago, when the PIF was set up, few would have expected the fund to become an influential global portfolio investor. The PIF was created in 1971 as an investment arm of the Ministry of Finance amid Saudi Arabia’s first Five Year Development Plan (1970-1975). The fund operated with around forty employees, and its activities remained limited to providing soft financing to newly created state-owned enterprises such as Ma’aden, Petromin or the Saudi Basic Industries Corporation (SABIC).

If the fund flew under the public and academic radar for more than five decades, the PIF has become one of the most significant and most impactful sovereign funds at home and bankrolls some of the world’s most influential acquisitions and investments since 2015. In 2016, the sovereign fund drew world-wide attention following a $3.5 billion investment in Uber. In 2022, LIV Golf, the PGA Tour rival golf league fully funded by the PIF to the tune of billions, poached high-profile PGA stars by offering eight or nine-figure contracts. Lucrative offers supported by the PIF also brought football superstars like Christiano Ronaldo, Karim Benzema or Neymar to clubs in the Kingdom by spending more than $950
million (Noble et al., 2022). Furthermore, the Saudi SWF holds multi-billion stakes in Amazon, Google, Visa, Disney, Nintendo or PayPal (England et al., 2023; Martin, 2022a). The PIF’s $45 billion participation in SoftBank’s techno-focused venture capital Vision Fund is the single largest commitment or investment ever made by any SWFs (Dixon et al., 2022a). At home, the SWF created more than 60 companies across various sectors and capitalised ambitious domestic projects like the $500 billion futuristic city NEOM in addition to the Red Sea and Amaala luxury tourist destination projects or Qiddiya, which aims to become the Kingdom’s capital of entertainment, sports and arts. The PIF has had a staff count surpassing 1 400 since 2022 and holds controlling interests in Saudi Arabia’s key industrial companies while being the main shareholder in the largest Saudi banks (PIF, 2022a; Scheck et al., 2019; Seznec & Mosis, 2018). This thesis unpacks the determinants of the PIF’s prodigious expansion since 2015.

The PIF’s upgrading has to be viewed against the backdrop of Saudi Arabia’s pursuit of economic adjustment. The resource-rich Kingdom is considered the rentier state archetype as it relies on selling natural resources for an average of more than 80% of government revenues (Nurunnabi, 2017). Rentier states rely on oil revenue to sustain themselves and allocate resources to their citizens through high government wages and large-scale public employment, lucrative contracts, heavily subsidised health and education systems, or the frantic creation of infrastructures. This ‘rentier social bargain’ leaves Saudi Arabia vulnerable to international economic fluctuations and the dynamics of global commodity markets (Gray, 2018; Hertog, 2017; Luciani, 1987; Moritz, 2020b).
In 2014 the oil market turned. With a 70% price drop between 2014 and 2016, the global economy faced one of the most significant and prolonged oil price declines (World Bank, 2018). The global oil markets abruptly reacted to a recalibration of supply, impulsed by technological advances and growing US shale production (Mirzoev et al., 2020; K. E. Young, 2023). Shale oil production significantly altered the declining trend in US crude oil production, rising from approximately 6 million barrels per day to 9.4 million in 2015 (H. Thompson, 2017). The Covid-19 pandemic intensified the downward trend in oil prices. The OECD (2020) went as far as to claim that “the oil price fall will aggravate existing vulnerabilities in oil-exporting developing countries and could push countries towards a tipping point of a macro-fiscal crisis, and social and political unrest” (p.4). Figure 1 exposes how Saudi Arabia’s government debt rose by more than 2100% between 2014 and 2022, swelling to $263 billion in 2022 from $11.8 billion in 2014.

**Figure 1.** Saudi Arabia National Government Debt (2011-2022)

Source: IMF 2023 World Economic Outlook
Despite a spike in 2022 amid concerns about a shortfall in global supplies, substantial downward pressure on oil prices is likely to continue given technology advances and escalating global climate actions (Bradshaw et al., 2019; Mirzoev et al., 2020; K. E. Young, 2023). By 2045, OECD demand is forecast to be around 13 mb/d lower than in 2019, largely offsetting increasing demand trends in non-OECD countries (OPEC, 2020). At the same time, heated debate over the future of energy systems is a flashpoint in societies worldwide. For instance, in 2020, the European Union committed to slashing the demand for fossil fuel from 50% to 5% in 2050 through the widespread use of renewable energy (Aleem, 2023). If oil production is likely to continue for years, considering that Saudi Arabia has production costs among the world's lowest, oil prices will likely decline in this low-demand scenario (Gross, 2023). At the same time, however, the Kingdom needs to enhance climate adaptation and diversification to preserve its habitability. Saudi Arabia stands to suffer from a warming world through extreme temperatures and rising sea levels, and the adverse effect these will have on populations, food security or infrastructure (Gross, 2023). Rising temperatures are a further burden to the arid and already water-stressed¹ country, whereas desertification and rising sea level will impact both urban areas and precarious domestic food production (Pouran & Hakimian, 2019; Zumbraegel, 2022).

If a fiscal squeeze affects the revenue side of the Saudi government budget, mounting demographic pressure calls into question the sustainability of existing social welfare. The last Saudi demographic survey exposes that of the 20.1 million Saudi nationals, 49% were

---

¹ Zumbraegel notes that “all GCC nations are currently under the water poverty threshold of 500m³ per capita of water available annually” (2022, p. 40).
under 25 (Kingdom of Saudi Arabia, 2016a). Besides, the Kingdom faces youth unemployment issues. For instance, youth unemployment rate (15-24 years of age) was already up to 41% in 2014, and labour participation among Saudis of the same age group was 14% (Mckinsey Global Institute, 2015). Rapid demographic growth has pressured the government to provide more public services (education, utilities, government employment, real estate, etc.) with lesser revenues from the hydrocarbons sector. The lack of jobs and high unemployment rates among young Saudis is seen as potentially jeopardising social stability (Hertog, 2017; M. C. Thompson, 2020).

Through this lens, incumbent elites are assumed to be less and less able to rely on a rentier framework to assure political survival. The IMF (2020) suggests that the Saudi oil-funded distributional system has reached a breaking point, leading to the urgent need to redefine the Saudi’ rentier bargain’ and reform the Kingdom’s political system. The Saudi government responded by implementing unprecedented economic reform policies to diversify the economy away from hydrocarbons, all under the umbrella of Vision 2030. This lavishly funded, wide-ranging diversification strategy projects Saudi Arabia as less reliant on oil and oriented towards private-driven growth. Vision 2030 primarily relies on the PIF to drive industrial upgrading, seed new ecosystems and create international strategic partnerships. According to the Vision 2030 document, the PIF will “help unlock strategic sectors requiring intensive capital inputs” and how “this will contribute towards developing entirely new economic sectors and establishing durable national corporations” (Kingdom of Saudi Arabia, 2016b, p. 42). The Saudi government presents the PIF as the critical orchestrator of domestic growth, job creation and economic diversification.
The SWF is the central tool to recalibrate the Saudi political economy envisioned by crown prince Mohammed bin Salman. Following the accession of King Salman to the throne in 2015, the new sovereign concentrated power in the hands of his son, Mohammed bin Salman (MBS). This emergence of new state institutions and political actors altered decision-making within the Saudi state but, more broadly, changed the lines of authority and power (Hanieh, 2018). MBS is the crown prince and prime minister but also serves as the chairman of the Council of Political and Security Affairs, the Council of Economic and Development Affairs (CEDA), and is chairman of the PIF; no other prince has ever held as many key positions and sway over the Kingdom (Al-Rasheed, 2021; Davidson, 2021; Hubbard, 2020). As part of this rise to power, MBS took the leadership in re-articulating Saudi Arabia’s economy; the crown prince personifies the Vision 2030 plan he introduced in an interview with Al Arabiya in April 2016. During the interview, the crown prince, speaking about the PIF, stated that “the income of the kingdom of Saudi Arabia will be generated from investment instead of oil” and stressed that “there will be no investment, movement or development in any region of the world without the vote of the Saudi Sovereign Fund” (Al Arabiya, 2016).

The rise of the PIF epitomises a radical shift in Saudi Arabia’s approach to sovereign wealth management. For the past five decades, the Saudi central bank, the Saudi Arabian Monetary Authority (SAMA), has been the guardian of the Kingdom’s sovereign wealth (Banafe & Macleod, 2017; Bazoobandi, 2013). SAMA has long been acknowledged to follow received wisdom surrounding commodity-based SWFs. The Saudi commodity-based SWF has been a passive global investor deploying surplus capital to serve various
macroeconomic objectives, including fiscal stabilisation and intergenerational savings. This is operationalised through a conservative investment strategy built around low-risk assets in Western markets like US Treasury bills (Al-Hassan et al., 2013; Alsweilem et al., 2015; Banafe & Macleod, 2017; Bazoobandi, 2013).

Nonetheless, the PIF’s influence in Saudi Arabia’s political economy since 2015 is ubiquitous. Mohammed Al Tuwaijri, an ex-minister of economy and planning (2017-2020), PIF board member and one of crown prince Mohammed bin Salman’s top economic advisors, declared in 2018 that “Whenever oil is above our break-even point, this will all go to the PIF” (Raval & Kerr, 2018). From 2003 to 2015, SAMA’s assets under management (AuM) growth appears to follow the oil price trends. In line with Al Tuwaijri’s declaration, however, Figure 2 shows that as oil prices rebounded from 2016, SAMA’s foreign reserves declined from $732 billion in 2014 to $419 billion in 2023, their lowest level since 2010, all while Saudi oil income reached nearly $326 billion in 2022, a near-record windfall (Magdy, 2023). Comparatively, PIF assets increased 384%, from $190 billion in 2016 to $730 billion in 2023. Despite public debt rising by 221% in 2015, 123% in 2016 and continuing to grow between 40% and 21% until 2019 (Saudi Arabian Monetary Authority, 2017, 2020), PIF assets grew from $150 billion to $325 billion over the same period. Moreover, state assets like all-important Aramco shares are sold to raise cash for the SWF, whereas resources are moved from SAMA foreign reserve assets to the PIF to feed investment activities (Barbuscia, 2021; Jones et al., 2023).

\[\text{Data for 2023 were collected until March 2023.}\]
The PIF emerges as the Kingdom’s new and improved nest egg. Yet, PIF investments are not in long-term, low-yield US Treasury bonds but in technology firms, private venture capital funds, entertainment companies or pharaonic infrastructure projects. The PIF is proactively driving a nation-building project through active ownership, control and allocation of capital in the Kingdom or overseas. In the following chapters, I address the following questions: Why did Saudi Arabia’s PIF acquire such an important role in the Kingdom’s political economy since 2015? Conventional wisdom is that commodity-based SWFs are patient global investors created to manage trade surpluses of excess commodity revenues (Aizenman & Glick, 2008; Al-Hassan et al., 2013; Alsweilem et al., 2015). Why, then, did the government overhaul its sovereign wealth management strategy during a period paradoxically marked by significant fiscal strain and dwindling oil revenue? The PIF has the mandate to overhaul Saudi Arabia’s economy, and, in this way, organically
intertwines with the Saudi rentier framework. This echoes to wider questions: To what extent and under what conditions can rentier states transform themselves? What are the implications of SWF development for established political institutions and social coalitions in rentier states? Thus, unpacking SWF expansion in the Kingdom pertains to questions related to how the ruling elite and the Saudi political economy, more broadly, can weather changing political, social and economic changes at home and abroad.

The remainder of this introduction proceeds as follows. The subsequent section briefly reviews the literature on the drivers of SWF design and use. On that basis, section two presents the analytical framework and the key theoretical concepts that underpin this study. Methodological remarks on case selection and data in section three are followed by a list of this work's specific contributions to the rentier state debate and political economy literature on sovereign wealth management. Finally, the introduction concludes with a brief overview of the content of the individual chapters.

**The Drivers of Sovereign Wealth Fund Choices**

The emergence of SWFs, large state-owned investment funds, is organically connected to the accumulation of surpluses from commodity revenues or trade surpluses. Commodity-exporting countries facing significant and prolonged commodity price booms often established SWFs to reduce the volatility of natural resource revenue and curb the effects associated with the absorptive capacity of the domestic economy (Al-Hassan et al., 2013; Alsweilem et al., 2015; Das et al., 2009). The latter might include, for example, Norway's
Government Pension Fund, Kuwait's Investment Authority or Alaska's Permanent Fund. In other cases, SWFs are located in countries relying on an export model of goods and services. These countries accumulate vast liquidity reserves, mainly in US dollars, which can be invested in the financial markets to cope with market volatility and avoid inflation or the local currency's appreciation (Bazoobandi, 2013). For example, one can think of Singapore's Government Investment Corporation, China Investment Corporation or Hong Kong's Future Fund. In both commodity and non-commodity SWFs, the frameworks on SWF governance highlight the benefits of structural independence from governments. At the same time, portfolios are mostly shielded from the domestic economy by deploying investments in the well-established financial markets of developed economies. The models of asset allocation mainly revolve around trade theory, factor endowment theory or the Dutch Disease hypotheses (e.g., Aizenman & Glick, 2008; Al-Hassan et al., 2013; Das et al., 2009; Gilson & Milhaupt, 2008).

A study by the World Bank, however, illustrates that since 2000, more than 30 sovereign development funds like the Saudi PIF have been established in countries of all income levels ranging from Ireland, Turkey, India or Gabon (Divakaran et al., 2022). These funds operate under the so-called double bottom line: achieve domestic economic policy objectives while securing financial returns (Halland et al., 2016). In contrast to the predominant paradigm of SWFs as primarily created to manage trade surpluses or excess commodity revenues (e.g., Aizenman & Glick, 2008; Al-Hassan et al., 2013; Das et al., 2009), sovereign development funds have increasingly become "demand-driven" (Schena et al., 2018a), or, in other words, motivated less by the will to capture and invest surplus
wealth than the strategic logic of driving nation-building projects (Dixon, 2020b). In that sense, the PIF's expansion does not square easily with the received wisdom of SWFs as apolitical market-based investors capitalised through trade surpluses or excess commodity revenues, merely seeking to maximise risk-adjusted returns. Instead, such trends raise serious questions about the relationship between domestic politics and SWF choices.

Policymaking in the Saudi system has historically been highly centralised around the Al Saud ruling family, "who as monopolistic distributors of rents kept their clients separate and avoided substantive delegation of policy power to any collective" (Hertog, 2010b, p. 248). Following these observations, a stream of scholarship unpacks the design and use of SWFs in centralised political contexts. The assumption is that SWFs' governance and investment strategy consolidates the political dominance of ruling elites against internal and external threats (Dixon, 2020b; Hatton & Pistor, 2011; Shih, 2009). The governance framework can ensure that sovereign wealth management is directly accountable to the ruling elite to advance the interests of those elites. A centralised and autonomous state facing weakly mobilised private industrial interests is expected to allow the creation of developmental SWFs dominating the industrial landscape like the PIF (Braunstein, 2019a). Indeed, ruling elites may leverage SWFs to take minority stakes in companies controlled by the elite and their allies or controlling stakes in financial institutions to shape economic development (Grigoryan, 2016; Hatton & Pistor, 2011; Schwartz, 2012). Moreover, at the international level, SWFs signal cooperation and legitimacy by reinforcing capital flows to developed economies and presenting familiar investment structures (G. L. Clark et al., 2013; Hatton & Pistor, 2011). In addition, it can allow a regime to implement counter-
cyclical or speculative investment policies to protect the status quo and sustain political and economic authority (Dixon, 2020).

Theories on the politics of sovereign wealth management predict that in a highly centralised polity, ruling elites can create and use sovereign funds to pursue their interests independently of demands from social groups (Braunstein, 2019a). In parallel, rentier state theory, the main theoretical paradigm in analysing Saudi Arabia's political economy, posits state autonomy as a result of external state income. In some regards, all true of Saudi Arabia, these predictions provide a helpful way to think about sovereign wealth management in the Kingdom. However, they paint with too wide of a brush to capture the complexities and nuances of Saudi policymaking and, thus, the effects of political institutions and state-society relations on SWF choices.

One key development in rentier state theory is decomposing the 'state' and 'society' concepts rather than treating them as aggregates. Instead of being homogenous, the Saudi polity comprises a system of segmented and hierarchical power centres. Across this state-building process, intra-elite power balancing games and factionalism were intimately related to institutional design; the institutional strongholds usually consist of a prince, their offspring and followers from various societal groups (Al-Rasheed, 2005; Herb, 1999; Hertog, 2010b; Yizraeli, 1998). State expansion and patrimonial politics also allowed the emergence of patronage appointments and many parallel formal and informal networks tying the state and societal actors.
Furthermore, historical analyses of Saudi state-building expose how state autonomy is not constant over time but decreases under the increasing weight of established structures. When oil prices softened in the 1980s, the Saudi government attempted to implement financial reforms, direct taxation, new labour regulations and cuts in subsidies, loans and various support programs. Chaudhry (1997) shows how protests from business elites through informal contacts with the state reversed the government’s efforts to trim distributive programs. In the wake of the second fiscal crisis of the 1990s, the record of economic reforms in the early 2000s (Saudi Arabia’s accession to the WTO, Saudization policies and reform of foreign investment regulations) was mixed. Hertog (2010c) argues that it is "the clientelist and fragmented nature of the Saudi system, both formal and informal, and the accompanying dominance of vertical links that explain specific coordination failures and bureaucratic capacity problems" (p.246). Moreover, following the 2014 oil price crash, the Saudi leadership cut financial allowances for civil servants and military personnel and cut energy subsidies. Following anger and complaints from societal actors, the government ultimately backed down on several welfare cuts (Gross & Ghafar, 2019).

This accentuates two fundamental patterns in Saudi state-society relations. Access to the state is 'often via specific and parallel channels, not general, aggregate or public ones’ (Hertog, 2005, p. 137). Moreover, in a path-dependent trajectory, the socioeconomic entitlements created through state expansion reduce the government's leeway and shape political and economic outcomes. The parallel power bases of princes made decision-making and policy coordination difficult, whereas co-optation of groups in society means
state agencies and political agents are often tied down in asymmetrical and reciprocal relationships. While guaranteed public employment for Saudi nationals is central to the budget, patronage over the Saudi private sector takes the form of partial protection, formal and informal perks and favours. This privileged position is often based on personal proximity to the government.

Therefore, as existing theories of sovereign wealth management assume a unified ruling elite and predict that a centralised polity can act independently of socio-political actors, the literature on the Kingdom's political economy exposes a fragmented political landscape, formal and informal patronage structures within state-society relations, and the reduced manoeuvrability of the Saudi state in economic policymaking caused by entrenched institutional fiefdoms and the distributive nature of state-society relations. This diagnosis of the need for greater social, historical and institutional specifics leads to a closer investigation of the regime's and state-society alliances' political dynamics in the context of SWF development in Saudi Arabia's distributive system.

**Sovereign Wealth Funds as Instruments of Regime Stability**

The underlying theoretical premise of this thesis is that SWF design and use is an inherently political process and thus embedded in power struggles and state-society relations. As indicated, the governance framework can be leveraged to defuse intra-elite rivalries and ensure that sovereign wealth management remains directly accountable to the ruling elite (Hatton & Pistor, 2011). Moreover, sovereign development funds like the PIF aim to secure
risk-adjusted financial returns and achieve domestic economic policy objectives. Promoting economic growth and development in the form of an SWF can be closely related to legitimising and sustaining existing structures of political authority but also involves balancing the interests of ruling elites and business interests (Braunstein, 2019a; Dixon, 2020b; Haberly, 2017). A sovereign development fund provides an additional tool to maintain ruling bargains based on the redistribution of resource rents (Grigoryan, 2016). In this perspective, the thesis’ starting point is the conceptualisation of SWFs as strategies (or tools) for regime maintenance (Dixon, 2020b; Shih, 2009). The governance framework, accumulated capital or control over parts of the domestic economy through a sovereign development fund provides the ruling elite with the means to control patterns of economic development and sustain patronage structures embedded in state-society relations, thus providing and maintaining regime stability. Operating at the most general level, however, the theoretical logic of SWF as a tool of regime persistence underappreciates the institutional constraints created by rentier or 'allocative' governance. What is lacking, in other words, is taking into consideration the mechanisms underpinning rentier systems.

_A Political Economy of Regime Stability in Saudi Arabia_

An analysis of regime stability cannot be done in the abstract; each regime has built a particular strategy for survival based on specific institutions, coalitions and international alliances. A long-standing debate within political science scholarship concerns the durability of the monarchical states of the Gulf region. Islam has also often been brought into the discussion of stability in Saudi Arabia. Madawi Al-Rasheed (2006) emphasises
that religion is the ideological backbone of the regime and that it penetrates every sphere of society. From the 1960s and 1970s, Yizraeli (2012) argues the Saudi rulers considered the narrative of custodianship of Islam’s holiest cities and the institutionalised clerical establishment as a guard against secular anti-Saudi ideologies such as Nasserism and an instrument for social control amid the creation of a state with modern economic infrastructure. In addition, scholars like Ross (2001) or Bellin (2004) suggest that oil wealth bolsters regime persistence by funding repression. The Saudi regime used oil wealth to build an extensive set of institutions of coercion to maintain domestic order, mainly through the Ministry of Interior and the Mutaween, a police force charged with enforcing Shari'ah as defined by the government (Gause, 2018).

Without denying the weight of institutions of coercion, ideological forces or other social authorities in the dynamics and durability of the Saudi regime, it is widely maintained that the regime-led state formation and oil-funded nation-building produced a flexible form of rule that has survived the challenges of development and conflict, which best explain the survival of monarchical regimes in the Arabian Peninsula (e.g., Bank et al., 2022; Herb, 1999; Heydemann, 2007; Lucas, 2004; Smith, 2006; Smith & Waldner, 2021). In this sense, the 'rentier state thesis' or the oil-funded state formation and co-optation of socioeconomic actors, appears to be the most conspicuous method employed by the Saudi regime to maintain power. This is not to argue that the only thing that shapes regime survival is the co-optation of social forces. Clearly, the Saudi state relies on its coercive apparatus to repress dissent and still leverages its image as a 'natural' leader of the Muslim

---

3 The most salient examples are the murder of Jamal Khashoggi in 2018, the repression of women’s right activists and youth activism (Al-Rasheed, 2021).
world. Nonetheless, Bellin (2004, p. 148) highlights that it is "exceptional access to rents" that has "nurtured a robust coercive apparatus in many states across the region [Middle East]". Besides, when faced with protests across the Middle East amidst the "Arab Spring", the Saudi government first turned to co-optation mechanisms with handouts worth more than $130 billion (Kamrava, 2012).

Scholarship on the political economy of regime maintenance in the Middle East substantiates the claim that persistence most often depends on sufficient economic resources, which in the Arabian Peninsula are largely composed of hydrocarbon rent (Anderson, 1987; Beblawi, 1987; Richter, 2007). The rentier state model posits that regimes with access to significant externally derived income build institutions and form social alliances aimed to maintain their rule, conceptualised as a rentier social pact (Beblawi, 1987; Crystal, 1995; Gray, 2018; Luciani, 1987, 2007). The enormous revenue windfall of the 1970s allowed the Saudi ruling elite to build a patronage-based system with specific social groups, usually constituted of large-scale public employment, free healthcare and education, and heavily subsidised public utilities (Hertog, 2017; Krane, 2019a). Besides, the business community became highly dependent on government contracts, procurement, subsidies and protection from foreign capital (Kamrava et al., 2016).

Any attempts at economic reforms must confront deep-seated political and economic rent-seeking institutions, which ultimately restrict the regime's ability to reshape the state (Hertog, 2010b; Kamrava, 2018). As such, political and economic outcomes are influenced

---

4 For instance, Saudi Arabia’s Vision 2030 blueprint addresses this point, as it states that “Saudi Arabia…(is) the heart of the Arab and Islamic worlds” (Kingdom of Saudi Arabia, 2016b, p. 6).
by width and depth; the more organisations and individuals need to be mobilised across state and society, the more difficult it is to produce results (Hertog, 2010c). The notion of ‘segmented clientelism’ (Hertog, 2010c) allows us to get a conceptual grip on the patterns of policymaking underpinning SWF development within a distributive framework. The Saudi state consists of multiple parallel institutional strongholds which have grown on oil income, permeated by informal networks which coordinate and communicate little. State segmentation and patron-client networks gave veto power to a variety of actors (bureaucratic, royal, business elites, and others), often resulting in resistance or interagency feuds over economic development.

The rentier state model further accentuates the role of external sources of revenues acquired mainly through the sale of hydrocarbons. Beyond domestic politics, control over these resources has given the state (and the incumbent elites) a measure of influence on the world stage, particularly with the 'Western core' or other industrialised economies (Aarts, 2004; Hinnebusch, 2015) and the ability to buy a large amount of weaponry (Baumann, 2019; Hanieh, 2018). In turn, the so-called rentier social bargain increases dependence and vulnerability to fluctuations in the global environment. The rentier state paradigm posits that the reduced ability to perform on the criteria of welfare and patronage increases the likelihood of regime breakdown. Through this lens, the challenges of sharp fluctuations in commodity prices and revenues, as well as the changing composition of the global energy mix puts the rentier state under serious strain (Ulrichsen, 2016). Incumbent elites are assumed to be less and less able to rely on the rentier dynamic to assure regime survival. This implies developing alternative sources of income and attracting foreign investment,
where domestic politics and external resources of regime stability intertwine. The global environment represents both threats and opportunities, ultimately constraining or enabling rentier states.

The Central Argument: SWFs as Instruments of Regime Stability in Rentier States

If one assumes a model of regime stability as a function of distributive power, then lower levels of material allocation will ultimately entail, ceteris paribus, an increased likelihood of instability and regime breakdown (Kendall-Taylor, 2011; B. Smith, 2017). Through the lens of rentier state theory, acute changes in economic conditions, such as sharp declines in oil prices and the impending energy transition, are likely to erode the regime's ability to maintain patronage networks and co-opt societal actors, thus threatening the breakdown of Saudi Arabia's model of regime stability. If we take a step back, the rentier state model has been deemed outdated multiple times since the mid-1980s oil-induced economic downturn. Every fiscal crisis prompts speculation that the social contract underpinning this model is on the verge of collapse and necessitates a thorough overhaul (Hertog, 2005; Nonneman, 2005). Yet, Eibl et al. (2022, pp. 146–147) denote that despite decades of grandiose plans for economic diversification as well as new taxation schemes\(^5\) to supplement state revenues, "the very generosity of GCC social contracts has put important limits on the promise of economic diversification". This has led to a situation where vast patronage

\(^5\) For instance, Krane’s (2019b) work on energy subsidies and taxes in Gulf oil monarchies demonstrates that the imposition of taxes and retraction of various subsidies is a result of regimes “streamlining bloated social contracts to contain the distortionary effects of policies that have remained in place since the 1970s” (p.24). Nonetheless, instead of clearing a path toward post-rentier governance Krane (2019b) argues that these developments embody a “top-down imposition of a new social contract featuring increased regime flexibility in social policy” (p.24).
networks have become difficult to dismantle, making reforms increasingly challenging (Eibl et al., 2022; Hertog, 2018; Mogielnicki, 2019b).

Facing a fiscal squeeze and an uncertain energy landscape, the Saudi government increasingly looks toward SWFs as sources of non-oil revenue and means for enabling greater private sector involvement in the economy; traditional understandings of sovereign development funds like the Saudi PIF include diversification through catalysing investments, seeding new economic sectors and creating spillover effects (Braunstein, 2019a; Divakaran et al., 2022; Halland et al., 2016). Nonetheless, the economic dimension of sovereign funds remains highly intertwined with the Kingdom's politics. Gray (2011, p. 29) points out that "rentier-like political outcomes may accompany economic development and diversification. Whether or not socioeconomic development per se is driving such plans, politics still underlie them, including rewritten varieties of older rentier bargains". The political instrumentalisation of sovereign funds in domestic and international economic diversification is thus crucial for understanding SWF development in Saudi Arabia and its broader implications for the global economy.

Proponents of SWFs as mere mechanisms of economic development neglect the very rentier characteristic inherent and indeed central to sovereign funds. More specifically, I argue that past straightforward economic diversification, SWF development in Saudi Arabia provides an alternative tool for regime stability. In its most simple form, a commodity-based SWF turns a finite natural resource revenue into a state-controlled financial asset which helps sustain broader allocative mechanisms (Dixon et al., 2022a;
Grigoryan, 2016; Hatton & Pistor, 2011; Schwartz, 2012). Incumbent elites can then maintain control over wealth-generating assets, either through domestic or international investments, to earn risk-based returns on investments, which can be deployed to bankroll state-led industrial transformation, support connected business elites or nascent national industries and further integrate Saudi Arabia into the international political economy. As such, SWF development creates alternative mechanisms assisting the articulation of a 'financialised rentier bargain' (Karas, 2022) amidst deepening financialisation and a looming post-carbon economy. Only the type of rent and how it flows have changed; structures of political authority and the rentier bargain beneath remain largely in place.

Methodology and Research Design

While existing scholarship on the domestic political drivers of sovereign wealth management focuses on structural economic forces and institutions (Braunstein, 2019a), the Saudi political landscape accentuates the need for a finer-grained analysis of how domestic politics influence SWF choices. Indeed, the notion of segmented clientelism (Hertog, 2010c) accentuates the fragmentation of the state and widespread patronage networks. As such, the state "should not be understood as a unified actor with unified interests, but rather as an institutional conglomerate which, although strongly hierarchical in many respects, creates sets of different, 'local' material stakes within itself and parts of it and societal actors" (Hertog, 2005, p. 115). Moreover, As the state dominates socio-political life, it left little space for developing highly institutionalised peak business associations. Instead, state-business interactions tend to develop through the recirculation
of hydrocarbon revenues resting on particularistic techniques of influence and networks based on proximity to the state and ruling elite.

These dynamics underline an essential methodological point. If the approaches connecting SWFs to the political dynamics of the regime (Dixon, 2020b; Shih, 2009) and state-society relations (Braunstein, 2017, 2019b) calls for an in-depth analysis of the regime as well as interactions between state and business through formal institutions of business representation, it has also created unintentional blind spots; conflicts and coalitions within the ruling group and patronage structures within state-society relations are often submerged in the analysis of organising features of generic groups and organisations such as the 'state', 'chambers of commerce' and 'private sector'. An approach viewing the' state' and state-society relations as a network of compromises between social and political actors is more appropriate to unpack the political dynamics underpinning sovereign wealth allocation.

To tackle this, the thesis adopts a micro-oriented approach (Migdal, 2001; Thelen, 1999). The research delineates a sociology of SWFs through the perspective of social network analysis (SNA). Development in rentier state literature recommends breaking down the concepts of 'state' and 'society' instead of viewing each as cohesive aggregates (Hertog, 2010b; Moritz, 2020b). Instead of working exclusively with macro-aggregates such as 'state' and 'society' or treating the state and society as undifferentiated and autonomous actors, this study gives weight to the influence of political agents, alliances, coalitions and conflicts among the components of the state and society to build an explanation of political and economic outcomes. Moreover, scholars like Heydemann (2007, p. 27) note that
network polities have developed in the Middle East as modes of regime maintenance”. This thesis thus leverages SNA as a methodological tool to disaggregate SWF analysis and investigate the socio-political networks that structure its development. This line of inquiry focuses on social actors interacting with one another and how those interactions constitute a political structure that can be analysed (Knoke, 1990; Wasserman & Galaskiewicz, 1994). If this thesis adopts SNA, it is not through the quantitative social network and graph theory but rather as a qualitative political structural perspective (Knoke, 1990). The research does not use SNA as a theory of social interaction, nor does it use its quantitative network measures such as homophily, centrality, distance, cohesion or clustering coefficient.

Moreover, acknowledging the effects of path dependency exposes how decision-making structures established themselves in the Kingdom upon oil becoming a significant resource and its repercussion on the bureaucratic apparatus and state-society relations. It also reveals how they are reproduced yet also segmented across time and to what extent they wield mechanisms which secure the perpetuation of lines of authority despite changing internal and external contexts. Mindful that the modern Saudi state was in many ways decisively shaped in its first two decades, and in many regards as much by personality as by structural forces (Chaudhry, 1997; Hertog, 2010c; Yizraeli, 2012), the thesis looks at how political agency and institutional constraints within specific political contexts shape SWF governance framework and investment activities. In other words, the research works backwards from the shift in the PIF's governance framework and investment activities in 2015, using theoretical claims about political-economic processes involved through the prism of segmented clientelism (Hertog, 2005, 2010c) coupled with a systematic search for
confirming or disconfirming evidence. The thesis builds on the collection of relational data (contacts, ties and connections of individuals and/or firms) and a combination of qualitative data analysis and social network analysis to develop a nuanced understanding of the complex ways in which agents (ruling elites or socioeconomic actors) and structure (inherited institutions, social coalition or other historical formation) interact to shape political and economic outcomes.

**Data Collection**

Researching the topic of sovereign wealth management in Saudi Arabia poses particular challenges. To begin with, as this thesis makes clear, there is an inherent opacity to the operations of the PIF and surrounding the activities of SWFs in general. Like many institutional investors, sovereign funds tend not to reveal their asset allocation strategy to keep an edge over competitors. Moreover, the movement of large sums of money over the financial market also precludes the funds from disclosing the exact allocation and timing of investments for systemic reasons (Cummine, 2016). Sovereign wealth management, in general, is a secretive process sensitive to political exposure across political regimes.

The nature of the economic decision-making process in Saudi Arabia also accentuates this opacity. Government decision-making is often secretive and "top-down", with princes formulating and implementing policies behind closed doors. Nonetheless, transparency in policy and decision-making appears to be growing due to the convergence of increasing numbers of government and independent actors in the policymaking arena (Hertog, 2010b;
M. C. Thompson & Quilliam, 2022). Moreover, as part of a push to attract foreign investors in the context of low oil prices and socioeconomic pressures since 2014, the Saudi Vision 2030 reform plan emphasises the Kingdom's commitment to improving transparency and accountability of government agencies (Kingdom of Saudi Arabia, 2016b). Increased disclosure and transparency are part of a broader attempt to attract foreign investment and fill a financing gap in economic transformation. Beyond investors' requirements, disclosure and transparency build trust and contribute to the legitimacy of Saudi Arabia. It signifies that the Kingdom is open for business by creating the conditions that better accommodate financial markets and global portfolio investors and demonstrate an attempt to defuse political risks that might threaten the risk/return targets of global asset managers (Braun, 2022a; Gabor, 2021; Schindler et al., 2022).

The other side of the coin is that this movement towards greater transparency might be restricted or compartmentalised to targeted parts of the policymaking process, which do not pick up on most of the dynamics at the core of the political process. For instance, in the early 2000s, King Abdullah and the Saudi Arabian General Investments Authority (SAGIA) sponsored the "10 by 10" initiative to get the Kingdom within the top 10 in the now defunct World Bank's 'Ease of Doing Business' ranking by 2010. This was part of an international PR campaign to attract foreign investment, drive economic reforms and accession to the World Trade Organization (WTO). As a result of the program, Saudi Arabia jumped from 67th in 2005 to 16th in 2009. SAGIA's initiative targeted reforms that corresponded precisely to the indicators of the World Bank index, which in many instances did not capture the complexities of policy implementation. Simultaneously with Saudi
Arabia's rapid rise in the rankings, the private sector continued to deplore bureaucratic lethargy and the pervasiveness of multiple investment obstacles (Hertog, 2010c; Lacey, 2010).

Mindful of these dynamics, data collection was deployed through different channels combined to triangulate and cross the information obtained. Triangulation strengthens the validity of the data collected and captures different dimensions of the same phenomenon. Moreover, by tracing a sociology of sovereign wealth management in the Kingdom, the thesis supplies a way to overcome the obstacles posed by the opacity characteristic of the allocation of sovereign wealth. The thesis goes beyond merely analysing SWF capital allocation by explaining the impact of specific institutions, societal groups and ingrained social networks on SWF governance and investments. This strategy requires a combination of various data sources on the fund's governance, portfolio and targeted firms as well as on the agents forming these structures.

To contribute to analysing the PIF's structure and use, the research relied on Standard and Poor's Capital IQ database. The database provides sophisticated data and analyses on governance and investments on more than 62,000 public companies and 4.4 million private firms. The database covers 99% of the global market capitalisation. Capital IQ offers detailed data on more than 60 public investments carried out by the PIF between 2004 and 2019. Besides, it provides exhaustive information on the fund's governance and actors involved in the management structure. It reveals actors holding board positions or involved in executive management, cross-memberships in other organisations such as political and
corporate affiliations, and a history of previous positions held in political and corporate domains. The research also leverages the Orbis database from Bureau Van Dijk. Orbis offers comprehensive financial information and detailed corporate ownership structures on more than 400 million companies worldwide. The comprehensive database thus provides this research with extensive primary data on PIF-targeted firms, namely shareholders, the actors forming boards of directors and corporate structures, allowing comparable information to identify cross-memberships, interlocks and political connections.

Furthermore, the Saudi Stock Exchange (Tadawul) database provides market data on all trading activities on the 203 publicly traded companies listed on the Saudi Exchange. The database offers historical data on prices for all instruments traded on the Tadawul, dividends, but also substantial shareholders (a person holding 5% or more), total holding percentage on the trading day, history of substantial shareholders, board of directors and senior executives and history of the board of directors and senior executives. The thesis also leverages the US Securities and Exchange Commission (SEC) EDGAR database containing millions of companies and individual filings from investors and corporations, which must be entered into the SEC’s register of companies. For instance, the SEC Form 13F is a quarterly report required to be filled by all institutional investors like sovereign funds with at least $100 million in assets under management. It discloses equity holdings and variations in holdings over previous quarters. To assess the external pressures Saudi Arabia face, databases from the IMF and World Bank are reliable and established data sources on multiple macroeconomic and political indicators in various countries, including Saudi Arabia. The dimensions underlying the methodological logic of the databases
received particular attention throughout the research process. Indeed, the thesis paid particular attention to the definition of the concepts, target population, variables and terminology underlying the data and the information describing the limitations of the data.

Besides, the documentary analysis makes a vital contribution to the research project. Therefore, primary and secondary documents were used. Most of the data analysed in this thesis emerge from primary sources providing first-hand evidence of an occurrence (J. Gross, 2018). For this research, documents produced by the Saudi government or the PIF, including official reports or statements, statistical information, acts, decrees, and other textual material, were collected. The research also relies on publicly available official documents from international organisations like the IMF and the World Bank and company websites, documents, and annual reports. Moreover, the research also uses secondary sources. The academic literature provides the research with substantial and rich datasets on Saudi Arabia's socioeconomic and political landscapes. For instance, the thesis relies on exhaustive scholarship unpacking intra-elite contestation, the political economy of economic reforms, and the private sector's evolution. To ensure the quality and relevance of the qualitative data gathered and analysed, as suggested by Bowen (2009), the original purpose of the document, the target audience, and latent content (tone, style, agenda, facts or opinion) will be critical to a precise and accurate research process. To face this, O'Leary (2017) proposes a process to assess the authenticity and quality of the documents and data collected through an exhaustive exploration of the document's origin, agenda and endogenous bias by investigating the background behind the texts through the style, tone or by questioning the reasons or the context behind its creation.
Contribution to the Literature

Having laid out the analytical framework and the empirical methodology, this section specifies how the thesis contributes to the literature on rentier states and the broader political economy scholarship on state-led investment funds. First, my study's investigation of sovereign wealth management in the Saudi case illuminates some broader questions in recurring debates in political science related to rentier states. These questions include: What are the limits of the rentier state political and economic organisation model? What is the capacity of rentier states to adapt and metamorphose? Very few rentier states have succeeded in surpassing their reliance on hydrocarbons. The few exceptions to this trend are mid-tier rentiers, such as Malaysia, whose yearly resource rents per individual hover around a few hundred dollars. On the other hand, high-rent countries like Saudi Arabia and the other Gulf monarchies\(^6\) continue to rely heavily on revenue generated from oil despite implementing diversification strategies for several decades (Hertog, 2017).

With a shifting global energy mix, the increased volatility of oil markets and sustained demographic pressure, scholars have underlined the unique challenges of economic adjustment the Saudi wealth-distribution system now faces. Diwan (2019) underlines how the prospect of political-economic reforms in Saudi Arabia is divided into two scenarios: (1) the inadequacies and inherent limits of the rentier state model to mutate will necessarily usher a doomsday scenario and (2) the Kingdom can overcome the looming breakdown by

\(^6\) Hertog (2017) sets the cut-off point for high-rent countries at $3000 whereas mid-rent countries are those with rents per capita between $500 and $3000.
moving from a mono-sector oil-dependent economy to an OECD-like private-driven and knowledge-based economy. Both perspectives, however, carry an underlying rigid conception of rentier adaptation. This view fails to capture rentier states' capacity to adjust to globalisation's ongoing dynamics (Gray, 2011). The contemporary practices of rentier policymaking have expanded beyond hydrocarbon rents and the theoretical boundaries assumed by rentier state theory. For instance, Eibl and Malik (2016) associate trade liberalisation and rentierism; Middle Eastern governments with considerable distributive responsibilities generate rents through compartmentalised and targeted economic liberalisation. Mogielnicki (2021, p. 3) argues that beyond their economic dimensions, Gulf governments "have employed free zones to generate new rent streams, encourage rent-seeking behavior, and accomplish other political objectives". These 'late rentier' (Gray, 2011) developments do not signal a reduced regime reliance on rents or the demise of rentier or 'allocative' governance.

SWFs are the central mechanism for managing all-important hydrocarbon revenue and are ubiquitous across Gulf monarchies’ political economies. As such, a comprehensive understanding of the political economy of Gulf countries cannot be achieved without a thorough examination of SWFs. Despite their critical role, they are nonetheless conspicuously absent from existing typologies of rents and academic literature on the evolving rentier frameworks. My thesis contributes to rentier state debates by developing

---

7 Discussion of rentier policymaking in overwhelmingly revolve around rents extracted from hydrocarbon resources. However, there are, of course, other forms or rents that regimes can use to stabilise their rule: these include regulatory rent, remittances, geopolitical rents, foreign aid and commercialized rents (e.g., Badia-Miro et al., 2015; Eibl & Malik, 2016; Mogielnicki, 2021; Peters & Moore, 2009). All these types of rents can be tapped by the state and then redistributed according to various political criteria, among others, with the goal of power maintenance.
the theoretical argument that sovereign funds are at once centrepieces to diversify Saudi Arabia away from fossil fuel and simultaneously alternative mechanisms to sustain the rentier state. I argue that centralised control over SWFs is a mechanism which introduced a new form of statecraft and enabled the re-articulation of a more flexible rentier bargain between state and society. In other words, my thesis suggests that social bargains are more fluid and flexible than portrayed in rentier state scholarship. The conception of SWFs as tools of regime stability reflects the paradoxical combination of expanding the state's role in the economy while opening up new rent streams for politically connected firms through public-private partnerships (PPP), large-scale infrastructure projects, the development of new ecosystems and support of national champions. Working from the Saudi case, my thesis offers a novel conceptual avenue for examining the multi-layered SWF development in rentier economies and the complex (and often counterintuitive) nature of advanced rentierism.

Secondly, my thesis advances our understanding of the political-economic drivers underpinning the design and use of state investment funds and thus relates to broader debates within the fields of IPE and comparative political economy (CPE). Since the 2008 Global Financial Crisis (GFC), it has been widely maintained that states in advanced economies might drive financialisation for political purposes (Krippner, 2011; Petry, 2021; Schwan et al., 2021; Trampusch, 2015). Yet, the political function of financialisation in emerging market economies (EMEs) remains neglected in IPE and CPE literature (Karas, 2022). Karas (2022, p.32) argues that "while there is ample evidence for the destabilising effects of financialisation on EMEs, it is neither a sui generis process nor simply externally
imposed; just as in advanced economies, financialisation also fulfils political functions in EMEs, strengthening the power of some state actors and public-private interest coalition over others while requiring active state agency". Financialisation has both required and encouraged economic responses by rentier states and impacted their external strategic environment (Gray, 2011). Nonetheless, Saudi Arabia and the Gulf states are largely absent from IPE and CPE scholarship on financialisation (see for exceptions Hanieh, 2018, 2019; Qanas & Sawyer, 2022).

If scholars have used the concept of 'financialisation' to describe the growing importance of financial activities as a source of profit in the economy rather than trade and commodity producing (Epstein, 2005; Krippner, 2011; Perry & Nölke, 2006; van der Zwan, 2014), Gabor (2021, p. 431) notes that "financialisation is no longer confined to the balance sheet of banks and non-financial corporations but becomes a state-mediated project". My thesis thus contributes scholarship surrounding the state's role in economic and financial development by including Gulf-based SWFs in the debate. Following the 2008 GFC, Gulf SWFs have been portrayed as sources of 'apolitical' patient capital (Deeg & Hardie, 2016; Lerner & Ivashina, 2019; Thatcher & Vlandas, 2016) injecting much needed capital in Western banks (Dixon et al., 2022b; Pistor, 2009). In the last decade, however, we have seen opposite trends arise; the "new Gulf sovereign wealth fund boom" (England et al., 2023) exemplifies that sovereign funds are now proactively driving nation-building projects through active ownership, control and capital allocation. Dixon (2020b, p. 2) denotes that the rise of strategic investment funds pursuing nation-building projects "implies a more active form of state financialisation in as much as the state is establishing
a financial institution that employs a shareholder value logic directly in national economic development and economic statecraft”.

In the same vein, my thesis illustrates how the prominence of SWFs in rentier states opens up a state-managed pathway to advance' state financial activism' (O’Sullivan & Rethel, 2023) in adapting to market logics of financialisation and simultaneously consolidate a financialised mode of regime stability. The research delineates Saudi Arabia's move toward a financialised rentier state. In this emerging paradigm, the deepening financialisation of the rentier social bargain through SWF-led nation-building projects and global integration has adapted to fit local institutional settings to sustain deep-seated patterns of state control over economic coordination and patronage networks under financial globalisation and looming transition to a post-carbon economy.

In doing so, this research moves beyond the putative conceptualisation of commodity-based SWFs as pure cases of long-term and apolitical asset allocators solely responding to 'passive' macroeconomic objectives, including fiscal stabilisation and curtailing the Dutch disease (Al-Hassan et al., 2013; Alsweilem et al., 2015). Instead, I contend that SWF choices remain very much defined by the antecedent path of political institutions and political coalitions in which the fund is established and operates. This claim does not mean that pursuing risk-adjusted financial returns or economic diversification is irrelevant, but rather that a profit maximisation paradigm and macroeconomic challenges cannot explain SWF choices alone. Beyond the purely economic and rational perspectives assumed in the notion of 'arm's-length governance' or asset allocation models, this thesis claims that
sovereign wealth management also hinges on formal and informal modes of governance and resource allocation generated from formal and informal interactions between state and society.

Similarly, asset managers are often portrayed as 'apolitical' portfolio optimisers merely replicating well-known benchmark indexes like the S&P 500 in following the theoretical insights of the efficient-market hypothesis (Mackenzie, 2006; Wigglesworth, 2021). Nonetheless, this perspective neglects that asset managers have become vastly powerful through their ‘infrastructural power’ (Braun, 2020), for instance, by setting the criteria on which countries are included in or excluded from their indices or investment ventures (Braun, 2022a; Fichtner et al., 2023; Gabor, 2021). Fichtner et al. (2023) point out that in 2015, the finance minister of Peru with other high-ranking government officials flew to New York to prevent Peru's exclusion from MSCI's emerging markets index. In turn, the index provider imposed financial reforms and conditionalities, resembling programs sketched by the IMF or the World Bank (Fichtner et al., 2023). My thesis thus follows the path marked out by IPE and CPE literature arguing that processes of financialisation are inherently political. (e.g., Braun & Koddenbrock, 2023; Karas, 2022; Krippner, 2011; Perry & Nölke, 2006; Schwan et al., 2021). It moves away from a conceptualisation of finance as an apolitical 'system for the allocation of resources' in favour of a conceptualisation as 'a form of authority' shaping social, political and economic relations (Braun & Koddenbrock, 2023, p. 5).

---

8 Fichtner et al. (2023) write that ‘Within a day following MSCI’s announcement that is was considering moving Peru to its frontier market index, the Peruvian stock market fell by 5%” (p.118). This represents the most significant one day decline.
Finally, the thesis contributes to existing theories of SWFs by introducing a broader methodological framework to unpack the political economy of sovereign wealth management in Saudi Arabia and in other Gulf rentier states. Only a few studies have systematically investigated the effects of state-society relations on SWF choices (Braunstein, 2017, 2019a, 2019b). If this scholarship provides rich analyses of the political dimension of SWF creation, how these historical political relationships shape governance and allocation of sovereign wealth remain to be substantiated. My thesis advances a disaggregated approach using the perspective of social network analysis.

The Saudi story points out how state apparatuses in developing countries, which account for most of the SWFs, are often internally fragmented and private sector ties tend to be sparse, particularistic and personalised (Bach & Gazibo, 2012; Diwan et al., 2019; Heydemann, 2004; Özel, 2015; Schneider et al., 1997). Inference on the effect of state-society relations on sovereign wealth funds through a focus on aggregates such as "private sector" or "chambers of commerce" can obscure the politically atomising consequences of political relationships found in many developing countries, which account for the majority of growth in sovereign funds (Braunstein, 2019a; Divakaran et al., 2022). Rather than being highly institutionalised with multiple access points to the state, state-business ties are often historically particularistic and personalised, operating not through aggregate and formal channels but through specific and parallel ones (Bach & Gazibo, 2012; Diwan et al., 2019, 2019; Heydemann, 2004; Kamrava, 2017; Özel, 2015; Schneider et al., 1997). Thus, the thesis adds to a growing literature on the domestic drivers of state investment funds (Braunstein, 2019a) and the political-economic implications of state-led transnational
capital (Babic, 2021; Babic et al., 2020) by showing how beyond a structural market-based logic, SWFs also hinge on an ancillary network of social institutions, often generated from complex formal and informal interactions between states and society.

Chapter Structure

Whereas chapter one reviews the literature on governance frameworks and investments of sovereign wealth, chapter two lays out the study's theoretical framework. Chapter three then unpacks the institutional setting in which the PIF was created and evolve. Chapters four to six investigate the political economy of the PIF's expansion since 2015.

The first chapter unpacks the drivers of sovereign funds' design and use. Departing from the predominant macroeconomics-based theories, the chapter argues that a sovereign fund's institutional framework and investment strategy cannot be entirely neutral and insulated from domestic politics: just like any entity from the state, SWFs are inherently embedded in internal political dynamics and state-society relations. Theories on the domestic political drivers of SWFs posit that highly centralised regimes can use their sovereign funds to pursue their interests independently of demands from socioeconomic groups, which tend to be under-institutionalised. Yet, working at the most general level, they miss the complexities and nuances of Saudi Arabia's rentier political economy and, thus, the effects on SWF choices. Accounts on the Saudi political economy highlight that if decision-making structures are highly centralised and incumbent elites might face fewer formal
obstructions in decision-making, the weight of the established distributive framework creates institutional constraints for wide-ranging economic reforms.

Chapter two discusses the analytical framework and research design of the thesis. The chapter introduces the conceptualisation of SWFs as instruments of regime stability through rentier state theory, the prism through which the thesis captures the institutional specifics of political dynamics of the regime and state-society links within a broader rentier framework and its effect on sovereign fund governance and investment activities. Working from nascent literature on the domestic drivers of SWFs, the chapter then brings in a sociological perspective to analyse the effects of domestic politics and state-society relations on sovereign wealth management in the Kingdom using social network analysis.

Initiating the turn towards analysing the political economy of sovereign wealth management in Saudi Arabia's distributive system, chapter three explores the historical origins of the Saudi rent-distribution system going back to the 1950s and 1960s. From the lens of rentierism, the chapter illustrates how the distribution of state resources has been a key factor in shaping the state apparatus and the economy. On the one hand, since the 1950s, political agency and intra-elite power balancing games within specific historical constraints have played a decisive role in institutional design. On the other hand, Saudi state-building mostly consisted of establishing clientelist relations and the co-optation of individuals into a rent-based distributive framework. The political and economic institutions have evolved and crystallised in a path-dependent process over the decades, reducing the regime's autonomy to reengineer its distributive system. The chapter
underlines the institutional constraints that the Saudi rentier framework has created for SWF development, which are underappreciated by existing theories of sovereign wealth management.

To tackle the analysis of the PIF as an instrument of regime stability, chapter four begins by examining the PIF's governance framework since 2015. The historiography of Saudi state-building provides evidence that political agency and intra-familial power balancing within the ruling elite determined institutional design at least as much as development needs. The analysis shows that the fund's oversight from the Ministry of Finance, known for being secretive and insulated, to the newly created CEDA under the close control of the crown prince MBS. The PIF's institutional framework transitioned from the manager model to the investment company model as the PIF is now set up as a separate investment company that legally owns the assets it manages. The SWF's board was reconstituted, and MBS was placed as chairman. By unpacking the power relations and social networks underlying the PIF's governance framework, I find that the political network of high-level elite players forming the board of directors and the fund's governance framework reflects the centralisation of authority around the crown prince and his inner circle. SWF institutional design appears as a token in intra-elite power dynamics as much as an attempt to consolidate the governance pillars of sovereign wealth management. The chapter argues that the sovereign fund enables the incumbent elites to centralise decision-making and circumvent institutional fragmentation in Saudi Arabia's rentier system.
Chapter five unpacks PIF's activities in Saudi Arabia, whereas chapter six investigates PIF's involvement in global financial markets. The segmented nature of the Saudi state created multiple deeply embedded veto players with overlapping jurisdiction and interests but also consolidated clientelist relationships flowing through the state apparatus and state-society linkages. From here, chapter five highlights two underlying dynamics related to the PIF's expansion in the Kingdom. First, the PIF emerges as a state-adaptive strategy leveraging investments to forge, preserve and reinforce specific socio-political hierarchies and patronage networks within and around the state. Secondly, by acting as the primary developer and financier of key projects, the SWF allows the Saudi leadership to override the multiple veto players and avoid interagency feuds pervading Saudi policymaking and economic reforms.

Chapter six then analyses the PIF's international investment activities. The chapter demonstrates how the PIF aims to boost foreign investments in Saudi Arabia and build strategic partnerships to localise industries and technologies in strategic sectors. I contrast this by showing how the PIF international investment strategy has been embedded in a broader redefinition of sovereign wealth management in the Kingdom since 2015. While maintaining capital flows to the financial markets of developed economies and bolstering the image of Saudi Arabia as a global investment powerhouse, the rise of the PIF is part of an effort to bypass one of the Kingdom's power centres. The concentration of sovereign wealth management under the PIF's umbrella helps bypass SAMA's largely autonomous technocratic body. Breaking from SAMA's historically conservative strategy relying on
liquid and low-risk assets, the Saudi ruling elite leverages the PIF to prioritise strategic high-risk short-term targets.

The conclusion summarises the specific findings from the empirical chapters before returning to how these findings can contribute to ongoing debates on Saudi Arabia's political economy and the scholarship on state investment funds in the broader IPE and CPE literature. First, these findings contribute to the conceptual toolbox to analyse rentier states. Rentier state theorists asked whether rentier states have been able, and are now likely, to surpass a rentier economy in light of shifts in the global energy mix and diversification strategies. The thesis suggests that economic diversification away from hydrocarbons through SWF development does not necessarily imply the demise of rentierism but rather reveals a social bargain featuring increased regime flexibility. SWF-led development strategies fit local institutional settings to sustain entrenched state control and patronage patterns under an uncertain global economic landscape and shifting internal political dynamics. Secondly, the concluding chapter will interpret the patterns exposed by the findings on the political dimension of state-owned investment funds in Saudi Arabia and relates them to broader political economy scholarship on state finance institutions. The analytical framework of SWFs as tools of regime stability develops a rich research agenda around the implications of low-carbon transitions for political and economic structures in Saudi Arabia and how climate change is reshaping rentier states' place in global capitalism.
CHAPTER 1

The Drivers of Sovereign Wealth Fund Design and Use

The thesis seeks to unearth how and why the Saudi government significantly revamped the PIF starting from 2015. Accordingly, this chapter delves into the literature on SWF design and use. The study of SWFs is still a recent phenomenon. It was not until 2005 that the term "sovereign wealth funds" came into being under Rozanov's (2005) pen when the author sought to identify the type of government entity mandated to administer the wealth of a country. Nevertheless, many governments capitalised on the winds of the commodity market and trade during the last decades, creating and storing impressive wealth in SWFs (Cummine, 2016). Indeed, between 2005 and 2017, "assets under SWF management increased by more than 600 per cent, from 895 billion in 2005 to nearly 7 trillion in 2017" (Braunstein, 2019a, p. 2). In 2021, assets managed by SWFs reached $9.4 trillion (SWFI, 2022a). Given the rapid growth in number and size, SWFs have become a central feature of the international financial architecture. Although some SWFs have existed for decades (the Kuwait Investment Authority was established in 1953), this substantial growth in assets under management and number from sponsor countries across the income spectrum and type of political regime suggests this is a historically unique global phenomenon that requires an explanation (Dixon, 2020b). Accordingly, a central question is the identification of the fundamental drivers of SWF design and use.

Undertaking some first steps in this direction, the chapter unpacks the predominant normative SWF literature in section 1.1. This macroeconomics-based literature connects
SWF form and function to macroeconomic theories and hypotheses. The frameworks on SWF governance highlights the benefits of structural independence from governments, while the models of asset allocation mainly revolve around the concerns of trade theory, factor endowment theory or the Dutch Disease hypothesis. Second, in section 1.2, the chapter addresses the intellectual efforts to cast light on the domestic political drivers of SWFs. This body of IPE and CPE scholarship maintains that SWF design and use is an inherently political process and thus embedded in power struggles and state-society relations. The overall theme of this chapter is that a sovereign fund’s institutional framework and investment strategy cannot be entirely neutral and insulated from domestic politics: just like any entity from the state, SWFs are embedded in internal political dynamics and power struggles. Sovereign funds are inherently intertwined with political considerations including regime stability and persistence.

1.1 Sovereign Wealth Funds and Macroeconomic Indicators

The dominant portrait of SWFs is one of apolitical, risk-averse and long-term investors even when facing market volatility. From this perspective, SWF choices are perceived as "driven by 'objective' identifiable challenges, such as the need for additional pensions liabilities, stabilised fiscal revenues, or for development purposes" (Braunstein, 2019a, p. 20). Governments use SWFs as tools for revenue management to reduce the risk of different macroeconomic shocks. This 'rational utility' conception of SWFs is at the heart of the prevailing SWF definition. Although there is no universally accepted SWF
definition, the International Forum of Sovereign Wealth Fund’s (IFSWF)\(^9\) advance a definition through the Generally Accepted Principles and Practices (GAPP) for SWFs, or the Santiago Principles. The working group laid down a set of norms and practices for SWF’s institutional governance and risk-management frameworks for developing trust in state investment funds. The Principles’ definition has been subsequently adopted by prominent international organisations such as the International Monetary Fund (IMF) and United Nations (UN):

SWFs are defined as special purpose investment funds or arrangements owned by the general government. Created by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives and employ a set of investment strategies which include investing in foreign financial assets. The SWFs are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatisations, fiscal surpluses, and/or receipts resulting from commodity exports (IFSWF, 2008, p. 27).

The IFSWF definition brings forward two categories of sovereign funds based on their revenue sources: non-commodity funds and commodity-based funds. Non-commodity SWFs’ revenue sources come from budget or trade surpluses. Various SWFs are located in countries relying on an export model of goods and services (China or Singapore, for example). Thus, these countries accumulate vast liquidity reserves, mainly in US dollar. This surplus can be invested in the financial markets to cope with market volatility, but

---

\(^9\) In 2008, a group of 23 state-owned investors from around the globe established the IFSWF’s precursor, the International Working Group of Sovereign Wealth Funds, following discussions with organisations such as the G20, IMF or the US Department of the Treasury. Following the Kuwait Declaration in 2009, the International Working Group became the IFSWF with the mandate of helping members implement the Santiago Principles (IFSWF, 2022).
also to avoid inflation or the appreciation of the local currency. As a result, these SWFs portfolios have traditionally been made up of foreign exchange reserves held in low-risk instruments, mainly US treasury bonds (Bazoobandi, 2013). Secondly, commodity-based funds derive their revenues from exploiting non-renewable resources like hydrocarbons, raw materials or agricultural products. This model is found in countries such as Russia, Norway or the Gulf states. Consequently, SWFs respond to the concerns of intergenerational savings and cope with price volatility on the commodity markets (Bazoobandi, 2013). This idea stems from a literature that attempts to establish how oil-based economies should take into account the fact that state revenues are subordinate to the volatile oil markets but also that the extraction of resources depletes the physical stock of the resource in question and is not viable from a long-term perspective.

This is based on the underlying idea that state-owned investment funds can be systematically differentiated by their official mandate, ownership, and legal structure. Indeed, the ownership and legal status refer to whether the funds are structured as separate legal entities or set up under an existing body like a central bank. Braunstein (2019a) underlines this dictates if the SWF legally owns the assets it manages or whether the fund manages the assets on account of the government or ministry of finance. Then, the legal framework is connected to the investment mandate and objectives such as savings,

---

10 When a country's trade balance is in surplus (meaning when exports exceed imports), it leads to an inflow of domestic currency from foreign markets that can lead to inflation spikes caused by the increase in the money supply. In this sense, investing surpluses abroad in SWFs can help mitigate the macroeconomic side effects generated by trade surpluses (Dixon et al., 2022b).

development or stabilisation, which is directly influence asset allocation in terms of geography (abroad or domestic, asset class (bonds, equity, direct investment), and the investment horizon (short or long-term).

Al Hassan et al. (2013) distinguish four types of SWFs forms based on specific macroeconomic objectives. In the authors' perspective, these macroeconomic functions motivating SWFs choices depend on country-specific characteristics. For example, some countries establish stabilisation funds to safeguard a state's budget from commodity market volatility or external macroeconomic shocks. Besides, governments can establish funds with savings mandate based on the desire to mitigate the effects of Dutch Disease\(^\text{12}\) as well as increase and share wealth through future generations by turning a physical, non-renewable resource into financial assets. In some countries, developmental funds are set up to promote strategic domestic development goals. Finally, governments can use pension reserve funds to face the fiscal pressure applied by pension-related liabilities. Each type of SWF carries investment decisions and structures based on the macroeconomic objective behind the fund's establishment.

The Al Hassan et al. (2013) typology of SWFs considers sovereign funds as serving macroeconomic functions (e.g. resource revenue management or foreign exchange

\(^\text{12}\) The Dutch Disease describes a paradoxical situation where a dramatic increase in wealth (large inflow of currency) provokes harmful economic consequences: “In the 1960s, the Netherlands experienced a vast increase in its wealth after discovering large natural gas deposits in the North Sea. Unexpectedly, this ostensibly positive development had serious repercussions on important segments of the country’s economy as the Dutch guilder became stronger, making Dutch non-oil exports more expensive and, therefore, less competitive. This syndrome has been witnessed in many countries across the world, including but not limited to resource-rich commodity exporters” (Ebrahimzadeh, 2020).
management) with capital invested in foreign assets. This, however, tend to exclude state-owned investment funds investing in domestic assets such as sovereign development funds (or strategic investment funds) like the PIF. Clark, Dixon and Monk (2013, p. 16) define SWFs as “government-owned and controlled (directly or indirectly) investment funds that have no outside beneficiaries or liabilities (beyond the government or the citizenry in abstract) and invest their assets, either in short or long term, according to the interests and objectives of the sovereign sponsor”. This definition is useful for this thesis as it is broad enough to include SWFs like the PIF that invests in foreign and domestic assets. Table 1 works from the Clark, Monk and Dixon definition to flesh out SWF characteristics in Gulf states based on the source of capital and political mandate.

Table 1. Sovereign Wealth Funds Characteristics in Gulf states

<table>
<thead>
<tr>
<th>Investment Characteristics</th>
<th>SWFs with a stabilisation mandate</th>
<th>SWF with a savings mandate</th>
<th>SWFs with a development mandate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset geography and class</td>
<td>International bond oriented</td>
<td>International primarily equity, alternative Investments</td>
<td>International and domestic investments, equity, alternatives</td>
</tr>
<tr>
<td>Risk Profile</td>
<td>Low</td>
<td>Medium-High</td>
<td>Medium-High</td>
</tr>
<tr>
<td>Investment Horizon</td>
<td>Short-term</td>
<td>Medium/Long-term</td>
<td>Medium/Long-term</td>
</tr>
<tr>
<td>Funding Sources</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodity</td>
<td>SAMA Foreign Holdings (Saudi Arabia)</td>
<td>The Future Generation Fund (Bahrain)</td>
<td>Public Investment Fund (Saudi Arabia)</td>
</tr>
<tr>
<td></td>
<td>State General Reserve Fund (Oman)</td>
<td>Qatar Investment Authority</td>
<td>Qatar Holding</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Abu Dhabi Investment Authority</td>
<td>Qatar Dinar</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kuwait Investment Authority</td>
<td>Mubadala (Abu Dhabi)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>ADIC (Abu Dhabi)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Investment Corporation of Dubai</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Emirates Investment Authority (UAE)</td>
</tr>
<tr>
<td>Reserves</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fiscal Other</td>
<td></td>
<td>-</td>
<td>Mumtalakat Holding Company (Bahrain)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>IPIC (Abu Dhabi)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>RAK Investment Authority (UAE-Ras Al Khaimah)</td>
</tr>
</tbody>
</table>

Source: Data compiled from Braunstein (2019a, pp. 14–15) and SWFI (2023)
The source of accumulated capital (commodity revenues, accumulated foreign reserves or other sources such as government surpluses or proceeds from privatizing SOEs) carry important characteristics of the sponsoring country’s political economy, global economic dynamics and the SWF’s specific policy purpose (Braunstein, 2019a; Dixon et al., 2022b).

Besides, the Clark, Dixon and Monk definition stresses that SWFs are government-controlled and serve some policy objective interwoven in the interest of the sovereign sponsor considering that ownership ultimately rests with the state. Dixon et al. (2022b, p. 9) point out that the SWF “is an investment vehicle in which the absence of a specific liability to an outside party (this does not exclude possible intragovernmental liabilities) affords the sovereign sponsor a freedom of action with regard what the purpose of the SWF is and how it operates accordingly”. If the absence of specific liability is often a general condition to define SWFs, sovereign development funds (or strategic investment funds) often use leverage or raise capital through bonds to increase assets under management (Schena & Chaturvedi, 2011). For instance, the Saudi PIF issued green bonds to investment in sustainable projects and secured various loans to bolster its portfolio (Arab News, 2021b; Martin, 2022b). This thesis thereby takes a slightly more flexible view to include SWFs that may have liabilities associated with bond issuance or private capital injections.

Saudi Arabia's PIF has been endowed with a development and diversification mandate. Following a decade of affluence, the 2014 oil price shock and deteriorating public finances highlighted and aggravated many of the Kingdom's most pressing problems, such as the weight of the distributional obligations and a demographic bulge (Gross & Ghafar, 2019; Hertog, 2018). Against this backdrop, the Saudi government unveiled Vision 2030, a
comprehensive reform strategy to encourage diversification and reshape the state's role in the economy. The economic blueprint projects Saudi Arabia as becoming a global investment powerhouse, which will, in turn, promote a thriving economy less reliant on oil and oriented towards private-driven growth. Accordingly, the Saudi government moved to develop further the sophistication of the PIF combined with more extensive use of the fund to diversify the Saudi economy. Consequently, the next section focuses on the normative theoretical propositions on when to create an SWF, the ownership and legal structure, the institutional framework, and the investment structure of sovereign funds operating under a development mandate.

1.1.1 Sovereign Development Funds: Institutional and Operational Considerations

This section introduces the concept of sovereign development funds or “strategic investment funds”\textsuperscript{13} as coined by the World Bank (2022) or Dixon et al. (2022b). Specifically, it explores their definitions and unpacks their defining characteristics. The section begins by looking at factors critical to the establishment and operation of sovereign development funds. It then discusses fundamental investment strategy as well as ownership and governance models.

First, there a no standard theoretical model for deciding when to set up an SWF. According to Das et al. (2009), the puzzle instead becomes one of determining when reserves levels are adequate. The authors build upon the empirical work of Bussière and Mulder (1999)

\textsuperscript{13} From here, sovereign development funds and strategic investment funds are used interchangeably.
and the IMF (2000, 2001) on the issues related to reserves and debt management to argue that from a crisis prevention perspective, the most relevant indicator to set the threshold for adequate reserves in emerging economies is the ratio of international reserves to short-term external debt. In case of ample or adequate reserves, the decision to set up an SWF is assumed to follow a rational evaluation by the decision-makers. For instance, drawing on classical trade theory and factor endowment theory, authors like Lee (2007) argue that countries structurally endowed with vast natural resources such as the oil-centered Saudi Arabia should focus their resources towards economic diversification efforts through sovereign development funds.

The principal objective of sovereign development funds is to secure greater economic diversification and transformation through direct investments or strategic partnerships supporting governments' overall development strategies (Braunstein, 2019a; Dixon & Monk, 2017; Fernandez & Eschweiler, 2008). Therefore, sovereign development funds are established to channel resources toward priority socio-economic projects by investing mainly in domestic assets (Al-Hassan et al., 2013; Halland et al., 2016). Such goals might include direct investments to develop infrastructure (e.g. transport, communications, energy or other job-creating industries) or human capital and the institutions supporting it such as education and health, and pursuing industrial policies, especially to reduce dependency on a single resource or source of income (P. B. Clark & Monk, 2015). Thus, sovereign development funds in resource-driven countries typically invest through a medium to long-term horizon in domestic assets to enhance private sector activity or catalyse new (and uncorrelated) ecosystems. This aims to create jobs, enable strategic
knowledge transfer, and consolidate international strategic partnerships, which may lead to increased foreign investments or new operations.

SWFs with a development mandate like the Saudi PIF operate under what is conceptualised as a ‘double bottom line’, or, in other words, the twin goals to fulfill domestic policy objectives as well as securing financial returns (Divakaran et al., 2022; Dixon et al., 2022b; Halland et al., 2016). This is predominantly achieved through two main and not mutually exclusive approaches. On the one hand, by crowding in private capital “by co-investing at the fund and/or project level” and on the other by catalysing, to create new industries to diversify the economy “away from industries that are no longer profitable or suitable” (Halland et al., 2016, p. 2). By crowding in, SWFs with a development mandate follow market dynamics to support the local economy’s development through investments intended to give rise to a higher level of private sector participation (Halland et al., 2016). Besides, sovereign development funds can act as catalysts by seeding new sectors or industries to fill gaps in national ecosystems, which ultimately support diversification away from unsustainable industries over the long term. Moreover, unlike other SWF, sovereign development funds often raise capital by issuing bonds as the operating model “requires sizeable amounts of both short and long-terms operating capital to support their investment programs” and they may “enjoy greater debt access and capacity than selected investee firms” (Schena & Chaturvedi, 2011, p. 2).

There is a wide range of ownership and governance frameworks for SWFs, reflecting on how different countries choose different SWFs based on country-specific circumstances.
SWFs with a development mandate are generally established under private company law or by decree, taking the form of a state-owned corporation with a distinct legal status (Al-Hassan et al., 2013; Braunstein, 2019a). The dominant form of institutional framework derived from this legal status is the investment company model. In this model, the government (owner) sets up an investment company (SWF) which owns the assets it manages actively to make concentrated investments in addition to taking active ownership in portfolio companies (Al-Hassan et al., 2013; Halland et al., 2016). Thus, sovereign development funds typically operate independently and legally own the assets they manage.

At the basic level, an SWF governance framework “specifies the allocation of rights and responsibilities between its different stakeholders and articulates the rules and procedures for decision-making” (Divakaran et al., 2022, p. 79). The institutional framework of funds operating as separate legal entities such as SWFs with development mandates encompasses a governance structure differentiating between the owner, the board, and the operational management (Al-Hassan et al., 2013; Hammer et al., 2008). In this context, the owner (generally the ministry of finance or, in some cases, the government) is responsible for board appointments. However, Hammer et al. (2008, p. 10) underline that "the government operates at arm's length and does not get involved in the business and investment decisions of the SWF", and Clark and Monk (2015, p. 2) specify that "they [sovereign development funds] exist at arm's length given the distinctive capabilities and resources needed to be an effective LTI [long-term investor]".
Furthermore, the board of directors tends to include only a limited number of seats for government officials as member selection should be instead based on technical expertise in the intricacies of investment management or corporate governance (Hammer et al., 2008). The clear distinction between the government as owner of the fund and as the promoter of domestic investments should, among other things, prevent the SWF from becoming an instrument to fund public expenditures by avoiding budgetary controls (Gelb et al., 2014). Alsweilem et al. (2015, p. 19) maintain that “By establishing a clear, rule-based framework for the management of resource revenues, SWFs can reduce the rent-seeking associated with the revenue windfalls”.

1.2 Inherently Political: Rethinking SWF Design and Use

The functional-rational model of SWFs posits that governance and institutional frameworks should ensure a division between the fund’s owner, the board of directors, and operational management (Al-Hassan et al., 2013; Alsweilem et al., 2015; Divakaran et al., 2022; Hammer et al., 2008). These propositions closely follow a stream of literature on central bank independence where granting a central bank decision-making autonomy from policymakers is considered a means to protect monetary policy from political interference. In the wake of the Great Inflation of the 1970s, economists argued that even if elected officials recognise that easy money is no free lunch, governments can still be tempted to occasionally jump-start the economy through the money supply, leading to higher inflation (Adolph, 2013). In that sense, the problem could be resolved by delegating the
responsibility for monetary policy to an agent with low-inflation preference and guaranteed legal independence from the elected government (Barro & Gordon, 1983; Rogoff, 1985).

However, based on Bernhard et al.’s (2002) claim that political factors intrinsically condition different configurations of monetary institutions, Lockwood (2016, p. 6) argues that delegation to an independent central bank is still a political process, “one driven not by objective logic but by the prioritisation of some policy goals over others”. Indeed, the ‘rational’ explanations for central bank independence identify the need to safeguard monetary policy from electoral pressures; nevertheless, monetary policy and inflationary commitments inherently carry distributional implications for economic and societal actors (Lockwood, 2016). In the same vein, Grabel (2000) situates this pursuit of independence and low inflation rates as primary macroeconomic goals not in an apolitical economic rationale but rather as embedded in the broader neoliberal dynamics, which organically privilege markets and policy choices over others.

In that sense, Dixon (2020a, p. 2) maintains that “even if sovereign funds adopt governance structures that limit political interference in investment decision-making, the sovereign fund still fulfils a policy purpose, and that policy purpose is always political”. This might take the form of the principal-agent delegation model, where a political executive (the principal) must choose a bureaucrat (the agent) to carry out its agenda. According to Adolph (2013), this entails two pitfalls. First, an agent might covertly benefit from its position at the principal’s expense, and second, the principal might unintentionally select an agent with divergent policy preferences leading to policy outcomes at odds with the
principal's agenda. State leaders face serious principal-agent dilemmas with respect to the management of the state’s capital. In the process of designing SWFs, political leaders want to ensure that the SWF maintains an ideal investment portfolio but also try and align the interests of funds managers with their agenda. Based on evidence from four countries sponsoring some of the world’s largest SWFs (China, Singapore, Norway and Abu Dhabi), Eaton and Ming (2010, p. 482) show that “state leader’s choice of corporate governance model is strongly influenced by the state’s own exogenously-given governance endowments”. This underlines the importance of the political interests of principals and agents as well as the subjectivity of institutions of agent selection and monitoring underlying SWF governance structures, and this regardless of political regimes.

Furthermore, authors like Aizenman and Glick (2008), Das et al. (2009) and Lee (2007) see asset allocation of sovereign development funds in commodity-exporting countries as predominantly driven by ‘objective’ macroeconomic indicators. SWF assets are assumed to be deployed towards priority socio-economic ventures based on a commercial logic, where an apolitical investor (the SWF in our case) merely seeks to maximise risk-adjusted returns. For instance, on a broader level Ping and Chao leverage a quantitative investment behaviour model to claim that "the act of a nation setting up an SWF is consistent with the rational economic behaviour of any individual or enterprise with an infinite life cycle" (2009, p. 27). Furthermore, Avendano and Santiso (2009) examine the political bias of SWFs in their investment decisions on a cross-sectoral and geographical basis using mutual funds equity investments at the firm level as a benchmark. The authors argue that SWFs invest in financially rewarding countries, regardless of the political regime. Therefore, the
logic shaping SWF choices is the maximisation of utility via financial returns through a long-term investment perspective. SWFs are conceptualised as rational market investors seeking to maximise profits outside of political ambitions.

However, through a quantitative analysis of 29 SWFs and 2,662 transactions between January 1984 and December 2007, Bernstein et al. (2009) show that SWFs with greater involvement of political leaders are more likely to have an investment strategy based on short-term economic goals by supporting domestic firms and by investing in sectors and markets with a higher price/earnings ratio. Besides, Bortolotti et al. (2010) built an analysis assessing the impact of SWFs investments on the financial market, particularly in public traded companies between May 1985 and November 2009. The authors argue that SWFs "almost always purchase minority stakes directly from target companies, roughly half of which are unlisted and are often located in the fund's home country" (Bortolotti et al., 2010, p. 4). The analyses contradict the assumption of SWFs as economically 'objective' and apolitical and reveal how internal political dynamics and 'home bias'\textsuperscript{14} can influence SWF assets allocation. This suggests that other variables need to be included in SWF analysis.

If existing macroeconomics-based SWF theories portray sovereign funds in commodity-exporting states as outcomes of functional-rational assumptions related to economic characteristics, Chwieroth (2014) argues that countries with geographical and cultural proximity, similar export profiles and exposed to similar external pressures create

\textsuperscript{14} In international macroeconomics, 'home bias' refers to "the fact that investors around the world tend to allocate the majority of their portfolios into domestic assets, despite the potential benefits to be had from international diversification. This phenomenon has been occurring across countries, over time, and across equity or bond portfolios" (Hnatkovska, 2019).
sovereign funds types through a process of peer group emulation. Through a cross-national statistical analysis of 158 countries, Chwieroth (2014, p. 752) contends that “SWFs became fashionable as an appropriate for reserve and resource-rich countries seeking to manage policy uncertainty” associated either with reserve accumulation of commodity-export specialisation.

Consistent with the diffusion-based hypothesis (Chwieroth, 2014) and a macroeconomics-based paradigm, most GCC sovereign development funds were established to pursue industrial upgrading or economic diversification in the early 2000s, a period of abundance coinciding with the 2003-2013 oil boom (Table 2). Yet, Saudi Arabia’s PIF remains the outlier; the emulation hypothesis assumes that SWF emulation tend to emerge in countries with shared structural characteristics facing similar policy challenges (Chwieroth, 2014). However, the Kingdom became the last Gulf state to establish a fund in 2015, almost a decade after the widespread emergence of sovereign development funds in the Arabian Peninsula, a period when Saudi Arabia faced a profoundly different global environment. From 2008 to 2014, the winds of the commodity market generated massive foreign reserves to establish a formal SWF. The Saudi foreign exchanges reserves soared from $100 billion at the beginning of 2005 to a high of $731 billion in August 2014 (Banafe & Macleod, 2017). Yet, at a time when neighbouring Gulf monarchies in similar macroeconomic conjuncture built sovereign development funds with substantial portfolios and very active investment activities like Qatar and the UAE, the Saudi Arabia kept transferring its budget surpluses to SAMA’s stabilisation fund until 2015.
Even more strikingly, the PIF was set up as a sovereign development fund during a period in sharp contrast to the affluent 2003-2014 decade. The post-2014 landscape was counterintuitively characterised by a sharp decline in commodity revenues and growing public debt (Gross & Ghafar, 2019). The Saudi case rather reflects a broader fundamental shift in SWF design and use. Instead of being established to manage excess fiscal revenues from sustained natural resource revenues or foreign exchange reserves, sovereign development funds are often outcomes of contexts of ‘capital scarcity’ (Schena et al., 2018b). Since the 2008 Global Financial Crisis (GFC) and more recently in the wake of commodity prices declines, the COVID-19 pandemic and slowing global economic
growth, sovereign development funds were established in various countries of all income levels ranging from Gabon, Saudi Arabia to Ireland (Divakaran et al., 2022; Dixon et al., 2022b). Schena et al. (2018b, p. 365) add that “the creation of many new funds has become ‘demand-driven’, motivated less by the need to capture and invest surplus wealth, than to further key - and some cases urgent – national economic policy goals”.

These dynamics led some scholars to label SWFs as an expression of state capitalism (Alami et al., 2022; Alami & Dixon, 2023; Schindler et al., 2022). Alami and Dixon (2023) illustrate how in the aftermath of the GFC, sovereign funds have deepen their sway over resources and markets in unison with the concomitant expansion of ‘muscular form of statism’, encompassing state-coordinated industrial strategy or state-mediated development of infrastructure. Schindler et al. (2022, p. 8) argue that the Saudi PIF, tasked to achieve Vision 2030, embodies the entanglement between the financialisation of global development efforts combined to state-coordinated industrial policy underpinned by large-scale infrastructure projects that reconfigures “the state’s role as promoter, supervisor, and owner of capital (i.e. the new state capitalism)”. Although the functional-rational framework (e.g., Aizenman & Glick, 2008; Al-Hassan et al., 2013; Blundell-Wignall et al., 2008; Das et al., 2009) and diffusion-based hypothesis (Chwieroth, 2014) are crucial to understand key facets of SWF design and use, puzzling aspects around the PIF revamp remain that theory cannot explain. Despite ample reserves and favourable macroeconomic indicators before 2014, Saudi Arabia did not emulate countries from its peer group and create a sovereign development fund, but rather did so in the post-2014 capital-deficient conditions. While macroeconomic conditions and emulation may appear theoretically
relevant, empirically these are not wholly determinant of SWF design and use in the Saudi case.

Drawing from an eagerness to treat sovereign wealth management as purely technical field, the conventional macroeconomics-based SWF literature treats the state and politics as exogenous to SWF governance frameworks and asset allocation strategies. Nonetheless, far from being apolitical and merely a by-product of rational assessments by decision-makers of domestic and global macroeconomic circumstances, the active role of states as owner, manager and administrator of capital through sovereign development funds points to the growing appeal of a politics-oriented model of SWF design and use. Accordingly, the following section leans into another perspective that approaches SWFs not as mere outcomes of macro-characteristics, but as political phenomena embedded in distinct social and political institutions influenced by historically specific path of state formation and patterns of economic development.

1.3 Bringing Politics Back In: Geopolitics, Internal Political Dynamics and Sovereign Wealth Fund Choices

Following the Global Financial Crisis (GFC), SWFs assets played a visible role in the financial world through acquisitions in financial firms such as Citigroup, Merrill Lynch and Morgan Stanley. Furthermore, SWFs' financial activities prompted political reactions in Europe and North America, exemplified by the Congress blocking the acquisition of US ports by Dubai Ports World in 2006 (Banafe and Macleod, 2017). In this context, concerns
grew around a hidden geopolitical motive behind state-sponsored investments and the transparency issue highlighted by the opacity in SWF governance and investment behaviour. The Linaburg-Maduell Transparency Index (LMTI), created by the SWFI, uses ten principles that illustrate the transparency of sovereign funds. A minimum rating of 8 is required for an SWF to claim adequate transparency. Among the 51 funds rated by the LMTI, 9 are Gulf SWFs. Of the 23 SWFs with an LMTI of 8 and above, only Abu Dhabi’s Mubadala and Bahrain’s Mumtalakat are rated over the transparency threshold (Table 3).

**Table 3. Gulf SWFs and Transparency**

<table>
<thead>
<tr>
<th>SWFs</th>
<th>Assets Under Management (USD)</th>
<th>Country</th>
<th>Linaburg-Maduell Transparency Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mubadala Investment Company</td>
<td>$243,000,000,000,000</td>
<td>Abu Dhabi</td>
<td>10</td>
</tr>
<tr>
<td>Mumtalakat Holding</td>
<td>$17,519,500,000</td>
<td>Bahrain</td>
<td>10</td>
</tr>
<tr>
<td>Abu Dhabi Investment Authority (ADIA)</td>
<td>$697,863,828,480</td>
<td>Abu Dhabi</td>
<td>6</td>
</tr>
<tr>
<td>Kuwait Investment Authority (KIA)</td>
<td>$737,938,500,000</td>
<td>Kuwait</td>
<td>6</td>
</tr>
<tr>
<td>Public Investment Fund (PIF)</td>
<td>$580,000,000,000</td>
<td>Saudi Arabia</td>
<td>6</td>
</tr>
<tr>
<td>Investment Corporation of Dubai</td>
<td>$301,688,069,969</td>
<td>Dubai</td>
<td>5</td>
</tr>
<tr>
<td>Qatar Investment Authority (QIA)</td>
<td>$450,000,000,000</td>
<td>Qatar</td>
<td>5</td>
</tr>
<tr>
<td>Oman Investment Authority</td>
<td>$17,000,000,000</td>
<td>Oman</td>
<td>4</td>
</tr>
<tr>
<td>Emirates Investment Authority</td>
<td>$78,000,000,000</td>
<td>Abu Dhabi</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Data compiled from the SWFI database (https://www.swfinstitute.org/research/linaburg-maduell-transparency-index)

---

Principles of the Linaburg-Maudell Transparency Index: 1) Funds provide history including inception, heritage origins, ownership structure, etc. 2) Availability of audited and independent annual reports 3) Data on percentage ownership 4) Funds provide total market value and returns 5) Clear ethical standards and investment policies 6) Fund provides clear strategy with objectives 7) The fund identifies subsidiaries and contact details 8) The fund identifies external managers 9) Maintains its own website 10) The fund provides office location, address and contact details.
Nonetheless, opacity is not a distinctive feature of Gulf SWFs but rather a systemic attribute of sovereign wealth management. Like many other types of financial investment funds (private equity, hedge funds, etc.), which seek to generate profits by outsmarting their competitors, SWFs tend to keep their investment strategy and general activities close to the chest. For example, Martin Skancke, former director-general of the Norwegian Ministry of Finance's asset management department, which oversees the management of Norway's SWF, argues that the timing and exact allocation procedure preceding a movement of funds cannot be revealed since the deployment of considerable capital in the financial market is involved (Cummine, 2016). However, such a lack of transparency, general oversight and accountability juxtaposed to the increasing presence of SWFs in the global financial markets has been problematic for individual market actors and governments who feared politically motivated investments (Drezner, 2008).

1.2.1 SWFs as strategic geopolitical tools

Based on their general opacity and their ability to move large amounts of capital, the discussion of the political drivers of SWFs following the GFC quickly moved to the question of whether the funds are to be treated as geopolitical tools for their sponsor government. While some scholars like Daniel Drezner (2008, p. 116) argue that SWFs are “relatively benign in their foreign policy effects”, the geopolitical conceptualisation of sovereign funds can be summarised as the idea that "SWFs (and other state-owned vehicles) represent strategic tools that allow the owning state to further its geopolitical goals through the ownership and control of enormous amounts of cross-border state capital" (Babic, 2021, p. 6).
Following this line of thought, Cohen (2009, p. 713) notes how the critical challenge posed by the rise of SWFs is that “SWFs could, in effect, become a powerful new arm of foreign policy”. Lenihan (2014, p. 247) conceptualises SWFs as tools of internal balancing, which is defined as “actions that seek to enhance a state’s relative power position vis-à-vis another state through internal balancing, without severing the greater meta-relationship at stake between them”. This can be achieved at the most basic level by increasing sovereign wealth, diversifying the economy to protect or enhance the state's economic power over the long term, bolstering national champions, or securing strategic resources, technologies or market shares in strategic sectors. Hence, the formation and use of SWFs is part of broader efforts to sustain and bolster domestic economic power in the face of threats or challenges to relative power in a way that is not perceived as inherently confrontational. This allows for the long-term provision of state security without disrupting established relationships (Lenihan, 2014).

The argument of strategic and geopolitical opportunities or alliances as the drivers of SWF design and use has been often employed to explain Saudi Arabia’s sovereign wealth management before 2015. Helleiner and Lundblad (2008) maintain that Saudi Arabia's strategic geopolitical alliance with the United States shapes the country's preference for low-yield US treasury bonds rather than diversifying its large reserve surpluses through investments in assets with higher returns. Since the 1940s, Saudi Arabia has enjoyed a historic and strategic relationship with the US, and the Kingdom is deeply involved in the Western financial system (Aarts, 2004; Stenslie, 2012; Vitalis, 2007). The strategic and economic connections between Saudi Arabia and the United States have had significant
influence in the establishment, structure and investments of SAMA, as the Saudi Riyal is pegged on the US dollar\textsuperscript{16} and the majority of SAMA's portfolio is invested in USD-denominated assets (Banafe & Macleod, 2017; Bazoobandi, 2013).

While the geopolitical lens helps to understand certain aspects surrounding sovereign wealth management, it carries an inherent dichotomy; SWFs are either geopolitical tools or mere profit maximisers. Babic (2021) argues that a binary geopolitical or macroeconomic conceptualisation of SWFs does not capture how the interests pursued by decision-makers are polymorphous, aimed at domestic and sometimes narrow elite-based aims, as well as reacting to dynamics within the international political economy. In the same vein, research surrounding SAMA puts into relief how the drivers underpinning SWF form and function are not reducible to either a geopolitical lens or the alternative vision of profit maximizer. Scholars argue that limited SWF development in the Kingdom in the early 2000s is closely related to the legacy of state formation. Smith Diwan (2009, p. 354) maintains that the historical dynamics of state-building generated a significant proportion of private wealth in the Saudi foreign investment domain: “While SAMA is seen as the official channel for the investment of official Saudi foreign assets, it is acknowledged that there exist some 50–60 government agencies participating in foreign investment, each with their own strategies and policies”. The oil-induced bureaucratic expansion of the 1950s led to institutional designs responding to struggle for influence within the ruling group. In turn, through the state formation process, competing ruling family members built institutional

\textsuperscript{16} The Saudi Riyal (SR) has been pegged to the US dollar since 1981. The peg is maintained at 3.75 SR to the dollar (Ramady, 2005).
strongholds, which developed as personal rent distribution structures (Herb, 1999; Hertog, 2010c). Until the early 2000s, the dynamics of oil-induced state-building gave rise to a web of private investment vehicles, creating interference in the establishment of a coherent national investment strategy (Smith Diwan, 2009).

SAMA’s case follows Hinnebusch’s (2015, p. 88) argument that “several aspect of state formation are pivotal in determining the international behaviour of states and specifically to explaining variations in their foreign policies”. In the same vein, Nonneman (2005, p. 317–318) insists that it is most useful to start the analysis “from the domestic environment and the survival imperative of regime” and then “view this in the context of the regional environment” not to forget to include “the threats and opportunities, the constraining and enabling effects, on the international environment”. One needs to avoid sharp divisions between the domestic and international environments. Wight (2021) illustrates that the Saudi Arabia’s passive and conservative sovereign wealth management is rooted in “petrodollar interdependence”. As oil prices skyrocketed in the early 1970s, the immense pool of liquidity (or petrodollars) flowing into the Kingdom’s vaults was injected into increasingly deregulated financial markets in the US. This upheld the US hegemony as the affluent and developing Saudi Arabia purchased goods and services to fuel its developmental scheme (such as US engineering and construction) as well as high-tech weaponry system. Moreover, Wight (2021) shows that by the early 1980s, SAMA’s share of US Treasury bonds approached $40 billion, which accounted for almost 30% of total US Treasury Bills holding. SAMA’s investment strategy was both a driver and a byproduct of the post-1960 US-led globalized capitalism. SWFs are shaped by a combination of
domestic factors (i.e., the nature of the state and its decision-making system), the regional strategic environment and the international political economy.

1.2.2 Institutional legacies and SWF development

Clark and Monk maintain that to produce an exhaustive SWF analysis, it is mandatory to address the political context in which the fund evolves: 'To think otherwise, to think that these institutions [SWFs] can 'float free' of the established order and its constituents, would seem to ignore the history and geography of institutional innovation' (G. L. Clark & Monk, 2012, p. 17). SWF analysis needs to address the specific social, economic and political landscape in which sovereign funds are established and operate. This strand of SWF analysis from IPE and CPE scholarship takes cues from the notion of variegated capitalism, which emphasises the hybrid forms of capitalist variation in geographically and historically contingent sets of circumstances (Lai & Daniels, 2017; Peck & Theodore, 2007). This approach calls attention to the institutional embeddedness of economic systems and transformation. The focus is thus on the ‘specificities of economic relations and formations, revealed through close-focus analysis of “singular” phenomena like networks, institutions, sectors, and discourses, rather than macro-scale systems, conjunctures or ensembles’ (Peck & Theodore, 2007, p. 759). Building from this perspective, the idea of variegated finance accentuates the specific forms taken by financialisation and finance capital according to varying institutional and political relations. The process of financialization is strongly conditioned by the economic and social conditions of a country and its position within the global economy. Rather than a process marked by a withdrawal of the state in the face of
market forces, finance is closely shaped by the state and so mediated by and embedded in local structures and institutions (Dixon, 2011; Hanieh, 2019; Lai & Daniels, 2017; Rethel, 2010).

Following this line of thought, Tranoy (2009) shows how the Norwegian SWF, the Government Pension Fund (GPF), which is considered the blueprint of an ‘apolitical’ fund because of its transparency, accountability, and strong tradition of professional investing standards, is still profoundly influenced by the country’s domestic politics. The Norwegian social democratic tradition resulted in a politicisation of the global financial markets, he argues, by applying various inherently political ethical standards in the GPF’s asset allocation based on the country’s political tradition (Sofus Tranoy, 2009). Tranoy’s (2010, p. 198) statement that ‘one must grasp the domestic politics of handling petro-wealth in a corporatist state’ accentuates the importance of unpacking the domestic political context in which SWFs emerge and operate. Moreover, it accentuates how the narrative of Gulf SWFs as political instruments tend to carry Eurocentric undertones. The expansion of Gulf-based SWFs following the GFC sparked an intense debate about their impact on recipient economies as well as the structure of the global financial system based on the nature of the region’s political systems (Truman, 2010). Through their sovereign funds, authoritarian states, largely a product of the East, are believed to threaten a liberal form of free market capitalism allegedly prevailing in the West. Nonetheless, Tranoy’s (2009) analysis of Norway’s SWF lay bare the inherently political role of sovereign funds. It exposes how historical patterns of internal political dynamics necessarily exert influence on SWF
governance and investment behaviour, even in the GPF’s case, often considered the quintessential ‘apolitical’ sovereign fund.

Moving beyond single country analysis and to move beyond variation in political systems in terms of democratic and non-democratic regimes, scholars such as Reinsberg (2009) use the veto-players concept. This concept refers to influential actors whose formal or informal approval is required for policy change. For instance, central banks qualify as veto points opposing SWFs based on an institutional self-interest in holding the monopoly for reserve management, just like unions and corporate associations tend to oppose SWFs as they compete with domestic private business interests (Reinsberg, 2009). Taking the veto players' argument further, Wang and Li (2016) built an institutionalisation index for 46 SWFs from 30 countries. They identify a set of veto players, including ministries, legislative, executive and judiciary, and find that “variations in SWF institutionalisation are structurally determined by the home country’s political regime type and internal political dynamics” (D. Wang & Li, 2016, p. 378).

Wang and Li (2016) make explicit the role of political interests and clash between competing policymaking institutions in SWF choices. This corroborates that adopting a conception of SWFs almost exclusively grounded in a set of macroeconomic and market-based practices is insufficient in explaining the underlying dynamics driving SWFs development. Besides the analysis accentuates the impact of centralization of political authority on SWF design and use: “As the number of veto players increases, the range of competing interests over an SWF tends to expand. Hence, when the number of veto players
increases, the risk and intensity of conflict of interest rises as well” (D. Wang & Li, 2016, p. 385).

Within comparative political science literature, authoritarianism conventionally refers to “political systems marked by limited pluralism (e.g., absent or perturbed elections), highly constrained mobilization, strong centralized power holders, and limited civic and political freedoms” (Bank et al., 2022, p. 36). Saudi Arabia ranks among the most closed autocracies according to major international indices such as the Polity or Democracy Index. In the latter the Kingdom ranks 150 out of 167 countries in 2022 (Democracy Index, 2022). More precisely, Saudi Arabia is often labelled as a ‘dynastic monarchies’ (Herb, 1999; B. Smith & Waldner, 2021) where “the ruling family occupies key positions of power; exercises control over the military, security services, and access to political offices; and dictates domestic and foreign policies” (Kendall-Taylor et al., 2019, p. 47). Indeed, policymaking in the Saudi system has historically been dominated by the Al Saud ruling family whose patronage through institutions of co-optation fragmented and undermined the autonomy of various social groups (Herb, 1999; Hertog, 2010c).

Accordingly, a burgeoning body of academic literature explores the design and use of SWFs in highly centralised political contexts. This field has primarily been developed through case studies or comparatives analyses focused on countries in the Middle East or East Asia (e.g., Braunstein, 2019; Grigoryan, 2016; Hatton & Pistor, 2011; Schwartz, 2012; Shih, 2009). This stream of scholarship accentuates how self-interested elites operating within state bodies and competition for influence shape the form and function of SWFs.
Moreover, it highlights that in many cases, SWFs are wielded as tools of co-optation by ruling elites seeking to provide economic incentives and opportunities to their citizens while also securing popular support and acquiescence. Although there is no coherent theory of SWFs in highly centralised political contexts, scholars developed a number of recurring hypotheses related to the effect of internal political dynamics on governance frameworks and SWF behaviour.

Scholars argue that the governance framework can ensure that sovereign wealth remains directly accountable to the ruling elite with the object of advancing the interests of those elites. Multiple elite agents (government ministries or individuals) may claim authority over an institution such as SWFs, thus creating inconsistent policies or a situation where various competing agents are trying to gain an advantage in a game of power (Carney, 2018; Shih, 2009). When delineating a governance framework, incumbents are likely to ensure SWFs reach effective return on investment, and concurrently line up the interests of fund managers with their agenda. Governance structures can therefore become the foyer of significant political influence and (re)production of prevailing political alliances (Divakaran et al., 2022; Eaton & Ming, 2010). For instance, Hatton and Pistor (2011) find that the proliferation of SWFs in Abu Dhabi defuses internal rivalries by increasing the institutional space available for ruling elite members, thus creating a more stable political environment in which dissent is less likely. We can trace a link between this vision of SWFs and Herb’s (1999) concept of dynastic monarchism. Herb (1999) argues that when the bureaucratic state emerged in Saudi Arabia in the 1950s, the ruler and aspiring princes
distributed offices in the state apparatus as part of intrafamily bargaining and ensured the perpetuation of the royal family's rule.

Additionally, incumbent elites may use sovereign funds to assert political dominance over patterns of economic development. As much as SWFs foster structural transformation and catalyse industrial capacity, the promotion of economic growth is also crucial for sustaining extant structures of political authority. Dixon (2020b, p. 10) contends that “having accumulated capital in an SWF and/or control over broader swathes of the domestic economy through a strategic investment fund provides the extant regime with a means of deploying economic resources to ensure support and loyalty”. As Shih (2009) argues, political dynamics of the regime necessarily shape SWF activities, and as such the funds may provide additional tools to sustain extant structures of authority. On a domestic level, SWFs provide the ruling elite an instrument to create or adjust a ruling bargain in order to remain in power (Grigoryan, 2016). SWFs can be used to deploy domestic investments strategically, either by taking minority stakes in companies controlled by the elite and their allies or controlling stakes in financial institutions to control the structure of economic development (Grigoryan, 2016; Hatton & Pistor, 2011; Schwartz, 2012).

Moreover, at the international level, SWFs signal cooperation and legitimacy by reinforcing capital flows to developed economies and presenting familiar investment structures (G. L. Clark et al., 2013; Hatton & Pistor, 2011). Clark et al. (2013) argue that SWFs from emerging economies mostly rely on Western markets for asset allocation and tend to adopt (or at least provide the narrative that they do) Western institutional forms to
create pathways for deploying sovereign wealth. In addition, it can allow a regime to implement counter-cyclical or even speculative investment policies to protect the status quo and sustain political and economic authority. Incumbents could avoid international assistance from organizations such as the IMF and the associated conditionalities often implying politically contentious reforms (Dixon, 2020b). This conception of SWFs echoes the notion of ‘systemic defensive financial statecraft’ (Armijo & Katada, 2015). On the one hand, Armijo and Katada (2015, p. 47) sketch that “the goals of defensive statecraft are primarily internal. Leaders’ principal goal is to protect the status quo preserving their country’s domestic economic and political autonomy”. The second ‘systemic’ dimension denotes how states’ seek to “influence or defend against world markets or global governance regimes” (Armijo & Katada, 2015, p. 47).

Though the interests of ruling elites undoubtedly influence governance frameworks and investment activities, these state-centric accounts risk overlooking how sovereign development funds like the Saudi PIF also involve balancing the interests of socioeconomic actors. For instance, sovereign development funds may assume a competitive role vis-à-vis local business by harming firms operating in similar sectors such as real estate, manufacturing, or industrial (Braunstein, 2019a). Moreover, sovereign development funds can create, and support firms linked to a targeted economic elite or rather act as a counter weight to local private interests (Schwartz, 2012). In this sense, this thesis’ analysis of SWF design and use examines the intra-elite politics in juxtaposition to the interaction between different political and socioeconomic actors that shape the policymaking process regarding what an SWF is for and what it does (Dixon, 2020a).
Numerous political economists bring to the fore that economic development is influenced by both policymakers’ discretionary decisions about steering markets as well as the limitations imposed upon them by pre-existing institutional frameworks (Eibl et al., 2022; Evans, 1995; North, 1990). One such argument emerges in a nascent literature, which conceives SWFs as outcomes of policy decisions, themselves interwoven in a set of particular historical and socio-political relations and institutions. Braunstein (2019a) provides a systematic and comparative causal analysis of how legacies of state formation and institutional settings shape SWFs in Hong Kong, Singapore and the small Gulf states (Kuwait, Qatar, Abu Dhabi and Bahrain). The distribution of power among groups in state-society relations expressed by different levels of concentration of decision-making power, state autonomy and organizational properties of the private sector emerges as systematically related to the different types of sovereign funds. A highly centralized state, high levels of state autonomy and a weakly mobilized private sector is assumed to allow the state to assert its ascendancy over fragmented business communities, thereby leading to a sovereign development fund dominating the economic landscape like the Saudi PIF.

Following theoretical assumptions, the PIF operates in a political landscape characterized by decision-making structures highly centralized around the Al Saud and a state mostly autonomous from formal institutions of business interests. Business interest representation is still delegated to a small number of tightly supervised and compartmentalised institutions such as the Saudi Chamber of Commerce and Industry and Majlis Ash-Shura. Although the private sector significantly developed its organisational and managerial capacity, business tends to act as a client and a ‘policy taker’ (Hertog, 2010b). Inclusion to
formal institutions of business representation is carefully monitored by the government and policy influence is limited to specific and delimited technocratic areas (Al-Rasheed, 2010; Hertog, 2010b; Kraetzschmar, 2015). The causal chain between SWF creation and structural state-society relations provides a helpful way to think about the politics of SWF creation in the Kingdom. Nonetheless, it leaves two important analytical components open: (1) Although enhancing our understanding of the politics underlying the decision to create (or not) an SWF, the model does not explain how these political relations step in the elaboration of governance models and sovereign wealth allocation and; (2) the analytical focus on centralisation of decision-making, state autonomy and the organisational properties of institutions of business representation overlooks fundamental rentier patterns underpinning Saudi Arabia’s political economy.

Scholarship on Saudi Arabia’s political economy illustrates that although power is overcentralized around the Al Saud, the state tends to be fragmented with institutions under the behest of various factions (Al-Rasheed, 2005; Hertog, 2018). The Saudi case is thus one of highly centralised decision-making power which, contrary to theoretical assumptions in SWF scholarship, is endowed with multiple veto players, or ‘institutional fiefdoms’, seeking to advance their own agendas and often disagree on policy decisions (Hertog, 2010c). Further, Saudi state-building has, for the most part, consisted of the co-optation of societal actors into a distributive framework sustained by externally derived rent. State-society relationships are thus interwoven in patronage relationships, although often less immediately material than they used to be, with individual techniques of dealing
with the state overshadowing collective interests (Eibl et al., 2022; Hertog, 2010c; Kamrava et al., 2016).

This also engendered “sticky entitlements”, where over time the state restricted its autonomy by using rent allocation mechanisms that are arduous to retract (Hertog, 2010b). Indeed, government expenditures across political systems tend to be “sticky”, meaning incumbents have incentives to being reluctant to trim spending programs considering it may hinder their political power and influence (e.g., Piguillem & Riboni, 2021; Wu et al., 2020). In Saudi Arabia, this points to the ‘path dependency’ of institutional design, or the reduced fluidity of the rentier framework (Hertog, 2010c; Kamrava et al., 2016). Existing SWF scholarship accentuates the effect of internal political dynamics on sovereign funds design and use. Meanwhile, SWFs are considered avenues to promote economic growth and additional instruments to sustain structures of authority outside entrenched rentier structures. An understanding of SWF development in Saudi Arabia’s distributive system thus requires greater social, historical and institutional specifics.

**Conclusion**

The theme running through this chapter is that while the predominant portrait of SWFs as market-based investors merely seeking to maximise risk-adjusted returns grounded in macroeconomic theories might be conceptually compelling, a sovereign fund’s form and function are not determined by a single coherent purpose. From this perspective, SWFs’ specific forms and strategies vary according to historical, institutional and political
relations and norms. The funds are outcomes of and closely influenced by local and man-made institutional arrangements. The literature on the domestic political drivers of SWFs illustrates that SWFs are byproducts of interactions, contested or otherwise, between various political and economic forces that shape decisions regarding the management and allocation of sovereign wealth.

First, the macroeconomics-based literature points to organisational design, the appointment process and board composition as the critical elements of an SWF’s institutional framework. Despite acknowledging the heterogeneous universe of sovereign funds, the diversity in board composition, the limited representation of owner and operational managers on governing bodies and arms-length appointment processes are the key recommendation to support adequate internal governance and investment policies. Yet, even if mostly or even completely independent of government, an SWF is still an entity of the state and, as such, subject to political and organisational rationalities inherently influenced by domestic political dynamics. For instance, the governance framework provides administrative instruments to deal with intra-elite power balancing and ensures that sovereign wealth management is under the control of the ruling elite, with the objective of advancing the interests of those in power.

Second, in a macroeconomics-based perspective, investment strategy hinges on time horizon, asset classes and risk appetite, or in other words, the willingness to bear financial risk with the expectation of generating a potential profit. In turn, these indicators are closely shaped by international factors and macroeconomic characteristics such as reserve
management and resource endowment. If international economic pressures, factor endowment and the role of development and diversification challenges certainly carry weight in asset allocation, a sovereign fund’s investment strategy cannot be entirely neutral and insulated from the politics and ideologies of its sponsoring countries. Ruling elites can leverage SWFs acquire stakes in companies controlled by the elite and their allies or financial institutions to shape economic development (Grigoryan, 2016; Hatton & Pistor, 2011; Schwartz, 2012). Moreover, sovereign funds allow incumbents from emerging economies to create investment pathways toward developed economies through familiar investment structures (G. L. Clark et al., 2013; Hatton & Pistor, 2011). SWFs also create a vehicle to influence or defend against dynamics underpinning the international economy or global governance regimes (Armijo & Katada, 2015; Dixon, 2020b).

Accounts of SWFs as instruments to sustain extant structures of political authority are useful in problematizing why the Saudi PIF acquired such an important role in the Kingdom’s political economy. However, minimizing the salience of established rentier structures yields only a partial understanding of SWF development in Saudi Arabia and its implication for political and economic institutions. If existing SWF scholarship assumes a unified ruling elite and predicts that a centralised polity can act independently of socio-political actors outside of established rentier structures, accounts of the Kingdom’s political economy expose a fragmented political landscape, formal and informal patronage structures permeating state-society relations, and the reduced manoeuvrability of the Saudi state in overhauling established structures. While there is a logic in adhering to the conceptualisation of SWF development in Saudi Arabia as an additional instrument of
regime durability, this perspective does not take account of the specific political and economic institutions in the Kingdom. Accordingly, this thesis puts into dialogue two fields that have counterintuitively remained separate: the logic of SWFs as instruments of regime persistence and rentier state theory.
CHAPTER 2

Analytical Framework: SWFs as Instruments of Regime Stability in Rentier States

The present chapter articulates a framework for analysing the effects of domestic politics and state-society on SWF design and use in Saudi Arabia. Chapter 1 covered the underlying premise of this thesis; that is SWFs are outcomes of policy decisions, thus the results of socio-political dynamics driving policymaking, themselves interwoven in a set of distinct historical and political relations and institutions. Nonetheless, if CPE and IPE scholarship conceptualises sovereign development funds as avenues to promote economic growth and simultaneously as an additional instrument to sustain entrenched power structures, existing frameworks do so isolated from established rentier mechanisms. From this point view, this chapter engages with rentier state theory to inform and build hypothesised mechanisms underpinning SWF development in Saudi Arabia since 2015.

Building upon the work of Shih (2009) and Dixon (2020b), Section 2.1 introduces the logic of SWFs as instruments of regime maintenance, the theoretical starting point of this research; a sovereign fund’s governance structure and investment strategy can allow a regime to maintain its fundamental characteristic features. Working from here section 2.2 delves into rentier state theory to situate the logic of SWFs as instruments of regime maintenance in the context of Saudi Arabia by bringing forward inherited institutions and power structures that mediate state-society relations and political institutions. Section 2.3 leverages the insights of rentier state theory to introduce and develop the model of SWFs as instruments of regime maintenance in rentier state driving the thesis. Section 2.4 paves
the way for operationalising this framework to study the effect of domestic politics and state-society relations on sovereign wealth management in the Kingdom. The thesis does so by tracing a sociology of sovereign wealth funds using the perspective of social network analysis. This disaggregated approach allows the thesis to capture the interplay between agent and structure, thus how political agency and specific historical institutional constraints within political contexts shape SWF design and use. Section 2.5 offers final remarks.

2.1 Sovereign Wealth Funds and the Logic of Regime Stability

SWFs with a development mandate like the Saudi PIF operate under a double bottom line, or, in other words, achieve domestic economic policy objectives and secure financial returns (Halland et al., 2016). Additionally, Haberly (2017) identifies a second double bottom line that encompasses the political and economic interests of multiple domestic actors. In this context, sovereign development funds operate at the intersection of finance, socioeconomic development and state-society relations. Such trends call attention to the relationship between domestic politics and SWF choices. Being an outcome of policymaking, the logic driving SWFs design and use is first and foremost a result of the underlying political environment in which the fund operates (Braunstein, 2019a; Helleiner, 2009). More specifically, the thesis conceptualises SWF development in rentier states as an instrument of regime maintenance. This section sketches the theoretical assumptions underpinning the logic of SWFs as instruments of regime persistence.
Young (2023, p. 24) notes that Gulf Arab monarchies like Saudi Arabia “are developmental states by initial design” whereas Gray (2023, p. 181) insists that Gulf states are “state capitalist rentier system”. In this vein, the developmental state scholarship is relevant in understanding how sovereign development funds can enhance state capacity and promote economic growth. Scholars suggest that political elites often view economic growth as crucial to nation-building efforts (Leftwich, 1995; Nem Singh & Ovadia, 2018; Stubbs, 2009). Additionally, Sing and Ovadia (2018, p. 1035) argue that challenging circumstances may create a structural condition where incumbent elites must deal with systemic vulnerability and prioritise economic development as the primary source of political legitimacy. In oil-exporting states that have undergone late industrial transformation, regime survival relies heavily on overall state-led economic performance (B. Smith, 2006). Moreover, the process of mobilising societal groups for economic development tends to produce social classes tied to state development projects; the role of the state in creating such social classes in Gulf oil-exporting states is particularly pronounced (Chaudhry, 1997; Hanieh, 2018; B. Smith, 2004). In this context, sovereign development funds are potent instruments for governments to achieve national development goals, particularly in countries where state-sponsored economic development plays a fundamental role in structures of political authority and social coalitions.

Therefore, sovereign development funds can be seen as a tool for maintaining political power by directing economic resources toward state-led development priorities that support the regime’s stability and legitimacy. These priorities often align with the regime’s political interests and can include efforts to stimulate economic growth, diversify the
economy, create jobs, or strengthen the regime’s control over economic resources and institutions. Accordingly, the expansion of sovereign development funds denotes an instance where states mobilise the tools and logic of finance as a political strategy to achieve developmental policy objectives, namely economic growth or structural transformation, as well as an instrument to legitimise and sustain existing structures of political power (Dixon, 2020b). This reflects the underlying rationale adopted in this thesis, where the establishment and operation of SWFs are seen as inherently intertwined with political considerations, including regime stability and continuity. Shih (2009, p.328) posits that “given the paramount importance of surviving domestic political competitions, SWFs are likely also tools of domestic political survival”. In some political contexts, ruling elites can break into rival factions challenging the incumbent. For instance, SWFs operating in this environment may become instruments of domestic political infighting by providing short-term essential public goods of regime stability and economic growth (Shih, 2009). This claim suggests that the creation and operation of SWFs are deeply embedded in domestic politics and can serve as tools for political survival amidst domestic political competition, especially in oil-exporting states where the regime’s stability and legitimacy are dependent upon directing economic resources towards state-led development priorities and targeted socioeconomic groups.

The governance framework can ensure that sovereign wealth management is directly accountable to the ruling elite, whereas promoting economic growth and development through a sovereign development fund inherently requires balancing the interests of ruling elites and business interests. Sovereign development funds can create and support firms
linked to a targeted economic elite or instead act as a counterweight to local private interests (Schwartz, 2012). Thus, SWF expansion must strike a delicate balance between political and economic interests to ensure that these funds can support economic growth and development while also serving the political interests of ruling elites. Besides, incumbents may also leverage an international portfolio to implement a blitz over financial markets to satisfy immediate demands and protect the economic and political status quo (Dixon, 2020b; Shih, 2009). In that sense, an SWF provides an alternative mechanism for legitimising and maintaining existing structures of political authority and, as such, is underwritten by what Dixon (2020b) coins as a logic of regime maintenance.

Hence, the two key concepts of regime and regime maintenance need to be defined. Robert Fishman (1990) differentiates the concepts of state and regime by accentuating that regimes are usually more permanent forms of political organisation than governments but usually less permanent than the structure of a state. According to Fishman (1990), "a regime may be thought of as the formal and informal organisation of the centre of political power, and of its relations with the broader society. A regime determines who has access to political power, and how those who are in power deal with those who are not” (p.428). Easton (1965) breaks the concept of ‘regime’ into three fundamental components: values, norms and structures of authority. According to Easton (1965), political values and principles (articulated or implicit) set the boundaries of what political agents can do in day-to-day politics without upsetting deep-seated state-society relations. Norms are the accepted and expected procedures in political decision-making, whereas the structures of
authority are “the formal and informal patterns in which power is distributed and organised with regard to the authoritative making and implementing of decisions” (p.193).

By analysing SWFs as tools for regime maintenance, this thesis posits that the governance framework and investment activities of a sovereign fund – both domestically and internationally – offer strategies that enable a government to use financialized methods of economic management and political mechanisms to preserve their fundamental characteristics such as values, norms and structure of authority over a period of time. Following Gerschewski (2013), the thesis adopts a dynamic view of regime stability, which moves away from a status quo but rather refers to the set of actions and strategies employed by incumbents to adapt to maintain structures of authority over time. This does not preclude any transformation in ruling regimes, but instead positions SWFs as key instruments through which rentier states adapt and respond to continuously evolving structural conditions without compromising the fundamental pillars of regime stability underpinning allocative frameworks.

Before delving deeper into the pillars of regime stability in Saudi Arabia, it is essential to note that political science literature often associates the notion of “regime maintenance” with negative practices employed by autocratic regimes. These mechanisms often include repression and co-optation as opposed to superior liberal democratic institutions found predominantly in Western countries. However, regime maintenance can also be observed in democratic systems where leaders use various legal and political maneuvers to
consolidate and maintain power. Such maneuvers may include tactics such as repression\textsuperscript{17}, media manipulation, mass surveillance, gerrymandering and clientelism (Kendall-Taylor et al., 2019; Kreutz, 2015; Morgan, 2018). Consequently, it is essential to consider regime maintenance as a concept that ranges beyond the typical autocratic versus democratic dichotomy and explore the complex ways different political systems deploy strategies to consolidate and retain power.

\textbf{2.2 Rentier State Theory: A Political Economy of Regime Stability in Saudi Arabia}

If the conceptual framework of SWFs as instruments of regime stability lays the theoretical foundation of this thesis, it is imperative to fully grasp the norms and power structures governing state-society relations in Saudi Arabia. The notion of a social pact encompasses the institutionalised bargain between collective actors but also a set of shared expectations about the appropriate organisation of a political economy. Such formal modes of governance and resource allocation in addition to informal modes of bargaining need to be taken account in policymaking. They determine which actors have access to state resources, the accepted forms of organised interest representation, conflict resolution mechanisms available to both state and social actors and the kind of policy instruments state actors can deploy to achieve their goals (Heydemann, 2007). A social pact exhibits

\textsuperscript{17} Kendall et al. (2019, p. 93) demonstrate that “at low levels of democracy, including in new or weakly institutionalized democracies, democratic institutions are unlikely to have much effect on repression […] In other words, movement along the autocracy-democracy spectrum does not lower levels of repression until a certain level of democracy has been reached”. Nonetheless, the literature demonstrates that authoritarian regimes tend to repress far more than their democratic counterparts (Kendall-Taylor et al., 2019; Kreutz, 2015).
specific institutional settings and that such configurations moulds how the state responds to changing political economic conditions.

Heydemann (2007) brings in the notion of bound adaptiveness or a capacity for adaptability produced by the interplay between formal and informal modes of bargaining and coalition management. This capacity for adaptability of ruling bargain can be considered as one of the most critical factors that determine success in responding to continuously changing political and economic conditions. Building from Heydemann’s (2007) work on social pacts and the persistence of regimes in the Middle East, the logic of regime persistence deployed here focus on how interests became institutionalised during the formative period in which the Saudi state took place and how these arrangements then promoted or inhibited the capacity of actors to adapt to shifts in the political-economic conditions that produced them.

Although institutions of coercion, ideological forces and other social institutions undoubtedly play a significant role in shaping the Saudi regime’s dynamics and longevity, scholars contend that the flexible form of governance established through oil-funded state formation and nation-building has been key to its continued survival amidst development hurdles and conflicts (e.g., Bank et al., 2022; Herb, 1999; Heydemann, 2007; Lucas, 2004; Smith, 2006; Smith & Waldner, 2021). Indeed, rent leverage – the share of an average citizen’s economic life derived directly from state-directed allocation of oil and gas
income\textsuperscript{18} – plays a strong cross-country stabilizing role for incumbent elites (B. Smith, 2017). In this vein, the rentier state theory is one of the primary political economy approaches explaining political institutions and social coalitions in oil-rich states like Saudi Arabia. At the basic level, it is widely maintained that rentier political systems primarily rely on allocating and distributing rent revenues. Regimes with access to significant externally derived income can build their legitimacy and stability on their distributive role, thus relying on a rentier social bargain. The institutionalised rentier bargain is broadly conceptualised as the exchange of political loyalty (or quiescence) for material benefits and privileges taking the form of various welfare services and employment opportunities (Beblawi, 1987; Crystal, 1995; Luciani, 1987; Mahdavy, 1970; Ross, 2001). This is based on a plethora of formal or informal distributive mechanisms such as large-scale public employment, heavily subsidised public utilities, lucrative government contracts and protection for politically connected businesses through monopolies and restrictions on foreign capital (Hertog, 2016; Kamrava et al., 2016).

Indeed, Gulf rentier states including Saudi Arabia established distributive systems and co-optation institutions to weaken alternative centres of societal power and counter opposition from movements like Arab nationalism and leftism during the 1950s-1960s (Crystal, 1995; Hertog, 2018; Vitalis, 2007). Accordingly, to maintain political autonomy and ensure regime durability, incumbent elites must distribute a considerable share of external rent. If a growing stream of literature nuanced the idea of state-society relations as allocative

\textsuperscript{18} Smith (2017) measures rent leverage as the ratio of hydrocarbons income per capita to GDP per capita corrected for purchasing power parity (PPP).
passive (e.g., al-Sharekh & Freer, 2021; Freer, 2017; Gengler, 2015; Moritz, 2020a; Vitalis, 2007), Eibl et al. (2022, p. 144) denote that “the original argument of rentier state theory has survived fairly well, having been nuanced rather than refuted in recent years”. Despite increasing and evolving development policies, Saudi Arabia’s political economic institutions still operate within co-opted state institutions, although less immediately material than it used to be (Hanieh, 2018; Kamrava et al., 2016; Moritz, 2020b). These institutional arrangements continue to shape the nature of political power and influence in Saudi Arabia, impacting the ways in which actors negotiate their interests and compete for resources and influence within the established regime structure.

Rentierism has become more sophisticated and mature, most notably under the impacts of globalisation, demographic pressures and new economic development imperatives. Nevertheless, diversification programs like free zone development or trade liberalisation have created opportunities in emerging new lucrative sectors, where the intersection of political favouritism and economic development has become increasingly evident (Diwan et al., 2019; Eibl & Malik, 2016; Mogielnicki, 2021). While maintaining the core distributive systems, Gulf oil monarchies, including Saudi Arabia, have entered what Gray (2011) coins ‘late rentierism’; since the 2000s, Gulf rentier states have adapted to forces of globalisation by creating active state-driven diversification policies and project broader influence on the global stage without compromising the underlying rentier political-economic model.
Rentier state formation carries an international dimension. Baumann (2019, p. 1169) mentions that “rentier states are not closed entities that are now being forced open by outside pressure, they have always been co-constituted inside and outside”. For instance, if Saudi Arabia was never under direct colonial rule, Abdulaziz’s (Saudi founder and King from 1932 to 1952) conquest of much of the Arabian Peninsula from 1902 to 1932 was shaped by British influence and the First World War (Al-Rasheed, 2010; Baumann, 2019; Vitalis, 2007). Additionally, foreign corporations like the US-owned oil giant Aramco played a critical role in facilitating institution-building and infrastructure through technical support to the Saudi government (Vitalis, 2007). In 1971, President Nixon’s decision to abandon the gold standard, coupled with the 1973 oil shock, resulted in Saudi Arabia playing a crucial role in ensuring that petrodollars generated during the oil boom were recycled within US financial markets. This recycling of petrodollars was instrumental in enabling the United States to maintain its dollar hegemony and finance trade and budget deficits (Baumann, 2019; Hanieh, 2018; Spiro, 1999; Wight, 2021). In this sense, the rentier state model accentuates the role of externally derived income and control over these resources is crucial in regime stability over time. Nonetheless, this is not a one-way street; the oil-funded rentier social bargain engenders deep interdependence with the international political economy and creates vulnerability to transformation in the architecture of global capitalism. The global environment represents both threats and opportunities, ultimately constraining or enabling rentier states.

Revisited rentier state scholarship also highlights the path-dependence of institutional design as the allocative social bargain has restricted the depth of economic diversification
efforts. Hertog (2010b) and Chaudhry (1997) underline the ‘stickiness’ of distributive mechanisms, or, in other words, that the state has, over time, diminished autonomy in using and reshaping rent allocation channels that are relatively easy to promise, but especially hard to abolish. The path-dependent nature of distributive mechanisms poses significant challenges to states like Saudi Arabia seeking to implement economic diversification policies, as they have limited room for manoeuvre and must deal with the constraints imposed by previous institutional settings and social coalitions. The implementation of wide-ranging economic reforms squares up to entrenched political and economic rent-seeking institutions, which constrain the government’s ability to reshape the state (Hertog, 2010c, p. 201; Kamrava, 2018). Hertog (2010b) brings forward that ‘width’ and ‘depth’ determine political and economic outcomes; as the need to mobilise both organisations and individuals throughout the state apparatus and society grows, so does the challenge of achieving tangible outcomes.

More specifically, Hertog (2010b) argues that the resilience of the Kingdom’s political-economic institutions can be explained through the concept of segmented clientelism; oil-based state expansion resulted in the creation of multiple parallel centres of power suffused with formal and informal small-scale networks within state structures and society. The clientelist political structure created stakes with merchant elites, while administrative clientelism granted veto power to multiple factions, whether it be royal, bureaucratic, economic, or others, expressed through institutional fiefdoms with overlapping interests and jurisdiction. Hertog (2010b, p. 33) writes that “the organizational fragmentation of the state makes decision-making and implementation more difficult, while micro-level
clientelism and brokerage tend to undermine implementation even further”. The underlying theme is that explanation for economic development resides at the intersection between structure and agency. The structural impediments imposed by inherited institutions, rentier wealth and other historical formations hinder states’ capacity to implement and pursue economic diversification. Nevertheless, actors such as ruling and business elites are significant forces shaping outcomes due to their incentives for rent-seeking and regime maintenance (Eibl et al., 2022).

Any attempt to grasp the use of SWFs in the Saudi context would therefore have to account for two key entrenched features of the Kingdom’s political economy; clientelism in the sense of “unequal, exclusive, diffuse and relatively stable relationship of exchange within and around the state apparatus”, and the segmented nature of the Saudi system, meaning the parallel, hierarchical and often insulated institutions and clienteles (Hertog, 2010b, p. 12). In Saudi state structures, administrative clientelism manifests as patronage among ruling elite members. Senior royals frequently safeguard and place their younger siblings or offspring in influential positions, while senior princes often exhibit close ties to specific ministers or ministries. Additionally, bureaucratic patronage within institutions is evident through various forms that consider kinship, political networks and regional backgrounds (Hertog, 2005). The ruling elite also built political clientelism mainly with business elites through formal and informal distributive mechanisms. Furthermore, the royal family was able to create new business actors from its regional stronghold in the Najd and co-opt existing merchants in the rival Hijaz and Eastern Province (Chaudhry, 1997; Vassiliev, 1998). If Saudi business gained autonomy and improved their organisational and
managerial capacity, state-business relations continue to be marked by favouritism and personal connections with established, well-connected families.

As the large-scale hub-and-spoke system connects the regime to various groups within the state apparatus and society, the multiple attempts at economic reform since the 1950s demonstrate how this vast and complex rent distribution network proves challenging to reverse, reducing the Saudi government's autonomy in retract various distributive obligations and re-engineering its distributive system (Chaudhry, 1997; Gross & Ghafar, 2019; Hertog, 2010c). Beyond the domestic sphere, Hanieh (2018) demonstrates that due to the significant magnitude and heightened level of capital outflows, Gulf rentier states are intricately intertwined within the fabric of the global economy. This interconnectedness makes it impossible to unpack their political economy apart from the intersecting and deeply ingrained transnational economic ties they carry.

The notion of path dependence (e.g., Mahoney, 2000; Pierson, 2000; Thelen, 2014) is thus central to this thesis. According to Pierson (2000, p. 252), a broader definition of path dependence refers to “the causal relevance of preceding stages in a temporal sequence”. Beyond this assertion that ‘history matters’, the Saudi story points the relevance of understanding a socio-political outcome by looking at ‘how it got there’, but more importantly, it emphasises that a particular path might be difficult to exit (Hertog, 2007, 2010c). In the same vein, Pierson (2000, p. 252) introduces the notion of increasing returns, or in other words, the idea that “the probability of further steps along the same path increases with moves down that path. This is because the relative benefits of the current
activity compared with other possible options increase over time”. The inherited trajectories of institutions come to constrain the choices available to actors at junctures and shape political and economic outcomes.

### 2.3 SWF as Instruments of Regime Stability in Rentier States

A model of regime stability as a function of distributive power implies that reduced levels of resource allocation entail a greater likelihood of instability and regime breakdown. Acute changes in economic conditions increase the risk of regime breakdown and delegitimize incumbent elites regardless of regime type (Geddes et al., 2018; Haggard & Kaufinan, 1997; Przeworski et al., 2000). Yet, regimes that disproportionately rely on patronage are significantly more likely to breakdown during periods of economic downturn (Geddes, 1999; Kendall-Taylor, 2011). Following this causal chain, capital-deficient conditions are assumed to diminish the capacity of incumbents to sustain allocative frameworks, leading to a potential breakdown of the prevailing rentier model of regime stability. The PIF’s sprawling position in Saudi Arabia amid mounting pressure on the country’s political economy suggests we ought to think about how the dynamics of regime persistence and SWF expansion interact politically.

The case made here is that while economic diversification challenges certainly carry weight in SWF expansion in Saudi Arabia, SWF development has an endogenous regime maintenance logic. I contend that sovereign funds are adaptive responses to external pressures and, simultaneously, a path of least resistance around deep-seated domestic
political and economic constraints. Here, I draw on historical institutionalist conceptions of path-dependent change (e.g., Mahoney, 2000; Pierson, 2000; Thelen, 2014), positing that the institutional legacies of the early development period constrain and enable state leaders during subsequent SWF development. More than simply asserting that ‘history matters’, I refer to the type of historical causation in which the inherited trajectories of institutions constrain the choices available to actors at junctures and shape political and economic outcomes. Through this lens, the notion of regime maintenance does not imply an inflexible or rigid vision of regimes, but instead considers how they acquire the capacity to adapt and respond to continuously changing political and economic conditions. This is line with the concept of ‘late rentierism’ (Gray, 2011), which accentuates that Gulf states have successfully adjusted to the impacts of globalisation and societal pressure while maintaining their core rentier political-economic system. In this vein, I advance that sovereign funds are key instruments for rentier states to maintain extant structures of authority by adapting to external and internal pressure in driving active state-driven economic development policies without compromising the underlying pillars of rentier regime stability in economic control, patronage and international support.

Figure 3 schematises the main effects of rentier state formation on SWF design and use where the dynamics of ‘segmented clientelism’ (Hertog, 2010c) are the intervening variables to the outcome. First, Saudi state-building engendered veto players stemming from institutional fragmentation and administrative clientelism, which in turn play a crucial role in political and economic outcomes (Hertog, 2010c). Considering the centralization of power in the Saudi political landscape since 2015 and new rulers’ desire to actualise reform
visions, I postulate that sovereign funds expansion allow incumbents to streamline decision-making and investment activities under a single overarching institution. Secondly, efforts to achieve economic restructuring through SWFs organically intertwine with entrenched political and economic rent-seeking institutions, which have evolved and solidified over time (Hertog, 2010c; Kamrava et al., 2016). I contend that the increasing role of SWFs in rentier economies allows incumbents to create alternative source of rent-like income that can be tapped by the state and redistributed to reproduce or reorganize rent-seeking structures underpinning state-society relations. Thirdly, a globally diversified portfolio offers incumbents an extra fiscal tool to sustain state spending or implement counter-cyclical tactics to protect the political and economic status quo. In addition, SWFs enable governments to secure external ties and foster new political and economic linkages in line with domestic political and economic development goals (Armijo & Katada, 2015; Dixon et al., 2022b). In this vein, I contend that SWF development preserves or enhances rent-like income and strategic international alliances to sustain or bolster extant structures of authority.

By adhering to the fundamental premise of SWFs as instruments of regime maintenance, I argue that the turn to sovereign development funds in rentier states acts as a mechanism to facilitate economic development and generate growth without disrupting the shared expectations about the appropriate organisation of a political economy. This framework implies a financialised mode of regime maintenance or a ‘financialised rentier state’. Since the late 1990s and early 2000s, scholars have used the concept of ‘financialisation’ to capture the shift from industrial to financial capitalism (Braun & Koddenbrock, 2023; van
der Zwan, 2014). Epstein’s (2005) seminal definition describes financialisation as “the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies” (p.3). This, however, is not to neglect state agency and perceive this process as merely externally imposed on political economies (Braun & Koddenbrock, 2023; Karas, 2022; Krippner, 2011). Pagliari and Young (2020) describe financialisation as a political phenomenon “not only for its roots in political decisions and processes, but also for its consequences over the political processes and the design of public policies” (p.113).

Figure 3. The Analytical Framework: SWFs as Tools of Regime Stability in Rentier States

Financialisation has opened a new form of statecraft that allowed states to reinvent their relationship with markets, in particular the financial market, and offer strategic
opportunities for governments to solve political problems (Braun & Gabor, 2020; Fastenrath et al., 2017; Schwan et al., 2021; Trampusch, 2015; Y. Wang, 2020). For instance, authoritarian state capitalist regimes have leveraged financialisation as a new mode of statecraft. Governments gained access to a range of new tools and a new style of governance that enabled them to cope effectively with existing or prospective political conflicts. Incumbent elites reacted to existential threats, whether political or fiscal, by carving out financial institutions like SWFs as part of emergent political strategies and systems of governance (Karas, 2022; Y. Wang, 2020).

In a global political landscape characterised by increased financialisation, dwindling oil revenue and a looming post-carbon economy, SWFs are archetypical apparatus in the emergence of a financialised mode of re-articulating economic development patterns in rentier states. The rentier nature of value extraction under financialisation (Epstein, 2019; Lapavitsas, 2013) is attractive for rentier states as it reproduces the fundamental patterns of rentierism underlying the so-called rentier bargain. Moreover, the turn toward SWF as an economic development mechanism carries inherent rentier characteristics. In its most simple form, a commodity-based SWF converts the revenue generated from finite natural resources into state-managed financial assets. Incumbent elites can then maintain oversight and control over wealth-generating assets. In turn, ruling elites can tap the alternative source of rent-like income to bankroll state-led industrial upgrading, localize technologies, create strategic international partnerships, or restructure networks of privilege permeating state-society relations. The consequential turn to SWFs to re-articulate patterns of economic development denotes what I coin as a financialized rentier state; an emerging
paradigm where SWF-led development strategies have adapted to fit local institutional settings to sustain entrenched patterns of state control and rentierism. This enables incumbents to maintain pillars of regime stability as rentier states confront global financialization and the impending post-carbon economy.

2.5 A Sociology of Sovereign Wealth Management

This thesis’ claim that SWFs are instrument of regime stability organically calls for an approach that acknowledges the causal effects of political dynamics of the regime and state-society relations on SWF choices. A PNA of SWFs (Braunstein, 2019a) offers such an approach through a combination of meso-level variables. It recognizes the centralization and power of a state and the mobilization of private interests. Variation between these structural variables informs the power dynamics between various political and socioeconomic actors within the policymaking process and its effect on institutional choices. The approach is grounded in Atkinson and Coleman’s (1989) policy network typology and emphasises a view of state capacity and societal forces through a set of structural variables. In this perspective, the combination of three variables unpacks the characteristics of state-society relations: the concentration of decision-making power, state autonomy, and the organisational properties of private sector interests.

Within the framework, the concentration of decision-making powers and state autonomy are defined by "the degree to which ultimate decision-making power is concentrated in the hands of a relatively small number of officials and, secondly, the degree to which these
officials are able to act autonomously" (Atkinson & Coleman, 1989, p. 51). In addition, the framework incorporates the organisational capacity of the private sector. This is empirically investigated through the capacity to coordinate through organisational structures such as chambers of commerce and other expertise coordination platforms and the integration of socio-economic actors in the policy-making process, namely through representation on major ad-hoc economic policy bodies. A highly mobilised private sector would be illustrated by horizontally divided sectorial associations structures, where an association with a high density (high representation of firms in a given sector) is considered the only means of influence. In contrast, an under-mobilised business community, "these interests are fragmented, with groups operating on their own in narrow, specialised and overlapping domains" (Atkinson & Coleman, 1989, p. 55). On one side, state-directed PNs are characterised by highly concentrated decision-making structures, highly autonomous state officials and under-mobilised private sector interests (see Table 3). The state possesses the capacity to act independently in a policy-making process strongly driven by state actors. This often leads to economic projects involving significant consequences for the private sector. At the other extreme, a clientele pluralist network describes a state-society structure with highly concentrated decision-making structures and officials with low autonomy facing highly mobilised business interests. (Atkinson & Coleman, 1989).

Table 4. Conditioning Factors for Policy Networks

<table>
<thead>
<tr>
<th>Mobilisation of business interests</th>
<th>High autonomy, high concentration</th>
<th>High autonomy, low concentration</th>
<th>Low autonomy, high concentration</th>
<th>Low autonomy, low concentration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>State-directed</td>
<td>Pressure pluralism</td>
<td>Pressure pluralism</td>
<td>Parentela pluralism</td>
</tr>
<tr>
<td>High</td>
<td>Concertation</td>
<td></td>
<td>Clientele pluralism</td>
<td>Industry dominant pressure pluralism</td>
</tr>
</tbody>
</table>

Source: Atkinson and Coleman (1989, p.54)
The interrelations between the centralisation of decision-making power, state autonomy, and the organisational properties of private sectoral interests illustrate the broader state-society relations, which are then expressed by PNs. The structure of the PN allows the inclusion or exclusion of socio-economic actors in policy-making processes, namely through associations, advisory bodies, committees, or governance structures. In turn, this generates different kinds of SWFs set up in response to different kinds of interests (see Figure 4). Thus, a PNA of SWFs underlines that “sovereign wealth funds should be seen as an outcome of policy-making, where actors with different preferences compete for allocation of resources, and where the organisational characteristics of policy-making play a central role” (Braunstein, 2019a, p. 149).

**Figure 4** Factors shaping policy networks and types of sovereign wealth funds

**Source:** Braunstein (2019a, p.148)
SWF design and use is not only by-products of macroeconomic features but is also a reflection of the distribution of power between the state and business communities in a given society, taking roots in their respective histories and legacies of state formation. The key argument emanating from this approach is that strong and well-organised business interests in the industrial sector tend to hinder the development and deployment of sovereign development funds in relevant activities such as real estate or manufacturing. In turn, a weakly mobilised private sector in the industrial domain facing highly concentrated and autonomous state tend to lead to an SWF with a development mandate dominating the domestic industrial landscape. This claim is based on the fact that sovereign development funds create state-owned enterprises, take majority stakes, make direct investments in companies and can bias the allocation of resources towards priority projects, thus compete with private interests domestically and internationally (Braunstein, 2019a).

A PNA of SWFs (Braunstein, 2019a) assumes that a highly centralised regime like the Saudi polity can create and use SWFs with a development mandate like the PIF to pursue their interests independently of demands from under-institutionalised socio-economic groups. Yet, the Saudi case points out how an analytical focus on generic aggregates and organisations risk overlooking how state-society inform SWF choices in rentier states. First, even if decision-making structures are highly centralised around the Al Saoud, the expansion of the state apparatus around the royal family led to an internally fragmented state apparatus (Al-Rasheed, 2005; Herb, 1999; Hertog, 2010b; Yizraeli, 1998). Second, the regime appears as largely autonomous as it prevented the emergence of broader social coalitions. Nevertheless, as demonstrated by events such as the ARAMCO strikes (Vitalis,
or business resistance to economic reforms (Chaudhry, 1997; Hertog, 2010c), state-society relations are mostly atomised and relying on long-standing connections with the government. Instead of complete autonomy, state expansion anchored the state in patron-clients relations and thus reduced the regime’s autonomy (Hertog, 2010b; Karl, 1997). Third, the structural study of state-business interactions without considering the superimposition of business and family dynamics on political bonds risk producing an incomplete portrait of the links between the state and the private sector (Kamrava, 2017). Beyond its greater managerial sophistication and increasing levels of organisation through institutions such as the Saudi Chamber of Commerce and Industry and Majlis Ash-Shura, state-business relationships are still interwoven in individual relationships of patronage, with individual linkages with the state overshadowing collective interests (Hertog, 2010c, 2018; Kraetzschmar, 2015). Besides, business players take on senior positions in the state apparatus while members of the ruling family operate in various economic domains in a private capacity (Hanieh, 2018; Kamrava et al., 2016).

Mindful of the point that state-society relations in rentier states are better understood as a network of compromises between social and political actors (al-Sharekh & Freer, 2021; Hertog, 2005; Moritz, 2020a), this logic suggests we need a micro-foundation of how domestic politics influence SWF decision-making. Among political scientists and political economists, the point that the ‘state’ is too broad a category to serve as a meaningful concept in studying policy outcomes is far from unusual. For instance, Thelen and Steinmo (1992) argue that the focus on the macrostructures that define the parameters of policymaking downplays the crucial role of political agency in understanding political outcomes. Migdal
(2001) sees the state as less than a rational and unitary actor but instead argues for a theoretical standpoint that views the state as made of units with distinct *esprit de corps* often impelled by conflicting interests pulling in multiple directions. Disaggregation of the ‘state’ and ‘society’ and their interaction is in order, and thus a micro-oriented approach helps to explain the effects of domestic politics and state-society relations on SWF choices. Of course, micro-oriented research does not preclude from dealing with aggregates. However, the analysis remains actor-centered in the sense that it gives prominence to political agency in understanding political outcomes (Thelen, 1999). As Migdal (2001) proposed, this approach goes beyond treating the ‘state’ and ‘society’ as an undifferentiated actor by considering the influence of political agency, alliances, coalitions and conflicts among the components of the state and society to build an explanation of political outcomes such as SWF design and use.

Taken together, a sociology of sovereign wealth management builds from the causal relationship between patterns of state-society relations on SWF choices (Braunstein, 2019a). Rather than working with structural variables like centralisation of decision-making structures, state autonomy and organisational properties of the private sector, the study leverages a qualitative method of inquiry and analytical focus linking concrete micro-scale with macro-scale phenomena, which offers a lens to observe the mutual interplay between agents and structures in political and economic outcomes (Knoke, 1990). Building from the argument that “the modern Saudi state was in many regards shaped decisively and irrevocable in its first two decades and often as much by personality as by structural forces” (Hertog, 2010c, p. 132), the thesis rejects the functionalist vision of institutions but instead
sees institutions as enduring legacies of political struggles; configuration of institutions created in the past structure politics in the present in ways that can shape or constrain the interests of preferences of individuals, and thus mould political outcomes (Fioretos et al., 2016; Pierson, 2000; Steinmo et al., 1992; Thelen, 1999). The thesis acknowledges the paramount importance of understanding the origins of the socio-political mechanisms underlying the patterns of institutional design and state-society relations leading to SWF choices. From this point, the thesis traces a sociology of sovereign wealth management to distinguish how political agency (the players, their interests and the distribution of power among them) and historical institutional setting within specific political context shape SWF design and use.

A sociology of sovereign wealth funds builds on a structural political network perspective (Knoke, 1990)\(^{19}\). Much like the thesis’ central claim that SWFs are regime stability mechanisms in response to system-level and internal variables, this perspective sees political-economic outcomes as socially situated which cannot be explained by looking at agents and structure separately (Knoke, 1990). In line with a micro-oriented approach, this understanding allows us to analyse agents as well as aggregates within a structural political analysis. This model has two basic components: a set of objects, namely political actors (e.g. individuals, groups, firms, countries) and the set of relations between these objects, whether informal links or more formal ties (organisational membership, treaties, corporate

---

\(^{19}\) If this thesis adopts a network perspective, it is not through quantitative network and graph theory. The research does not use social network theory as its theoretical framework for understanding social life nor does it use quantitative network measures such as centrality, distance, cohesion or clustering coefficient (Borgatti et al., 2018; Scott, 2017). Instead, this study adopts a qualitative political structural perspective (Knoke, 1990) to unpack how inherited patterns of state-society relations affect SWF choices.
ownership, etc.). Methodologically speaking, the sociology of SWFs advanced in this study focuses on formal ties. If exploring informal ties for instance through interviews can be key in complementing a sociological approach to sovereign wealth management, this research converges on examining formal linkages for various pragmatic reasons. As mentioned above, there is an inherent opacity to the operations of SWFs. As a rule, SWF executives and staff do not divulge confidential information related to decision-making processes, investment strategy and asset allocation. Sovereign wealth management tends to be a secretive process particularly sensitive to political exposure across political regimes.

In addition, the nature of the decision-making in Saudi Arabia accentuates this opacity; policymaking unfolds behind closed doors with limited access to political actors. The increasing levels of surveillance and control by the Saudi government following the death of Jamal Khashoggi in 2018 and the COVID-19 pandemic significantly limited direct access to government officials or non-state actors related to PIF decision-making or investment activities.

Accordingly, this research uses multiple data sources on governance and portfolio (full range of official PIF and government documents, corporate ownership databases and secondary literature) for the purpose of triangulation as well as a combination of qualitative methods in document analysis, content analysis and archival research (see p.32 for a detailed discussion on data collection). Given the absence of counterfactuals, the focus is on establishing the temporal sequence of events and tracing how accounting for dynamics of regime maintenance explains PIF design and use between 2015 and 2022. The study traces a sociology of sovereign wealth management by unearthing historical patterns that
continue to inform state-society relations. Then I look at how these legacies of rentier state formation molded PIF governance and investment activities between 2015 (when the PIF was established as a fully-fledged SWF) and 2022 by turning the analytical focus attention to political actors (individuals, groups, firms and countries) and the set of formal ties linking them through governance framework and investment activities.

2.5.1 Governance framework

If there is no cookbook on SWF governance frameworks, three elements are nonetheless essential to unpack SWF decision-making structures: board composition, appointment process and investment policy (Alsweilem et al., 2015). Most SWFs centralise their internal governance powers in a board of directors, which vary in form. In that sense, board composition and the process of appointing governing body members to sovereign funds is a crucial element of a governance framework. Meanwhile, in formulating the investment policy, “the government, or legislators, set the general objectives and goals (setting the goal posts), while the fund’s senior management is responsible for devising the strategy for achieving these (devising the game plan and scoring the goals) and the governing body for overseeing the executive’s conduct” (Alsweilem et al., 2015, p. 111).

At the abstract level, board appointees are responsible for framing the SWF’s broader strategic orientation, and the technocrats at the management level are the agents responsible for implementing complex investment strategies framed by political principals (Alsweilem et al., 2015; Divakaran et al., 2022). When setting up a governance model, political leaders
want to ensure the sovereign fund achieves effective strategic asset allocation and, at the same time, line up the interests of fund managers with their agenda (Eaton & Ming, 2010). One of the first challenges for sovereign development funds arises from principal-agent relationships (Divakaran et al., 2022). The SWF’s sponsor (the principal) must delegate decision-making authority to the fund manager (the agent). As such, the principal relies heavily on the agent’s knowledge, skills, recommendations and guidance to accomplish the task. The SWF’s sponsor must delegate authority to technocratic officials, tracing the path from government decisions to policy outcomes. How agents are selected, and the profile of agents chosen is thus likely to have a substantial effect on political processes (Hollyer, 2010; Miller, 2005). Thereby, the principal-agent dilemma or adverse selection problem may arise in SWF governance as the ambitions, goals and interests of the agents selected to fulfil particular responsibilities may diverge from those of principals. In this sense, the nomination of agents to a fund's highest governing body can become an avenue for considerable political influence and the formation or reproduction of established political alliances (Divakaran et al., 2022).

Building from here, shifts in socioeconomic contexts or the political balance of power can generate a situation in which old institutions are put in the service of different ends as new actors come into play and pursue their (new) goals through existing institutions (Collier & Collier, 1991; Thelen & Steinmo, 1992). Institutions can be created or expanded to give an agent an advantage in games of power. Meanwhile, the rentier status of Saudi Arabia has given the ruling elite a high level of political autonomy in state building and institutional design at previous junctures (Hertog, 2010c; Yizraeli, 1998). In this vein, an SWF’s
governance framework can ensure that sovereign wealth management remains directly accountable to the ruling elite to advance the interests of incumbents. Moreover, Saudi institutional design was influenced not only by development needs, but political agency and intra-elite power balancing games also played a significant role (Herb, 1999; Hertog, 2007; Yizraeli, 1998). Considering that governance structures often are often breeding ground for substantial political influence and reproduction of prevailing political alliances (Divakaran et al., 2022; Eaton & Ming, 2010), I leverage a sociology of sovereign wealth management to look at how patterns of state segmentation and administrative clientelism mold PIF governance by unpacking organisational design, board composition and responsibilities and observing political linkages among actors involved in governance structures, their linkages with the government and how it relates to patterns of intra-elite power balancing.

2.5.2 Investment Activities

The investment structure and portfolio of SWFs are closely connected to their stated investment objectives and governance structure (Al-Hassan et al., 2013). The main considerations are related to interpret if a fund manages a long-term diversified portfolio, if its holds illiquid and private-market positions or if the portfolio more liquidity-orientated, or what is the degree of active versus passive investment. The investment mandate and objectives set by the fund’s owner, such as savings, development or stabilisation, directly influence asset allocation in terms of geography (abroad or domestic) and asset class (bonds, equity, direct investment). Once the investment objectives for a particular fund has
been clarified, the determination of the risk-bearing capacity of an investment fund is a key
driver of its investment strategy (Al-Hassan et al., 2013; Braunstein, 2019a). Risk appetite
is the amount of risk an organisation is willing to accept to achieve its objectives. Risk
appetite objectives are typically determined by the owner or governing body of the SWF.

Consistent with the fund’s overall objective(s), that is whether the fund serves the objective
of economic stabilization, intergenerational savings or development, the owner of the SWF
would need to formulate and articulate consistent risk tolerance parameters (Al-Hassan et
al., 2013). For instance, SWFs with a stabilisation mandate tend to invest through an
internationally diversified and bond-oriented portfolio through a conservative and low-risk
profile in order to act as a bulwark against market fluctuations. Meanwhile, sovereign
development funds are designed to invest in domestic and international in sectors
consistent with with national economic development goals often through an equity heavy
portfolio bearing a medium to high risk appetite (Al-Hassan et al., 2013; Braunstein,
2019a).

Sovereign funds and their management are thus reflective of their owner’s visions for
national economic development and demonstrate their perceived time horizon to meet these
goals. As sovereign development funds like the PIF carry the mandate to drive industrial
upgrading, their operations are at the intersection of socioeconomic development and state-
society relations; SWF choices inherently involve balancing the interests of the ruling and
business elites. Even more broadly, SWFs may serve as barometers of state-society
relations. Political time horizon, which refers to “the duration of a leader’s expected tenure
in office”, has been shown to play an important role in sovereign wealth management in oil-rich autocracies (Kendall-Taylor, 2011, p. 322). More specifically, leaders with short-time political horizons are more susceptible to external and endogenous political pressures and tend to use short-term sovereign wealth management strategies to maintain ruling coalitions (Kendall-Taylor, 2011; Shih, 2009).

Accordingly, through the perspective of a sociology of sovereign wealth management, this study considers how the pillars of regime stability dynamics shape PIF investments at home and abroad. On the one hand, regime stability in rentier states is primarily seen as a function of distributive power (Eibl, 2020; Eibl & Hertog, 2023; Luciani, 1987; B. Smith, 2017). As such, when looking at PIF activities in Saudi Arabia, the study unpacks the interplay of political clientelism and SWF choices by a study of formal ties between PIF investments and merchant elites with strong links with the government often going back to the pre-oil era. This is operationalised by an in-depth study of ownership structures of SWF targeted firms (shareholders and directors) juxtaposed to historical patterns of state-society links.

On the other, considering that economically based legitimacy is a central mechanism for regime stability in rentier states (Gerschewski, 2013; B. Smith, 2004, 2017), an SWF engaged in a short-term and active investment strategy with higher risk tolerance, like a hedge fund rather than a vault for intergenerational savings, may signal the regime’s perception of the need for satisfying immediate socio-economic demands and provide for regime stability. Accordingly, I examine how Saudi Arabia’s allocative framework shape the deployment of sovereign wealth across international markets by dissecting the geography, asset class and risk appetite of PIF investments superimposed to shifting
external pressure to meet the challenges of globalization, but also shifting societal pressure stemming from legacies of rentier state formation.

2.5.3 Case Study: The Public Investment Fund

The objective of the study is to develop a comprehensive disaggregated explanation of a particular specific historical outcome (the shift in the PIF’s institutional framework and investment strategy since 2015) by sifting through the empirical material to uncover a causal mechanism that might have produced the outcome. Starting from the empirical manifestation of the shifts in PIF’s organisation and orientation, the thesis seeks to establish what accounts for the PIF’s significant expansion since 2015. Indeed, the central puzzle motivating the thesis can be traced back to the PIF’s revamp in 2015, which precipitated an interest in the drivers underpinning the design and use of the SWF within Saudi Arabia’s political economy. The task at hand was thus not to pair a theory (to be proven or refuted) with a single or multiple appropriate cases but instead to build a robust analytical framework that would facilitate a coherent analysis of sovereign wealth management in the context of Saudi Arabia and rentier states.

In its design, the research’s select case study concentrates on the PIF. The PIF is the 6th world-largest SWF and the single most important economic actor in the Kingdom as approximately 60% of its portfolio is deployed domestically. Consequently, through the research process, the thesis acknowledges the significance of SAMA in developing Saudi financial markets and national economy. SAMA manages reserve surpluses and primarily
deals with a set of issues related to fiscal and monetary purposes, investing in highly liquid, safe, and low performing assets (Seznec & Mosis, 2018). In 2022, SAMA is known to manage approximately $490 billion in foreign exchange reserves under the mandate of maintaining Saudi Arabia’s monetary and financial stability (SWFI, 2022b). The institution is recognized as a strong bank and monetary policy regulator (Banaf & Macleod, 2017).

Yet, the PIF stands out as a more politically oriented policy tool than SAMA due to its explicit developmental and economic diversification mandates, which are central to the Vision 2030 agenda. As a result, the PIF is playing an increasingly important role in shaping the future economic development of Saudi Arabia. Since 2015, the PIF has become the largest and central investor in Saudi Arabia as well as one of the more active sovereign funds abroad (Global SWF, 2022a; SWFI, 2023). This has resulted in the PIF becoming a significant player in globalisation, shaping investment trends and having an impact on economic development both nationally and internationally. Moreover, the PIF’s strategic development mandate is closely intertwined with the Kingdom’s industrial policy and nation-building agenda, making the fund highly political and organically linked to state segmentation and clientelism. Therefore, the PIF presents a hard case study for investigating how political institutions and enduring state-society relations might affect SWF design and use.
2.6 Conclusion

The chapter has argued that SWF design and use in Saudi Arabia is best understood through the logic of SWFs as instruments of regime maintenance. On the one hand, the governance framework provides institutional space to deal with intra-elite power balancing thus creating a more stable political environment. Moreover, control over the governance structures ensures that the management of sovereign wealth remain under the control of the ruling elite. On the other hand, the deployment of a sovereign development fund can maintain or extend control over parts of the domestic economy by sustaining government spending or creating and supporting firms associated with politically connected elites or rather act as a counterbalance to local business interests. A sovereign development fund within a rentier framework can help to manage and allocate a portion of oil rents to maintain a rentier social pact with socioeconomic elites.

On the basis of the theoretical argument that sovereign development funds within the Saudi distributive framework operate as tools of regime maintenance and the empirical argument that Saudi Arabia’s political economic institutions are fundamentally characterized by state segmentation and patron-client relationships, this chapter has introduced an analytical framework that distinguishes the interplay between agents and socio-political structures. As illustrated by existing studies of sovereign funds through PNA of SWFs (Braunstein, 2019a), overlooking social networks within and around the state in favor of structural state-society relations tends to lead to an analytical focus on peak institutions of business representation as the most visible aspect of the socio-political relations underpinning
sovereign wealth management. In contrast, my framework treats SWF design and use as an outcome of the mutual interplay between agents and structures. A sociology of SWFs accounts for the finer-grained system of formal and informal state-society relations, the segmented nature of the Saudi political economy and their respective repercussion on a SWF’s governance and investment activities at home and abroad.
Chapter three initiates the turn towards analysing the political economy of sovereign wealth management in Saudi Arabia’s rentier framework. More specifically, it explores the Kingdom’s inherited political institutions and socioeconomic coalitions leading to the PIF overhaul in 2015. The following chapter argues that SWF development in Saudi Arabia cannot be analysed without reference to the complex and deeply ingrained distributive system penetrating the state apparatus and state-society relations. Working from the lens of rentierism, the chapter demonstrates how the distribution of state resources has been instrumental in moulding both the economy and state apparatus. Returning to the onset of oil-based state expansion, the chapter illustrates that intra-elite power balancing within specific contextual constraints played an essential role in shaping institutional design. On another note, it brings forward that Saudi state-building was mainly based on constructing patron-client relations and incorporating socioeconomic actors into a distributive framework centred around externally derived rent income. These political institutions and distributive mechanisms gradually solidified over time and ultimately shaped later economic development policies.

Section 3.1 starts with a brief exploration of the historical origins of the Saudi rent-distribution regime, which goes back to the 1950s and 1960s. It outlines how Saudi ruling elites built a distributive state that, while itself fragmented into different institutional
fiefdoms. Section 3.2 demonstrates how the Saudi state concurrently rapidly expanded its intervention in society and created many layers of material dependency. The PIF’s upgrading has to be viewed against the backdrop of Saudi Arabia’s pursuit of economic adjustment since 2014 and leadership shuffles in 2015. In this sense, section 3.3 delineates how legacies of the distributive state created half a century ago continue to constrain policy options of incumbent elites whereas section 3.4 traces how the accession of King Salman prompted a centralization of power around the crown prince Mohammed bin Salman, which ultimately engendered fundamental changes in patterns of state fragmentation and state-business relations. Section 3.5 concludes by briefly sketching hypotheses to elucidate how these evolving patterns of state-society relations might explain PIF design and use since 2015.

3.1 Institutional Design: Intra-elite Power Balancing and Oil Fiefdoms

The modern Saudi bureaucracy was established in the 1950s and 1960s. One of the primary drivers behind the expansion of the state apparatus was functional considerations related to growing regulatory and technocratic concerns but also internal distribution of power. Hence, the spectacular growth in oil income from the early 20th century radically expanded the power of the central administration and allowed the creation of a plethora of new state offices. In many cases, these state offices were handed out between princes as a result of struggles between relatives who sought to gain or keep power within the ruling family. This underlines a crucial characteristic of Saudi Arabia’s political economy; even if decision-making powers are highly centralised around a relatively small number of
political agents, the ruling elite is not a homogeneous group. The Saudi polity is composed of several segmented circles of power, simultaneously competing and cooperating to perpetuate the ruling family's rule (Herb, 1999; Hertog, 2007).

The relationship between confrontations and alliances among a limited group of princes within the bounds of the royal household, along with institutional change at earlier pivotal moments in history had significant implications on the course taken by Saudi state. During the time of Saudi founder King Abdulaziz (between 1932 and 1953), new institutions were frequently established to support or undermine particular actors. These establishments also varied based on the status and control exercised by the leading agents or factions. Furthermore, it was expected that princes would be granted positions and responsibilities commensurate with their seniority as well as aligned with their personal aspirations (Herb, 1999; Hertog, 2007). Many of today’s permanent features of the Saudi state can be traced back to an intra-family distribution of power that was the result of the struggle between Saud and Faisal from 1953 to 1962 (Hertog, 2010b; Yizraeli, 1998).

In October 1962, crown prince Faisal, with the help of powerful half-brothers, formed a cabinet in the absence of the King. The cabinet deal of 1962 represented a shift towards a post-Saud distribution of power, leading to Saud ultimately abdicating in 1964. After acceding to the throne, Faisal (King from 1964 to 1975) excluded Saud’s faction from the new government. He also centralised power around a specific core within the royal family. Hertog writes that the cabinet deal of 1962 “was based on a dominant coalition within the Al Saud and was the end result of the Saud-Faisal struggle, in which Faisal’s senior allies
were rewarded with ministerial posts (2010c, p. 64). Adhering to patrimonial lines, they took in full brothers and sons to take up designated roles or vice-ministerial positions.

Fahd (King from 1982 to 2005) was given the interior portfolio, which he handed to his younger brother Nayef upon becoming crown prince in 1975. Nayef held the post of Minister of Interior until 2012 when his son Mohammed bin Nayef took up the role until 2017. Sultan inherited the defence portfolio, which he kept until 2011. Prince Abdullah (King from 2005 to 2015) was given control over the National Guard, which he held until 2010 when he appointed his son Mutib bin Abdullah as commander, in place until 2017 (Hertog, 2007; Rundell, 2021). Many of the top-level agencies grew to become insulated institutional strongholds with parallel jurisdiction like the Ministry of Defence, National Guard, and Ministry of Interior. Military procurement was conducted outside of the Council of Ministers so senior princes could pursue their own projects outside of budgetary requirements and oversight. For instance, Abdullah, head of the National Guard at the time, requested that negotiation over weapons procurement for the National Guard take place directly with the US government so that the Ministry of Defense and the Saudi embassy in Washington would not be informed (Hertog, 2010c). Besides, bodies like the National Guard or the Ministry of Foreign Affairs even built their own social welfare programs, for instance by deploying vast education and health systems for their employees and families (Hertog, 2005). In sum, the cabinet deal of 1962 resulting from intra-elite power balancing dynamics consolidated institutional strongholds.
The conventional wisdom relating intra-elite dynamics pictures royal politics as a cleavage based on matrimonial lines between the so-called Sudayri brothers (Fahd, Nayef, Sultan, Salman, Ahmad, Turki and Abd al-Rahman) and Abdullah. The “Sudayri seven”, or the seven sons from the alliance between King Abdulaziz (1932-1953) and Hassa bint Ahmad Al Sudayri are a distinct and powerful political alliance within the Al Saudi dynasty (Kechichian, 2001). In the words of Robert Lacy (2010, p. 181), Abdullah was ‘born of enemy stock’. Following Abdulaziz’s conquest of Hail in 1921, the bastion of his greatest rivals the Rasheeds, he married Fahda bint Asi Al-Shuraim, a Rasheedi. In 1923, she gave birth to Abdullah bin Abdulaziz Al Saud. In November 1995, King Fahd (1982-2005) suffered a stroke and crown prince Abdullah took over the day-to-day running of the government to become King Abdullah following the passing of Fahd in 2005. Lacey contends that “Fahd and his eldest brothers all got on with running the country as they wished. Abdullah was never part of their inner circle and the brothers found it hard to change their ways after Fahd’s stroke” (2010, p. 187).

Beyond this binary opposition, the royal family politics is best understood through competition between several circles of power manifested in specific historical and political contexts. Indeed, five royal circles contending for power in the post-1990 political landscape, each comprised of a core (a senior prince), sons and other key gatekeepers and allies. The five circles of power are those of Salman, former Governor of Riyadh and King since 2015; Abdullah (King from 2005-2015); the circle of Nayef linked to the Ministry of Interior; Sultan associated to the Ministry of Defense; and Fahd (King 1982-2005). In sum, the regularization and bureaucratic expansion around different circles of influence
crystallised the established balance of power and state segmentation around entrenched institutional fiefdoms. Personal ambition and power balancing games within the ruling family in specific historical constraints played an as important role if not more than any other consideration in institutional design (Al-Rasheed, 2005; Hertog, 2010c; Yizraeli, 1998).

The juxtaposition of many fragmented institutions within the bureaucratic apparatus allowed the emergence of clientelist strongholds distributed among the ruling group to defuse intra-elite rivalries, but it also favoured the emergence of ‘pockets of efficiency’ (Hertog, 2010a). The successes of state-owned enterprises (SOEs) like the Saudi Basic Industries Corporation (SABIC) or the oil giant Aramco and state agencies like the central bank SAMA is attributed, among other things, to their form of ‘pockets of efficiency’, or in other terms, their autonomy associated with the direct protection of high-level principals in the ruling group. Being insulated from the rest of the state apparatus, high-ranking technocratic managers reporting directly to the ruler or other senior royals can focus on profit and market-oriented management outside of political and bureaucratic predation (Hertog, 2010a). If members of the ruling family are often chairman, CEOs or leaders of insulated agencies are mainly well-connected technocrats. Hence, in contrast to the remaining components of the state apparatus that typically involve prominent involvement from royals, certain pockets of efficiency are spearheaded by technocratic officials who establish enduring bonds grounded on confidence and loyalty with royal authorities. As a result, there is enhanced prestige and minimal variability among upper-level leadership figures. This authority and backing facilitate some sectors within the state apparatus to
create reasonably efficient and open management systems concentrated on producing revenue outside patterns based on dispensing political favors or arising rent-collecting networks (Hertog, 2010a).

3.2 State-Society Relations and Policymaking within the Saudi Rentier Framework

Beyond intra-elite balancing, much of Saudi state-building consisted of the building of patron-client relations and the concomitant co-optation of individuals into a distributive system made possible by a steadily growing supply of oil wealth. The pre-oil Saudi political apparatus developed through the interrelation between the House of Saud and the local merchants. (Hertog, 2010c; Niblock, 1982a; Peterson, 2007; Vassiliev, 1998). One of the primary sources of funds for the state were the taxes imposed on the foreign pilgrims to Mecca and customs dues (Chaudhry, 1997; Niblock, 1982b). Besides, merchant families like the Alirezas based in the Hijaz region financed Abdulaziz’s conquests over the Hashemites and the foundation of Saudi Arabia in 1932 (Field, 1985). With the early period of oil-induced state-building, the King moved the government from the Hijaz to Riyadh. Simultaneously, political targets in commercial elites were pursued through co-optation mechanisms with one underlying goal of rebalancing interests between Jeddah in the Hijaz region, the former Hashemite stronghold, and merchant elites from Riyadh in the central region of the Najd, the Al Saoud’s bastion (Chaudhry, 1997; Vitalis, 2007). For instance, the Al Rajhi Group, which could be considered as the most affluent family in Saudi Arabia, established its original money-changing operations at Riyadh's suq. Similarly, Juffali group
- the largest privately-owned conglomerate in the country - originated from humble Najdi beginnings (Hertog, 2010b).

From the early 1950s, the Saud royal household used its new ability to disrupt prior patterns of redistribution to create a new form of economic and social organisation (Chaudhry, 1997). The ruling elite implemented distributive systems and co-optation institutions as a strategy to diminish alternative sources of societal influence while simultaneously countering movements such as Arab nationalism (Hertog, 2018; Vitalis, 2007). Following the takeover of the Free Officers in Egypt in 1952 and the death of King Abdulaziz in 1953, Arab nationalism found a growing number of followers within the ruling elite, Saudi army officers and broader population. This context led to the creation of the nationalist ‘Front of National Reforms’ in 1953 by the leaders of the 1953 Aramco strike, a small Najdi intelligentsia, and members of the armed forces. In 1962, Saudi troops defected to join the Egyptian Air Force. During the same year, Talal bin Abdelaziz Al Saud, Minister of Finance since 1960, the oil minister Abdullah Tariki and four of Talal’s brothers formed the Arab Liberation Front, commonly known as the Free Princes Movement (Vitalis, 2007). Talal and the Free Princes called for the fall of the Al Saoud monarchy and the emergence of a democratic republic. Relying on the growing influx of oil wealth in the early 1960s Faisal reacted to the threats by implementing a vast social welfare program that, according to Hertog (2018, p. 78), “managed to gradually envelop all of Saudi society through provision of infrastructure, public service, and employment”.

---

20 The Free Princes Movement comprised of Talal, Fawwaz and Badr bin Abdulaziz Al Saud, their cousin, Saad bin Fadh, Mushin bin Abdulaziz Al Saud, and the commoner Abdullah Tariki (Lacey, 2010).
As local business expanded rapidly over the same period, it did so almost exclusively on state-provided privileges and demand. The state-business relationship evolved from 'association' through the pre-oil state apparatus towards 'co-optation' through various formal and informal distributive mechanisms as oil wealth allowed the ruling group to create new forms of allocative institutions (Chaudhry, 1997). The institutionalised distributional patterns are expressed as a 'rentier social pact', consisting of an exchange of "material benefits and access to the state and its networks in return for loyalty or, in the less personalised cases of large-scale bureaucratic distribution, little more than passive quiescence" (Hertog, 2010c, p. 21). The Al Saud co-opted prominent merchant elites through various direct distributive measures, mainly pro-business spending taking the form of programs of state lending, sectoral development programs or government contracts. Furthermore, indirect market-driven measures were established such as regulations and legal requirements around the labour market (labour sponsorship and a reliance on foreign workers) and exports by granting the position of commercial agents for foreign exporters to targeted members of the business community (Kamrava et al., 2016; Luciani, 2005; Vassiliev, 1998).

Oil wealth flows from the state into private wealth through five main channels: the distribution of land and real estate speculation, the promotion of extensive agriculture, government procurement (licences, contracts), government support of industries and perhaps the most lucrative and prevalent method; representation of foreign companies. Through this agency system, no products could be sold in the Kingdom unless by or
through a local supplier. Politically connected merchant families were awarded exclusive
agencies to act as joint venture partners and representatives of foreign firms, allowing them
to develop a lucrative monopoly on manufacturing activities, construction and distribution
operations. As a result, business elites were well-positioned to gain from the Kingdom's
frantic development in the 1970s as every major firm in the world competing for billions
of dollars in contracts could bid only through local agents. This led to substantial trading
houses representing hundreds of foreign companies (Hanieh, 2018; Luciani, 2005;

If today’s Saudi business continues to value proximity to the government, parts of the Saudi
economy have become significantly more productive and economically 'rational' (Hertog,
2013; Luciani, 2005; M. Malik & Niblock, 2005). Indeed, Saudi Arabia went through
significant wide-ranging economic reforms and liberalisation in the 2000s, opening new
sectors and transferring functions from the state to private business. The current activities
of prominent local enterprises have greatly expanded and now encompass vast
manufacturing sites, privately-run schools and medical facilities, universities, financial
institutions, upscale retail establishments as well as luxury hotels. Additionally, large
construction firms employing tens of thousands of employees also fall under their
operational purview. However, despite progress in the Saudi Arabian private sector since
its inception during the oil boom era, more sophisticated rent recycling mechanisms still
tend to generate most of its economic input (Hertog et al., 2013). Furthermore, this is
compounded by the fact that Saudi business remains dominated by large privately-owned
conglomerates linked to a limited number of prominent families with close government
connections (Hanieh, 2018). As such, while the Saudi private sector has developed significantly over time, businesses continue to lack economic and political autonomy from the government.

The empirical economic literature on the impact of government spending on non-oil economic growth in the Kingdom points towards a significant relationship between public spending and growth in non-oil sector GDP. Kireyev (1998) revealed a positive and significant relationship between state spending and non-oil growth using data from 1967 to 1997. In the same vein, Albatel (2000) investigated the effects of change in public spending using data for 1964-1997 and found that the Saudi government plays a central role in economic growth and development. Johari and Starr (2011) and Espinoza and Senhadji (2011) revealed that increases in government expenditure are associated with significant and positive long-run effects on non-oil growth rates using data for 1969 to 2005. This led Hemrit and Benlagha to denote that "many of the Saudi Arabian non-oil sectors are fundamentally explained by government spending and would hurt severely in its absence, as there are no sufficient private (or international) sources of demand for services and products provided by other businesses" (2018, p.355).

As the Saudi state dominates the socio-political life, it left little space for developing highly institutionalised organised groups in society. However, Saudi business emerges as one

---

21 Through the literature, government spending consists of two types of expenditures. The current expenditure includes “wages, subsidies, transfers and other expenses (i.e., consumption)” whereas capital expenditure “encompasses government spending on reinforcing human resources, providing social services and healthcare, developing economic resources, transportation and telecommunications, and increasing the availability of municipal and housing services” (Alshahrani & Alsadiq, 2014, p. 5).
salient exception to the fragmentation of societal actors. Indeed, the regime has increasingly integrated business interests into formal economic policymaking through various bodies and mechanisms of collective action. Unlike other societal groups, business has been allowed to act as a collective lobby group. The Saudi Chambers of Commerce and Industry (CCI) is the main body of business interest aggregation in the Kingdom (Kraetzschmar, 2015). The chambers are involved in policy deliberations, and the "state allows a greater role for them through regular circulation of draft laws and other regulations, which are usually discussed in the chambers sectoral committees" (Hertog, 2006, p. 72). Insofar as it represents a channel of collective action, the Saudi state is involved in the Chambers' operations. For example, the government closely supervises the election of board members, and the state appoints one-third of the board members (Hertog, 2006). The statutory powers of the Ministry of Commerce and Industry in CCI elections and board composition as well as the resort to political clientelism greatly hinders the autonomy of the institution of business representation (Kraetzschmar, 2015).

Furthermore, the Consultative Assembly of Saudi Arabia, or Majlis Ash-Shura, provides another significant access point for private sector representation and influence. By the end of the 1990s, Saudi Arabia had endured sustained fiscal rentrenchment fueled by a long-lasting slump in oil revenues. Furthermore, the 1990-1991 Gulf War following Iraq’s invasion of Kuwait gave a serious blow to the Saudi economy emerging from large-scale spending despite diminished state revenues (Vassiliev, 1998). The aftermath of the Gulf War also brought an imminent threat of invasion by a regional neighbor and was a catalyst for a legitimacy crisis among the Saudi ruling group. The King received multiple petitions
and open letters asking for substantial reforms of Saudi society, politics and government. For instance, in 1991, a letter addressed to the King asking for general political reforms was signed by 43 public figures including former cabinet ministers, prominent businesspeople and university professors. The desired reforms included, among others, a consultative council, municipal councils, greater freedom for the media and greater participation of women in public life, within the scope of the shari’a (Al-Rasheed, 2010). The creation of the Consultative Council (Majlis Ash-Shura) by King Fahd's Basic Law of Government and Law of Consultative Council in 1993 was a direct response to demands from various petitions. The assembly has no executive authority but possesses the power to examine reports and interpret laws in order to formulate propositions for the King and government (Al-Rasheed, 2010). Private sector actors are often consulted through specialised committees or hearings, as economic policy is a central preoccupation of the Consultative Assembly. Once again, the government is directly involved in the assembly as the King appoints all of the consultative council's 150 members including a limited number of targeted business actors (Al-Rasheed, 2010; Hertog, 2006).

Despite greater managerial sophistication and increasing levels of organisation of business interests through institutions such as the Saudi Chamber of Commerce and Industry and Majlis Ash-Shura, the state still “grants” top-down consultation and inclusion to formal institutions of business representation is carefully monitored by the government (Kraetzschmar, 2015). Rather, state-business interactions tend to develop through allocative structures resting on particularistic techniques of influence and networks based on proximity to the state. Instead of complete state autonomy, co-optation of groups in
society means state agencies and political agents are often tied down in asymmetrical and reciprocal relationships, even if such links do not immediately relate to rent distribution. By 1957, the Kingdom was experiencing serious financial problems such as a rapidly falling riyal, rising costs of living, capital flight and a lack of ‘productive’ investment. In the face of such pressures, King Saud gathered leading government officials and merchants to establish a royal commission charged with bringing the economy back to life. One of the main reforms on the table was a plan drafted by SAMA to set up a new foreign exchange control. Nevertheless, merchants blocked the reform initiative as it would have put an end to the lucrative money-changing business (Vitalis, 2007).

The decreased autonomy of the Saudi state is further exemplified by the paralysis of the state despite attempts at reforms across the 1980s and 1990s. Over the 1981-86 period, total state revenues drastically decreased from 368 billion Saudi riyals (SR) in 1981 to 76 billion in 1986. The Saudi government slashed development expenditures and decreased various state services, crystallising the private sector’s hardship and growing unemployment. Moreover, the sustained fiscal deficits through the 1980s and 1990s resulted in debt floating around 100% of GDP) (Al-Rasheed 2005; Hertog 2010; Vassiliev 1998). Despite budget restrictions, the oil bust proved long-lasting. Following a sharp and long-lasting decline in oil prices, the Saudi government attempted to implement financial reforms, direct taxation, new labor regulations and cuts in subsidy, loans and various support programs from 1985-86. In 1986 the Saudi government suspended the guaranteed public sector employment of Saudi high school graduates and try to steer Saudis towards the private sector. This attempt at ‘Saudization’ of labour market aimed to replace foreign
workers by Saudi nationals and introduced laws requiring businesses to pay 8% of the social security previously entirely covered by the government. In response, protests and pressure from business elites through informal contacts with the state reversed the government’s efforts to trim distributive programs whereas the Saudization laws sunk into oblivion (Chaudhry, 1997).

Furthermore, by the end of the 1990s, Saudi Arabia was on the path of fiscal disaster fueled by a long-lasting slump in oil revenues and the 1990-1991 Gulf War. In spite of a short two-year window from 1996 to 1997, the fiscal trends between 1980 and 2000 underline how the Saudi state experienced sustained fiscal deficits over a period ranging from 1983 to 2000 (Figure 5). At the turn of the century, Crown Prince Abdullah launched economic reforms packaged into three main ambitious projects: accession to the WTO and related regulations adjustment to WTO requirements, reform of foreign investment regulations and once again stepped up the efforts to “Saudise” the labour market through various regulations (Al-Rasheed 2005; Hertog 2010). The outcome of these wide-ranging reform was rather heterogeneous; some WTO-related policies and reforms were implemented swiftly whereas the introduction of “Saudisation” policies and the improvement of the regulatory environment for foreign investors proved strenuous (Hertog, 2010c). Negotiations surrounding the reform initiatives and conversations with business interests were ad hoc and aimed at small audiences. Besides, the institutional framework had no actual binding character. In the case of Saudisation of the labour, market, business actors prioritised their endeavors in influencing prominent members of the royal family through lobbying tactics. Even those who do not hold official responsibility for labor matters were
targeted by business actors as they sought to bypass formal bureaucratic structures such as Majlis Ash-Shura and other institutional entities which are deemed inflexible and unyielding (Hertog, 2010c, p. 209).

Figure 5. Saudi Fiscal Trends (1980-2000)

The case studies of early 2000s economic reforms expose that although it tends to act as a veto player protecting its privileges related to commercial agency or labour market, business is often passive when it comes to complex policy issues, mainly due to the somewhat fragmented business class stepping out of an enduring legacy of clientelism (Chaudhry, 1997; Hertog, 2010c). The predominant approach of business players in Saudi Arabia has been to prioritize their personal connections with influential princes and bureaucrats rather than relying on established institutions of business representation. Besides the intricate interplay of various political and economic distributive mechanisms has become deeply entrenched over time. As these mechanisms continue to evolve, they ultimately become
interwoven into the very fabric of the Saudi state and restrict the regime’s ability to significantly overhaul or transform the rentier state.

3.3 A Sticky Situation: Saudi Arabia’s Post-2014 Pursuit of Diversification

As Gourevitch (1986, p. 9) writes, “Hard times expose strengths and weaknesses to scrutiny, allowing observers to see relationships that are often blurred in prosperous periods, when good times slake the propensity to contest and challenge. The lean years are times when old relationships crumble and new ones have to be constructed. It is then that institutions and patterns are built which persist long into the next cycle”. The 2014 oil price shock and the pursuit of economic adjustment since then thus offer an opportunity to look inside the political economy of reforms. Building upon the previous section, the following traces how the legacies of rentierism changed the range of policy options available to the ruling elite in the face of hard times. It shows how various distributive mechanisms derived from antecedent period of state building created systems and patterns that affected the attempts of the Saudi government to cope with the tumultuous shifts in the international economy.

3.3.1 The 2003-2013 Oil Boom

Oil prices almost quadrupled over the 2003–2013-decade. From $28.85 per barrel in 2003, Brent prices climbed to $108.56 in 2013. In turn, the increase in oil prices was immediately reflected in greater revenue for the Saudi government, as oil accounted for an average of 88% of total state revenues over the same period. In 2013, oil revenues had more than
quadrupled from 231 billion Saudi Riyals (SR) in 2003, representing 79% of government revenues, to 1,035 billion SR for a share of 90% of total state revenues. Overall, total state revenues quadrupled during the decade from 258 billion SR in 2003 to 1,156 billion in 2013. Feeding on sustained fiscal surpluses, the Saudi government increased its expenditure yearly. Over the decade, government spending sustained a high growth rate and ultimately also almost quadrupled. Despite a deficit engendered by the 2008 financial crisis, public finances between 2003 and 2013 have benefited from fiscal surpluses averaging 205 billion SR (Figure 6).

**Figure 6. Saudi Fiscal Trends (2000-2013)**

Notwithstanding significant social and economic gains across the oil boom, the Saudi growth model depended on high oil prices and oil-financed public spending, a recurrent dynamic over the past decades. Indeed, the Saudi government created much domestic demand. Figure 7 illustrates that private economic activity is closely correlated to state expenditure. The impact of government spending on non-oil economic growth in Saudi Arabia points towards a causal path in which oil-financed state spending is a significant
contributing cause, and non-oil private sector growth is the outcome (Albatel, 2000; Espinoza & Senhadji, 2011; Hemrit & Benlagha, 2018; Joharji & Starr, 2011; Kireyev, 1998). Furthermore, econometric tests based on data from 1970 to 2015 demonstrate an "overall pro-growth effect of government expenditures" on non-oil GDP (Hemrit & Benlagha, 2018, p. 369). Concurrently, evidence on fiscal multipliers for Saudi Arabia from 1980 to 2015 shows that capital spending (expenditure on fixed assets such as infrastructure) had a larger impact on non-oil growth than current spending, such as salaries and allowances. In turn, the evidence demonstrates that an increase in non-oil GDP has little impact on government spending (International Monetary Fund 2016). One explanation is that a large proportion of government-created demand leaks abroad as the private economic activity it stimulates leads to subsequent imports of foreign goods and services that are not part of the domestic GDP instead of instigating demand for local goods and services (Hertog, 2018).

Figure 7. Private Sector GDP vs. Total Government Expenditure

Source: SAMA annual reports
Public employment has been used as a broad-based rent distribution mechanism (Hertog, 2016; Tamirisa & Duenwald, 2018). As a result, the privileged position of civil service jobs and allowances tend to be associated with extensive employment of nationals in the public sector leading to a bloated state apparatus and high public-private sector wage gaps as the private sector primarily relies on expatriate labour. According to data from the Ministry of Civil Service and SAMA, the number of employees in the government sector rose approximately 40%, from 746,966 thousand in 2003 to 1.2 million in 2013. Moreover, Figure 8 demonstrate how Saudis represented, on average, more than 90% of employees in the bureaucratic apparatus over the period (Saudi Arabian Monetary Authority, 2005, 2014). Coupled with the expansion of the bureaucracy, the average civil servant’s monthly salary in real terms increased from about $360 in 2003 to $2400 per month in 2013 (Mckinsey Global Institute, 2015).

Figure 8. Public Sector Employment (2000-2013)

Source: SAMA annual reports, Ministry of Civil Service
The open-handed allocation of government jobs combined with a high public-private sector wage gap are key determinants of labour market distortions. The growing state employment has not been associated with lower overall unemployment but was instead associated with a decline in labour participation. Indeed, Saudi employment as a share of total employment declined between 2003 and 2013, and the labour participation rate of Saudi nationals declined over the decade to reach 45% in 2015. (International Monetary Fund, 2013; Mckinsey Global Institute, 2015). Individuals may be motivated to pursue or wait for employment in the public sector instead of opting for a position in the private sector due to factors such as increased remuneration, greater job stability, or higher chances of securing a role in the former (Tamirisa & Duenwald, 2018).

The aforementioned observation underscores how the substantial discrepancy in remuneration between public and private sectors could potentially steer Saudi Arabian labor market entrants away from opting for employment in the private sector. This discordance between compensation and output tend to result in impeding skill acquisition, promoting reliance on government support, as well as fostering reluctance towards transformative reforms. A Yougov Saudi labor market survey implemented in the wake of the oil boom in March 2014 points in this direction by showing that the majority of Saudi aged between 20 and 30 looking for employment consider available private sector jobs across sectors as largely unattractive. The survey also reveals that 75% of Saudis

---

22 The survey designed by Hertog was implemented by Yougov in March 2014. The 428 Saudi national participants on the employee/unemployed side were aged between 20 and 30 and evenly distributed between being in employment and looking for employment (Hertog, 2020).
employed in the private sector would have preferred public sector employment\(^{23}\). 71% even went so far as to stress their interest in government jobs even if the latter did not imply less working hours (Hertog, 2020). For example, most of the private sector jobs were filled by migrant workers on limited-time visas, with most positions in lower-paid and low to medium-skill jobs with limited labour mobility (Hertog, 2016). Besides, four out of six non-Saudi workers were employed in only three sectors: construction, retail and personal services. In construction, expatriates represented nine out of ten workers in the labour force (Mckinsey Global Institute, 2015). As a result, the private sector provides few employment opportunities for Saudi nationals (see Figure 9) and limited local consumer demand (Hertog, 2013), whereas in a broader perspective, government employment represent two thirds of total national labour force (Mckinsey Global Institute, 2015; Tamirisa & Duenwald, 2018).

**Figure 9.** Private Sector Employment (2008-2013)

---

\(^{23}\) The survey asked current Saudi private sector employee (n=131) if they would accept a government job with similar salary, higher job security, and working hours from 7.30 to 2.30 over their current job. 75% of participants answered “Yes”, 18% chose “Perhaps”, and 7% indicated “No” (Hertog, 2020).
3.3.2 The 2014 Oil Shock and Beyond

The Saudi distributive framework has contributed to political stability since the 1960s and 1970s but has also created deep dependencies and distortions that have become obstacles in the Kingdom’s political economy. In 2014 the oil market turned, and oil prices tumbled (Figure 10). Brent prices suddenly fell from $98.97 in 2014 to settle at $41.96 in 2020 (EIA, 2021). Downward pressure on oil prices is likely to continue, given the increasing shift away from carbon-based energy (Mirzoev et al., 2020). Oil prices dropping below half of their 2014 levels once again highlighted many of Saudi Arabia’s most pressing obstacles; the cumbersome distributional commitments of state employment, provision of free public services and energy subsidies.

![Figure 10. Brent Crude Oil Prices (2013-2020)](

Saudi Arabia was directly affected by the drastic drop in oil prices. Oil revenues decreased more than threefold from 2013 to 2016, falling sharply from 1035 billion SR in 2013 to a
low point of 333.7 billion in 2016. This drop in oil revenues directly affected state revenues, which declined twofold over the same period. In contrast to a sharp decline in revenues, government expenditures decreased by around 15%, from 976 billion SR in 2013 to 830.5 billion in 2016. The Saudi oil-dependent state revenues reached 72% of their pre-oil shock levels in 2020. As a result, the Kingdom experienced serious budget deficits (Figure 11). The public debt rose by 221% in 2015, 123% in 2016 and continued to grow between 40% and 21% until 2019 (Saudi Arabian Monetary Authority, 2017, 2020). Saudi Arabia’s government debt ballooned from $11.8 billion in 2014 to more than $262 billion in 2022, with an increasing reliance on external dollar-denominated bonds (IMF, 2023). In the forthcoming time, the burden of debt servicing would significantly limit budgetary measures (K. E. Young, 2023).

Figure 11. Saudi Fiscal Trends (2013-2020)

On top of a fiscal squeeze on state revenue, the prospects of a growing number of Saudis entering the labor market and a steady decline in resource revenues challenge the
sustainability of the distributive state built mainly around large-scale public employment, social transfers and heavily subsidised public utilities. In 2015, the government reported that salary and allowance expenditures alone exceeded total oil income (Hertog, 2018; Rundell, 2021). Yet, the last Saudi demographic survey (2016a) exposes that of the 20.1 million Saudi nationals, 49% were under the age of 25, and 30% were under 15 years of age (Figure 12). Besides, the demographic bulge carries the spectrum of high unemployment considering the deteriorating public finances and historical trends in the segmented labour market. For instance, the youth unemployment rate (15-24 years of age) was already up to 41% in 2013 and labour participation among Saudis of the same age group was 14% in 2014 (Mckinsey Global Institute, 2015).

**Figure 12.** Distribution of Saudi population by age groups (2016)

![Distribution of Saudi population by age groups (2016)](image)

Source: General Authority for Statistics (2016)

Moreover, energy subsidies fuelled the growth of non-oil economic activities such as construction, downstream industries and manufacturing. In 2016 the energy-intensive non-
oil industry was the source of 15% of the Saudi GDP while consuming 40% of the Kingdom's subsidised energy production. Saudi Arabia needed more energy to generate $1 of GDP than any G20 economy. Between 1986 and 2010, the ratio between energy needed and a dollar of Saudi GDP grew 3.8% annually, whereas the United States' increasing energy efficiency resulted in a decline of 0.8% per year (Rundell, 2021). The heavily subsidised public utilities also increased household energy use, leading to rapidly growing domestic energy consumption (Hertog, 2016; Rundell, 2021). For instance, the production cost of one cubic meter of Saudi desalinated water to be $1 combined with $2 to $3 transportation costs from the coast to the interior (Rundell, 2021, p. 212).

Consequently, electricity consumption increased by a third from 2010 to 2015, and Saudis consume nearly three times more water than the average European (Rundell, 2021). In 2017, the country’s consumption ranked amongst the highest in the world at 13th. This positions Saudi Arabia ahead of countries such as Canada and Germany, the latter being three times more populated with an economy of approximately six times that of Saudi Arabia (Sarrakh et al., 2020). This fall in energy efficiency over the last decades has come as far as hindering the Kingdom's energy export capacity (Hertog, 2016).

Against this backdrop, the Saudi government implemented Vision 2030, a wide-ranging reform strategy aiming to increase private sector participation while supporting diversification and industrial upgrading. The nation-building agenda advertises the pillars driving the Kingdom towards a post-oil economy, all attributed to the individual vision of a new leadership embodied in the crown prince MBS. At its core, Vision 2030 introduces
avenues to remodel the state's economic role. The strategic diversification framework is predominantly built around the “thriving economy” pillar. It projects Saudi Arabia as becoming a global investment powerhouse, promoting a thriving economy that is less reliant on oil and oriented towards private-driven growth (Kingdom of Saudi Arabia, 2016b).

Nonetheless, the Saudi distributive state created economic and institutional constraints for diversification and fiscal sustainability. The measure of total natural resource rent income over GDP captures the relative importance of the oil and gas sectors in an economy (B. Smith, 2017). Following this logic, Figure 13 illustrates the ongoing important of hydrocarbon rents in Saudi Arabia for the last 30 years. The diminution in relative terms from 2014 is largely explained by the contraction sustained in GDP and natural resource rents following the 2014 oil price crash. In addition to the acute drop in oil revenues noted above, Saudi Arabia’s GDP annual growth went from 4.1% in 2014 to -4.1% in 2020 (World Bank, 2023). Moreover, the drop in total rent income in the Saudi GDP since 2014 may obscure the fact that growth in non-oil economic activity was largely focused on sectors historically relying on oil exports and oil-financed government spending such as construction, transport and communication or manufacturing. For instance, Saudi national accounts and sectoral development data on non-oil GDP from SAMA includes oil refining to the manufacturing sector. In this sense, the main industrial activities shaping the manufacturing sector are petrochemicals, aluminium, steel and cement, all activities connected to oil and commodities necessary for state-led large-scale construction projects. In addition, the manufacturing industries are highly energy intensive and are highly reliant
on energy subsidies (Hanieh, 2018). Despite actual transformations underway, natural resource rents remains the main source of state income (Gray, 2023).

**Figure 13.** Total rent income as % of GDP (1990-2020)

![Figure 13](image)

Source: World Bank Development Indicators

One of the central tenets of rentier state theory contends that since the state is the principal recipient of the external rent, it does not need to extract resources from the population through a fiscal system. Instead, the state allocates rent to its citizens through various mechanisms in exchange for political quiescence (Beblawi, 1987; Luciani, 1987). Yet, several recent developments challenge these conventional claims. Of the main attempts at redefining the rentier social bargain was the scaling down of various distributional commitments and handouts. Following the 2014 oil price crash, the Saudi leadership issued statements reporting among other things energy prices increase, a VAT, freeze in public sector hiring, and cuts in financial allowances for public sector employees (Gross & Ghafar, 2019; Krane, 2019b). In 2016 the Ministry of Finance announced it would
rearrange the subsidised prices for electricity, water and petrol. The price of water climbed as much as an estimated 500% (Gross & Ghafar, 2019).

The new taxes and price increase faced a large number of complaints over social media; Krane (2019b, p. 19) notes that “commentary ranged from outright support to personal attacks on ministers, technocrats and even royal family members”. Moreover, a few months later in 2016 and following anger and complaints from business interests and societal actors, Water and Electricity Minister Abdullah Al Hussayen was dismissed and the government ultimately backed down from the energy prices increase (Arabian Business, 2016; Gross & Ghafar, 2019). The implementation of VAT along with an increase in utility and fuel prices was mitigated by the inception of the Citizen’s Account initiative. The governmental financial assistance program disburses a monthly allowance ranging from $80 to $250 to the lower-income half of the citizen population (Krane, 2019b).

This back and forth between subsidy revisions and additional handouts accentuates how distributive mechanisms underpinning social bargains in rentier states are not inflexible. Instead, it suggests that as long as aggregate patronage remains relatively stable over time, regimes seem to possess a degree of influence over the range of welfare and alternative benefits they may provide (Hertog, 2010b; Krane, 2019b). Evidence from a 2016 large-scale survey by Burson-Marsteller demonstrates that 86% of Saudis are in favor of continuing subsidies (Ulrichsen, 2023). Nonetheless, if distributive institutions are not as rigid as than conventionally portrayed in rentier state scholarship, they tend crystallise over
time and still constrain policy options available to incumbent elites and ultimately affect political and economic outcomes in later periods.

Vision 2030 also puts heavy emphasis on measures to expand and strengthen non-oil private sector activity to diversify the economy, create new jobs and absorb the wave of younger Saudis entering the labour market. Ulrichsen (2023, p. 173) points out that “Saudi Arabia did in fact create 417 000 new jobs in 2015, but 386 000 of them (88 percent) went to non-nationals in low-paying sectors, testifying to the continuing resilience of structural imbalances in regional economies”. Besides, non-oil economic activity largely occurred in sectors relying on oil-based government spending. One of the most obvious examples of these dynamics is in the construction sector. Indeed, Saudi Arabia’s diversification efforts devotes significant investments in real estate and infrastructure development. This is mostly driven by the PIF-backed multi-billion giga-projects including NEOM, Qiddiya, Amaala and Red Sea Project. Overall, more than 5 200 projects are underway with an estimated value of $819 billion in 2018 (Zawya, 2018). Another $569 billion in construction projects is projected between 2021 and 2025 in addition to a pipeline of unawarded projects estimated at $1.1 trillion (Kumar, 2022).

Non-oil economic activities such as infrastructure development rely on state-created demand and building materials coming from manufacturing industries, which are energy intensive and highly reliant on energy subsidies, thus revealing the paradoxical significance of oil and oil-funded government spending as a drivers of non-oil growth. Additionally, the increase in non-oil economic activity was largely directed towards a limited group of
large and diversified Saudi firms related to prominent business families benefiting from historical ties with the ruling elite. The interlocking ownership structures of the largest companies across building materials, construction and contracting exposes how most state expenditure in construction goes to firms owned by a network of politically connected merchant elites operating with a workforce primarily composed of lower-paid expatriates (Aleem, 2023; Hanieh, 2018). The government maintains possession, or at the very least authority over crucial assets such as natural gas and petroleum. In addition, it possesses major companies in significant industries like education, telecommunications, and aviation. The state’s dominance of the economy endures.

Overall, figure 14 illustrates how private sector activity remains highly sensible to oil-based state spending. Most of the private sector’s contribution to Saudi Arabia economy is still heavily reliant on government contracts, subsidies and other forms of state support. Although there has been progress since the 1970s, Saudi Arabia's private sector still relies heavily on the government for its operations. This is largely due to subsidies and a demand created by the state that presents lucrative opportunities, thereby discouraging businesses from seeking self-sustaining markets and avenues of demand. Besides, the 2018 budget released by the Saudi Ministry of Finance reveals taxes and fees constituted slightly above 10% of overall expenditure in 2017; while nearly two thirds of Saudis are employed by their government - a higher percentage than OECD averages ranging from 10-20% (Hemrit & Benlagha, 2018; Hertog, 2019b). Established patterns of material dependency inherited from antecedent periods of state building and social coalition formation shape state leaders’ option in addressing the challenges caused by the shifting post-2014 economic landscape.
Vision 2030 has been the central agenda to recalibrate the Saudi political economy has envisioned by crown prince Mohammed bin Salman. Indeed, the 2014 oil price shock was followed by a change in leadership that brought King Salman to power in 2015. The new king disrupted established succession mechanisms and elevated his son Mohammed bin Salman to crown prince which set in motion a centralization of power around the latter. The following section explores the intra-elite dynamics and state-society relations in the wake of King Salman's rise to power.

### 3.4 Centralisation of Authority in the post-2015 Political Landscape

The term of life of a dynasty does not normally exceed three generations.  
(Ibn Khaldun, [1377] 2015)

In the early hours of January 23, 2015, King Abdullah passed away and within a few hours, Crown Prince Salman acceded to the throne in a smooth transition of power. Salman bin
Abdulaziz Al Saud is the 25th and oldest surviving son of King Abdulaziz. At age 79, Salman had been governor of Riyadh province for 48 years (between 1963 and 2011), Minister of Defense since 2011 and crown prince from 2012 (Davidson, 2021). He was often described as hardworking, pragmatic, disciplined and strict (Hope & Scheck, 2020; Rundell, 2021). Salman was sometimes referred to as the ‘Prince of Princes’ as King Fahd (1982-2005) assigned him the role of head of the Majlis al-Uthra (descendants council). This gave him the role of mediator in family disputes and, if needed, disciplinarian of the royal family punishing princes who had violated the norms of royal behaviour. During his 48 years as governor of Riyadh, Salman even maintained a private jail within his official palace, where royals who broke the law were detained (Rundell, 2021; Sullivan, 2015). Hubbard (2020, p. 5) writes that “For years, he was the disciplinarian of the royal family. If a fight between royal cousins over a piece of real estate got out of hands, if a princess bailed on an astronomical hotel bill in Paris, if a prince got drunk and caused a scandal, it was Salman who would bring down the hammer, locking up egregious offenders in his own private jail”.

Succession to the Saudi Arabian throne is often synonymous with change at the heart of the ruling elite and governmental reorganisation. As Salman is the last of the second-generation princes, a contentious shift to third-generation leadership is looming over the process of royal succession. Since 1953, Saudi Arabia has followed a horizontal pattern of succession. The first king of Saudi Arabia, King Abdulaziz (1932-1953), also known as Ibn Saud, introduced a patrilineal principle of inheritance where succession was reserved for his thirty-four sons at that time (Al-Rasheed, 2018; Kechichian, 2001). Power has
passed from brother to brother following the agnatic seniority principle; After Abdulaziz’s reign, the order of succession to the throne goes to the monarch's brother over the King's sons (Al-Rasheed, 2018). All of Abdulaziz’s sons have a theoretical claim to the throne in such a system. Choosing among eligible princes relies on a conclave of the ruling family, which chooses not necessarily by seniority but aims to identify the "best man" to rule. In contrast, second or third-best eligible princes drop’ their claims in return for various concessions (Herb, 1999). In this sense, patrimonial politics was also at the heart of the Kingdom’s early institutional design (Hertog, 2007, p. 544).

Before 2015, Saudi Arabia’s political landscape was portrayed as a system of segmented and hierarchical centres of powers emerging from patrimonial politics. These institutional fiefdoms were controlled by different factions within the ruling family, each with a life of its own, and allowed the emergence of patronage appointments and rent-seeking clientelist networks allied to one senior prince or another (Hertog, 2010b). Kechichian (2001, p. 147) notes that in this context of multiple power centres, "disagreeing princes are more likely to call on their political allies, and the eventual policy decision is more likely to be seen as a reflection of underlying political standings rather than a clear, unified articulation of the national interest". However, the early months of Salman’s reign brought momentous changes in the Saudi political landscape. King Salman's reshuffle of government positions underlines how, across the Saudi government, high-ranking officials now owe their position to King Salman and Crown Prince MBS and not to a myriad of senior princely patrons. Through a trusted inner circle, the crown prince consolidated control over the top-level of critical political and economic institutions while presenting himself as the architect
of Saudi Arabia's top-down nation-building strategy embedded in Vision 2030. Given the generational transition in the royal succession, all influential (or potentially influential) relatives were marginalised into an outer circle and stripped of their status and influence (Al-Rasheed, 2021; Davidson, 2021; Hubbard, 2020; Rundell, 2021).

In March 2014, King Abdullah appointed Muqrin bin Abdulaziz Al Saud as deputy crown prince behind his half-brother Salman. Following Salman's ascension to the throne in January 2015, Prince Muqrin was elevated to crown prince as expected. In addition, the Minister of Interior, Muhammad bin Nayef (MBN), was designated as deputy crown prince. MBN had been considered a contender for the position and, ultimately, the throne for some time. He had a reputation for being a competent leader, and as a minister of interior, he was widely acknowledged for leading the Kingdom’s fight against al-Qaeda. The advancement of Muqrin to crown prince and the appointment of the MBN projected continuity and regime stability. King Salman also appointed his youngest son MBS to the senior position of Minister of Defense along with the sensitive position of Chief of the Royal Court (Al-Rasheed, 2018; Davidson, 2021; Kechichian, 2018).

On April 29, 2015, the King issued a royal decree replacing Muqrin with MBN as crown prince. More importantly, MBS, the 29-year-old son of King Salman, was appointed deputy crown prince. The royal decree challenged established norms within the royal house as Salman sidelined the heir apparent appointed by his predecessor. The Saudi succession rules were formalised by the Basic Law of Governance adopted in 1992 under King Fahd. Article 5(B) stipulates that rule passes to the sons of the founding King Abdulaziz (Al-
Rasheed, 2010). Moreover, the Allegiance Council Law adopted by royal decree in 2006 under King Abdullah established the Allegiance Council. The Council consists of the fifteen surviving sons of King Abdulaziz and nineteen third-generation princes. The new Law aimed to institutionalise the succession process to the throne in the face of struggles within the royal family. The decision to choose the heir apparent was technically put in the hands of a collective of powerful princes and no longer only those of the King (Al-Rasheed, 2018; Stenslie, 2020). Being one of King Abdulaziz’s grandchildren, MBN’s nomination as heir apparent meant the third-generation princes could now claim the right to the throne. Nonetheless, by appointing his son MBS as deputy crown prince, the King challenged the established norms of horizontal succession and bypassed several older third-generation royals with more experience. Stenslie (2020), for instance, estimates the number of third-generation princes to be 200. This move was followed by Salman and MBS setting aside all rivals within the royal family through governmental reorganisations and strong-arm tactics.

A few days before, on April 25, 2016, MBS, then deputy crown prince, unveiled Vision 2030. The wide-ranging top-down socioeconomic reform agenda advertises the pillars driving the Kingdom towards a post-oil economy, all attributed to the individual vision of a new leadership embodied in MBS. Vision 2030 was accompanied by significant changes in lines of authority and centralisation of decision-making structures (Hanieh, 2018). Over the following months, King Salman abolished a dozen Supreme Councils involved in strategic sectors by royal decree to be replaced by a single overarching institution, the Council of Economic and Development Affairs (CEDA). The Council was subsequently
placed under MBS’ direction. CEDA oversees and coordinates the Kingdom's diversification efforts and spearheads the PIF’s activities (Al-Rasheed, 2018; Hanieh, 2018; Hubbard, 2020).

In parallel, King Salman reorganised the Council of Ministers; now, only Salman remains as second-generation prince, and various princes were replaced either by technocrats or younger princes with no influence and institutional power base of their own (Rundell, 2021). The long-standing arrangement of multiple and mostly autonomous fiefdoms headed by powerful senior princes was overhauled. The King and MBS placed a relatively small elite political patronage network with no power base at the top of almost all critical portfolios. For instance, another son of Salman, Abdulaziz bin Salman Al Saud, was appointed Minister of Energy in 2019, the first royal to ever hold the influential post overseeing the Kingdom’s all-important oil policy. Davidson (2021, p. 114) writes that “given his vitae of earlier positions (at the former Ministry of Energy, Industry, and Mineral Resources and then the Ministry of Petroleum and Mineral Resources), MBS likely saw him as a loyal and necessarily ‘safe pair of hands’ ”. Moreover, the Ministry of Foreign Affairs, a stronghold controlled by Faisal bin Abdulaziz Al Saoud (King from 1964 to 1975) between 1930 and 1975 and his son Saud (from 1975 to 2015), was placed under Faisal bin Fahran Al Saud, who gained close access to MBS’ inner circle by way of his firm, Shamal Investment Company, a specialist supplier to MBS’ Ministry of Defence (Al Jazeera, 2019; Davidson, 2021; Rundell, 2021). Faisal bin Fahran Al Saud was also an advisor to another son of Salman, Khalid bin Salman, during his assignment as ambassador to the US from 2017 to 2019 (Davidson, 2021).
However, the ousting of MBN from his two powerful positions as heir apparent and Minister of the Interior was far more sensitive. On June 20, 2017, crown prince MBN was summoned to meet King Salman at his Mecca palace (Davidson, 2021; Stenslie, 2020). The next day, the King issued a royal decree to replace crown prince MBN and advance MBS from deputy crown prince to crown prince. MBN gave allegiance to the new heir apparent to the Saudi throne under the watchful eye of Saudi TV cameras (Al-Rasheed, 2018; Hubbard, 2020; Rundell, 2021). This move was particularly contentious, considering MBN benefited from a broad support base inside and outside the Kingdom. His once-powerful father, Nayef bin Abdulaziz Al Saoud (1934-2012), was another Sudairi Seven, served as interior minister from 1975 until he passed away in 2012. He had also briefly been crown prince from 2011 to 2012. Following the death of his father in 2012, MBN also took up the role of Minister of the Interior (Rundell, 2021). Moreover, MBN was well respected by Western governments and intelligence agencies for developing and running Saudi Arabia’s counter-terrorism programme (Davidson, 2021). Besides, MBN was dismissed from his well-established and influential position as Minister of Interior, a position he held from 2012 to 2017, and his father Nayef had held for 37 years.

Abdulaziz bin Saud Al Saud, known as particularly close to MBS, replaced MBN as Minister of Interior. One of MBS’ contemporaries at King Saud University, Abdulaziz bin Saud Al Saud was appointed advisor to the royal court after Salman's succession and was

---

24 Including two kings in Fahd (King from 1982 to 2005) and Salman (2015), two crown princes in Sultan (2005-2011) and Nayef (2011-2012), Abdul Rahman, Turki and Ahmed were removed from succession.
25 For instance, in 2016, MBN received France’s Légion d’Honneur for his work against terrorism, and in 2017 he was awarded the CIA's George Tenet medal for underlining his outstanding contribution to counter-terrorism (Davidson, 2021).
also quickly installed as one of MBS’ top advisors at the Ministry of Defense (Davidson, 2021; Rundell, 2021). Furthermore, in June 2017, King Salman amended Article 5(B) of the Basic Law of Government to ensure a shift towards primogeniture as the core principle for succession. Following the amendment, Article 5(B) now ensures that rule passes horizontally to the sons of the founding King Abdulaziz but also vertically to the third-generation princes, or, in other words, to the sons of King Abdulaziz’s sons. This amendment solidifies MBS’ position in transitioning to third-generation leadership as Salman is the last second-generation King (Al-Rasheed, 2018).

On November 4, 2017, a few weeks after the creation of an anti-corruption committee led by MBS, eleven senior princes and hundreds of businesspeople were detained in Riyadh's Ritz Carlton. Private jet terminals were closed down and bank accounts were frozen for a list of more than 380 individuals (Hope & Scheck, 2020). According to reports from U.S. officials, the operation led by MBS involved psychological abuses, extortion and, in some cases, torture. For instance, in what is called a ‘night of the beating’, reports from the Saudi government claim that $107 billion was reclaimed from 87 individuals and turned back to the treasury (Chulov, 2020). Furthermore, the major general Ali bin Abdullah al-Jarash al-Qahtani was arrested and detained on charges of corruption linked to late King Abdullah’s son Turki bin Abdullah. General al-Qathani, considered Turki’s top advisor, died in custody and various reports support the claim that the general died as a result of torture (Human Rights Watch, 2018; Middle East Monitor, 2017; The Telegraph, 2018).
In the wake of the crackdown, the faction of King Abdullah was sidelined. Indeed, detainees included the late King Abdullah’s sons Mishaal, former governor of the Mecca region, Mit’ib, head of the National Guard, and Turki, the former governor of Riyadh, as they still commanded significant influence and followings. For the first two years of Salman’s reign, Turki was discreetly trying to undermine MBS’s political manoeuvres. Hope and Scheck (2020, p. 224) note that “the biggest reason he was in the Ritz, and treated especially harshly, was his role in trying to unseat King Salman and his son”. Abdullah bin Bandar, MBS’ cousin and among his close friend, replaced Mit’ib as the head of the powerful National Guard, which provides a check against the regular armed forces and an institutionalised link to traditional tribal groups. Abdullah bin Bandar was a former governor of the Mecca region and worked closely with MBS through his position as deputy director of the King Salman Youth Centre (Davidson, 2021).

First, the Ritz-Carlton events ended the separation between the Ministry of Interior, National Guard and Ministry of Defence, which historically reported to senior princes from separate factions of the royal family (Rundell, 2021). No single prince has ever commanded more than one of the three armed forces. In a true ‘coup-proofing’ strategy, the Saudi ruling elite built up a counter-balancing coup-proofing tactic where governments create rival security forces to reduce the risk of a military takeover while also balancing the interests and ambition of different family factions (Gause, 2018; Hertog, 2011; Kendall-Taylor et al., 2019). In this vein, the crackdown helped MBS to rotate the senior elite member sitting at the top of the three military and security branches to prevent any one individual from developing a support base that could be used to stage a coup d’état and challenge the
incumbent leader. Second, the event allowed the crown prince to tighten his grip on power and side-line rival factions. Indeed, Hope and Scheck (2020, p. 224) underline that Turki bin Abdullah “wanted to be king someday, and he was scheming to clear a path for himself to the throne. He was open about this with his sisters and brothers”. If the crown presented the Ritz Carlton event as an anti-corruption crackdown, the selective nature of the event instead points to an attempt to defuse intra-elite contestation from other senior princes and their related allies and gatekeepers in the context of the shift in succession and government reshuffle.

The Ritz-Carlton events also encapsulates evolving patterns of state-business relations under King Salman. Driven by financial constraints and the aspirations of new leaders to consolidate authority and implement their reform agendas, the government has escalated its influence over the economy. The centralization of authority around crown prince MBS has played a pivotal role in reshaping patron-clients networks (Nosova, 2021). Most notably, in November 2017 hundreds of businesspeople were detained in a so-called anticorruption campaign, which targeted government officials, ruling family members and high-profile local business figures including Prince Alwaleed bin Talal Al Saud, Bakr bin Laden or Saleh Abdullah Kamel. The government reportedly reached settlements according to which individuals were released in exchange for their assets being transferred to the government, or in some cases, the authorities seized companies and real estate properties (Hope & Scheck, 2020; Hubbard, 2020; Nosova, 2021). The seized companies were transferred under the ownership of Istidama Holding Company, a Ministry of Finance subsidiary established to manage expropriated assets (Kalin, 2019; Nosova, 2021).
Besides, the Saudi government created several SOEs through the PIF. Local businesspeople who once served as intermediaries between foreign corporations and the government are often cut out from procurement agreements. For instance, military equipment procurement by the state used to provide lucrative opportunities for private sector actors, who acted as agents and local partners for international defense manufacturers (Hubbard, 2020; Nosova, 2021). Yet, the PIF launched the Saudi Arabian Military Industries Company (SAMI), which is oversees government spending in this field and is responsible for establishing local joint ventures with foreign companies (covered in more details in Chapter 5).

3.5 Conclusion: Changes, Continuities, and the Implications for SWF Development

This chapter has explored the impact and legacies of rentierism in Saudi Arabia. Since 2014, the challenge for the Saudi government has been to reformulate the “rentier ruling bargain” formed during seemingly limitless oil revenues. Heavy emphasis is placed on measures to strengthen and expand the private sector’s role in economic development and job creation that the state cannot fulfil anymore. Overall, the chapter illustrates that the attempts to re-engineer Saudi Arabia’s political economy expose changes but also deep-seated continuities.

The chapter has outlined that despite being highly centralised, the state in Saudi Arabia is not simply a unitary and autonomous actor operating separately from political and societal forces. The growth and transformation of state institutions in Saudi Arabia were influenced
mainly by the interests and coalitions within its ruling group. This was particularly evident as power shifts among select princes and technocrats often precipitated institutional change and institutional fragmentation. Nevertheless, state fragmentation at the top-level has been much reduced by the centralisation of authority under the leadership of MBS. Since 2015 MBS has become crown prince, prime minister, and Chief of the Royal Court. Moreover, the Saudi crown prince is the figurehead of Vision 2030, thereby chairman of CEDA and the PIF, which indirectly grants MBS control over most civilian ministries, state-owned enterprises and assets. Al-Rasheed (2018, p.46) claims that 'no other prince has ever held as many key positions at such a young age as MBS. Even at the height of creating a centralised state, King Faysal (d.1975) did not hold so many responsibilities'. This led Davidson (2021, p.13) to highlight ‘a rapid intensification of autocratic-authoritarianism’ in Saudi Arabia’s post-2015 political landscape. Facing the shift to a third-generation leadership, King Salman secured the line of succession around his son MBS by centralising political authority. Influential players within and around the royal family were sidelined and stripped of their influence through bureaucratic reorganisation or strong-arm moves. In the political appointment process, King Salman and crown prince MBS relied on a small elite political patronage network. A handful of trusted relatives and gatekeepers were positioned in charge of every critical political and economic institution.

Despite the reduced power and influence at the top-level, state fragmentation continues to inform the larger bureaucracy (Hertog, 2018). For instance, the National Guard is a separate branch of the military that, in a true coup-proofing fashion, was created to protect the royal family and, most importantly, act as a balance against the regular armed forces
In 2018, MBS appointed a close ally Abdullah bin Bandar bin Abdulaziz Al Saud as commander of the National Guard to consolidate authority over the armed forces and marginalise potential rivals within the institution (Davidson, 2021). Despite changes at the top-level and broader efforts to trim state expenditures, the National Guard remains an influential and significant institution; its vast social welfare program includes its own healthcare and school system, providing services for its hundreds of thousands of members and their families (Ministry of National Guard Health Affairs, 2022).26 Henceforth, consistent with prior state-building trends from the 1970s, the implementation of political change and reforms is again associated with creating new institutions as personalised tools that may run parallel to established government structures (Hertog, 2010c). This can exacerbate institutional fragmentation despite a centralisation of authority at the higher echelons of the ruling elite. Most notably, King Salman established the Council of Economic and Development Affairs (CEDA) in 2015 as part of a significant restructuring of the Saudi government. CEDA is under the control of the crown prince MBS and reports directly to the King. Considering the council was created to oversee economic development and diversification initiatives, its mandate overlaps with multiple government agencies and ministries like the Ministry of Economy and Planning, traditionally responsible for economic policymaking in the Kingdom. Moreover, CEDA promotes foreign and private sector investment, which has traditionally been under the responsibility of the Ministry of Commerce and Investment. This contributes to the

26 While the National Guard does not publicly disclose the exact number of employees, according to some estimates, the institution is believed to have around 200 000 to 250 000 personnel (Global Security, 2016).
centralisation of power at the top-level of the state apparatus all while deepening the overlapping mandates and competing interests of agencies and ministries.

The concentration of power under the leadership of MBS has had a significant impact on restructuring rent-seeking mechanisms. The influence and standing of established business elites in relation to the ruling elite have diminished as stricter government oversight is implemented in terms of public procurement and expenditure. Nonetheless, patterns of state control and allocation remains a key feature of the Kingdom’s political economy. Despite significant growth in the Saudi private sector since the 1970s, the economy remains highly dependent on state spending, which is still primarily financed through oil income (Hertog, 2019b). The private sector and Saudi households remain deeply reliant on government spending. Business heavily relies on subsidised inputs, protection from foreign capital and lucrative government contracts, whereas the government continues to account for about two-thirds of all employment of Saudi citizens while salaries constitute close to 50% of total state expenditure (Hemrit & Benlagha, 2018; IMF, 2019; Tamirisa & Duenwald, 2018). The state remains the most influential economic actor, allowing the private sector to play a compartmentalised and regulated role. The position of established business elites vis-à-vis the ruling elite has become weaker since 2015 as the government tightened its control over the economy and the industrial space, which used to be largely left has grasing ground for the merchant elites.

How does the PIF fit within these evolving patterns of state-society relations? Despite power consolidation at the top level under King Salman, structural changes below the top-
level leadership remain slow and often disconnected from top-down reform initiatives with significant implications for political and economic outcomes (Hertog, 2018). Considering the desire of new rulers to centralise power and achieve their reform visions, and considering that the implementation of wide-ranging reform programs like Vision 2030 often involves the creation of new institutions as personalised tools operating alongside existing slow-moving government structures, SWFs appear as instruments for leaders to manipulate or bypass cumbersome institutions stemming from institutional fragmentation perceived as restricting their desired level of autonomy or capacity. Meanwhile, if business elites’ interest in securing and preserving benefits from the allocative state combined to an overwhelming dependence of government expenditure for revenues and contracts remain, the business elites’ socio-political autonomy from the state has been nonetheless diminished under King Salman. The PIF revamp appears as substantial instrument to support the centralisation of power within the ruling elite by consolidating control over the economy and increase state capacity in manipulating economic policies, control key industries and centralise networks of patronage.

From this perspective, the PIF’s revamp appears as a central mechanism in a top-down imposition of new “rentier bargain” featuring increased regime flexibility in dealing with the challenges of globalization and absorbing societal pressure. The PIF facilitates the consolidation of control over the economy and reorganisation of rent-seeking structures under the centralisation of power under MBS as well as challenging economic outlooks stemming from fluctuating oil price, lack of diversification and demographic pressure. Nonetheless, it does not compromise the allocative framework underwriting governance
resilience in rentier political economies. SWF development may sustain or reorganise patron-client networks through public-private partnerships or new non-oil pathways of accumulation, and simultaneously reaffirm or enhance the centrality and legitimacy of the state. Consequently, the turn to the PIF as the primary instrument for economic development can be seen as a strategic reaction to external challenges, while also serving as a path of least resistance around long-standing constraints of institutional fragmentation and clientelism stemming from rentier state formation. The next chapters substantiate these claims by unpacking PIF governance structures and investment activities.
Prince Alwaleed bin Talal is the world's best-known Saudi businessman. The prince is behind Kingdom Holding, a conglomerate with stakes in, amongst others, Twitter, Citigroup, Four Seasons Hotels & Resorts and wholly owns the George V in Paris as well as the Savoy Hotel in London (Forbes, 2017; Hope & Scheck, 2020). With an estimated personal wealth of $18 billion, the New York Times has called him the ‘Buffet of Arabia’ (Douglas, 1999; Forbes, 2017). In 2012, Alwaleed wrote to Khalid al-Tuwajri, King Abdullah’s Royal Court chief and close confidant. In the letter, the wealthy prince raised doubts about trends underpinning the budget of the Saudi government. Even if oil prices were riding high then, he argued that Saudi Arabia needed to diversify its economy and create alternative income sources through a globally diversified investment portfolio. During an audience with officials from the Royal Court and senior princes, Alwaleed proposed transforming the Ministry of Finance’s investment arm, the Public Investment Fund (PIF), into the key vehicle to promote industrial upgrading and global investments. Mohammed bin Salman (MBS), the son of then crown prince Salman, was sitting in the meeting and was enthralled by the plan. They introduced the idea to King Abdullah in a subsequent audience. However, the King showed little interest in altering established structures, and the plan to transform the PIF’s design and use fell into oblivion (Hope & Scheck, 2020).
In January 2015, King Abdullah passed away, and Salman acceded to the Saudi throne. Within six days of Salman becoming King, his son MBS was appointed chair of the Council of Economic and Development Affairs (CEDA), the committee overseeing all of the country’s financial and development plans. Within two months, MBS selected the PIF as the critical organ to lead Saudi Arabia’s reform initiative and put the Kingdom on the global investment map (Hope & Scheck, 2020). From 2015, the PIF rapidly expanded as its mandate was changed from being a largely domestically focused holding company into a fully-fledged SWF driving the Kingdom’s most recent diversification efforts.

The sovereign fund’s governance structures were overhauled entirely as part of these changes. From 1971 to 2015, the PIF was under the oversight of the Ministry of Finance. The fund operated with around 40 employees and acted as the Ministry’s investment arm and holding company. Since 2015, the PIF reports to CEDA and MBS. The wealth fund now has administrative independence, and the different administrative levels are under the supervision of a newly established board of directors and various board committees. Furthermore, the SWF has had a staff count surpassing 1500 since 2022 (Argaam, 2020; bin Mogren, 2022; PIF, 2017). Establishing and managing an effective SWF requires complex design features and decision-making frameworks and is often idiosyncratic (G. L. Clark & Monk, 2012). Accordingly, the present chapter unpacks the dynamics underpinning the development of the PIF’s governance framework since 2015 and its implication for sovereign wealth management. The chapter begins with an overview of the PIF up to 2015. Then, section 4.2 traces the changes in the PIF’s institutional design. This section finds that the PIF transitioned from a manager model to an investment company
model. Moreover, the SWF implemented an operating set-up and organisational structures reflecting best practices advocated by the IMF, World Bank or IFSWF. This sets the table for section 4.3, which traces the changes in institutional design superimposed with evolving intra-elite dynamics in the Saudi political landscape since 2015. The section examines organizational design, board composition and responsibilities within PIF governance. It explores connections between actors engaged in PIF governance, their relationships with the government, and how these dynamics are influenced by shifting power dynamics under King Salman’s rule. Section 4.3 illustrates that while the PIF’s governance model largely follows recommendations for best practices championed by international organisations, the network of high-level elite players forming the board of directors and the fund’s governance framework reflects the post-2015 centralisation of authority around the crown prince MBS and a close inner circle. Section 4.4 concludes by summarising the findings.

4.1 The Public Investment Fund from 1971 to 2015

The PIF was created in 1971 through the Royal Decree N° M/24 to fund new state-owned enterprises during a time of institutional growth and industrialisation. From its establishment to 2015, the fund was managed by the Ministry of Finance (MoF) and functioned as an investment division that followed the manager model, operating on behalf of MoF. The fund had approximately 40 employees. The PIF’s managing director’s office was located right next to the minister's office, indicating operational synergy between both institutions due to their strong ties (Seznec & Mosis, 2018). As the investment arm of the MoF, the PIF funded key projects and companies as well as provided support to initiatives
of strategic importance for the Saudi economy (PIF, 2017). Towards the end of the 1970s, the majority of PIF investments were centered on Saudi Basic Industry Corporation (SABIC). The funds also developed ownership shares in prominent companies such as Ma'aden - a mining and aluminium corporation, Bahri which functions as a national shipping carrier- and Saudi Public Transport Company. As an example of its financial support for state-owned entities, the PIF provided around $1 billion in funding to Petromin - a national oil company established as a replacement for Aramco. The funds were allocated towards the construction of the East-West Crude Oil pipeline project, which fell under Petromin's jurisdiction (McPherson-Smith, 2021). However, Petromin experienced a decline in its operations between 1983 and 1986 and was eventually dissolved in 2005 after control was assumed by Aramco between 1993 and 1996 (Hertog, 2008).

Beyond non-oil diversification objectives, the contrasting PIF ventures in Petromin and SABIC reveal how earlier investments were intertwined in rivalries and coalitions among high-level elite players, technocrats and a network of merchant families. The PIF-backed Petromin was under technocrats fostered by King Faisal (1964-1975): the oil minister Ahmad Zaki Yamani and his right-hand man Abdulhadi Taher, Petromin’s governor (Vitalis, 2007). Petromin became the primary vehicle for industrialisation, encompassing oil refineries in the Kingdom and abroad, oil and gas exploration, glass and steel plants, power generation projects, distribution of refined products within Saudi Arabia, and even its own shipping operations (Hertog, 2008). Following the death of Faisal in 1975, crown prince Fahd was given great administrative liberty by new King Khaled (1975-1982), thus seeking to foster technocrats closer to him than Yamani and Taher. The newly established
Ministry of Industry and Electricity (MOIE), under the leadership of Fahd’s client, Ghazi al-Gosaibi, restricted Petromin’s activity as the MOIE started to take control over petrochemicals, mining and other heavy industries. Large numbers of Petromin projects were transferred to the MOIE to be evaluated by the Industrial Studies and Development Center under the eye of Abdulaziz Zamil. Every Petromin project was reformulated or dismissed. Then, the MOIE established SABIC in 1976 to consolidate control over petrochemicals and other heavy industry projects. SABIC was capitalised at $2.8 billion, with 70% coming from the PIF, with Gosaibi as chairman and Zamil as CEO (Hertog, 2008).

The complex political environment in which the fund operated is reflected by its earlier investments in Petromin and SABIC. This landscape consisted of numerous bureaucratic strongholds, each with its unique agenda and controlled by segments of the ruling family along with their affiliated networks that had permeated both state apparatus and economic channels. As a result, PIF’s investment activities were often reactive and sporadic due to competing political forces vying for influence over decision-making processes. While playing a central role between 1971-2015 in some of the most impressive state-led economic development initiatives, the fund could not fully coordinate its investments or align its activities effectively with wide-ranging structural development plans. The resulting institutional fragmentation meant targeted investment patterns instead of strategic planning across multiple sectors simultaneously could not be realised at scale.
4.2 Form Follows Function: Diversification and PIF Governance Model

In 2015, Saudi leaders started to grant more authority to the fund. As part of these steps, on March 23, 2015, the Council of Ministers issued resolution N°270 formalising the shift in the fund's oversight from the Ministry of Finance (MoF) to CEDA. On December 5, 2018, the Shura Council approved the Public Investment Law, which supersedes the 1971 Royal Decree N°M/24 (Saudi Gazette, 2018). The PIF Law solidifies the fund’s independence. Under the Law, the fund’s institutional framework transitioned from the manager model to the investment company model, as the PIF is now set up as a separate investment company that owns the assets it manages. Under a manager model, SWFs are set up as separate funds to manage assets under a mandate given by another administrative unit. However, as the SWF is not a separate legal unit, the Ministry of Finance or the central bank, in most cases, are responsible for setting the specific investment benchmarks and targets (Al-Hassan et al., 2013; Hammer et al., 2008).

The redesign of the PIF in 2015 meant the link between the Ministry and the PIF was significantly reduced, even abolished. The Law’s Article 2 states that the PIF “shall have a public legal personality as well as financial and administrative independence” (Public Investment Fund Law, 2018, p. 1). In other words, the PIF Law lays the foundation of the investment company model (Al-Hassan et al., 2013). Under this institutional framework, the SWF is set up as a separate legal entity with operational independence. The fund also legally owns the assets it manages. Since 2015, the PIF has been independent of the Ministry of Finance’s direct oversight, relies on its staff, and has its own board of directors.
The chairmanship moved from the Ministry to the president of CEDA. In sovereign investors models where the sovereign fund is set up as a distinct legal entity, management reports to the governing body of the SWF, taking the form of a Board of Directors. In this context, the owner (generally the Ministry of finance or, in some cases, the government) is responsible for board appointments (Al-Hassan et al., 2013; Hammer et al., 2008). Appointing governing body members is a critical element of a governance framework. This process can expose the influence of political elites over the decision-making structures (Divakaran et al., 2022). Moreover, appointing skilled and experienced decision-makers in governing bodies improves the likelihood of aligning the SWF's purpose and investment mandate. Alsweilem et al. (2015, p. 110) write that "the process of appointing governing body members to SWFs is another crucial area in which the principles of aligned, arm's-length and affiliated fund governance can be realised".

Under the resolution N°270, the board of directors was reconstituted, with MBS, the Crown Prince and Chairman of CEDA, becoming the PIF chairman (PIF, 2017, 2021b). The PIF Law’s article 5 declares that “[t]he Fund shall have a board of directors to be chaired by the President of the Council of Economic and Development Affairs” and that “[i]ts membership shall include the Governor, as well as a minimum of four experts and specialists, provided they include representatives from relevant agencies” (Public Investment Fund Law, 2018, p. 3). According to the PIF Law's articles 6 (1), (2), (3), (4), (5) and (6), the board of directors is in charge of setting the fund's strategy, policies and procedures (Public Investment Fund Law, 2018). Across the spectrum of sovereign funds, governing bodies vary in eligibility for membership (political, non-political, and industry
expertise) (Alsweilem et al., 2015). In the PIF’s case, the prime minister is in charge of the board member selection mechanism\textsuperscript{27}. The process appears driven by knowledge and oversight over crucial sectors targeted by the SWF. The PIF’s board is composed only of government officials, and board appointees are from various portfolios relevant to asset management (Ministry of Finance and Ministry of Investment) and the SWF’s activity across economic sectors such as the Ministry of Commerce and Ministry of Tourism (Table 5).

With an important role in the Saudi Arabian government, the PIF's board of directors comprises a group of individuals at the top of various portfolios within several key areas. Apart from Crown Prince MBS, chairman of the board, three members belong to the Council of Ministers while six other senior officials are involved. The Minister of Finance Mohammed Abdullah Al-Jadaan alongside Ministers of State Ibrahim Abdulaziz Al-Assaf and Mohammad Abdul Malek Al-Shaikh lead this extensive assembly as they sit on PIF’s governing body. Additionally, the PIF's board includes Minister of Investment Khalid Abdulaziz Al-Falih, Minister of Commerce Majid Abdullah Al Qasabi, and Minister of Tourism Ahmed Aqeel Al-Khateeb. Finally, Yasir Othman Al-Rumayyan sits on the board as governor of the PIF. The Saudi government accentuates that the diverse composition of senior officials within the PIF's board ensures that decisions are made with a broad range of perspectives and expertise, contributing to the fund's capacity to make well-informed decisions.

\textsuperscript{27} The King has held the role of prime minister and chair of the Council of Ministers since King Faisal (1964-1975) (Al-Rasheed, 2010; Hertog, 2010c). In September 2022, in a break with tradition, crown prince Mohammed bin Salman was appointed prime minister.
Moreover, the World Bank notes how a robust governance framework “specifies the allocation of rights and responsibilities between the SIF’s [strategic investment fund] different stakeholders, and articulates the rules and procedures for decision-making in way that bolsters the fund’s legitimacy” (Divakaran et al., 2022, p. 109). Under the investment company model, some SWFs set up advisory committees to assist the board in investment policies, audit and risk and corporate operations, including hiring and remuneration policies. These committees are responsible for specific functional responsibilities, which

### Table 5. Composition of the PIF’s board and committees

<table>
<thead>
<tr>
<th>Name</th>
<th>Government Position</th>
<th>Board of Directors</th>
<th>Executive Committee</th>
<th>Investment Committee</th>
<th>Audit, Risk, and Compliance Committee</th>
<th>Remuneration Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mohammed bin Salman Al Saoud</td>
<td>-Crown Prince Deputy Prime Minister -Chairman of CEDA</td>
<td>Chairman</td>
<td>Chairman</td>
<td></td>
<td></td>
<td>Chairman</td>
</tr>
<tr>
<td>Ibrahim Abdulaziz Al-Assaf</td>
<td>-Minister of State -Member of the Council of Ministers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mohammad Abdul Malek Al Shaikh</td>
<td>-Minister of State -Member of the Council of Ministers</td>
<td>Member</td>
<td>Member</td>
<td>Chairman</td>
<td></td>
<td>Member</td>
</tr>
<tr>
<td>Khalid Abdulaziz Al-Falih</td>
<td>Minister of Investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mohamed Mazyed Altwaijri</td>
<td>-Advisor to the Royal Court -Ex-minister of Economy and Planning (2017-2020)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Majid Abdullah Al Qasabi</td>
<td>Minister of Commerce</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Member</td>
</tr>
<tr>
<td>Ahmed Aqeel Al-Khatreeb</td>
<td>Minister of Tourism</td>
<td>Member</td>
<td>Member</td>
<td>Member</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mohammed Abdullah Al-Jadaan</td>
<td>-Minister of Finance -Member of the Council of Ministers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Chairman</td>
</tr>
<tr>
<td>Yasir Othman Al-Rumayyan</td>
<td>-Governor of the PIF -Chairman of Decision Support Center -Advisor to the Royal Court and the Council of Ministers</td>
<td>Member</td>
<td>Member</td>
<td>Member</td>
<td></td>
<td>Member</td>
</tr>
</tbody>
</table>

Source: Public Investment Fund Program 2018-2020 (2017, 26)
are fundamental in establishing the investment policy, staff employment and management, and accountability (Al-Hassan et al., 2013; Hammer et al., 2008). The PIF board oversees four committees: the executive committee, the investment committee, the audit, risk and compliance committee and the remuneration committee. The executive committee reviews and aligns the fund's performance with its mandate. The investment committee endorses the investment activities such as governance and investment in portfolio companies, direct and indirect investments and the establishment of new state-owned enterprises. The committee also oversees investment plans from the investment department based on guidelines set by the board of directors. The audit, risk and compliance committee looks at compliance and management policies. In contrast, the remuneration committee approves senior management appointment and remuneration, but also the general frameworks for performance management and staff remuneration (PIF, 2017).

Clark and Monk (2012, p.7) emphasise how "SWFs must be able to attract, motivate, and retain talented individuals with the necessary skills and competencies for managing modern financial institutions operating in the global economy". Competence has been highlighted as a significant issue in many Gulf SWFs. The smaller pool of high-quality local talent in the region tends to push Gulf sovereign funds' human resource strategies to rely heavily on expatriates. This generates a variety of internal tensions and agency issues (G. L. Clark & Monk, 2012). In the Saudi context, regular civil service employment structures have been identified as one of the main channels of political clientelism, where job provision is mainly a function not of operational considerations but distributive purposes (Hertog, 2010c). The PIF built its competitive recruitment process and remuneration structures to work around
this situation. Besides, the SWF developed the Graduate Development Program in 2017. The program aims to nurture local talents and meet the market's current needs (bin Mogren, 2022). The fund also launched its Academy for Training and Development in partnership with HEC Paris, the University of California Berkeley and AMT Training (PIF, 2021a). The Academy offers scholarships for employees of PIF and its various subsidiaries (bin Mogren, 2022). This program strives to build the skillset of local employees, either going into junior or senior positions to drive the PIF’s increasingly sophisticated investment activities efficiently.

Additionally, according to IMF models of governance, a sovereign development fund's organisational structure typically "constitutes a system of delegated asset management responsibilities" where the "authority to invest is delegated from the top entity of the governance system, through the various governing bodies down, to the individual (internal or external) managers of assets" (Al-Hassan et al., 2013, p. 11). Moreover, the governing body should create an internal audit unit to assist the board in supervising and verifying the management of the SWF following internal regulations (Al-Hassan et al., 2013). As maintained by sovereign investor models, the government sets forth the fund's general mandate and formulates the mid and long-term strategies. The governing body oversees asset allocation plans and investment horizon, whereas the SWF's senior management is in charge of implementing the game plan for achieving the objectives (Alsweilem et al., 2015). Internal responsibilities of the PIF were remodelled to ensure efficient management, and the broader organisational structure follows IMF and IFSWF recommendations (Figure 15). The responsibilities of the PIF's board of directors are split between the four board
committees. The internal audit unit supports the oversight over the management and regulations of the fund. The PIF governor then connects the board level to executive management, which is staffed by technocrats involved in the day-to-day mechanics of sovereign wealth management.

**Figure 15.** The Public Investment Fund's organisational structure

The management level is comprised of three main divisions. First, the strategic functions unit consists of a Chief of Staff, the Chief Strategist, Chief Economist, and the PR and Media team. This department gives directions on specific issues in the investment process, whereas the media team provides advice concerning reputation risks. The Investment Division comprises the international investments teams, the Saudi investments unit and the Treasury. This department drives asset allocation over public and private equity, fixed income, and absolute return under the governing body's asset allocation and risk.
management framework. Moreover, the Control unit incorporates a finance, risk and compliance sub-division to oversee an appropriate investment mandate following recipient countries' or regions' regulations (PIF, 2017).

Governance structures under which SWFs operate define their involvement in global financial markets. The Generally Accepted Principles and Practices for Sovereign Wealth Funds (GAPP), more commonly referred to as the Santiago Principles, act as a benchmark for institutional governance among SWFs. The Santiago Principles derive from the International Forum of Sovereign Wealth Funds (IFSWF), a global body of SWFs created in 2008 in unison by the US Treasury, the IMF, the World Bank and 26 funds. The Santiago Principles promote adherence to a governance model accepted by the international community (Dixon et al., 2022a). Four "guiding objectives" underpin them. The first objective emphasises the importance to "maintain a stable global financial system and free flow of capital investment". The second objective stresses that all investors should "comply with all applicable regulatory and disclosure requirements in the countries in which they invest". The third objective accentuates that SWF should invest "on the basis of economic and financial risk and return-related considerations" and in an overarching way, the fourth objective states the need for "transparent and sound governance structures that provides for adequate operational controls, risk management, and accountability" (IFSWF, 2008, p. 4). GAPP 6 through 17 address institutional framework and governance concerns with overall themes including independence of management, accountability and roles and responsibility. For instance, GAPP 6 states how the SWF governance framework should establish a clear division of responsibilities and facilitate independent sovereign wealth
management. GAPP 9 advances that “the operational management of the SWF should implement the SWF’s strategies in an independent manner and in accordance with clearly defined responsibilities”. GAPP 17 highlights that “relevant financial information regarding the SWF should be publicly disclosed” (IFSWF, 2008, p. 8).

The revamp of PIF decision-making structures largely follows IFSWF’s best practices to ensure that sovereign wealth management is aligned with the increased sophistication of the SWF’s investment activities. In its efforts to transform the PIF from a holding company to a fully-fledged SWF, the Saudi government moved to give the wealth fund operational and financial autonomy. As a result, the PIF now legally owns the assets it manages and operates independently from the Ministry of Finance as the sovereign fund was given a distinct statutory agency. This also accorded the PIF its staff and distinct board of directors. Besides, the organisational chart ensures that the governing body articulates the fund’s broader purpose and investment strategy while the executive management carries out the investment policy. Since 2021, PIF publicly discloses basic and limited financial information through the publication of an annual report.

The underlying concept behind the Santiago Principles and the revamp of PIF’s governance structures is legitimacy (G. L. Clark et al., 2013; Dixon et al., 2022a). In the case of organisations, legitimacy is thrust by stakeholders in the validity of authority structures with norms, practices, and procedures in place to produce reliable actions (Johnson et al., 2006). As such, an institution's body of regulations and organisational processes that steer decision-making build *legitimacy through governance*. In the case of an SWF that invests
in its domestic and global markets, investment activities have consequences for various stakeholders, including its own government, the public, the investment counterparties, market regulators etc. (Dixon et al., 2022b). The revamp of PIF governance structures can be seen through the lens of legitimacy; the Saudi government aims to create and build trust through institutional legitimacy at home and in global markets by aligning its governance model (institutional procedures and disclosure policies) with the expected practices of other market participants. The vocabulary in PIF official documents emphasises that PIF "follows a disciplined governance model" that ensures "strong, transparent and informed decision-making" (PIF, 2022a, p. 69). There is also a strong focus on “world-class fundamentals of sound governance and risk management" at every level of PIF organisation and operations (PIF, 2022a, p. 9). As we shall see, however, among the causes of changes in PIF decision-making structures, the consolidation of accepted governance principles is only one among others.

4.3 Regime Change, Political Interests and the PIF’s Governance Framework

SWFs require highly developed decision-making frameworks and risk-mitigating capabilities to manage the complexities of investing. Clark and Monk (2012, p.12) note that “successful investment management within institutional investors is a function of how decision-making is framed, routinised, and implemented". Nonetheless, one of the obvious factors that may intervene in the process is the dynamics of domestic politics (Braunstein, 2019a; G. L. Clark & Monk, 2012; Hatton & Pistor, 2011). Saudi Arabia faces various challenges due to the institutional tensions between objective models of governance and
the inherited traditions underlying its political and economic institutions. Indeed, it has been argued that within the Saudi regime, “shifting individual interests and coalitions in the elite were the main force determining how state institutions would grow and change. Institutional change often reflected power shifts among a select few princes and technocrats” (Hertog, 2008a, p. 649). Based on these observations, the following section will engage with the power shifts and institutional change following the 2015 royal succession and the subsequent rise of MBS. In light of identified political entanglements, the chapter moves to analyse in more detail how and why PIF governance structures were remodelled. The section adumbrates how in the face of intra-elite power balancing, PIF governance structures ensure that sovereign wealth management is under the control of a core of high-level insiders.

If certain forms of governance may be more effective in realising certain functions, the SWF is also symbolic of a commitment to adopt the instruments of advanced financial management consistent with leading-edge practices (G. L. Clark & Monk, 2012; Dixon et al., 2022b). Following this logic, the revamp of PIF’s decision-making structures according to IFSWF best practices for appropriate governance represents a form of organisation that is believed by domestic elites to signal to local stakeholders, neighbouring countries, and the rest of the world that their country has attained a level of maturity consistent with the leading edge of global innovation. However, the publicly displayed organisational charts do not do justice to the actual decision-making process that dominates the PIF.
When establishing a governance framework, political leaders aim to ensure the sovereign fund successfully implement strategic asset allocation while aligning the interests of fund managers with their interests (Eaton & Ming, 2010). Consequently, one of the first challenges for sovereign development funds stems from the complex relationship between principals and agents (Hollyer, 2010; Miller, 2005). In this case, the sponsor of the SWF (principal) must entrust decision-making authority to the fund manager (the agent). This reliance on the agent’s expertise, recommendations, and guidance is crucial in achieving politically sensitive sovereign wealth management objectives. As such, the principal-agent dilemma can arise in SWF governance when the ambitions, objectives and interests of appointed agents may differ from those of their principals. This raises concerns about political influence and the potential formation or reinforcement of existing political alliances during the appointment process for top positions within SWFs (Divakaran et al., 2022). Accordingly, this section goes beyond organisational charts and takes into consideration social networks that penetrate the PIF’s governance structures. It examines how organisational design, board composition and responsibilities are influenced by patterns of state fragmentation and administrative clientelism. The section explores the political dynamics among actors involved in governance structures by looking at the interplay between these players, their connections with the government, and how this relates to evolving patterns of power balancing within elite circles.
4.3.1 Form Follows Family

The preceding chapter shows how a smooth succession in 2015 brought Salman bin Abdulaziz Al Saud to the throne. The transfer of power from Abdullah to Salman went ahead with no apparent conflicts among princes. However, immediately after this, the new King altered the succession plans laid down by King Abdullah before he passed away. Most remarkably, the age of King Salman marks a centralisation of royal authority around his son and crown prince MBS. The decision-making structures of Saudi Arabia’s SWF are no exception to these dynamics. As we have previously seen, the prime minister is technically in charge of board appointments. As prime minister, chairman of CEDA, chairman of the PIF and chairman of the fund’s Executive Committee, the crown prince MBS controls the mechanisms and process of board appointment. Moreover, when examining board composition, most PIF board appointees appear to have been selected based on competence and oversight over key sectors targeted by the SWF. Nevertheless, if one considers social networks and interpersonal relationships, the political network of high-level elite players forming the board of directors reflects the centralisation of authority around the crown prince and his inner circle of confidants. All appointees are trusted personal allies, sitting at the top of important portfolios and owing their elevated positions to MBS.

Indeed, MBS’s political network of technocrats and gatekeepers forming the PIF's board of directors comprises a first layer of former bankers and financiers in Mohamed Al-Tuwajri, Mohammed Al-Sheikh, Ahmed Al-Khateeb and Yasir Othman Al-Rumayyan.
Al-Rumayyan, governor of the PIF, is the technocratic agent in charge of leading the SWF and is also chairman of various key state-owned enterprises (SOES), including Saudi ARAMCO, the Saudi Arabian Mining Company (Ma’aden), and Sanabil Investment. He also sits on various boards of directors, including NEOM, the Red Sea Company, Qiddiya, and PIF’s key foreign holdings such as Uber Technologies, the UK-based SoftBank’s chip designer Arm Holdings, and is board director of SoftBank Group (Arqaam, 2018b; SoftBank Group, 2020). On a more informal level, Al-Rumayyan began his career as a local banker; he had been the chief executive officer (CEO) of Banque Saudi Fransi, a Saudi bank affiliated with Crédit Agricole (Al Omran & England, 2018; Arab News, 2018a; Davidson, 2021). Al-Rumayyan began to appear as a critical member of MBS’s inner circle in 2015. He was named advisor to the Royal Court and the General Secretariat of the Cabinet of Ministers the same year (Davidson, 2021). He is also the chairman of the Decision Support Center, established in 2016 at the Royal Court to ‘support decision-making through analytical and evidence-based information and reports’ (Kingdom of Saudi Arabia, 2016b, p. 83). The Decision Support Center operates in the Royal Court's shadow and acts as the crown prince's central advisory body to implement socioeconomic reforms (Roll, 2019).

Mohamed Al-Tuwajri had an earlier career as an air force pilot and a banker. From 2007 to 2010, he was CEO of JP Morgan Saudi Arabia and then moved to become CEO of global banking and then CEO of HSBC Middle East. He began to appear in MBS’ inner circle in 2016 as he was appointed deputy minister of economy and planning before becoming minister from 2017 to 2020. He simultaneously gained various responsibilities, namely
oversight of the Royal Court's finance and chairmanship of the National Centre for Privatisation, responsible for realising the numerous privatisations part of Vision 2030 (Al Omran & England, 2018; Davidson, 2021). In 2020, Al-Tuwaijri was nominated by the government for the position of director-general of the World Trade Organisation (WTO, 2020). Meanwhile, Muhammad Al-Sheikh studied at Harvard law and represented the Kingdom at the World Bank. In 2013, he was appointed to chair Capital Market Authority, the Kingdom's financial regulatory authority, under King Abdullah. Under King Salman, Al-Sheikh became a state minister and a member of MBS’ CEDA (Al Omran & England, 2018; Davidson, 2021). He is known as one of MBS’ top economic advisors and even appeared alongside the crown prince in international media interviews (Waldman, 2016).

Finally, after 25 years in banking, Ahmed Al-Khateeb left the private sector and was appointed as advisor to the crown prince MBS at the Royal Court. He then served as Minister of Health from 2014 to 2016 and head of the General Entertainment Authority from 2016 to 2018. In 2019, Al-Khateeb was appointed as Minister of Tourism. He also chairs the Saudi Arabian Military Industries (SAMI), a PIF’s subsidiary. He is simultaneously a CEDA member and sits on the boards of NEOM, the Red Sea Development Company and The National Development Fund (Al Omran & England, 2018; Ministry of Tourism, 2021).

Another layer of MBS’ political network composing the PIF’s highest governing body is built around trusted technocrats like Mohammed Abdullah Al-Jadaan and Khalid Abdulaziz al-Falih. On the one hand, Al-Jadaan is a commercial lawyer and co-founded a firm with Clifford Chance. He was then appointed chairman of the Capital Market
Authority in 2015, where he oversaw the establishment of the Tadawul (the Saudi stock market) before being named Minister of Finance in 2016 (Al Omran & England, 2018; Arab News, 2016b; Davidson, 2021). On an informal level, the minister of finance is often described as one of MBS's closest associates; King Salman sent Al-Jaadan in his place at the 2017 G20 summit, and the finance minister firmly supports MBS' Vision 2030 in interviews (Arabian Business, 2017; Davidson, 2021; Roll, 2019). On the other hand, from 1979 to 2008, Khalid Abdulaziz al-Falih held several positions at Aramco before being appointed CEO from 2009 to 2015. He was named Minister of Energy, Industry and Mineral Resources in 2016 (Al Omran & England, 2018). Adam Hanieh (2018, p.211) notes that “Khalid bin Abdulaziz Al-Falih clearly illustrates the increasing power of carefully selected actors within the Saudi state apparatus”. Besides, Al-Falih entertains close connections to major international firms; Until 2015, he was the only representative from the Middle East on JP Morgan Chase International Council with influential figures such as Condoleezza Rice, Tony Blair and Henry Kissinger. In addition to his role as minister, Al-Falih was initially put in charge of leading Aramco's initial public offering (IPO) and the push toward a private-driven renewable energy sector (Hanieh, 2018). In 2019, he was appointed Minister of Investment.

Furthermore, in spite of compliance with IFSWF recommendations for best practice, the structure of the PIF’s governance framework is still conducive to influence from MBS over the day-to-day operations and promotes a grip on the mechanisms to fill the fund’s senior management positions. We can observe these dynamics through the crown prince’s ascendancy over the board of directors and his position as chairman of the Executive and
Remuneration Committees. The Executive Committee oversees the PIF's strategic direction, whereas the Remuneration Committee is responsible for senior management appointments (PIF, 2017). Meanwhile, evidence traced back to reports from late December 2018 and March 2020 shows that various expatriate PIF senior executives (including two heads of strategy, head of legal, head of risk, chief of public investments, and private-equity associate) resigned and issued remarks on the lack of analysis and consultation in addition to the micromanagement of MBS. For instance, Eric Ebermeyer left in 2018, just weeks after joining as the fund's head of strategy, bemoaning MBS micromanagement, unclear strategy and an unstable work environment. Cyrille Urfer followed Ebermeyer. Urfer led the PIF's investments in global public markets and hedge funds but left shortly after Ebermeyer. Urfer claimed that “ideas and deals are driven from the top down” (Jones, 2018). He added that “at the end of the day, the owner and the one who takes the decision is the Saudi government, and the PIF is the tool that is supervising the execution of these projects” (Azhar & Kalin, 2019). He was joined in his resignation by Tom Deegan, head of the legal department, and Jacob Solis, an associate in the direct-investment team (Jones, 2018). Then, in March 2020, Dennis Johnson, who replaced Eric Ebermeyer as Chief Strategy Officer, resigned as well as Martin Botha, Chief Risk Officer and the first senior hire going back to 2016 (Martin & Nair, 2020).

Nonetheless, proximity to the ruling group does not automatically mean inefficiency. The successes of multiple Gulf state-owned enterprises (SOEs) in relation to other rentier states such as Venezuela, Indonesia, Libya or Iran are attributed, among other things, to their form of 'pockets of efficiency' or, in other terms, their autonomy associated with the direct
protection of high-level unified principals in the ruling group. Being insulated from the rest of the state apparatus, high-ranking technocratic managers report directly to the ruler of their advisors. As such, they can act autonomously and focus on profit and market-oriented management outside of political and bureaucratic predation from senior bureaucrats and minor royals (Hertog, 2010a). Such pockets of efficiency are often created in an additive manner and removed from other existing institutions (Yamada, 2020). The Saudi Basic Industry Corporation (SABIC) and the Saudi central bank, the Saudi Arabian Monetary Authority (SAMA), are often cited as examples of efficiently managed SOEs or administrative units (Hertog, 2010a). SAMA and SABIC were established by royal decree in 1952 and 1976, respectively. The central bank and petrochemical SOE were insulated from administrative clientelism and brokerage games permeating the Saudi civil service as they possess distinct recruitment and remuneration mechanisms. Moreover, leading technocratic agents operate under the direct protection of senior royal principals. SABIC is now the fourth world-largest petrochemical company, and SAMA is considered the best central bank in the Middle East (Hanieh, 2018; Hertog, 2010a).

Similarly, the PIF was established under special decree, and the fund's governor reports directly to a coherent regime core embodied by crown prince MBS. The SWF’s governor Yasir Othman Al-Rumayyan is described as a client of the Saudi crown prince and was given the mandate to efficiently manage a portion of the Kingdom's all-important oil revenues. The empirical analysis shows how board appointees have long-term relationships of trust with their political principals. Moreover, because the PIF is insulated from the regular civil service regulations, recruitment is competitive, and incentives aim to attract
the most motivated and educated nationals. Nonetheless, the PIF and Al-Rumayyan do not enjoy substantial decisional autonomy from the regime leadership, a fundamental underlying determinant of pockets of efficiency. Indeed, the fund’s governing body channels decision-making powers into the hands of MBS. At the same time, governance structures ensure day-to-day operations and senior managers are under the crown prince’s close personal supervision. Besides, almost all board appointees are part of MBS’ close inner circle.

Political-economic circumstances also determine the gap between the PIF and other pockets of efficiency. The precedent chapter illustrates how Saudi Arabia stands at a crossroads, where a severe deterioration of the state’s fiscal resources combined to escalating global decarbonisation efforts acutely challenge established political institutions and social coalitions underpinning a rentier model of regime persistence. Under MBS’ Vision 2030, the new Saudi leadership boasts a narrative of “nationalist rebranding” through the “prospect of national rejuvenation and new economic projects and technological innovations in a post-oil era […] projected abroad to be consumed by global audiences, especially investors, financial groups and foreign tourists” (Al-Rasheed, 2021, pp. 158–160). This is mostly aimed at the cohort of Saudis under 25, representing almost 51% of the population (Gulf Research Center, 2016). Through Vision 2030, the crown prince advertises greater employment opportunities, flourishing cultural entertainment and increased connectedness with the world (Al-Rasheed, 2021).
When economic development and reforms visions become part of the legitimacy and brand of new leaders, as happened in Saudi Arabia with Vision 2030, there is much at stake for the regime to deliver on this vision and make it a success story. Nonetheless, efforts at structural reforms have been historically difficult and produced heterogeneous outcomes (Chaudhry, 1997; Gross & Ghafar, 2019; Hertog, 2010c). Due to the institutional fragmentation resulting from patrimonial politics, different agencies struggle for themselves and often scuffle to coordinate over the same matter and present contradictory regulations and incompatible procedures (Hertog, 2010b; Vitalis, 2007; Yizraeli, 1998). As such, the more agencies are involved, and the more actors need to be mobilised in a given policy area, the harder it is to produce results (Hertog, 2010c). In this context, the overlapping power sources in the hands of multiple princely factions create the potential for increased struggle over wide-ranging reforms implied in Vision 2030.

The PIF emerges as an attractive solution to this puzzle as it allows the ruling elite to circumvent the deep-seated constraints of state fragmentation and increase state capacity in driving economic reforms. Indeed, the PIF operates outside the regular state apparatus. This enables a core of insiders within the ruling elite and MBS to streamline decision-making and aggregate investment activities under a single portfolio to bypass well-entrenched veto players in policymaking. For instance, MBS appears to use the PIF to undermine the authority of different ministries. As part of a US tour in 2018, the crown prince and SoftBank CEO signed a $200 billion deal to create the world's largest solar panel project. Yet, the Ministry of Energy, which oversees policies concerning petroleum and other energy products, was 'blindsided' by the announcement as the venture was led by
the PIF instead of the unit within the Ministry in charge of renewable energy projects (Raval et al., 2018). Proposals for PIF-SoftBank joint ventures previously circulated were ultimately dismissed by the Ministry of Energy and Aramco (Raval et al., 2018; Reuters, 2018a). Through the SWF, however, the crown prince could bypass the energy ministry and drive forward his agenda. The deal reveals infighting between Khalid al-Falih, the Minister of Energy and chairman of Aramco at the time, MBS and the governor of the PIF, Yasir Othman Al-Rumayyan (Davidson, 2021).

Anecdotal evidence points to the trigger of al-Falih’s demise as connected to the promotion of a considered approach to Aramco's IPO in contrast to the crown prince's determination to move fast to replenish PIF coffers (England et al., 2019). In 2016, MBS had announced his expectations to raise $100 billion by selling 5% of Aramco, all based on a market valuation of $2 trillion (Gross, 2019). Yet, on December 19 2019, shares amounting to 1.5% of Aramco's value were floated on the Tadawul, the Saudi stock market, at a price that valued Aramco at $1.7 trillion. A domestic listing implies fewer barriers and less regulatory involvement in Aramco's disclosure of financials to meet the transparency requirements of international investors. The initial public offering (IPO) raised $25.6 billion, far from the expected $100 billion.

Al-Falih was perceived as a sceptic of Aramco IPO from the beginning. The minister's staff allegedly came up with valuations well below MBS' $2 trillion goal and also provided a checklist of problems linked to the IPO in an effort to convince the crown prince to end the initiative. The IPO plan, therefore, became a battle arena between MBS and al-Falih (Hope
& Scheck, 2020). The offering was postponed multiple times; The New York Stock Exchange was MBS’ preferred venue for the listing. However, according to a report from the Wall Street Journal, external advisors and Saudi officials, most prominently Khalid al-Falih, warned that a New York listing carried the risk of exposing Saudi Arabia to class action lawsuits from shareholders and 9/11 victims on the basis of insufficient disclosures or other improprieties (Farrell et al., 2018). Effective January 1, 2020, a royal decree divided the Ministry of Energy, Industrial and Mineral Resources into two portfolios: the Ministry of Industry and Mineral Resources and Ministry of Energy. Bandar Al-Khorayef, a businessman from the eponymous family-owned industrial conglomerate, was appointed Minister of Industry and MBS’s older half-brother Abdulaziz bin Salman Al Saud replaced al-Falih to serve as Minister of Energy (Arab News, 2019a). He is the first royal to serve as energy minister. Besides, Al-Rumayyan replaced al-Falih as Chairman of Aramco (Arab News, 2019b).

If al-Falih was demoted from his key roles as oil minister and chairman of Aramco, he was kept on the PIF’s board of directors. On the one hand, his forty years of experience in the oil and investment sectors appear to be considered as valuable. Indeed, as minister of investment, al-Falih remains at the head of a key agency for PIF activity. He is now in charge of keeping Vision 2030 on track and promoting “Saudi Arabia as a world-class investment destination” (Ministry of Investment, 2022). Foreign direct investments (FDI) are indeed central to the realisation of Vision 2030 and many PIF large-scale ventures such as NEOM and other giga projects. On the other hand, the SWF provide institutional space to stabilise the current balance of power within the ruling group and maintain a unified
front presented by existing elites, thereby preventing vulnerability to global investors. Indeed, as agents in global markets, SWFs must introduce a narrative that signifies conformity to global conventions of financial conduct and demonstrate (or at least make as if) that they are reliable and “apolitical” institutions (Dixon, 2020b). If the PIF was used to undermine the authority of ministries and key political players, keeping al-Falih on the board of directors seems to present an effort to introduce the PIF as insulated from power games and intra-elite contestation and rather publicly expose the sovereign fund as a reliable investment partner with investment activities driven by apolitical economic and financial considerations.

4.4 Conclusion

The present chapter unpacked the dynamics underpinning the development and establishment of the PIF’s governance framework. The PIF’s organisational chart appears to follow blueprints for best practices in institutional design and governance framework advocated by the Santiago Principles. The institutional design transitioned from a manager model, operating under the umbrella of the finance ministry, to an investment company model so the SWF could operate as an independent investment company which legally owns the assets under its management. At the governance level, the changes implemented by the Saudi government granted the PIF its own staff and board of directors. The new organisational chart ensures that the board of directors, instead of the Ministry of Finance, articulates the fund's broader orientation while the executive management carries out the investment policy. In the PIF Program 2018-2020, the Saudi government claims that the
“PIF has adopted a governance and operating model that reflects its mandate and objectives, and that also builds on global best practices. The operating model ensures transparency, efficiency in decision-making, and ability to evolve in the future” (PIF, 2017, p. 25). The structure of the PIF's governance framework denotes a commitment from the Saudi government to adopt and implement the standards and instruments of advanced financial management consistent with the expected practices of market participants.

Nonetheless, this chapter's empirical analysis has shown that the concentration of royal authority around the crown prince from 2015 prompted a process of centralisation among decision-making structures around a closely-knit coalition of senior royals and technocrats. In turn, the changes in PIF’s decision-making structures and governing bodies reflect power shifts and coalitions among a small network of princes and technocrats since the rise of MBS. The PIF’s board of directors is composed of a tight network of agents simultaneously occupying senior positions in the government. The crown prince elevated to the sovereign fund’s governing body a handful of trusted ministers and technocrats with no power base, owing their political role to MBS. Moreover, the crown prince exerts considerable personal control and authority over PIF decision-making.

This chapter thus developed an argument regarding the political economy of sovereign wealth management in Saudi Arabia that will be further developed in Chapters 5 and 6. The Kingdom’s state-building legacy resulted in a system of little states within the state, or, in other words, parallel institutional fiefdoms controlled by princely factions within the ruling family (Al-Rasheed, 2005; Hertog, 2005). As such, different agencies often struggle
for themselves and present contradictory regulations. In this sense, the more agencies are involved, and the more actors need to be mobilised in a given policy area, the harder it is to produce results (Hertog, 2010c). However, SWFs present an opportunity to circumvent the constraints of the existing fragmented state apparatus and increase state capacity. The PIF’s governance frameworks provide administrative instruments to deal with intra-elite power balancing games and ensure that sovereign wealth management is under the control of the ruling elite by filling top-level positions with close political allies. Past formal organisational charts and institutional settings, the SWF operates as an enclave outside the regular state apparatus, allowing a core of high-level elite insiders to centralise decision-making and thereby overcome institutional fragmentation in Saudi Arabia's rentier state.
CHAPTER 5

The PIF and Saudi Arabia’s Economic Diversification Conundrum

Picture planning and building a city from scratch with an allocated area 33 times the size of New York City. Do not worry about traffic; flying taxis will fly you to work while robots clean your home. Cloud seeding technology could generate precipitations when desired, and a giant artificial moon would light up each night, live-stream images from outer space. In this zero-carbon city, there would be state-of-the-art medical facilities and scientists working on cutting-edge technologies to drive the future of human civilisation but also a myriad of world-class Michelin-starred restaurants and a Jurassic-Park style island of dinosaur robots. During the holidays, one could travel to the nearby archipelago of 22 islands, where one can enjoy jaw-dropping white-sand beaches, azure waters, volcanoes and some of the world’s largest reef systems, all while staying in hotels powered solely by renewable energy. Another option would be an entertainment hub where it is possible to enjoy Formula 1 racing, multiple theme parks, sports stadiums or a plethora of cultural activities.

These flamboyant ideas are part of the giga-projects NEOM, Red Sea and Qiddiya projects born from the ambitions of Saudi Arabia’s Vision 2030 (Qiddiya, 2019; Scheck et al., 2019). The new three megacities include extensive infrastructure mobilising multiple sectors such as airports, seaports, industrial zones, and innovation centres. These futuristic megaprojects are bankrolled and spearheaded by the PIF. Overall, the fund holds an overarching role across the Saudi economy. More than 60% of the PIF’s $775 billion are
deployed in the Kingdom via direct investments, public-private partnerships (PPP), and PIF subsidiaries. In addition, the SWF holds controlling interests in Saudi Arabia's key industrial firms and is the largest shareholder in Saudi banks. In this chapter, the analytical focus is on the role of the PIF as an agent in national economic development.

This chapter is divided into three parts. Section 5.1 situates the PIF amid a period of economic adjustment in Saudi Arabia. Section 5.2 gives a detailed account of the deployment of the PIF as the driver of national economic development. This section provides a comprehensive analysis of the ownership structures of targeted forms within PIF’s domestic portfolio, focusing on ties between shareholders and directors of PIF-targeted firms and political and business elites. It examines these structures in relation to historical patterns of state-society links to outline which networks of actors benefit from SWF development, why this network emerged and how this generates specific opportunities for distinct sets of actors. Such an approach exposes how previous socio-political hierarchies are being sought or reproduced over time. We will see that beyond diversification challenges and industrial upgrading, the deployment of the SWF inside the Kingdom is central to the government's strategy to centralise power and bypass the organisational fragmentation of the state apparatus as well as reorganising old patronage networks underpinning state-society ties. The chapter contends that SWF development in Saudi Arabia is an adaptive response to external pressures and, simultaneously, a path of least resistance around domestic political and economic constraints. Section 5.3 offers conclusions.
5.1 Situating the Public Investment Fund at a Time of Economic Policy Adjustment

The PIF was initially established in 1971 to provide capital for new state-owned enterprises in rapid institutional expansion. From its establishment, the PIF operated as the investment arm of the Ministry of Finance (MoF). The fund was behind key projects and state-owned enterprises (SOEs) and provided support to initiatives of strategic importance for the Saudi economy. The creation of the PIF was integral to the Kingdom’s first Five Year Development Plan (1970-1975), which sought to extend funding to bolster growth and economic diversification (PIF, 2017).

By the end of the 1970s, the PIF’s principal investments were in the Saudi Basic Industries Corporation (SABIC), while also growing to be the main shareholder in the Saudi Public Transport Company, the mining and aluminium giant Ma’aden and the national shipping carrier Bahri (Seznec & Mosis, 2018). The PIF-funded SABIC grew to become the world's fourth publicly listed chemical company (SABIC, 2021). The PIF was also a key player in the establishment of Ma’aden. The company is amongst the ten world's largest mining companies judged by market capitalisation, with mining operations in copper concentrate, phosphate to create fertilisers, and bauxite (Ma’aden, 2020). Originally established as the National Shipping Company of Saudi Arabia by Royal Decree in 1978, Bahri is the national shipping carrier structured around oil, chemicals, dry bulk, and multi-purpose cargo transportation. The Saudi vessel company's ownership was 22.55% by the Public Investment Fund, and 20% by Aramco, while 57.45% were listed on the Saudi stock exchange (Bahri, 2021). Created as a joint-stock company in 1979, the Saudi Public
Transport Company (SAPTCO) provides public transport services across the Kingdom and the wider Gulf region (SAPTCO, 2020). The PIF also provided assets to the state-owned Petromin, the national oil company created in 1962 to replace the US-owned Aramco.

Until 2015 PIF activities were restricted to supporting emerging SOEs. Since then, its mission has evolved to act as the catalyst for economic development and enabler of the private sector (PIF, 2021a). The PIF’s upgrading has to be viewed against the backdrop of Saudi Arabia’s pursuit of economic adjustment. Indeed, much of Vision 2030’s pillar “a thriving economy” relies on the PIF as the orchestrator of economic diversification in the Kingdom, among other things by developing strategic sectors and a private-driven post-oil economy. Under the "thriving economy" pillar the goal to "grow and diversify the economy" and its four sub-objectives are directly attributed to the PIF (Figure 16).

**Figure 16.** Vision 2030 objectives and the Public Investment Fund

![Figure 16](image_url)

Source: PIF Program 2018-2020 (2017, 13)
The publicly disclosed narrative surrounding the PIF revamp is built around three dimensions: catalyse private sector activity, create new companies, unlock new ecosystems, and real estate and infrastructure projects. Under Resolution N°270 and the PIF Law, the Saudi leadership reoriented the SWF's mandate and asset allocation. Under the redesigned mission statement, the Saudi authorities gave the PIF the strategic mandate of being the "catalyst for economic development" as the PIF "contributes to the development and diversity of Saudi Arabia's economy, drives the diversification of the government's sources of income, launches new sectors in the local economy and localises technology, knowledge and innovation" (PIF, 2017, p. 21). The other facet of the PIF’s official mandate is its role as the “enabler of the private sector” by leveraging investments to act as reliable co-investor.

The SWF boasts achievements, including creating 10 new sectors and more than 50 companies in various activities (Table 6). In addition, the fund targets to deploy $200 billion of local investments by 2025 (PIF, 2021a). For instance, the PIF established the Saudi Entertainment Ventures Company (SEVEN) as its investment arm to expand and diversify entertainment and cultural activities such as concerts by various high-profile artists and growing festivals. Similarly, Saudi Arabia's wealth fund created Saudi Cruise to launch the country's cruise industry. In addition, via its subsidiary, the PIF is in charge of developing "ports and terminals in several Saudi cities, to deliver an integrated experience in line with the goals of the tourism in the Kingdom" (Argaam, 2021).
The fund also owns the Saudi Technology Development and Investment Company (TAQINA) and the Saudi Arabian Industrial Investments Company (DUSSUR). Following Vision 2030's target to grow non-oil manufacturing exports from 16% to 50% of GDP, TAQINA and DUSSUR primarily target technology in addition to industrial metals and speciality chemicals (DUSSUR, 2021a; PIF, 2017; TAQINA, 2021). Furthermore, in December 2019, the PIF launched the Fund of Funds (Jada) with an investment capital of approximately $1.07 billion. The fund is dedicated to growing small and medium enterprises and startups. Jada also aims to partner with venture capital and private equity (Jada, 2021; Mogielnicki, 2020a). Overall, the PIF created a vast array of SOEs across diverse sectors such as aircraft leasing, coffee production, halal food, domestic real estate and entertainment.

Table 6. Selected PIF Subsidiaries

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMAALA</td>
<td>Saudi Refinance Company (SRC)</td>
</tr>
<tr>
<td>KAFD Development and Management company</td>
<td>The Helicopter Company</td>
</tr>
<tr>
<td>NEOM</td>
<td>The National Energy Services (TARSHID)</td>
</tr>
<tr>
<td>Qiddiya</td>
<td>Noon</td>
</tr>
<tr>
<td>Red Sea Development Company</td>
<td>Rua Al Madinah Holding</td>
</tr>
<tr>
<td>ROSHN</td>
<td>The Saudi Jordanian Investment Fund</td>
</tr>
<tr>
<td>Saudi Arabian Military Industries (SAMI)</td>
<td>The Funds of Funds (Jada)</td>
</tr>
<tr>
<td>Saudi Coffee Company</td>
<td>Boutique Group</td>
</tr>
<tr>
<td>Saudi Cruise</td>
<td>Al Soudah Company</td>
</tr>
<tr>
<td>Saudi Entertainment Venture (SEVEN)</td>
<td>Jeddah Central Development Company</td>
</tr>
<tr>
<td>Saudi Information Technology Company (SITE)</td>
<td>National Security Services Company (SAFE)</td>
</tr>
<tr>
<td>Saudi Investment Recycling Company (SIRC)</td>
<td>Gulf International Bank - Saudi</td>
</tr>
<tr>
<td>Tahakom Investments Company</td>
<td>Saudi Information Technology Company</td>
</tr>
<tr>
<td>Water and Electricity Holding Company</td>
<td>Tatweer Education Holding Company</td>
</tr>
</tbody>
</table>

Source: PIF Program 2021-2025
Moreover, the PIF’s portfolio of Saudi companies grew by more than 70 firms. From its previous role as a provider of basic equity to emerging SOEs, the SWF is now the largest investor over the Tadawul. For instance, the PIF is the main shareholder in the largest Saudi banks, the Saudi National Bank, the Riyad Bank and Alinma Bank, which hold 48% of market shares (Aljazira Capital, 2020b). In the cement industry, the SWF holds the majority of shares in Southern Province Cement Company, Qassim Cement, Yanbu Cement, and Eastern Cement, totalling 37% of market shares (Aljazira Capital, 2020a). In mining, the PIF is still the largest shareholder in the world-leading Ma’aden, with 67.18% of outstanding shares (Ma’aden, 2020). In addition, the SWF is simultaneously the financier behind ambitious domestic projects like futuristic megacity NEOM, the Red Sea and Amaala luxury tourist destination projects or Qiddiya, which aims to become the Kingdom’s capital of entertainment, sports and arts.

The PIF’s significant position in the domestic stock market provides the leadership with an additional lever in the face of an adverse investor climate. Moreover, the Tadawul provides a contemporary institutional framework within which the PIF can support growth and diversification of the domestic economy (McPherson-Smith, 2021). Through sector development, the fund holds the most considerable controlling interests in new sectors such as tourism, entertainment and military equipment. Consequently, the SWF owns almost every facet of the Saudi economy and owns controlling interests in the largest companies in banking, manufacturing, mining, and building materials.
5.2 Different, but the same: The PIF and the Rentier State

The objective and mandate driving the PIF’s strategic revamp is to advance a national economic plan underpinned by diversification challenges, absorptive constraints of the domestic economy and a deficiency of private capital. This is broadly understood as the so-called "double bottom line", or to achieve economic policy objectives while securing risk-adjusted returns (Halland et al., 2016). In this context, the PIF allows the government to build domestic assets and drive diversification and long-term growth through its special-purpose financial institution. This is achieved by improving the quality of public spending, "crowding in" private activity and deepening domestic capital markets (Dixon et al., 2022b; Halland et al., 2016). Figure 17 dissects the broader structure of the PIF’s portfolio of direct investments in the Kingdom. The figure shows a focus on the industrial sector (21%), followed by the financial sector (19%), real estate (12%), utilities, consumer staples and consumer discretionary (encompassing entertainment, leisure and automobiles) at 9%.

**Figure 17. PIF Investments in Saudi Arabia by Sector**

Source: Author’s graph. Data from Capital IQ as of 2022
The PIF’s portfolio structure is consistent with Saudi Arabia's pursuit of diversification and the fund's development mandate. In commodity-exporting countries, developmental SWFs are usually established to seed new sectors or industries, ultimately supporting diversification away from unsustainable activities (Gelb et al., 2014; Halland et al., 2016). This is achieved by channelling capital towards labour or skill-intensive sectors such as tourism, entertainment and financial services and pursuing industrial policies to reduce dependency on a single resource or source of income (Alsweilem et al., 2015; P. B. Clark & Monk, 2015).

Notwithstanding these considerations, the deployment of the PIF to confront Saudi Arabia’s diversification challenges is also deeply influenced by the institutional setting in which the SWF operates. The rentier nature of Saudi Arabia's economy means that the government is the primary recipient of rents and, therefore, the main intermediary between the oil sector and the economy. The business community is a key part of this rent distribution framework. Most local merchant elites largely owe their commercial opportunities to protectionist legislation or state contracts reliant on patronage networks (Kamrava et al., 2016; Luciani, 2005). The PIF’s focus on the industrial and financial sector, building materials, consumer discretionary (encompassing entertainment, leisure and automobiles) and real estate reproduces historical sectors of state control and accumulation for family-owned businesses (Hanieh, 2018).

The Saudi state and the largest Saudi family-owned businesses are active across all three sites through holding companies involving a dense network of subsidiaries and interlocking
directorship (Figure 18). The industrial sector, which includes the production of petrochemicals, aluminium, steel and cement heavily relies on state-supported energy networks and feedstock for their operations. These lucrative activities are dominated by key business elites who play central roles in shaping the built environment - from real estate development to construction contracting firms along with retail outlets forming crucial components within this system. At its core lies the financial sector which serves as a pillar supporting industrial upgrading while simultaneously playing significant roles within the built environment itself. It provides necessary capital funding for expansions or developments needed by businesses operating in these areas thus reinforcing their dominant positions over markets (Hanieh, 2018).

**Figure 18. Sites of Accumulation in Gulf rentier states**

![Diagram of Sites of Accumulation in Gulf rentier states]

Source: Hanieh (2018, p.65)

The families are drawn from established merchant elites who could exploit connections to the Saudi state rooted in the pre-oil and early oil eras. With the rise of oil and the early
period of state-building, the royal family was able to create new business actors from its regional stronghold in the Najd (Chaudhry, 1997; Hertog, 2010b). One if not the wealthiest family in the Kingdom, the Al Rajhi, made their fortune through connections with the royal family and by being entrusted with the financial transactions from the ulama, the highest religious authority in Saudi Arabia (Yizraeli, 2012). The family money-changing business based in Riyadh’s *suq* grew to become the Al Rajhi Bank in 1956 and is now the world’s largest Islamic banking group by assets (MEED, 2008). The Al Rajhi then developed a vast network of real estate, construction and manufacturing subsidiaries. These ventures became some of the most successful in the Kingdom and thrived on state-supported industrial infrastructures, cheap feedstock and lucrative public contracts (Table 7).

<table>
<thead>
<tr>
<th>Real Estate</th>
<th>Contracting &amp; Infrastructure</th>
<th>Building Materials</th>
<th>Industrial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tameer Holding</td>
<td>Al Arrab</td>
<td>Mada Gypsum</td>
<td>Mada Carpet</td>
</tr>
<tr>
<td>The Land</td>
<td>Al Rajhi Projects</td>
<td>Mabani Steel</td>
<td>Mada Nonwoven</td>
</tr>
<tr>
<td>Injaz Development</td>
<td>Al Rajhi Construction</td>
<td>El Sewedy Cables</td>
<td>TrioMada</td>
</tr>
<tr>
<td>Tamkeen</td>
<td>Core Construction</td>
<td>Pretech</td>
<td>Gulf Packaging</td>
</tr>
<tr>
<td></td>
<td>ACWA Power</td>
<td>TechnoBit</td>
<td>Dalmazza</td>
</tr>
<tr>
<td></td>
<td>City Cool</td>
<td>Romeo Interiors</td>
<td>Mattex</td>
</tr>
<tr>
<td></td>
<td>GETCO</td>
<td>UNIPODS</td>
<td>Farah Petrochemical</td>
</tr>
<tr>
<td></td>
<td>Al Rajhi Utilities</td>
<td>Clad Tech</td>
<td>Green Vision</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Electropatere</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>AEP Investment Management</td>
</tr>
</tbody>
</table>

Source: Mada Gypsum [https://www.madagypsum.com/about/al-rajhi-holding/](https://www.madagypsum.com/about/al-rajhi-holding/)

The ruling elite also co-opted merchant elites from the Hijaz, the former Hashemite bastion. Several merchant families like the Alirezas or Al Gosaibis were based in the Hijaz region and financed Abdulaziz’s (Saudi founder and King from 1932 to 1953) conquests over the
Hashemites and the foundation of Saudi Arabia in 1932 (Field, 1985). For instance, the Alireza Group, considered the Kingdom’s oldest commercial enterprise, was originally established in the 1840s when Zainal bin Alireza arrived in Jeddah from Iran. The political connections of the Alizeras emerged due to being the main point of contact in Ibn Saud’s conquest of the Hijaz. Besides, Mohammad Alireza later held the positions of Minister of Commerce and Saudi ambassador to Cairo and Paris. He was the second non-royal appointed to the Council of Ministers after King Abdulaziz's close confidant and Minister of Finance Abdullah Sulaiman. Before developing a highly diversified portfolio of companies in heavy industries, transport, construction materials, healthcare and agriculture, in the 1940s, the state awarded the Alizeras the exclusive import and distribution operations of Goodyear, Dunlop, Pepsi-Cola and Ford, among others (Field, 1985; MEED, 2008).

The most widespread methods through which oil wealth flowed from the state to business elites were government procurement and representation of foreign companies. Until the late 1980s, lucrative government contracts 'were easily handed out to "politically" selected contractors and allowed for the realisation of excessive profit margins on the part of both the local and the foreign suppliers' (Luciani, 2005, p. 153). Besides, no products could be sold in the Kingdom unless by or through a local supplier. Through this agency system, connected merchant families were awarded exclusive agencies for acting as joint venture partners and representatives, allowing them to develop a lucrative monopoly over imports and distribution in manufacturing, construction and distribution operations. This led to trading houses representing hundreds of foreign companies. Connected merchant families
were in a very advantageous position to gain massively from Saudi Arabia's frantic oil-induced development from the 1970s; major corporations were competing for billions of dollars in contracts and could only bid through local agents (Luciani, 2005; Vassiliev, 1998). If the private sector considerably matured since the first oil boom, Saudi business still operates within a deeply ingrained tradition of paternalism, although often less immediately material than it used to be (Hanieh, 2018; Kamrava et al., 2016).

Every economy is built on a set of institutions which create distinct patterns of incentives and constraints that, in turn, mould and channel actors’ behaviours (Zysman, 1994). Today, the business sector in Saudi Arabia still mostly consists of players from pre-oil merchant elites commanding entrenched close ties to the ruling family, strengthening their position closer to the distribution centre in the present-day network (Kamrava et al., 2016; Nosova, 2021). Consequently, understanding the PIF’s transformational potential requires considering how the multiple actors within the Saudi distributive framework, state and private, interact with one another through SWF deployment. This section looks at intercorporate affiliations (interlocking directorship and share ownership) and how actors involved in the network of PIF domestic investments are intertwined with merchant merchant families with strong links to the government often going back to the pre-oil era. The existence of such state-business ties is one of the most critical drivers of political cohesion among political and business elites (Carroll & Sapinski, 2016; Scott, 2017) and shines a light on how PIF investments in Saudi Arabia interact with ingrained patronage networks. In 2021 the PIF reported 83 publicly disclosed direct investments, 57 in the Middle East and 49 in Saudi Arabia. Complete data on directors and shareholders were
available on 44 of the 49 Saudi companies targeted by the PIF, representing 287 individuals. Figure 19 maps PIF investments in a two-mode network, including the actors and their affiliations through interlocking directorship and share ownership. The actors make the ties (lines) between the PIF and the companies targeted by the SWF. The ties in two-mode networks can be differentiated based on the strength of interaction. The number of lines expresses the strength of the ties; that is, the more there are, the greater the number of interlocks between PIF-targeted firms.

Figure 19 shows a dense network with substantive overlaps in directorship and share ownership between the Saudi firms targeted by the fund. For actors in the network, achievement is a function of the resources their social ties enable them to access. Interlocks, or when an individual holds shares or sits on multiple corporate boards concurrently, enable participation in the governance of multiple firms and thereby enhance contacts, influence and prestige (Carroll & Sapinski, 2016). A tight network of board interlocks indicates corporate control and elite cohesion as a few key actors enjoy outsized control over an industry (Heemskerk & Takes, 2016). Interlocking directorates or ownership put forms and boards in contact and may enable coordination of business strategies with an interlocked group of business insiders. In this sense, the density of the PIF’s network points to a tightly knit group of actors directly associated with SWF development and suggests that PIF-targeted firms are embedded in a broader system of influence. Nonetheless, as Kamrava (2017, p. 2) highlights, “the study of GCC state-business relations in isolation from, and without reference to, family and clan dynamics provides at best an incomplete picture of the causes, nature, and dynamics of the bonds between the state and the private sector”.
Figure 19. The Network of PIF Investments
In this vein, Figure 20 shows a closer study of ownership structures underlying PIF domestic ventures by considering corporate affiliations and familial ties of individual directors and shareholders. The more lines there are, the more interlocks there are, and the stronger the link between merchant families enjoying historical ties with the Al Saud and PIF-targeted firms. The disclosed narrative surrounding the PIF revamp positions the SWF as the fundamental vehicle to accelerate diversification efforts and propel Saudi Arabia into a post-oil economy. This includes promoting private-sector growth, enhanced foreign direct investments, the privatisation of SOEs and industrial upgrading. Concurrently, the network of PIF investment epitomises a broader feature of the Saudi political economy: the influential role of large family-owned conglomerates with substantial operations across sectors and the continued dependence of business elites on the state for awarding contracts and infrastructure development (Hanieh, 2018; Hertog et al., 2013). Most families can trace their origins to well-established merchant elites that emerged in the pre-oil era and grew to prominence by fostering close relationships with successive Saudi Kings and the state. While family businesses are not a phenomenon specific to the Kingdom, they make up around 90% of total companies in Saudi Arabia, in contrast to an average of 65% globally (Al-Dubai et al., 2012; Samara, 2021). Thus, one could argue that there is no alternative for the PIF than to invest in family-owned conglomerates. However, this perspective neglects a distinctive feature of Saudi state-business interactions: the ingrained rentier distributive system linking the ruling group with merchant elites embracing historical political connections (Field, 1985; Hanieh, 2018). Beyond restructuring the economy, the domestic deployment of the PIF reflects long-standing political relations between established merchant families and the state.
Figure 20. The Network of PIF Investments and Family Conglomerates
Leading the pack of those who benefited from PIF upgrading are the previously encountered Al Rajhi (right centre of Figure 20). The Al Muhaidib Group (upper centre of Figure 20) also shows numerous connections to PIF ventures. The group was established in 1943 as a supply store and food trading business. In the 1960s, the family business expanded into construction, contracting, energy and real estate (Al Muhaidib Group, 2021). Another important player is the Alissa Group, which we find in the centre of Figure 20. The family business was founded in the 1940s and was awarded the agencies in the automotive and spare parts sectors. The family business now incorporates significant interests in finance, real estate, industrials and agribusiness (Alissa Group, 2021). Finally, the Zamil Group's (on the right side of Figure 20) first trading and services business can be traced back to the 1920s in Bahrain and expanded to real estate in the 1940s and 1950s. In 1974 the group was awarded a license from Friedrich Air Conditioning and established Zamil Air Conditioners, one of the first air conditioning companies in Saudi Arabia. After that, the family expanded into steel, glass and petrochemicals (MEED, 2008; Zamil Group, 2021). Abdulrahman Al Zamil, chairman of the giant Zamil Group and is often considered the most prominent industrial entrepreneur in Saudi Arabia, whereas Abdulrahman’s brother, Abdulaziz bin Abdullah Al Zamil, was appointed as the first CEO of SABIC in 1976 and Minister of Industry and Electricity in 1983 (Hertog, 2008a; Luciani, 2005; The Business Year, 2014).

Nonetheless, with the generational shift in the Saudi ruling circle associated with the rise of MBS since 2015, the patronage networks established by previous Kings and merchant elites morphed as the new leaders come with their own social circle and subordinate
merchant elites. For instance, in November 2017, hundreds of businesspeople were detained in Riyadh's Ritz Carlton in what was coined as an anti-corruption crackdown. The targeted individuals were detained based on unspecified corruption allegations and were released in exchange for their assets being transferred to the government (Hope & Scheck, 2020; Hubbard, 2020; Rundell, 2021). Detainees included high-profile business figures such as the wealthy and influential Bakr, Saad and Saleh bin Laden. The Bin Laden Group is the Kingdom’s largest construction conglomerate that grew from a close connection with the royal family (Kalin & Rashad, 2019; MEED, 2008). Under Bakr bin Laden, the company cultivated close ties with King Abdullah. During Abdullah’s reign from 2005 to 2015, Saudi Arabia went on a spending spree bankrolled by an all-time high in oil prices. The Bin Laden Group particularly benefited from state largesse and earned very lucrative contracts, an estimated worth of tens of billions of dollars. They included building Riyadh’s new financial district, a new airport in Jeddah and a city by the Red Sea coast meant to house 2 million people. For such deals, the senior Bin Laden brothers Bakr, Saleh and Saad held negotiation meetings directly with Abdullah and a special unit within the King's government created for the business family (Hope & Scheck, 2020; Paul et al., 2018). This changed as MBS grew in influence. Following their detention, the Saudi government took control of 36.2% of the Bin Laden group (Paul et al., 2018). The 75-year-old Bakr and his brother Saad were released in 2021, more than three years after being first detained (Rashad & El Yaakoubi, 2021).

As well as increasing control over political and economic institutions, the combination of fiscal pressures for economic diversification and the desire of the new rulers to centralise
power led the Saudi government to increase its oversight over the economy and industrial ecosystems. As a result, the PIF embodies a reconfiguration of the state's allocative model through its significant role in steering economic development. This unfolds in two distinct ways. First, the sovereign fund provides an administrative instrument to centralise and streamline decision-making and investment activities under a single portfolio, thereby cutting out intermediary businesses and overriding the various veto players stemming from institutional fragmentation found in the Saudi rentier state. Secondly, the ruling elites leverage SWF direct investments, PPPs, and PIF-led SOEs to reorganise rent-seeking structures by increasing control and oversight over critical sectors while generating alternative rent streams that benefit distinct elite coalitions. The specificity of this dual process emerges across the three key sectors driving PIF activities: the built environment, the industrial sector and the financial market.

5.2.1 The Public Investment Fund and the Built Environment

Located on an area of 26 500 km² with 468 km of coastline on the north-western edge of Saudi Arabia, NOEM is the flagship project of Vision 2030 post-oil diversification efforts. The megacity will become an investment hub for innovation, cutting-edge technology, and sustainable ecosystems. A key part of the plan is "The Line", a $500 billion city designed to welcome 9 million residents. The Line consists of mirrored, wall-like structure 200 metres wide and 500 metres tall, stretching over 170 km. The futuristic carbon-free linear metropolis built on state-of-the-art technology sets a new benchmark for sustainable development and infrastructure with a footprint of just 34 square kilometres. According to
The Line is "a civilisational revolution that puts human first, providing an unprecedented urban living experience while preserving the surrounding nature" and thus "redefines the concept of urban development and what cities of the future should look like" (Kingdom of Saudi Arabia, 2022b). Similar ambitions underpin the Red Sea and Qiddiya projects. The Red Sea project is creating an ultra-luxury destination within a 28 000 km² area. Phase one includes 16 hotels across five islands, a luxury marina, an 18-hole championship golf course and an international airport (Pradeep, 2022). Qiddiya encompasses aims to attract 17 million visitors a year and create 25 000 jobs in creating and managing arts centres, festival grounds, hospitality and housing developments, an F1 racing circuit, theme parks and a championship golf course built by 18-time major winner Jack Nicklaus (Al Rashed, 2022).

The SWF also bankrolls the Rou'a Al Haram and Rou'a Al Madinah projects to expand hotels and housing in Makkah and Madinah. Up to 150 000 hotel rooms and 9500 housing units will be developed within the projects, as well as improved public transport networks and infrastructure (Bhatia, 2017). Moreover, the PIF drives the Umm Al-Qura Development & Construction project to develop six significant neighbourhoods in Makkah (PIF, 2017). Ten new residential towers for $798 million, roads and boulevards networks, green spaces and various cultural and social facilities are part of PIF-driven projects (Construction Week, 2022). These projects ultimately aim to enhance the services around the pilgrims' experience and grow visitors' number to expand religious and cultural tourism opportunities. The PIF is also behind the Soudah Development Company, which committed $3 billion in infrastructure and tourism projects in the Asir region. The PIF
subsidiary created public-private partnerships for developments, including 2 700 hotel rooms, 1 300 residential units and 30 entertainment attractions (al-Ghalayini, 2022).

State-led large-scale projects are not a novelty in the Kingdom. The King Abdullah Economic City (KAEC) cluster was first announced in 2005. KAEC covers an area of 181 square kilometres on the Red Sea coast and is described by the government as a "new way to live, work and play" (KAEC, 2022). The real estate company Emaar signed to coordinate the $100 billion project. The Saudi government set the multi-purpose metropolis as a global hub for industry, research and development, education, and tourism by emulating Dubai and Singapore’s development strategies (Moser et al., 2015). The government expected to grant KAEC free zone status with a separate legal status, including distinct regulatory, licensing, and fee frameworks. The free zone status would position KAEC as a productivity and FDI enclave (Hertog, 2010c). The Saudi government also invested heavily in transport infrastructure projects. One of the prominent projects was the King Abdullah International Airport's three-stage development plan announced in 2006. The project is expected to be completed in 2025, increasing the airport's capacity from 13 million passengers annually to 80 million (Arqaam, 2018a). Another facet of the KAEC megaproject is the King Abdullah Port, the first privately owned port in the region (Ports Development Company, 2017). Moreover, in 2013 contracts were awarded for the Riyadh metro. The $22.5 billion project aimed to deliver a 177 km network of 96 stations covering the Saudi capital (K. Smith, 2013).
Past ventures like the KAEC cluster of economic cities got entangled in the pitfalls of interagency feuds and competing interests to ultimately stall. KAEC was under the umbrella of the Saudi Arabian General Investment Authority (SAGIA)\textsuperscript{28}, the agency in charge of foreign direct investment matters. Nonetheless, SAGIA’s board was not consulted about the KAEC project, and other agencies rejected the plan. A Ministry of Municipal, Rural Affairs and Housing deputy minister openly complained that KAEC economic cities were not in line with the Kingdom's development strategy, whereas the Saudi ports authority remained reluctant to cooperate and provide services (Hertog, 2010c). Moreover, the cluster of economic cities could not acquire free zone status due to the resistance of established government agencies, and its development remains elusive to this day (Hertog, 2019a). In contrast, the PIF is the primary financier and sole developer of the new megaprojects. The closed joint-stock companies charged with driving the NEOM, Qiddiya or Red Sea projects are chaired by MBS and fully owned by the PIF (Al Arabiya, 2020; Arab News, 2018b).

This is to centralise and streamline the policymaking process under the dual pressure of growing fiscal constraints and a centralisation of power under new rulers and their interest in achieving their strategic reform visions. When economic development and reform initiatives become integrated into the persona and legitimacy of a new leader, as was observed in Saudi Arabia through Vision 2030, there is a significant responsibility for incumbent elites to successfully implement and realize this vision. However, past attempts

\textsuperscript{28} In 2020, a royal decree replaced SAGIA with the new Ministry of Investment under Khalid al-Falih, the former Minister of Energy and chairman of Aramco.
at implementing comprehensive reforms have proven challenging. Before 2015, the Saudi political system comprised of segmented power centers, leading to government agencies as veto players with overlapping jurisdictions. As past large-scale infrastructure projects like the KAEC demonstrate, this often resulted in resistance and disputes over policy outcomes due to contradictory regulations and incompatible procedures presented by different agencies struggling for themselves. The involvement of more agencies leads to difficulties producing desired outcomes, highlighting the challenge of coordinating multiple actors (Hertog, 2010c). SWFs offer an attractive solution to this economic diversification conundrum. The PIF expansion reflects the centralisation of political authority; as an enclave outside the regular state apparatus, the PIF allows a core of high-level players within the ruling elite to centralise decision-making and investment activities under a single portfolio.

Old patronage networks are crucial mechanisms through which benefits and privileges flowed to merchant elites in rentier states. While the PIF centralises decision-making and investment activities, the SWF’s pivotal role across the built environment essentially consolidates entrenched and highly lucrative activities for prominent business families through connections between state-led infrastructure projects, contracting and construction firms, building materials and the energy network. There is an inherent opacity to the specifics of contracts underpinning the private sector’s operations in PIF-led construction projects. Consequently, there is no reliable way of precisely quantifying the effect of PIF large-scale projects for the private sector. Yet, there is a plausible case that the ventures are very lucrative opportunities for business families.
$1.43 billion worth of contracts have been granted for various construction and transport projects connected to NEOM (Construction Daily, 2021). Moreover, the PIF-owned Red Sea and Qiddiya accorded more than $4 billion in contracts, primarily to Saudi companies (Arab News, 2020; Rahman, 2021). Furthermore, the SWF committed $20.4 billion for its Jeddah Central project, $2.9 billion to build 2 700 hotel rooms and attractions in Abha, and the PIF-owned Roshn attributed $933 million worth of contracts for real estate projects (Arab News, 2021a; Global SWF, 2022b; The Economist, 2021). In turn, the Al Rajhi family owns Al-Arrab Contracting, and the Al Muhaidib family owns Al Muhaidib Contracting Company, both critical actors in the PIF's network of investments and among the 16 largest construction and contracting firms in the Gulf (Hanieh, 2018). Besides, the PIF secured a 17% stake in Prince Alwaleed bin Talal’s Kingdom Holding for $1.5 billion, taking advantage of the company's significant exposure to the hotel and leisure sector (Global SWF, 2022b). The PIF subsidiary Umm Alqura for Development and Construction launched the Alinma Makkah Real Estate Development funds in partnership with Alinma Investment Company with a capital injection exceeding $4.5 billion (Construction Week, 2022). The Alissa family owns the Alinma Investment Company.

Besides, the PIF-led large-scale infrastructure projects are inherently connected to various building materials. Saudi Arabia's cement industry witnessed robust and sustained growth in demand mainly due to a rise in construction activity driven by PIF-backed infrastructure.

---

29 It should be remembered that the profitable role of construction and real estate activity for conglomerates is also reliant on the overwhelming presence of a large migrant workforce and the precarity of the workers. From 2003 to 2013, foreign workers represented 90% of the workforce in construction while facing low wages, virtually no rights and no labour market mobility (International Monetary Fund, 2013; Mckinsey Global Institute, 2015; Tamirisa & Duenwald, 2018).
and housing projects. In parallel, The SWF holds controlling interests in companies representing 37% of the Saudi cement industry (Aljazira Capital, 2020a). Ownership breakdown of PIF investments in cement and related manufacturing products reveals an underlying link between the fund and business elites, in addition to considerable overlap with firms targeted by the fund's ventures in downstream activities and infrastructure projects. The SWF owns 37.43% of Southern Province Cement Company, one of the biggest cement companies in the Middle East. The board of directors is chaired by an Al Saud ruling family member and includes state officials or members involved in firms linked to the Al Muhaideib and Al Qahtani Groups. While the PIF also holds 10% of Yanbu Cement, the Al Rajhi Group (5.17%) is amongst the largest shareholders with the SWF. The company is chaired by a member of the Al-Rajhi family, whereas the deputy chairman is the head of the El Khereiji family conglomerate30. Besides, the board also includes Al Rajhi and Al-Rashed family members31. Similar dynamics emerge at Qassim Cement Company. The PIF is the main shareholder, with a 23.35% stake. Meanwhile, the company's board is chaired by the vice-chairman of the Al Mutlaq Group and incorporates members of the Al Olayan family32, who both built significant operations in diverse construction materials. Furthermore, the PIF holds 10% of shares in the Eastern Province

---

30 Founded in 1960 by Sheikh Abdul Karim Abdulaziz Al Khereiji, the company started as a trading agent go Hotpoint for electrical home appliances (refrigerators, freezers, microwaves and air conditioning units). It grew into a diversified and lucrative family-owned conglomerate with operations petrochemicals, food processing, construction and contracting, real estate and finance (Khereiji Group, 2021).

31 The Rashed al-Rashed & Sons Group was founded in 1950 and followed the typical trajectory of the largest Saudi family conglomerates. The group began in the construction material trade and became one of the largest conglomerates and heavyweight in manufacturing, industrial products, banking and contracting. The group also represents Goodyear, IBM, Sharp and Acer in the Kingdom (MEED, 2008).

32 By the early 1950s, the Al Olayan Group secured the trucking and supply services for Bechtel, which was under contract with ARAMCO to manage the construction of the Trans-Arabian Pipeline. The group now operates across the automotive, industrial, health, agribusiness and retail sectors (Olayan Group, 2021).
Cement Company behind Prince Mohammed bin Fahd bin Abdulaziz Al Saud with 17.22%. The board of directors also includes members of the Al Rajhi family.

Many of the large family-owned groups mentioned in the preceding paragraphs originate from trading activities through a system of agency rights and thus built sophisticated distribution networks of retail outlets operating across various consumer commodities. Food and related products are a central part of these activities. The PIF is closely interlaced with these business operations through its investment arm, the Saudi Agricultural and Livestock Investment Company. The SWF is the third largest shareholder (16.32% of shares) in the Almarai Company, the largest vertically integrated dairy foods company in the world, behind Prince Sultan bin Mohammed bin Saudi Al Kabeer Al Saud (23.69% of shares) and Savola Group with 34.52% of shares\textsuperscript{33}. The head of the Al Muha'idib Group sits on Almarai’s board with members of the Alissa family, Prince Sultan bin Mohammed bin Saudi Al Kabeer Al Saud and his son Naif. Almarai is closely enmeshed with the Savola Group. Savola developed major manufacturing and distribution operations across the Middle East and owns the largest grocery retailing chain in the region: Panda Retail Company. The group is a result of a joint venture between the Alissa and Al Muha'idib families. There are several overlaps between Almarai and Savola boards. Savola is chaired by the head of the Al Muha'idib Group, and the board includes other members of the Al Muha'idib family and directors from the Alissa family, Al Rajhi bank, Riyadh Bank and Kamel Group (Almarai, 2021; Savola Group, 2021).

\textsuperscript{33} Data from Tadawul as of October 2021.
5.2.2 The Public Investment Fund and Industrial Upgrading

The PIF holds the role of developer and operator of completely new ecosystems across various key domains identified as promising by the Saudi leadership. Several SOEs acting as PIF subsidiaries have been created to enhance the Kingdom’s industrial space. PIF subsidiaries aim to build domestic industrial capacity and create employment opportunities to absorb the national labour force but are simultaneously entities that centralise decision-making and oversight over key economic domains. These trends have been most obvious in the strategic sector of defence and security. For instance, the SWF launched the Saudi Military Industries Company (SAMI) in 2017. Saudi Arabia is among the world's largest spenders in defence and security\(^{34}\). Accordingly, SAMI seeks to localise 50% of the Kingdom's military spending by developing technologies and manufacturing products in aeronautics, land systems, defence electronics, weapons and missiles, and emerging technologies (PIF, 2017; SAMI, 2021). Chaired by Ahmed Aqeel Al-Khateeb, member of the PIF’s board and minister of tourism, SAMI signed multiple memoranda of understanding with defence contractors, including Boeing, Lockheed Martin, Raytheon, General Dynamics and the Russian arms exporter Rosoboronexport to provide for the transfer of technology and local production of military equipment (Paul, 2017). The PIF subsidiary also launched the SAMI L3 Harris Technologies, a joint venture with L3 Harris Technologies, one of the world's largest aerospace and defence systems manufacturers (Saudi Press Agency, 2021a).

\(^{34}\) In 2019, the Saudi government announced $48.5 billion in military spending, representing 18% of the 2020 budget (Oxford Business Group, 2020). According to the Stockholm International Peace Research Institute, in 2019, Saudi Arabia was the second world's largest military spender by military expenditures as a share of GDP (Tian et al., 2020).
Otherwise, military procurement by the state, historically under the umbrella of the Ministry of Defense, enabled princes and merchant elites to act as middlemen between foreign companies and the Saudi government to sign massive weapons contracts with the US and other Western allies (Hubbard, 2020; Nosova, 2021). For instance, BAE Systems, a UK manufacturer of defence equipment, was embroiled in paying bribes to members of the Saudi royal family. In 2007, a Serious Fraud Office (SFO) investigation revealed that £120 million a year was sent by BAE Systems from the UK to two Saudi embassy accounts in Washington. The accounts were a channel to Prince Bandar bin Sultan Al Saud, Saudi ambassador to the US, from 1983 to 2005 (BBC, 2007). SAMI exemplifies how if PIF subsidiaries seek to diversify the domestic industry and create employment, they also provide an instrument to reproduce patron-client ties all while cutting out undesired intermediaries and impose tighter oversight over strategic sectors, which remain under close oversight from a core of high-level players within the Saudi ruling elite.

Meanwhile, the industrial sector receives the major share of PIF direct investments. Since the mid-1970s, Saudi Arabia has built sophisticated petrochemical, metal and fertiliser industries to diversify and develop its industrial base relying on energy and raw materials at low prices and its proximity to the Asian market (Hertog, 2010b). Fast forward to 2005, Saudi Arabia joined the WTO to reinforce the reputation of the Kingdom as a credible international player and increase legal security for industries enjoying an international comparative advantage, most prominently the energy and feedstock-intensive sectors like petrochemicals (Hertog, 2010b; M. Malik & Niblock, 2005). As such, the PIF’s substantial involvement in the industrial sector seeks to catalyse Saudi Arabia’s downstream
manufacturing industries to diversify the economy and gain a greater share of the resource value chain based on the Kingdom's easy access to hydrocarbon resources and its geographical local amid developing economies, especially the Asian markets.

Large SOEs have been the key players in the Saudi petrochemical industry since the 1970s. The most important of these is SABIC, with 65 plants across the Middle East, Europe, North America and Asia. SABIC produces basic chemicals, plastics, polymers, fertilisers and metals and is the leading worldwide producer of many of these products. Besides, the company has been a vital driver in the rise of East Asian industry and manufacturing (Hanieh, 2018). SABIC is closely intertwined with PIF activities; the PIF held 70% of SABIC shares until they were acquired by Aramco in June 2020 (SABIC, 2020b). Moreover, the SWF selects five of the nine board members, including the chairman, vice-chairman, and CEO (SABIC, 2019). The company is an important bridge for merchant elites. First, SABIC's board of directors partially reflects links with prominent business players. For instance, the board includes the chairman of Asila Investment Company (owned by the Alissa family) and the current governor of the Public Pension agency, which simultaneously sits on the board of the Reza Company (wholly owned by the Alireza family) and other key PIF-targeted firms such as the Riyad Bank, Saudi Telecom and ACWA Power (Reza Group, 2021; SABIC, 2020a).

---

35 Aramco acquired PIF's SABIC stake (70%) at a market value of $69.1 billion (SABIC, 2020b).
36 Considering the new ownership structure, board appointment mechanisms are likely to change following the end of the directors' tenure in April 2022.
37 The Alissa Group, founded in the 1940s by Abdulatif Alissa, developed into a highly diversified group. As well as being awarded the agencies in the automotive and spare parts sectors, the group owns the agencies for International Motors Company (the agent for Isuzu), JAC and Autostar. In addition, the conglomerate also incorporates significant interests in finance, real estate, industrials and agribusiness (Alissa Group, 2021).
Secondly, and most importantly, SABIC activities rely on an extensive network of subsidiaries (around 80 worldwide), which are interwoven in a network of firms with ties with major private Saudi conglomerates (Hanieh, 2018). The OECD estimates that 800 private Saudi firms in the plastic industry emerged due to SABIC feedstock (OECD, 2013). From a broader perspective, the Al Rajhi Group and Zamil Group are pivotal players in SABIC’s network, as Farabi Petrochemicals, and the petrochemical giant SIPCHEM are amongst the eight largest non-SABIC petrochemical firms in the Kingdom. In addition, the Alireza Group controls an additional three of the eight largest non-SABIC petrochemicals through Xenel Industries (Hanieh, 2018). Another significant player in downstream industries is Saudi Arabia’s largest private enterprise, the Juffali Group38 (Seznec, 2017). Originally established to represent Dow Chemical and Dupont in Saudi Arabia, the group is today involved in producing, distributing and retailing a wide range of chemical products (Juffali Group, 2021a).

The PIF also holds 67.18% of Ma’aden, a company among the ten world-largest mining companies (Ma’aden, 2020). PIF governor Yasir Othman Al-Rumayyan holds the firm’s chairmanship. While Ma’aden’s board does not reflect directly observable links with prominent business families, the company developed its activities and related products through a vast network of subsidiaries and private manufacturing firms built on ties with major family-owned and politically connected conglomerates. For instance, the Zamil

---

38 The E.A. Juffali & Brothers was established in 1946, and in 1959, the group secured the exclusive distribution of Mercedes Benz in the Kingdom. Juffali became Saudi Arabia's largest private enterprise and secured multiple significant agencies, including IBM, Siemens, Michelin, Bosch, Ericsson, Hitachi and Frigidaire (Juffali Group, 2021b).
Group is enmeshed in Ma’aden’s activities through Zamil Industrial Coatings, a joint venture with Tasnee and SIPCHEM involved in aluminium products, whereas the Alireza Group owns the largest copper cable and fibre-optics facility in the Middle East, the Saudi Cable Company (Seznec, 2017; Zamil Industrial, 2021).

Alongside downstream industries, the PIF is also a central actor in the transport and logistics surrounding hydrocarbons, petrochemicals and bulk cargo, facilitating exports of industrial products manufactured by business families. The PIF owns 22.55% of the National Shipping Company of Saudi Arabia (Bahri). Bahri is the world's largest owner and operator of very large crude carriers and chemical tanker ships in the Middle East (Bahri, 2021). Besides, the Saudi SWF holds a 51% stake in Saudi Global Ports, a joint venture with PSA International, the second world-largest port operator. Saudi Global Ports manages the King Abdulaziz Port Dammam, the third busiest port in the Middle East. Meanwhile, the Al Zamil Group provides marine and pilotage services for the port, while Abdulla Mohammed Al Zamil (CEO of Zamil Industrial) is the chairman of Saudi Global Ports (SGB, 2021; World Port Source, 2021).

Among the fundamental forms of state support for local downstream industries and various construction materials is providing cheap and abundant energy (Hertog, 2013). Indeed, Saudi prices for electricity and hydrocarbons are among the lowest globally (Gross & Ghafar, 2019; Sarrakh et al., 2020). In turn, electricity typically represents 20% to 40% of total production costs in aluminium, steel and cement production (Hanieh, 2018). The PIF plays a vital role in such heavy state support; the generation and distribution of electric
power are under the monopoly of the Saudi Electricity Company, in which the PIF holds 74.3% of shares. The provision of cheap energy enables SOEs and private companies to expand and build large operations in the petrochemicals and mining industries, which allows lucrative ventures in the production and exports of basic commodities that are central in the production of aluminium, cement and other construction materials, which in turn are heavily supported by the PIF either through share ownership or various infrastructure projects.

If the deployment of the PIF in the industrial sector through SOEs and PPPs reorganises historical rent-seeking structures in downstream industries, it can also create completely new areas for private sector involvement in the economy in a way that benefit politically connected business elites. This has been most apparent in the development of renewable energy. In October 2021, Saudi Arabia pledged to achieve net zero emissions by 2060, and the PIF pledged to develop 70% of the Kingdom’s renewable energy (Al-Atrush et al., 2021; PIF, 2022b). As part of the SWF-led development of renewables, ACWA Power has become the most significant private power and water developer in the GCC, with 64 plants in 10 countries. The PIF holds a 44% stake in the company established as a joint venture between the Abunayyan39 and Al-Muhaidib families and with Al Rajhi Group holding an 11.2% stake.

39 The founder of Abunayyan Holding, Abdullah R. Abunayyan, introduced the first diesel-powered turbine pump in the Kingdom in 1951. From this focus on agriculture and irrigation systems, the company now has an extensive portfolio of interests spanning sectors such as oil and gas, chemicals, industrial, construction, water and power (Abunayyan Holding, 2021).
In partnership with the PIF and Aramco, the company signed for $30 billion worth of renewable projects by 2030 (Saadi, 2021). Moreover, the ACWA was attributed $5.9 billion in contracts for engineering and building world-scale hydrogen production facilities as part of the PIF-backed NEOM project (Tolentino, 2022). Besides, the company already undertook the Al Taweelah project, the world's largest desalination plant in Abu Dhabi. In addition, the company unveiled the Sakaka Photovoltaic Solar Project, the Kingdom's first renewable energy project with an investment of $319 million. ACWA is also leading the construction of the Sudair Solar Plant, one of the world's largest solar plants by capacity, representing a $906 million investment (Power and Technology, 2021a, 2021b). In October 2021, ACWA made its market debut. The company sold 11% of its shares and raised $1.2 billion from investors, the biggest IPO behind Aramco’s initial offering (Reuters, 2021).

The PIF is at once the centrepiece of Saudi Arabia's efforts to diversify its economy and to increase state control over alternative revenue streams. The SWF-led push towards renewables has been conducted in an institutionalised way that, ultimately, does not harm the status quo. The Saudi Green Initiative and renewable policies have been adapted to fit the local institutional setting and to maintain well-established patterns of clientelism and state control. Development of the renewable energy sector provides diversification and technological progress but also provides an opportunity, as often the case with economic reforms, to reorganise rent-seeking structures in a way that profits specific elite coalitions. ACWA Power is the embodiment of these structuring dynamics.
5.2.3 The Public Investment Fund and the Financial Market

The financial sector and its institutions sit at the core of PIF activities across Saudi Arabia. Banking and financial markets bankroll the development of megaprojects such as ‘The Line’. For conglomerates owned by prominent merchant families, financial markets provide a vector to spread accumulated wealth across various economic activities and sectors and thus support expanding their tentacular operations. The PIF’s significant position in the Saudi financial market consolidates state control over the sector and provides access to a wide variety of domestic firms. Moreover, it represents a continuation of the state’s traditional role in supporting economic development and targeted business insiders.

The Tadawul, Saudi Arabia's stock market, is the pivotal institution in the Kingdom's financial market. The Saudi stock exchange was established in 2007, but trading started in 1954 through informal financial markets. Today, the Tadawul is the largest stock market in the region; it lists 203 publicly traded companies and represents approximately half of the Gulf’s market capitalisation (Hanieh, 2018; Tadawul, 2022). The PIF completely owned Tadawul. In November 2022, the SWF released 10% of its shares to foreign and domestic institutional investors and raised $612 million (Argaam, 2022). The Saudi stock exchange provides an institutional framework through which linkages between the state and merchant families can be strengthened. For instance, as has been the case with SABIC, Ma’aden or even Tadawul itself, stock market IPOs allow connected business families to secure a share in lucrative ownership structures of efficient and strong SOEs following
their listing (Hanieh, 2018). Moreover, the PIF is the largest investor over the Tadawul; the Saudi equities are the key investment pool under the fund's portfolio as it represents 75% of PIF assets under management (Al Rifai, 2019). Given the SWF’s objective of pursuing economic growth and diversification, this position provides the ruling elite with an additional lever to protect business players from economic shocks and market volatility. The PIF’s significant position over the Saudi stock exchange embodies a reincarnation of the state’s patronage role within the economy by channelling resources towards targeted entrepreneurs and national champions.

Beyond the domestic stock exchange, the deployment of the PIF across the Saudi financial market intersects with various financial institutions such as banks and other asset management and development firms. Among these financial institutions, the PIF plays a central role in the Saudi banking sector. A high proportion of government ownership distinguishes Saudi banks, with merchant elites holding significant overlapping interests (Hanieh, 2018, 2019). Sitting at the centre of this dense network of interlocks, the PIF acts as a tool to strengthen the linkages between the state and regime confidants while allowing the ruling elite to increase control over the structure of the financial market.

The PIF holds significant interests in three of the four largest Saudi banks by assets: a 33.23% stake in the Saudi National Bank (SNB), a 21.75% ownership of Riyad Bank and 10% of Alinma Bank. In April 2021, the National Commercial Bank (NCB) and Samba Financial Group merged to form SNB. Before the merger, the PIF held a 44.29% stake in NCB, Saudi Arabia’s largest bank by assets and a 22.91% stake in Samba Financial Group.
The merger resulted in the largest financial institution in the Kingdom (SNB, 2021b). A breakdown of SNB’s ownership structures shows that the vice-chairman is the PIF’s head of local investment and advisor to the PIF governor. At the same time, other members include Al Mojel family members, the Mohammed I. Alsubeaei & Sons Investment Company chairman and the CEO of Al Faisaliah Group, a diversified conglomerate founded in 1970 by the eldest son of King Faisal (1964-1975). The Al Subeaei family established operations from Mecca in 1933 in currency trading services for pilgrims. From this base, the group created a web of investments and interests in the banking sector to move in trading, cement and other building materials, electricity, petrochemicals and agriculture (MEED, 2008).

The SWF also holds a 21.75% stake in the Riyad Bank, the Kingdom’s fourth-largest bank by assets and 10% of the sharia-compliant Alinma Bank. The various interlocking positions of the Riyad Bank directors and shareholders with several critical PIF investments and prominent business families close to the Al Saud further point to the SWF as a mechanism to strengthen the links between the state and specific elite coalitions but also to maintain control over the financial market. Alongside the PIF, other substantial shareholders include GOSI (21.09%) as well as the Alissa Group (8.73%) and the Sharbatly family (8%) through the Al-Nahla Group40. In turn, the Riyad Bank is chaired by a member of the Alissa family. The vice-chairman is simultaneously chairman of Herfy Food Services (owned by the

40 The Al-Nahla Group was established by Hassan Abbas Sharbatly, who was awarded the title of “His Excellency” by King Abdulaziz in 1934 with the title of Honorary Minister of State. The company has grown to be the exclusive representative of Audi, Porsche, Volkswagen, Bentley, and Lamborghini, and leading international brands in toys and luxury yachts. In addition, the group is involved in the industrial sector, banking, telecommunications, and various real estate ventures, including hotels, housing units, and commercial towers. The family is one of the five largest landowners in Saudi Arabia (Al Nahla, 2021).
Savola Group linked to the Alissa and Al Muhaidib families), the second-largest company in the industrial sector behind SABIC and one of the largest fast-food chains in the Middle East. The board also includes the vice-chairman of the Al-Nahla Group and a member of the Sharbatly family (Riyad Bank, 2021b, 2021a). Alinma Bank, in which the PIF owns 10% of shares, is chaired by a member of the Hogail family, who most recently held the position of vice president of the Al Faisaliah Group. Other board members include the Deputy Minister of Finance (also sitting on the board of Southern Province Cement Co.) and directors simultaneously sitting on the boards of Savola and various ventures owned by the Al Zamil family. Moreover, the Zamil Group is the largest private shareholder of Alinma Bank (Hanieh, 2019).

Other non-bank financial institutions owned or controlled by the PIF also play a significant part in the economy. Like the NCB and Riyad Bank, these institutions exhibit dense ties linking the SWF, the royal family and conglomerates owned by prominent merchant families operating across multiple sectors. To stimulate private industrial activity, the SWF established the Saudi Technology Development and Investment Company (TAQINA) in 2011. TAQINA, fully owned by the PIF, is chaired by Prince Turki bin Saud bin Mohammad Al Saud and is mandated to invest and commercialise research initiatives in sectors such as energy, petrochemicals, water, electronics and other advanced industries (TAQINA, 2021). While TAQINA’s board does not reflect direct interlocks with business elites, the fund established a network of subsidiaries directly enmeshed with firms owned by prominent business families. For instance, TAQINA Energy is directly involved in renewable energy projects led by ACWA Power and signed a memorandum of
understanding with Alfanar. The chairman and CEO of Alfanar, a large company, operating in renewables, are members of the Al Mutlaq family and key shareholders in ACWA. In parallel, the Saudi Arabian Industrial Investments Company (DUSSUR) was established in 2014 by the PIF, ARAMCO, and SABIC to support the development of non-oil industries. DUSSUR’s board include the CEO of Al-Obeikan Group and is chaired by Mohammed A. Abunayyan, chairman of Abunayyan Holding, ACWA Power and previously a member of the Supreme Economic Council (DUSSUR, 2021b).

The PIF’s central position in the Saudi financial market embodies a remodeling of the state's entrepreneurial role in overseeing and allocating capital. Most of the government’s role over the domestic financial market is exercised through the PIF, where extensive engagement in financial institutions is also related to a wide range of other domains like the industrials, building materials, service and utilities or retail through numerous affiliates and subsidiaries, where in various instances, the PIF is either a substantial shareholder or a major provider of contracts and infrastructure.

5.3 Conclusion

The central argument of this study is that SWF design and use in the Saudi context carries a logic of regime maintenance in a context of uncertainty in the global political economy and domestic political dynamics fundamentally distinguished by state fragmentation and entrenched patron-client relationships. The empirical analysis in this chapter has shown that Saudi Arabia’s PIF has been variously described as a tool to promote growth and
economic diversification to drive the Kingdom toward a post-oil economy. Amid the 2014 oil price shock and global decarbonisation efforts, the Saudi government leverages the PIF to seed new economic domains as well as stimulate and mobilise investments in underserved sectors to fill a financing gap. The fund unquestionably acts as a tool to catalyse domestic investments and the transformation of Saudi Arabia, all while pursuing risk-adjusted returns.

True to the idea of regime persistence, however, the PIF is at once the centrepiece of Saudi Arabia’s effort to diversify its economy away from hydrocarbon resources and simultaneously relies upon existing political and economic rentier institutions. This analysis points towards two important insights regarding the political economy of sovereign wealth management in Saudi Arabia. The first is that SWFs emerge as administrative tools to streamline decision-making and investment activities under a single portfolio, which allows bypassing intermediary and veto players resulting from the institutional fragmentation in the Saudi rentier state. When reforms visions become part of the image and brand of the new leader, as happened in Saudi Arabia with Vision 2030, there is much at stake for the regime to deliver on this vision and make it a success story. Yet, previous efforts at wide-ranging reforms have been laborious. Due to the fragmentation of jurisdictions, different agencies struggle for themselves and often scuffle to coordinate over the same matter and present contradictory regulations and incompatible procedures. As such, the more agencies are involved, and the more actors need to be mobilised in a given policy area, the harder it is to produce results (Hertog, 2010c).
Despite the centralisation of authority within the circles of the Saudi ruling family, changes below the top level of the state apparatus are often dragging, carrying far-reaching implications for state capacity in effectively execute and deliver the ambitious reforms launched under Vision 2030. “Ultimately, MBS wants to base his family’s legitimacy on the economic transformation of the country and its prosperity” writes Haykel (2018) and thus “sees his consolidation of power as a necessary condition for the changes he wants to make in Saudi Arabia”. SWFs offer an attractive solution to this conundrum as they present an opportunity to circumvent the constraints of the fragmented state apparatus. The PIF operates as an enclave outside of the regular state apparatus, allowing a core of high-level players within the ruling elite to centralise decision-making and investment activities under an overarching umbrella and thereby short-circuit a cumbersome bureaucracy perceived as undermining the leader’s desired levels of capacity and autonomy in policymaking.

The second emerges from here. Via PIF-led investments, PPPs or subsidiairies geared towards infrastructures and industrial upgrading, the Saudi government endogenously reproduces patron-client ties inherent to allocative frameworks; the state remains the primary awarde of contracts for infrastructure growth and downstream industrial development through which a politically networked private sector historically thrives. Yet, SWF expansion across the Kingdom’s political economy allow incumbents to reorganise and centralise rent-seeking structures. The concentration of decision-making and investment activities, which characterise PIF activities in Saudi Arabia, enables the ruling elite to strengthen their authority and influence over the economy and key industries. This stands in contrast to previous patronage practices where merchant elites had a greater
degree of autonomy and control over various sectors. Despite a narrative of economic diversification and a post-oil future, the PIF expansion still maintains the fundamental structure of an allocative system; the sovereign fund enhances state capacity to manipulate economic policies and perpetuates patron-client relationships, albeit in a more centralised form reflecting the concomitant consolidation of power under MBS.
CHAPTER 6
The Public Investment Fund and the International Markets

Atieva was established in 2007 and initially focused on building electric vehicle (EV) batteries and powertrains for other manufacturers. In 2016, the California-based firm was rebranded to Lucid Motors. As part of the overhaul, Lucid announced its plan to develop an all-electric high-performance luxury vehicle. Unsurprisingly for an EV manufacturer, the company claims that sustainability is its fundamental value. The company states that every one of its cars is "made with earth in mind", or in other words, that their vehicles "must make the best possible use of the world's resource" (Lucid Motors, 2022). However, counterintuitively, in September 2017, Lucid signed a $1.3 billion investment for a 63% stake in the company with the oil-funded PIF from Saudi Arabia, the world’s largest oil exporter. A spokesperson for the PIF claims, "PIF's international investment strategy aims to strengthen PIF's performance as an active contributor to the international economy, an investor in the industries of the future and the partner of choice for international investment opportunities. Our investment in Lucid is a strong example of these objectives" (Lucid Motors, 2017). By the end of 2022, the investment in the Californian all-electric high-performance luxury vehicle manufacturer was worth $24.5 billion and is the most significant PIF venture across public equity markets. The partnership between the Saudi SWF and Lucid Motors led to the implantation of an EV factory in King Abdullah Economic City. Furthermore, Lucid pledged to train 1 000 Saudis in EV industry (Al Arabiya, 2022; Ferrari, 2022).
The Lucid Motors investment exemplifies the broader shift in Saudi Arabia’s approach to international markets. For the past five decades, Saudi Arabia’s international sovereign wealth investment strategy was built around a conservative and low-risk portfolio, predominantly in US Treasury Bonds. In contrast, since 2015, the PIF has been actively deploying billions of dollars to pursue diversification and industrial upgrading. PIF investments across public and private markets include venture capital funds, high-tech industries and low-carbon energy firms. This chapter unpacks the political and economic dynamics associated with the redefinition of Saudi sovereign wealth management under the PIF’s deployment in international markets. Amidst deepening financialisation and escalating global decarbonisation efforts, SWF development pursues not only economic diversification but also provides incumbent elites with an instrument to pursue elite-based interests and an opportunity to establish additional sources of income. By doing so, ruling elites may uphold inherited structures of authority and state-society relations. This complex interplay between financial gains, economic diversification and state-society relations underscores SWF development’s intricate and multi-layered nature.

Section 6.1 first unpacks the geography of the PIF’s international portfolio by looking at patterns of alliances and linkages between countries underlying asset allocation superimposed to Saudi Arabia’s evolving foreign relations. The section brings forward that the Saudi PIF plays a crucial role in an outward-oriented strategy to secure pre-existing external ties or bolster new political and economic interdependencies. Section 6.2 then traces how the rise of the PIF over international markets marks a shift from a passive approach to sovereign wealth management to an investment strategy increasingly oriented
towards personalised and short-term tactical investments. It does so through an in-depth analysis of asset class and risk appetite underpinning PIF international investments juxtaposed to internal political-economic dynamics since 2015. Finally, section 6.3 explores the advancement of the PIF’s ‘green’ portfolio and contends that SWF-led low-carbon ventures create new accumulation pathways for politically connected business elites through public-private partnerships and, at the same time, enhance the dominant role of the state over economic development inherent to allocative frameworks.

6.1 The Public Investment Fund as an Actor in Global Markets

In 2015, the Saudi government granted the PIF the prerogative to invest outside Saudi Arabia, leading to overhauling the Kingdom’s sovereign wealth management. In support of its considerable domestic investments, the Saudi leadership transformed the PIF into a ‘global investment powerhouse’. The fund’s upgrading has to be viewed against the backdrop of Saudi Arabia’s pursuit of economic adjustment. Indeed, much of Vision 2030’s pillar, “a thriving economy”, relies on the PIF as the orchestrator of economic diversification in the Kingdom, among other things, by building strategic economic partnerships and localising cutting-edge technology and knowledge (PIF, 2021a). The Saudi government boasts a narrative projecting that “the PIF has a defined purpose that stems from a local standpoint and expands to reach the global level. This purpose serves as a beacon that guides PIF’s vision, strategy and mission, which is: Elevate the Kingdom, Uplift the World” (PIF, 2021a, p. 14). More specifically, the PIF program 2021-2025 stipulates that main goal is to “grow and diversify PIF’s international portfolio investments
broadly, across geographies, asset classes and sectors, and away from the domestic economy and oil and gas industries (PIF, 2021a, p. 43). This is developed through two main channels: 1) strengthen Saudi Arabia’s position on the world stage as a leader and enabler of the future global economy, and 2) achieve high, long-term returns by taking part in diversified global investments to provide future sources of wealth and returns.

As part of this process, a target of 25% of its assets is to be channelled into international portfolios, split between the International Diversified Pool (IDP) and International Strategic Investment Pool (ISI). The ISI pool is designed to establish strategic partnerships with innovative companies, attract foreign investments and localise technologies in line with Vision 2030’s diversification efforts. The IDP pool seeks to position the PIF as a long-term institutional investor through a well-balanced, risk-weighted portfolio (PIF, 2022a). The PIF Law stipulates among the SWF’s international assets purposes the diversification of sources of income and “maintaining the interest of future generations” (Public Investment Fund Law, 2018, p. 2). The PIF Program 2021-2025 states that “PIF will continue to contribute and invest in international sectors, in line with Vision 2030 objectives, which include growing and diversifying PIF’s assets and returns, establishing economic and strategic partnerships, and expanding the Kingdom’s reach and influence as a leading powerhouse in the global economy” (PIF, 2021a, p. 31).

It is crucial to remember that the Saudi PIF operates under a broad strategic development mandate. The objective driving such a strategic investment fund is to, first and foremost, advance a national economic plan (Divakaran et al., 2022; Dixon et al., 2022b). Following
this purpose, the PIF promotes economic development and diversification in the Kingdom. These dynamics have obvious repercussions on the geographical structure of the fund’s portfolio. Indeed, in 2022 the PIF reported 110 direct public investments, with 61 of these directly in the Middle East and North Africa. Of these 61 direct regional investments, 47 are deployed in Saudi Arabia. Therefore, the fund’s activities in the Kingdom (covered in Chapter 5) hold most of its portfolio. The international dimension of the fund’s activities in public equity in 2022 represents 43% of its portfolio, contrasting its committed investment breakdown of 80% domestic and 20% international (PIF, 2021). When the Saudi government revamped the PIF in 2015, international investments represented 36% of its portfolio, growing by 7% to 43% in 2022 (see Figures 21 and 22).

Even if the PIF’s presence in the European market increased from 4 to 10 investments (or from 4% to 8%), the fund’s global portfolio shift is primarily driven by its growing capital injection in the US and Asian markets. Since 2015, investments in Asia have grown by more than 900%, rising from eight ventures value at $715 million to 14 investments worth $7.3 billion in 2022. Despite this trend and despite increasing Sino-Saudi cooperation, the US remains the predominant focus for PIF outflows and is the fastest-growing geography for Saudi international investments. When the PIF first filed US Securities and Exchange Commission (SEC) 13F filings\textsuperscript{41} in 2018, the fund reported only one investment in Uber for $2.7 billion. However, by 2022, the number of positions held across the US economy had grown substantially, reaching a total value of $36.8 billion across 53 ventures, indicating a staggering growth of 1200% since 2015.

\textsuperscript{41} The SEC requires every hedge fund or other institution that manages over $100 million to file quarterly reports (13F reports) on their holdings.
With the strength of its financial sector and its vibrant ecosystems in R&D and technology, it is no surprise that the US remains the most important geography for the PIF. Moreover, Young (2023, p. 34) argues that “the synergy now created by both Chinese economic statecraft and Gulf states’ increasing orientation eastward is a powerful force that will affect patterns of investment”. The international deployment of the PIF is inevitably intertwined with Saudi Arabia’s efforts towards diversification. Despite these factors, a purely macroeconomic reading of the geography of PIF international investment does not capture how the interests pursued by decision-makers through sovereign funds are polymorphous, aimed at domestic and sometimes narrow elite-based aims, as well as

![Figure 21. The Geography of the PIF's Portfolio in 2015](image)

![Figure 22. The Geography of the PIF's Portfolio in 2022](image)

Source: Capital IQ as of 2023
reacting to external threats or opportunities (Alami & Dixon, 2023; Babic, 2021). The Saudi SWF’s international engagement is shaped by a combination of domestic factors (i.e., the nature of the state, its decision-making system and the survival imperative of the regime), the regional strategic environment and fluctuations in the international political economy (Nonneman, 2005).

Since rentier states derive a significant portion of their revenue from external sources of income, external engagement is crucial for ruling elites to strengthen and maintain economic and political power. Indeed, Saudi Arabia has extensively depended on and made significant efforts to increase external support under every monarch after its formation in 1932 (Stein, 2021, p. 213). Yom and Gause (2012) contend that one seminal force underpinning monarchical resilience in the Gulf comes from external backers; they underline that one essential explanation for regime survival amidst the so-called “Arab Spring” is that Gulf oil monarchies have enjoyed the backing of foreign patrons who assist through security and economic assistance. Ryan (2009) articulates that the key interest for any ruling regime remains its own survival. Alliances are in this respect responses to external challenges (military or economic), but even more so against threats from within their own societies (Ryan, 2009). Hence, just as international asset allocation may be prompted by shifts in macro-level trends across the international political economy, it can also be a response to internal challenges caused by societal pressure, economic discontent, or other threats to domestic stability and the government’s survival.
In this vein, if SWF international development advances economic diversification objectives and creates strategic partnerships, it simultaneously arises as an outward-looking strategy where incumbent elites engage in flexible foreign policy manoeuvring to secure and leverage external material support to consolidate established structures of authority. Amid the current imperative to meet the challenges of fluctuating oil prices, demographic pressure and a lack of economic diversification, SWF international investments have endogenous regime survival imperative; first, SWF international development carries an inward-oriented aspect in seeking to bolster partnerships with countries for technological buy-in and knowledge transfer to build industrial aimed at creating employment opportunities and absorbing the national labour force. Second, it carries an outward-oriented strategy to secure pre-existing external ties or bolster new political and economic interdependencies necessary for regime persistence.

Beyond a macroeconomic reading of the geography of the Kingdom’s sovereign wealth allocation, the Saudi-US relationship has a long and entrenched history of security and economic cooperation. Relations between Saudi Arabia and the US officially began in 1933 when the Kingdom granted Standard Oil of California the exclusive rights to exploit oil fields in the eastern province, when went on to become the US-Saudi joint venture ARAMCO (Vitalis, 2007). Since the end of World War II, the US-Saudi relationship has been the cornerstone of US foothold in the Middle East (Hassan-Yari, 2020). Official diplomatic relations are often traced back to 1945 when King Abdulaziz and President Franklin D. Roosevelt met on the USS Quincy in the Suez Canal (Cook & Indyk, 2022). Energy played a crucial role in shaping those ties, but they became intertwined with
security considerations. In 1951, Riyadh and Washington inked the Mutual Defense Assistance Agreement, which became the basis of massive US arms sales to Saudi Arabia and established permanent US military training mission in the Kingdom. It was the beginning of a long history of supplying Saudi Arabia weaponry systems to fight in Middle East proxy conflicts, most notably curb the influence of the Soviet Union in the Middle East throughout the Cold War, the containment of Iran after the 1979 Revolution or counterterrorism cooperation following the September 11 attacks (Cook & Indyk, 2022; Darwich et al., 2022). The total value of US military sales to Saudi Arabia expanded from $1.2 billion in 1970 to $25.7 billion in 1975 (Riedel, 2021), a period coinciding with a massive increase in oil revenue for the Saudi government.

If the security alliance and the sales of military equipment represent one side of the coin, the other is rent-based geopolitical alliances where petrodollar recycling sits at the centre stage. Petrodollar recycling refers to the process in which oil-exporting countries receive payments for their oil exports in US dollars and then reinvest those dollars back into the US economy or financial system, mainly in US Treasury bonds (Spiro, 1999; Wight, 2021). This process has had a significant impact on global finance and the international economy since the 1970s when the US government abandoned the gold standard and negotiated with Saudi Arabia and other oil-producing countries to price oil exclusively in US dollars. As a result, oil-importing countries are required to purchase US dollars to pay for oil imports, which creates a constant demand for dollars on the global market. This demand for dollars enabled the US to maintain a dominant position in the global financial system and allowed the government to finance its trade deficit (Baumann, 2019; Hanieh, 2018). Petrodollar
recycling also provided oil-exporting countries like Saudi Arabia with a stable and secure store of value considering low absorptive capacity and weak domestic banking system.

The 1973 oil shock led to a dramatic rise in oil prices; in 1972, the US government paid $4 billion for its oil import but paid $24 billion in 1974 (Banafe & Macleod, 2017). As a result, Saudi Arabia enjoyed an unprecedented windfall of petrodollars. Saudi Arabia could not absorb the massive flux of oil income due to a relatively small population, limited infrastructure and an underdeveloped banking system. The Kingdom significantly increased the export of capital, investing billions abroad by the late 1970s. Simultaneously, an internal US Department of Treasury memo from January 1974 states that one of the top objectives at the time was to "achieve major Middle Eastern Countries' investment in the United States, utilising dollars earned by oil exports; and develop a national program for attracting such investments to the United States" (Wight, 2021, p. 69).

The response from the Saudi leadership consisted of two key parts. The Kingdom was to spend on its own development through the Second Five-Year Development Plan (1970-1975), which would also enable Western countries to sell goods and services to Saudi Arabia and thus revive their economies. The second part was petrodollar recycling. The excess in foreign reserves would be recycled back to Western financial systems, mainly through investments in US banks and Treasury bonds, which would help deal with absorption capacity and finance the US balance of payments deficits engendered by the oil price surge (Banafe & Macleod, 2017). Oil-rich Gulf countries led by Saudi Arabia were the single largest source of credit for the United States (Wight, 2021). The investment of
Saudi sovereign wealth through SAMA could finance the US budget deficit, maintain the dollar's value, and keep interest rates low to promote American economic growth. In 1974, the Treasury Secretary of the United States, William Simon, signed a secret agreement with the Saudi leadership to buy US Treasury bonds before their public auction (Spiro, 1999). Most Saudi investments consisted of US Treasury bonds and stakes in firms and investments over the Eurodollar markets and real estate (Vassiliev, 1998).

The growing interdependence is also linked to US foreign policy ambitions in the Middle East. As the Secretary of State, Henry Kissinger declared, "we [the US] should absorb as much of their [Gulf] money as we possibly can…our principal objective should be to maximise their [Gulf oil-exporting countries] dependence on us" (Wight, 2021, p. 84). Concurrently, King Faisal (1964-1975) was looking to consolidate US protection from Soviet-backed neighbours like Iraq or Egypt. In turn, the United States, within the logic of the Nixon Doctrine, looked to solidify the Kingdom's position as a regional defender of US interests and its ability to provide aid to US allies and encourage economic liberalisation across developing economies. In this vein, the US government offered Saudi Arabia advanced military equipment, technical support, and expertise for domestic economic development (Aarts, 2004; Vassiliev, 1998; Wight, 2021).

With the transformation of global markets and deepening of global financialisation, the noteworthy portion of PIF international investments in US holdings indicates a contemporary interpretation of petrodollar recycling within Western financial markets. Even though US financial markets are the obvious source of commercial opportunities for
sovereign funds considering their depth and vitality, the historical strategic and economic connections between Saudi Arabia and the US have had a significant influence on the establishment and structure of state-led financial flows. The process of financialisation of the global economy has been driven by a plethora of interconnected processes, including the deregulation of financial markets and the removal of restrictions on financial activities, the development of new financial technologies, the increasing integration of global financial markets or political influence (Beck et al., 2023; Krippner, 2011; Mackenzie, 2006; van der Zwan, 2014). In the US (and around the world), the size of the financial sector has massively increased over the past five decades. The relative size of finance as a share of total GDP doubled between 1970 and 2020, from 4% to 8% of GDP (Braun & Koddenbrock, 2023).

In turn, financialisation led to the emergence of ‘market-based banking’ (Hardie et al., 2013), which “signals a secular trend in advanced economies away from traditional banking and towards more speculative practices involving financial markets trading, securitisation, and shadow banking” (Beck et al., 2023, p. 33). Indeed, half of all financial assets are now held by non-bank financial institutions. Notably, BlackRock and Vanguard together control 10% of the FTSE350 (the index of the 350 largest companies on the London Stock Exchange) and, together with State Street, an average of more than 20% in any given S&P 500 corporations (Braun, 2022a; Buller, 2022; Fichtner et al., 2023). ‘Asset manager capitalism’ (Braun, 2022a) refers to the evolving landscape of global capitalism,

---

42 Over the same period, South Korea’s financial sector tripled and China’s quadrupled in size (Braun & Koddenbrock, 2023).
where large institutional asset management firms have gained significant influence and control over the allocation of capital and decision-making within the economy. Part of consequences of asset manager capitalism is the financialisation of the state. For instance, pension provision has been identified as a driving force behind US financialisation since the 1980s, where large pools of retirement savings are seeking profitable and ideally liquid instruments in their search for yield. It is commonly believed that financial sector lobbying influences state regulations in favour of privately funded pension schemes (Braun, 2022b). Additionally, the ways in which governments raise and manage debt, as well as the structural composition of public debt, have changed, further reflecting state financialisation. Public debt is now an actively traded financial asset in secondary markets, while states acquired financial motives uniquely positioning themselves into innovative financial market players that continually aim to reduce the cost of their debt portfolio. One indication of this shift is the move that several OECD nations made toward conducting bond auctions, thereby giving foreign investors and international financial markets a determining role (Fastenrath et al., 2017; Schwan et al., 2021; Trampusch, 2015).

Accordingly, financial globalisation or ‘asset manager capitalism’ set the specific context in which petrodollar recycling is pursued following the 2008 financial crisis. This denotes a shift in the US model of economic governance towards market-based finance and market-based policy tools. The data collected by Jordà et al. (2019) on real asset returns indicate that equity dominate bonds in mean annual returns (%), with a larger gap since 1980 than during any period since the late 19th century. Henceforth, SWF development enables rent recycling in the West to persist, albeit in a different form. The expansion of PIF investments
in the US financial market through market-based financial flows sustains demand for dollar-denominated assets and global financial flows from oil producers to oil consumers. In turn, SWF-based rent recycling moves from targeting long-term, low-yield investment in US Treasuries to higher-risk and higher-return avenues aligned with domestic economic diversification challenges, encourage FDI or implement counter-cyclical investment strategies to preserve domestic economic and political autonomy (covered in section 6.2).

Despite the continued dominance of US financial institutions in Saudi SWF outflows, there is also clear shift toward Asian markets. This pivot is predominantly driven by developing strategic partnerships with China. In 2021, the PIF applied to become a Qualified Foreign Institutional Investor (QFII). This would enable the SWF direct access to "A-shares" of Chinese stocks. In 2022, the PIF discloses only one investment in the Chinese stock market. The Saudi SWF acquired an undisclosed stake in Guiyang Huochebang Technology, a private company that offers a long-haul online logistics platform to connect cargo shippers and truck drivers. The PIF governor, Yasir Al-Rumayyan, articulated that the SWF aim to profit from the vibrant economy and capital markets. Al-Rumayyan added that PIF is “thinking seriously even to accelerate the Asia office because we see a lot of potential over there” (Turak, 2019).

The PIF expansion over Chinese equity markets is interwoven in deepening economic ties between Saudi Arabia and China. Chinese President Xi Jinping’s first visit to Riyadh in December 2022 is widely suggested as an example of the Kingdom’s pivot to Asia (M. Young, 2022). The visit generated $50 billion in investment agreements (Kalin et al.,
In the wake of the visit, Saudi Arabia agreed to join the Shanghai Cooperation Organisation (SCO), an international security and defense organization established by China and Russia in 2001 to rival US-led institutions (Al Jazeera, 2023). Unsurprisingly, crude oil trade is the bedrock of the developing strategic partnership. In 2015, China bumped the US from the position of largest importer of crude oil. If the US has evolved into a self-supplier, and eventually an exporter of hydrocarbons due to developments in shale gas and shale oil production, China’s import needs continue to rise steadily thanks to sustained economic development (Mirzoev et al., 2020). Data from the Saudi General Authority for Statistics shows China as the Kingdom's leading trading partner. China is the main destination for Saudi exports; in the first quarter of 2022, exports to China amounted to 16.8% of total exports. In addition, China is the primary origin of imports to the Kingdom, with 22.1% of total imports (Kingdom of Saudi Arabia, 2022a).

Furthermore, The perceived decline of US interests in the Middle East opened opportunities for other external powers, particularly Russia and China, to increase their influence and position themselves as alternative, more reliable, sources of support for oil monarchies (Stein, 2021). Darwich et al. (2022, p. 88) observe that under these conditions, regional powers such as Saudi Arabia “have demonstrated more policy autonomy and have effectively pursued interests outside of American preferences”. Concurrently, several factors led the Saudi leadership to question the long-standing US-Saudi strategic partnership. First, Teheran’s involvement in the September 2019 attack on Abqaiq-Khuris, the world’s largest crude oil processing plant (Aramco, 2021), brought the trustworthiness of the US’ role of security guarantor under scrutiny as Washington failed to retaliate against
Iran following the attack (Mansour, 2023; Taneja, 2022). Second, Riyadh perceives a lesser commitment by Washington as the US administration adopted policies to curtail arms sales compounded by the decision to withdraw some American patriot defense systems from the Kingdom in 2021 despite continued attacks by Houthi militias from Yemen (Mansour, 2023).

From another perspective, due to the historically close relationship between Riyadh and Washington and the growing US-China rivalry, Beijing has considerable interests in expanding its presence in the Gulf to secure supply routes. As such, the Arabian Peninsula has become a vital element of the Belt and Road Initiative (BRI). There are clear synergies between the Kingdom’s Vision 2030 and China’s BRI; MBS described the BRI as “one of the main pillars of Saudi Vision 2030” (Arab News, 2016a). In turn, the Kingdom was the largest recipient of China's BRI in the first half of 2022, with approximately $5.5 billion (Zawya, 2022). The Silk Road Fund bought a 49% stake in a $1 billion combined cycle gas turbine venture in Uzbekistan by ACWA Power, a company partly owned by the PIF (44%) in tandem with Saudi merchant elites. The PIF also established a joint venture with China’s SenseTime to develop an artificial intelligence (AI) ecosystem in the Kingdom. The PIF works with SenseTime to operate an AI lab serving as a development centre for technology transfer (A. Malik, 2022).

Saudi Arabia’s SWF has also become increasingly interventionist in neighbouring countries. In 2022, the PIF created six regional investment funds to channel resources toward Egypt, Jordan, Bahrain, Sudan, Iraq and Oman. The six PIF subsidiaries manage
$24 billion and are mandated to invest in infrastructure, real estate, financial services, food and agriculture, telecommunications and technology (Hamad, 2022). Since the 1970s, Gulf states led by Saudi Arabia have poured billions into targeted countries in the Middle East mainly through central bank deposits or loans. However, Saudi Arabia implemented a structural shift in its regional investment strategy. During the 2023 World Economic Forum, Saudi Arabia's finance minister Mohammed Al-Jadaan claimed: “We used to give direct grants and deposits without strings attached and we are changing that. We need to see reforms…We want to help but we want you also to do your part” (Abu Omar, 2023). Sovereign funds play a pivotal role in this transformation of regional engagement. Saudi Arabia is replacing aid and financial support with more targeted SWF investments.

A striking example is the case of Egypt. In the aftermath of the 2013 military coup, Mohamed Morsi, the head of the Muslim Brotherhood and democratically elected government was ousted from power by general Abdel Fattah el-Sisi. Saudi Arabia along with the UAE and Kuwait proffered an overall sum of $30 billion in economic aid to the el-Sisi government until 2016. The fundamental goal was the status quo ante; that is to say re-establishing a like-minded authoritarian regime in Cairo countering democratic inclinations originating from societal movements alongside espousing a common ideological stance against the Muslim Brotherhood (K. E. Young, 2017). Since 2013, Egypt has become significantly reliant on more frequent and larger bailouts in light of food insecurity, energy needs and interest-rate shocks (Adly, 2023).
However, Riyadh’s perspective towards Egypt has shifted. Instead of solely prioritising political and security concerns through unconditional financial aid, Saudi financial aid became tied with demands for structural reforms or seeing the military step back from its dominant role in the economy (Hellyer, 2023). As part of this shift, Saudi Arabia is seeking for improved investment returns by gaining control of state assets with strategic value. The Saudi government leverages the PIF to invest in crucial state assets across infrastructure, communication networks, financial services, food production and manufacturing. In 2022, 66 mergers and acquisitions were completed, with Saudi Arabia and the UAE acquiring stakes in 40 transactions. The Saudi PIF committed $10 billion in Egypt, deposited $5 billion in the Egyptian central bank and acquired considerable stakes in four state companies for $1.3 billion operating in petrochemicals and financial services (Fast Company, 2022). The Saudi minister of finance stated that Saudi Arabia is now "investing aggressively in Egypt" by looking at "investment opportunities, which is more important than deposits", considering that "deposits can be pulled but investments are long-lasting" (Salah, 2022).

If there are concerns with Egypt’s economy and macroeconomic policy given that Cairo has become dependent on ever frequent and larger bailouts, SWF-driven structural reforms are new pathways to extend support to political allies that simultaneously snap up profitable assets in key state enterprises or infrastructure. As such, the growing involvement of the PIF in Saudi Arabia’s neighbouring countries like Egypt seek increased investment returns

---

43 At the time of writing in 2023, the PIF is also in advanced talks to acquire the state-owned United Bank for $600 million (Fast Company, 2022).
to support domestic diversification projects all while stimulating deeper market and political sway across the Kingdom’s regional sphere of influence.

6.2 Breaking the Mould: the PIF’s Disruptive Approach to International Markets

Even in the case of a domestically-focused SWF like the PIF, developing the domestic economy also encompasses advancing the position of its sponsor country within regional and global production networks (Dixon et al., 2022b; Haberly, 2017). Past the geography of PIF investments, the component of the PIF’s global portfolio is organically connected to its domestic dimension; as a sovereign development fund, the PIF seeks to jump-start the domestic private sector and promote skill and technology transfer in specific priority sectors anchored in Saudi Arabia’s economic transformation while capturing risk-adjusted return. A comparison of PIF international investments in public markets by sectors between the onset of its revamp in 2015 (Figure 23) and 2023 (Figure 24) shows an increased focus on communication services (from 15.3% to 20%), in industrials (from 12.9% to 20%), consumer discretionary (from 10.6% to 20%) and financials at 20%. These four sectors account for 80% of the fund’s international portfolio in 2023 from 58.8% in 2015.

This shift in structure is consistent with the Kingdom’s renewed quest for economic diversification. The PIF invests in part internationally to help diversify and transform the national economic base of Saudi Arabia. The PIF 2021 Annual Report specifies that the SWFs’ international investments support the fund’s strategy by “establishing strategic relationships with innovative companies, investment managers, and influential investors to
allow Saudi Arabia to extend its global reach and influence” in addition to “investing in cutting-edge technology and/or shaping the future of the global economy by enabling the growth and creation of new sectors and opportunities” (PIF, 2022a, p. 49). Overall, the PIF is mandated to invest globally in strategic sectors consistent with national economic development goals. To accomplish this objective, the international investment strategy involves directing investments towards technology or skill-centric industries like financial services, entertainment and disruptive technology while implementing industrial policies that decrease reliance on a single revenue stream or resource (Alsweilem et al., 2015; Divakaran et al., 2022).

**Figure 23. PIF International Investments by Sector 2015**

**Figure 24. PIF International Investments by Sector 2022**

Source: Capital IQ as of 2022
Factor endowment and diversification hurdles are indeed seminal forces of PIF international investments. This portfolio structure, however, challenges conventional wisdom regarding the international dimension of commodity-based sovereign funds. Derived from the *permanent income hypothesis*\(^4^4\), commodity-based SWFs like the PIF are portrayed as sources of patient capital, transforming oil wealth surpluses into long-term savings to promote fiscal stabilization and intergenerational equity. This strategy takes root in the fact that natural resource revenues are finite and commodity prices are highly unstable, leading to volatile fluctuations in government revenues and expenditure (Al-Hassan et al., 2013; Alsweilem et al., 2015; Dixon et al., 2022b). Instead, the PIF is a ‘globally diversified strategic investment fund’ designed to ‘invest globally in strategic sectors consistent with national economic development goals’ (Dixon et al., 2022b, p. 79). This mandate and investment strategy significantly depart from Saudi Arabia’s traditional method of managing sovereign wealth.

In the past 50 years, the Kingdom has been depicted as a provider of patient capital as commodity-based sovereign funds are believed to operate with long-term aims, including maintaining fiscal stability and intergenerational savings (Al-Hassan et al., 2013; Alsweilem et al., 2015; Dixon et al., 2022b). Before the PIF’s upgrading in 2015, the Saudi central bank, SAMA, was the central institution in charge of Saudi sovereign wealth management. Since its creation in 1952, SAMA has enjoyed substantial autonomy from the regime and has broad discretion in acting. The agency developed its recruitment

\(^4^4\) This idea stems from the economic literature which attempts to establish how rent-based economies should take into account that resource extraction depletes the physical stock of the resource in question and is thus inherently unsustainable over a long-term perspective. We find Solow (1974) and Hartwick (1977) among the first notorious texts on the subject.
mechanism and is insulated from the regular state apparatus diffused by administrative clientelist networks. The institution's administration also requires relative transparency in the compilation and availability of economic data and foreign exchange reserve practices (Banafe & Macleod, 2017; Hertog, 2010c).

Since the late 1970s, SAMA has managed two strictly separated portfolios; a reserve portfolio to manage the liquidity requirements of a central bank and an investment portfolio with a stabilisation mandate under SAMA Foreign Holdings. This carries a short-term investment horizon with a low-risk appetite mainly oriented towards international bonds (Al-Hassan et al., 2013). Indeed, SAMA displayed a conservative investment strategy, with most of its portfolio invested in highly liquid and low-risk assets to satisfy the demands for liquidity and safety (Banafe & Macleod, 2017). For instance, amidst the 2008 Global Financial Crisis, most SWFs lost considerable capital on their equity-heavy portfolios distributed across Western capital markets. In contrast, SAMA's portfolio saw a minimal decline and preserved the integrity of the Kingdom's sovereign wealth (Banafe & Macleod, 2017; Seznec & Mosis, 2018). SAMA provides monthly information on the amounts of reserves it holds and manages. However, the actual instruments in which SAMA Foreign Holdings invests are not publicly disclosed. Nonetheless, it is largely known that SAMA keeps a substantial proportion of its assets in short-term US Treasury bonds (Banafie & Macleod, 2017; Seznec & Mosis, 2018). Departing from its historical sovereign wealth management strategy and in contrast to received wisdom concerning

45 The liquidity requirements of a central bank mean that a fixed proportion of total assets must be held in liquid assets (assets that can be quickly converted to cash) to withstand shocks in demand for local currency and stabilise the interest rates (Monnet & Vari, 2019).
46 In 2008, SAMA was believed to hold 85% of its foreign exchange reserve in US$ (Bazoobandi, 2013).
commodity-based sovereign funds, the PIF now proactively deploys considerable international investments in riskier assets.

Regarding the PIF’s changing strategic direction, the fund has been entrusted with prime responsibility for delivering the crown prince’s ambitious Vision 2030. Furthermore, given that Saudi Arabia’s reform agenda has emerged as a fundamental element of MBS’ political identity and reputation as a new leader, there is significant pressure on the incumbent to accomplish the grandiose vision. Breaking from the past practices of Al Saud ruling, MBS transferred the economic and political responsibilities held by other royals into his own hands or those of trusted cronies, going so far as to subject resistant princes, bureaucrats and businesspersons to repression. Traditionally, each ruler of Saudi Arabia, along with his circle, has wielded significant authority over a fragmented state whose neo-patrimonial institutional fiefdoms were managed by senior princes (Al-Rasheed, 2005; Hertog, 2010c; Yizraeli, 1998). Nonetheless, the concentration and the personalisation of power manifests as a deliberate strategy of new rulers to shatter existing institutional conventions seen as undermining their desired level of autonomy (Bank et al., 2022).

Concurrently, leaders with shorter political time horizon are more susceptible to external and endogenous political pressures and tend to use short-term sovereign wealth management strategies to maintain ruling coalitions (Kendall-Taylor, 2011; Shih, 2009). Consequently, SWFs can serve as barometers of state-society relations; SWFs engaged in a short-term and active investment strategy with higher risk appetite, rather than acting as a vault for intergenerational savings, can signal the regime’s perception of the need for
satisfying immediate socio-economic demands and provide for regime stability. Here we see the characteristics of the PIF’ international investments emerge. This concentration of power lead to a preference for personalised or short-term tactical investments over long-term strategic investments, as it may provide quicker returns and more immediate economic benefits. These driving forces are evident in the PIF’s activities in the sports and entertainment ecosystem, venture capital and high-tech firms, as well as the fund’s strategy amidst the COVID-19-induced economic shock.

6.2.1 Entertaining Diversification: The PIF’s Strategic Game of Sports and Entertainment

Since 2015, the Public Investment Fund (PIF) of Saudi Arabia has undergone a significant transformation aimed at economic diversification and securing its position in an impending post-carbon world. The PIF’s approach to international investments includes strategically deploying sizeable sports investments to bolster Saudi Arabia’s “soft power” globally. These substantial investments within the entertainment and sports industries serve as tangible indicators of diversification and prestige - factors intricately intertwined with regional rivalries vying for market shares while simultaneously satisfying elite-based interests.

Saudi Arabia has one of the largest populations in the Middle East, with approximately half of its nationals under 30 years old (Gulf Research Center, 2016; Kingdom of Saudi Arabia, 2016a). As a result, there is an increasing demand for entertainment among younger Saudis. Nevertheless, the domestic entertainment industry is nascent; public movie screenings and
concerts by international artists were banned until 2018 (Al-Rasheed, 2021). As such, approximately 80% of households’ entertainment budget is spent abroad (Proctor, 2022). Since lifting the ban in 2018, the Saudi government is localising the entertainment industry in an attempt to diversify Saudi Arabia’s economy and create a new source of state-controlled income. Moreover, PIF activities in sports and entertainment are part of the new leadership’s narrative as leading the Kingdom in a new era of diversification, openness, and prosperity. Haykel (2018) argues that “MBS is trying to appeal to young Saudis, who form the majority of the population. His message is one of authoritarian nationalism, mixed with populism that seeks to displace a traditional Islamic hyper-conservatism – which the crown prince believes has choked the country and sapped its people of all dynamism and creativity”. According to Al-Rasheed (2021, p. 158), this new Saudi populist nationalism “amounts to a mix of boasting about an eternal Saudi national identity, the promise of greatness, the prospect of national rejuvenation and new economic projects and technological innovations in a post-oil era”. Viewed through this lens, the PIF provides the government alternative income sources while enabling incumbent elites to expand influence beyond the Kingdom’s international role as a fossil fuel producer. These developments reflect how SWFs can represent tools capable of wielding influence and alternative revenue flows amidst a redefinition of a ruling bargain to meet the challenges of globalisation and societal pressure.

Prince Abdulaziz bin Turki al-Faisal, chairman of the Saudi General Sports Authority, declared in 2019: “The sky is the limit for us because it is the mandate within the 2030 Vision to host the best competitions, to promote Saudi in terms of tourism and to use sports,
culture and entertainment as a tool” (England & Ahmed, 2019). As part of the strategic
game, in 2021, the Saudi PIF acquired an 80% stake in the Newcastle United Football Club.
“When we looked at it, we did from a financial perspective” said PIF governor Yasir Al-
Rumayyan (Al-Rumayyan, 2022). Al-Rumayyan added: “We bought the whole team
versus 30% of another team for £700 million, versus Chelsea lately for £3.5 billion. So, my
potential is now to go from $350 million up to at least $3.5 billion. That’s ten times the
money. So the choice is purely profit-making” (Al-Rumayyan, 2022). If Al-Rumayyan
emphasise profitability, the Newcastle acquisition carries a soft power dimension and an
aspect of regional rivalry. The Saudi tactic follows the successful blueprint pioneered by
the UAE’s leadership, where the strategic use of SWF investment opportunities enables
incumbent elites to strengthen the country’s international profile while supporting various
domestic industries. The $400 million transaction brought Saudi Arabia into the Gulf
ownership circles of top European football clubs alongside Manchester City-owned by Abu
Dhabi’s Sheikh Mansour bin Zayed and Paris Saint-Germain, held by Qatar Sports

Nonetheless, the 80% stake by the PIF was met with concerns. Nineteen top Premier
League clubs opposed the deal, denouncing the damage to the League’s brand. On top of
loud criticism from human rights groups, the UK shadow sports minister declared: “This
is ultimately a failure in the way that football is governed” (Hytner et al., 2021). The
Newcastle deal illuminates how the legitimacy of SWFs as accepted actors in global
markets is not a given. Dixon (2020b) argues that “if state investors want to employ capital
overseas they must follow, in most instances, particular global norms and conventions of
financial conduct. Or at least, state investment funds must provide a narrative that implies conformity to such norms and conventions; they must demonstrate that they are apolitical and trustworthy organisations” (p.11). The fund was required to demonstrate its autonomy from the Saudi state to persuade the English Premier League that the PIF was operating independently of state control. Nonetheless, internal Saudi documents filed to a civil court in Canada as part of an unrelated case\(^47\) show that a senior aide to MBS ordered Yasir Al-Rumayyan to take actions related to PIF investment activities on the crown prince’s behalf. These actions included the seizure of 20 companies as part of the 2017 Ritz Carlton shakedown (Kirchgaessner, 2021).

Similar dynamics are particularly apparent in the PIF-funded LIV International Golf League. By providing eight or nine-figure contracts, LIV Golf attracted prominent PGA stars enticed by the rival golf league in 2022. The winner of the inaugural event pocketed $4 million, while the last-place finisher received $120,000 (Boykoff, 2022). PIF fully finances the league for approximately $3 billion, includes 14 tournaments. The veteran and hall-of-Famer golfer Greg Norman acts as the figurehead and public representative while PIF governor Yasir al-Rumayyan takes an active role in managing the entity. Some international media have critised LIV Golf as a means to divert global attention from Saudi Arabia’s tarnished human rights record (Baldwin, 2022; L. Davis et al., 2023; Walsh, 2023). Moreover, LIV Golf exemplifies how PIF activities are interwoven in Saudi-US relations. Most notably, two LIV events were held on Trump-owned Golf courses, whereas Trump was invited to participate in a well-publicised pro-am during the season’s final

\(^{47}\) Saudi-owned entities have brought the civil case against a former senior Saudi intelligence officer (Kirchgaessner, 2021).
event. Yasir al-Rumayyan also appeared wearing “Make America Great Again” baseball caps at LIV events. Furthermore, reports expose that Jared Kushner was actively promoting LIV’s status in the US by brokering the relationship with his father-in-law Donald Trump and helping secure a US media rights deal for the league (Blinder et al., 2023; Ourand, 2022). Crown prince MBS and Yasir al-Rumayyan are understood to have deliberately used PIF-funded LIV, much like the funds investments in Affinity Equity Partners and Liberty Strategic Capital (covered in section 6.2.2), to solidify their political links with US policymakers.

Football and Golf are just one element in a strategy in which ruling elites purposefully manipulate the sovereign fund to claim a more prominent role on the world stage. The PIF also stretched its investments in UK’s luxury automobiles manufacturers such as Aston Martin and McLaren. The PIF is the second-largest shareholder in Aston Martin through its 16.7% stake, just behind the 18.3% owned by chairman Lawrence Stroll. The PIF is also a significant investor in McLaren Group, owned at 60% by Bahrain’s SWF Mumtalakat. The Saudi SWF injected $550 million into the supercar and F1 racing team (Al Sayegh, 2022; Mathew, 2022). This is part of Saudi Arabia’s growing presence in Formula 1 racing; in 2021, F1 signed a long-term contract with Saudi Arabia to host a Grand Prix. The first Saudi Arabian Grand Prix occurred in 2021 on a temporary street circuit in Jeddah. Ultimately, the race will be run in Qiddiya, the new PIF-driven mega entertainment hub, where a new circuit is being developed (Saudi Gazette, 2021). Using the PIF to establish an F1 ecosystem is a tool to attract global attention and position the country favourably amongst other Gulf states competing for similar market shares amid economic
transformation efforts. PIF sponsored investments position Saudi Arabia as a sports superpower and advance the Kingdom’s position as regional and global hub for entertainment and tourism.

The Saudi government also leverages the PIF to market the Kingdom worldwide and carve a unique and attractive position within the entertainment ecosystem all while speaking directly to a young Saudi population. Notably, the Saudi SWF demonstrates a strategic interest in various gaming stocks. The Saudi leadership appears to perceive these investments as a catalyst to job creation at home while simultaneously providing an alternative revenue stream. The government seeks to leverage the sovereign fund to invest $38 billion in the esports ecosystem and establish 250 Saudi gaming companies. According to Boston Consulting Group estimates, the video games market in Saudi Arabia is expected to reach $6.8 billion by 2030 (Zidan, 2022). The government also announced plans to create a large-scale games studio as part of NEOM, the first in the Middle East. In this context, the PIF invested over $1.94 billion in Electronic Arts and $3.6 billion in Activision. In turn, the PIF-owned SOE Savvy Games Group drives the growth of the esports industry in Saudi Arabia. The sovereign holds 5% of Nintendo and acquired stakes in Capcom and Nexon for a combined value of $1.2 billion. In 2020, PIF acquired a majority shareholding (51%) in the Japanese video game corporation SNK and 9.69% of NCsoft, a Korean firm specialised in online multiplayer role-playing games (Mochizuki & Allan, 2022; Zidan, 2022).
The PIF added to its significant portfolio of investments in the gaming industry by acquiring a $1 billion stake in the Swedish video games Embracer Group and acquired the e-sport division of Modern Times Group for $1.05 billion (Middle East Monitor, 2022). In the wake of the investment, the CEO of Embracer Group declared in a press release that “Saudi-based entities have become one of the most significant investors in the global gaming market, and the games market in the MENA [Middle East and North Africa] is one of the world’s fastest-growing, with $5.7B in 2021 revenues and more active gamers than either the US or Western Europe” (Embracer Group, 2022). The PIF also bought ESL Group, the world’s largest e-sports organisation, in a $1.05 billion transaction with FACEIT, an online platform for online multiplayer video games professional competitions. Following the transactions, ESL and FACEIT merged to form the ESL FACEIT Group, the world’s largest e-sports company (Arab News, 2022a; ESL FACEIT Group, 2022).

In this vein, the PIF is the vector to create international partnerships in entertainment and hospitality, thus bolstering the significant expansion in the Saudi entertainment market. For instance, the PIF discloses a 5.7% passive stake in Live Nation. The SWF injected $500 million into the live-entertainment giant and is the third largest shareholder in the company. The PIF also acquired a 7% stake in the talent and media company Endeavor for $400 million (C. Kelley, 2020; K. Kelley & Hubbard, 2019). In addition, the SWF teamed with the US-based AMC Entertainment, the world’s largest cinema chain (SEVEN, 2018). AMC launched 13 cinemas in the Kingdom after the government lifted a 35-year ban on cinemas. Moreover, the PIF partnered with Six Flags to open and run the first theme park in the PIF-backed Qiddiya gigaproject. Qiddiya will be the first entertainment, sports and
cultural destination in the Kingdom. This strategic game of sports combined to a growing openness of the entertainment sectors suggests that the Saudi state recognises the need to appear open to change and, in a more concrete sense, to be in fact somewhat sensitive to the opinions or ambitions of the younger Saudi population. Nonetheless, such initiatives did not challenge extant structures of political authority; the state maintains or even tightened oversight and control over wealth-generating assets or sectors all while fostering new political and economic linkages in line with elite-based domestic development goals. This duality serves both the practical purpose of maintaining the political status quo by delivering alternative rentier-like outcomes to the ruling elite and the simultaneous appearance of being on the pulse of society.

6.2.2 From Buying Bonds to Buying the Dip

In October 2017, the PIF launched the Future Investment Initiative (FII) as part of the drive to place Saudi Arabia as a global investment hub. The event showcases that Saudi Arabia has reached the level of maturity consistent with the leading edge of global innovation and financial practices and thus seeks to legitimise the PIF as a significant agent in global markets. Indeed, the PIF hosts the annual investment forum which the government claims aim to provide "an international platform of expert-led debate between global leaders, investors and innovators with the power to shape the future of global investment" (Future Investment Initiative, 2021b; Stanley-Becker, 2018). The FII's first edition in 2017 hosted over 3,500 attendees from 90 countries, including high-profile chief executives, public
officials and economists (Dergham, 2017; Future Investment Initiative, 2021a). The PIF and the Saudi government use the conference to outline its objectives and unveil strategic PIF initiatives, such as the Saudi giga-projects, to attract foreign investors and reach agreements across sectors and asset classes. The FII seeks to strengthen the PIF’s role as the engine behind Saudi Arabia's diversification efforts and its role as a global investment powerhouse. In 2021, the Saudi government launched the 'Discover NEOM' event in London than the United States. More than 700 US firms and global finance leaders attended events to showcase market and investment opportunities for foreign investors in PIF-backed mega-projects (Abdelaziz, 2021; Arab News, 2022b).

While clearly a strategy to benefit the economic power and capability of the Saudi state, building an image of an SWF following a disciplined governance model, concrete financial performance criteria, and clear strategic investment policies provide discursive and material legitimacy to mitigate and deflect potential external perceptions that PIF international activities are “political” in nature. The Saudi leadership projects an image of the PIF as a reliable player in global finance, merely seeking to foster technology-sharing, stimulate FDI and diversify income sources. The vocabulary employed in PIF official documents is deeply embedded in these dynamics. There is a strong focus on “building long-term relationship” on “stringent governance and investment methodology” and an emphasis on “bolstering Saudi Arabia’s position on the world stage as a leader and enabler

---

48 Notable participants were the then managing director of the IMF, Christine Lagarde, US Treasury Secretary Steven Mnuchin, Larry Fink, Chairman and CEO of BlackRock, the Group Chief Executive of HSBC, Stuart Gulliver, Siemens' President and CEO Joe Kaeser, CEO of Bank of China Tong Li, and Masayoshi Son Chairman and CEO of SoftBank Group (Elseret, 2017; Gosden et al., 2017; Saudi Gazette, 2017).
of the future global economy” by building the PIF’s “reputation as a preferred investor and partner of choice” (PIF, 2022a, pp. 49–52).

The Saudi government set a $3 trillion FDI goal to promote technology-sharing and push economic transformation towards a post-oil economy (US Department of State, 2022). However, despite successes in building various strategic international partnerships through the PIF, there is a growing disconnect between the expectations of Saudi Arabia's government to position the Kingdom as a global investment hub and the interest of the global investment community (Mogielnicki, 2019b). Figure 25 demonstrates that the net inflow of FDI in the Kingdom plunged from $39.5 billion in 2008 to a low of $1.4 billion in 2017. Nonetheless, FDI slightly rebounded to $5.4 billion in 2020. The trends in FDI reflect the concerns surrounding Saudi Arabia as a destination for global capital despite the significant role given to foreign investors in the diversification of the Saudi oil-dependent economy. Investors’ concerns persist regarding business predictability and political risk associated with domestic politics (US Department of State, 2022).

**Figure 25.** FDI inflows in Saudi Arabia (2000-2020)

Source: World Bank Development Indicator
This points to growing non-regulatory political constraints facing PIF international activities (McPherson-Smith, 2021), stemming from the personalisation of the SWF under the crown prince's leadership. For instance, in response to the alleged involvement of MBS in the death of Jamal Khashoggi in 2018, multiple PIF ventures crumbled. Several world business leaders withdrew from the 2018 Future Investment Initiative\(^\text{49}\), whereas Endeavor, one of the largest US talent agencies, called off and returned a $400 million investment (K. Kelley & Hubbard, 2019). The Virgin Group cancelled a $1 billion investment and cut ties with the Kingdom citing MBS’s involvement in the Khashoggi affair (Reuters, 2018b).

Among the PIF’s high-profile investment venture is a $45 billion investment in the SoftBank Vision Fund for 45% of outstanding shares, the world’s largest techno-focused venture capital fund. The Vision Fund is the product of Masayoshi Son, the chairman and CEO of SoftBank, a Japanese conglomerate and global investor. It invests in emerging technology firms and disruptive start-ups in real estate, retail and transportation. The $45 capital injection by the PIF into the Vision Fund is the most significant commitment or investment made by any SWF (Dixon et al., 2022b). The Vision Fund investment embodies the shift in sovereign wealth management towards a personalised and short-term tactical strategy. The PIF’s considerable investment into the Vision Fund is driven by the leadership’s ambition to attract technology forms to Saudi Arabia to create high-skill jobs for nationals and bolster economic diversification, all while capturing higher returns on investment. The Vision Fund focuses on various technology sectors, including artificial

\(^{49}\) The global CEOS and finance officials that dubbed the event include Stephen Schwarzman (CEO of Blackstone), Christine Lagarde (then director of IMF), AOL’s founder Steve Case, Bill Ford of Ford Motors as well as Siemens, Blackrock, Uber and Virgin CEOs (Alkhalisi, 2018; BBC, 2018; Stanley-Becker, 2018).
intelligence, communication infrastructure, fintech, biotech and others (Dixon et al., 2022b).

Despite its significance, it was the result of elite-driven ambitions. In September 2016, Masayoshi Son, chairman of SoftBank Group, met then deputy crown prince MBS. By the end of the 45-minute meeting, MBS had pledged $45 billion from the PIF to SoftBank’s Vision Fund (Dixon et al., 2022b). The following year, Son explained to Bloomberg he told MBS, “I am going to give you a gift, a Masa gift, a $1 trillion gift. OK, now it’s interesting. You invest $100 billion, I give you $1 trillion” (Law, 2018). The crown prince could avoid due diligence and go past the risk analysis or the board investment committee to secure the deal. Ultimately, the techno-focused Vision Fund investment holds a mixed track record. The $100 billion Vision Fund reported a $27.4 billion loss for the financial year ending in March 2022. In August 2022, the fund disclosed a $23.1 billion loss for the April-June 2022 quarter. This debacle comes after the Vision Fund lost $18 billion in 2021 (Kharpal, 2022; Nussey, 2020).

Moreover, a few months after the Trump administration left the White House in 2021, the PIF allocated $1 billion to former Treasury Secretary Steven Mnuchin’s Liberty Strategic Capital. Liberty raised $2.5 billion and agreed to open an office in Riyadh. As Treasury Secretary, Mnuchin steered the Trump administration’s economic policies and spent considerable time in the Middle East. While in the region, Mnuchin visited the FII organised by the PIF multiple times. In 2018, after the death of Jamal Khashoggi, US intelligence reports revealed that Mnuchin skipped the FII but still visited the Kingdom to
meet with crown prince MBS. Throughout his tenure, Mnuchin spearheaded endeavours to impose sanctions on Iran, regarded as the major regional menace to US interests and allies like Saudi Arabia (Kirkpatrick & Kelly, 2022; Perlberg & Basak, 2021). The PIF appears as an instrument for the Saudi ruling elite to extend influence toward pro-Saudi individuals holding key offices in the US government.

In addition to the Liberty investment, the PIF provided $2 billion to the new US private equity firm Affinity Partners led by Jared Kushner. Kushner is known for his close relationship with the Saudi crown prince. According to reports from The Washington Post, the Saudi crown prince and Kushner forged a bond at a lunch meeting at the White House in 2017, which led to frequent private phone calls and personal meetings instead of official government communication channels (Leoning et al., 2018). Moreover, in his memoir, Kushner carefully defends his close connection with MBS despite the alleged implication of the crown prince in the killing of the journalist and critic of the regime Jamal Khashoggi in 2018:

While this situation was terrible, I couldn’t ignore the fact that the reforms that MBS was implementing were having a positive impact on millions of people in the Kingdom - especially women […] All of these reforms were major priorities for the United States, as they led to further progress in combating extremism and advancing economic opportunity and stability throughout the war-torn region. The Kingdom was posed to build on this historic progress, and I believed it would (Kushner, 2022, p. 400).

The PIF board investment committee charged with assessing investments voiced severe objections to the Affinity venture. The committee was led by PIF governor Yasir al-
Rumayyan and included Andrew Liveris, former CEO of Dow Chemical, Ayman al-Sayari, SAMA’s vice chairman, and Ibrahim al-Mojel, now director of the PIF’s international investment division. The minutes of the panel’s meeting express how the committee members “are not in favour of Project Astro [codename for the venture]” based on the fact that Affinity Partners is “unsatisfactory in all aspects” and poses “public relations risks” considering Kushner’s role as senior advisor to President Trump (Kirkpatrick & Kelly, 2022).

Despite the objections based on excessive exposure to political risk and lack of expertise, the PIF’s board of directors, led by its chairman MBS overruled the panel. The PIF granted 2 billion in capital for a 28% stake in Affinity Partners (Kirkpatrick & Kelly, 2022). A letter from PIF management explained that "this investment aims to form a strategic relationship with Affinity Partners Fund and its founder Jared Kushner"; thus, a lower stake "may negatively or fundamentally affect the framework of the agreed strategic and commercial relationship" (Kirkpatrick & Kelly, 2022). In June 2022, the US House Oversight Committee launched an investigation over the PIF investment in Affinity Partners. The congressional committee requested the documents related to the $2 billion investment from the Saudi SWF and all personal correspondence between Jared Kushner and MBS during or after the Trump administration (K. Kelley & Kirkpatrick, 2022).

The Saudi government affirms that PIF is adopting and practising a robust investment policy and risk management approach “centered on diversification, detailed due diligence and downside protection” (PIF, 2022a, p. 53). While this statement paints the PIF as a
global investor focused on managing risks with precision, other actions taken by the Saudi government through the sovereign fund suggest a narrower elite-based and personalised strategy. Specifically, investments made through Vision Fund and deal with Affinity, and Liberty appear to reflect Crown Prince MBS’s personal preferences rather than strictly adhering to established governance and investments protocols.

The PIF’s investment behaviour amid the economic downturn following the 2020 coronavirus outbreak further exemplifies the shift in strategy and decision-making. The restructured PIF functions as a means of manoeuvring around constraints on the ruling elite’s preferred level of autonomy imposed by the institutional fragmentation of the state apparatus while enabling the development of a distinctive investment strategy amid mounting pressure on the Saudi political economy. The PIF reacted to the COVID-19 economic shock by opportunistically acquiring undervalued stocks in developed markets for immediate returns. This behaviour challenges previous experiences of SWF investment in times of market volatility, such as the 2007-08 Global Financial Crisis. Following the crisis, many large corporations and banks sought capital injections from SWFs based on their disposition to provide patient capital (Deeg & Hardie, 2016). Gulf sovereign funds significantly contributed to the global bail-out by recapitalising Western financial institutions. Abu Dhabi's ADIA invested $7.5 billion in Citigroup, Kuwait's KIA injected $3 billion in Citigroup and $2 billion in Merril Lynch, and Qatar’s QIA invested $3.5 billion in Barclays (Pistor, 2009; Raymond, 2017; Saadi, 2009). SWF bail-out amounted to $50 billion across six global banks (Dixon et al., 2022b). Most notably, SWFs did not promptly
disinvest following incurred losses and short-term volatility but held their positions for many years after that (Dixon et al., 2022; Pistor, 2009).

In 2020, Yasir Othman Al-Rumayyan declared to Bloomberg: “The crown prince [Mohammed bin Salman] always talked about how me missed an opportunity in 2008 to invest in international markets, so we were ready” (Martin et al., 2020). If the Global Financial Crisis and the COVID-19 crisis are very different in character, both have produced extraordinary volatility across financial markets. As such, they provide a window to analyse SWFs’ institutional discipline and the vulnerability of strategy and mandate to political influence. Doing so challenges the portrait of the PIF as a patient capital provider to maintain future generations’ interest. Instead, it emphasises the shift in sovereign wealth management from a conservative approach to sovereign wealth management to a strategy increasingly oriented towards narrow elite-based and short-term goals. The Saudi rentier framework is facing dwindling oil revenues and increasing external pressure, and, as such, incumbent elites increasingly engage the global financial market through a short-term investment strategy with the central defensive goal of protecting the status quo and sustaining structures of political authority.

In April 2020, a virtual event of the FII hosted by the PIF brought together global finance experts to discuss the challenges associated with the COVID-19 pandemic. Over the conference, Yasir Othman Al-Rumayyan, governor of the PIF, discussed the SWF’s approach and declared to the online audience: ‘You don’t want to waste a crisis ... So for us, definitely we are looking into any opportunities’ (England & Massoudi, 2020). Two
weeks later, SEC filings reveal that PIF acquired minority stakes in multiple US-listed companies during Q1 2020, totalling $7.7 billion and increasing its US asset portfolio from around $2 billion to $10 billion (see Table 8).

Amidst the COVID-19 economic downturn in May 2020, Saudi Arabia's SWF invested in various companies including Boeing, Facebook, Citigroup, Marriott, Disney and Bank of America for amounts ranging from $487.6 million to $713.7 million. The Saudi sovereign fund invested heavily in the energy sector, which may seem contrary to its mission of diversifying the Kingdom's economy (Bortolotti & Fotak, 2020). Specifically, the PIF revealed investments of $827.8 million in BP, $483.6 million in Royal Dutch Shell, $481 million in Suncor Energy, $408.1 million in Canadian Natural Resources, and $222.3 million in Total. Additionally, it acquired stakes worth $490.8 million in CISCO and $78.4 million each for Pfizer and Berkshire Hathaway (Azhar & Singh, 2020; Kamel, 2020; Kane, 2020; Mogielnicki, 2020b; SEC, 2020a). PIF officials underlined intergenerational wealth as the key driver of the investment initiative:

PIF is a patient investor with a long-term horizon. As such, we actively seek strategic opportunities both in Saudi Arabia and globally that have strong potential to generate significant long-term returns while further benefitting the people of Saudi Arabia and driving the country's economic growth. These opportunities include sectors and companies that are well-positioned to drive economies and lead sectors moving forward (Kamel, 2020).

50 Email statement from communication between PIF’s management and Abu Dhabi’s daily, The National News (Kamel, 2020).
However, as markets started to rebound in the second quarter (Q2), the PIF exited most of its ventures in US-listed firms assumed only three to four months prior. As a result, the fund's total US-listed holdings dropped from 24 in Q1 to 12 in Q2. For instance, the Saudi SWF released 100% of its stakes in firms such as Boeing, Facebook, Marriott, Citigroup, Bank of America, BP, Royal Dutch, Total, IBM, QUALCOMM, Broadcom, and Pfizer (Nagarajan, 2020; SEC, 2020b). The PIF sold shares in Berkshire Hathaway (50%), CISCO (45%), and Canadian Natural Resources (27%). Saudi Arabia's wealth fund increased its positions in ADP (181%), Suncor Energy (79%), Carnival Corporation (83%), and Live National Entertainment (34%).

Table 8. Variation in PIF US Holdings from Q1 to Q2 2020

<table>
<thead>
<tr>
<th>Company</th>
<th>Market Value of Investments Filed on 15/04/2020 ($Million)</th>
<th>Market Value of Investments Filed on 14/08/2020 ($Million)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uber</td>
<td>$2,033,708</td>
<td>$2,263,884</td>
<td>11.32%</td>
</tr>
<tr>
<td>BP</td>
<td>$827,751</td>
<td>$0</td>
<td>-100%</td>
</tr>
<tr>
<td>Boeing</td>
<td>$713,677</td>
<td>$0</td>
<td>-100%</td>
</tr>
<tr>
<td>Citigroup</td>
<td>$521,979</td>
<td>$0</td>
<td>-100%</td>
</tr>
<tr>
<td>Facebook</td>
<td>$521,858</td>
<td>$0</td>
<td>-100%</td>
</tr>
<tr>
<td>Marriott</td>
<td>$513,931</td>
<td>$0</td>
<td>-100%</td>
</tr>
<tr>
<td>Disney</td>
<td>$495,802</td>
<td>$0</td>
<td>-100%</td>
</tr>
<tr>
<td>CISCO</td>
<td>$490,881</td>
<td>$270,754</td>
<td>-44.84</td>
</tr>
<tr>
<td>Bank of America</td>
<td>$487,569</td>
<td>$0</td>
<td>-100%</td>
</tr>
<tr>
<td>Royal Dutch Shell</td>
<td>$483,643</td>
<td>$0</td>
<td>-100%</td>
</tr>
<tr>
<td>Suncor Energy</td>
<td>$481,072</td>
<td>$859,444</td>
<td>78.65%</td>
</tr>
<tr>
<td>Carnival Corporation</td>
<td>$456,856</td>
<td>$834,644</td>
<td>82.69%</td>
</tr>
<tr>
<td>Live Nation Entertainment</td>
<td>$416,119</td>
<td>$557,014</td>
<td>33.86%</td>
</tr>
<tr>
<td>Canadian Natural Resources</td>
<td>$408,129</td>
<td>$298,652</td>
<td>-26.82%</td>
</tr>
<tr>
<td>Total</td>
<td>$222,336</td>
<td>$0</td>
<td>-100%</td>
</tr>
<tr>
<td>Union Pacific</td>
<td>$78,841</td>
<td>$91,843</td>
<td>16.49%</td>
</tr>
<tr>
<td>Pfizer</td>
<td>$78,524</td>
<td>$0</td>
<td>-100%</td>
</tr>
<tr>
<td>Automatic Data Processing</td>
<td>$78,454</td>
<td>$220,631</td>
<td>181.22%</td>
</tr>
<tr>
<td>Berkshire Hathaway</td>
<td>$78,434</td>
<td>$39,054</td>
<td>-50.21%</td>
</tr>
<tr>
<td>Booking.com</td>
<td>$78,029</td>
<td>$34,278</td>
<td>-56.07%</td>
</tr>
<tr>
<td>Qualcomm</td>
<td>$77,798</td>
<td>$0</td>
<td>-100%</td>
</tr>
<tr>
<td>IBM</td>
<td>$77,651</td>
<td>$0</td>
<td>-100%</td>
</tr>
<tr>
<td>Starbucks</td>
<td>$77,573</td>
<td>$0</td>
<td>-100%</td>
</tr>
<tr>
<td>Broadcom</td>
<td>$76,583</td>
<td>$0</td>
<td>-100%</td>
</tr>
</tbody>
</table>

Source: SEC 13F filing for August 14, 2020
Amidst the unprecedented shockwave that swept across global financial markets due to the outbreak of COVID-19, Saudi Arabia's PIF adopted a strategy that capitalized on the selloffs triggered by the downturn. Rather than diversifying its portfolio or positioning itself as a patient investor with long-term horizons, PIF focused on making short-term tactical investments in ventures that offered expeditious returns. Interestingly, other sovereign wealth funds (SWFs), including Abu Dhabi’s Mubadala, also saw opportunities amidst COVID-19 downturn to find attractive investment ventures and invested more than $11 billion through December 2020 (Jones & Gottfried, 2020). While Mubadala remained steadfast in its positions, maintaining a long-term outlook, the PIF adopted a more short-term approach and promptly exited most of its ventures as markets rebounded.

In a 2016 interview with Al Arabiya, MBS stated: “I am the chairman of the board of directors of the Public Investment Fund, but I am not the one to take decision. The board does that, according to the mechanisms and governance declared to the public. I cannot take a decision unless it complies with the governance” (Al Arabiya, 2016). However, evidence suggests that Saudi Arabia’s crown prince pressed the SWF to buy the dip and bypass established decision-making structures. The board members were unanimously against the push into international markets and pressed to invest locally instead. The PIF governor Yasir Al-Rumayyan mentioned: “the crown prince and I were against that position as this [COVID-19 economic shock] is a historic chance where we can greatly benefit in addition to strategically entering some companies. But the board was against it” (Al-Rumayyan, 2022). From here, the centralisation of political authority and PIF decision-making structures around the crown prince allowed MBS and Al-Rumayyan to
bypass the SWF’s governance framework and implement a personalised and short-term tactical investment strategy.

“What is above the board?” rhetorically asked Al-Rumayyan. “The Council of Economic Affairs and Development [CEDA]; and above is the king and the prime minister. So we went all the way up to the king” (Al-Rumayyan, 2022). In the end, “the members actually voted against the chairman [MBS] and the governor [Al-Rumayyan], and the voting was accepted, then it was elevated to the king [Salman] where he issued a statement ordering for the opinion of the chairman and governor to be taken. And this was implemented” (Al-Rumayyan, 2022). Nonetheless, the PIF lacked the liquid assets to implement MBS’s plan to buy the dip. Despite concerns from various government officials, SAMA was pressured by the government to inject $40 billion of foreign reserves into the PIF to fund the COVID investment strategy (Barbuscia, 2021). Reports suggest that the crown prince personally handpicked many of the targeted stocks, fast-tracking the acquisition process and bypassing established decision-making structures (Jones et al., 2023).

Beyond investment strategy, sovereign development funds like the PIF often raise capital through bond issuance to support their investment program (Schena & Chaturvedi, 2011). However, PIF executives stated that the SWF "is not in a hurry" to issue bonds (Azhar, 2019). Rather than leveraging bonds to support its activities, the PIF shows an increasing appetite for private debt. The SWF opted to tap international banks to secure an $11 billion loan in 2018 and a $10 billion loan in 2019 (Abdellatif, 2019; Afanasieva, 2018). In March 2021, the Saudi sovereign fund obtained a $15 billion multicurrency revolving credit deal
with 17 international banks (Saudi Press Agency, 2021b). In November 2022, the PIF secured a $17 billion loan from 25 international banks, the largest-ever deal raised by a borrower from the Middle East (Martin, 2022b). The turn to private loans allows to steer clear of scrutiny and various constraints linked with disclosure and bond issuance requirements, as evidenced by the PIF 2022 green bond issuance. This manoeuvre also signifies a shift towards an increasingly short-term outlook on sovereign wealth management by leveraging considerable private loans to supplement accumulated capital and bankroll investment plans.

6.3 Fueling the Future: The PIF and Saudi Arabia’s Low-Carbon Efforts

Leading the transition towards a low-carbon economy is undoubtedly daunting for sovereign funds from resource-rich countries whose economies rely heavily on fossil fuel production and exports. This challenge appears organically paradoxical as it requires these very countries to move away from their primary source of income. For Saudi Arabia specifically, the implications of global warming are concerning - extreme temperatures and rising sea levels threaten populations, food security and infrastructure (Gross, 2023). The Arabian Peninsula already faces aridity and water scarcity problems; hence rising temperatures would only exacerbate an already precarious situation. Moreover, desertification concerns and increasing sea levels pose a significant threat to urban areas and domestic food production (Zumbräegel, 2022). The Kingdom needs to enhance climate adaptation and diversification to preserve its habitability.
Concurrently, Saudi Arabia has long had a rentier structure, wherein the government distributes the proceeds from oil exports through various distributive mechanisms to build regime persistence over time. Moreover, the Saudi ruling elite maintain its hold on power not only by allocating oil rents but also by distributing oil itself via diverse energy subsidies (Hertog, 2017; Krane, 2019a). This led to a significant growth in domestic consumption ultimately hindering the Kingdom’s export capacity (Hertog, 2017) and position Saudi Arabia amongst the world’s top producers of carbon dioxide emissions per capita (see Figure 26).

Figure 26. Saudi Arabia and OECD CO2 emissions per capita

Source: World Bank Development Indicators

However, as climate adaptation and diversification away from fossil fuels increase, this established economic model appears fundamentally threatened, jeopardising Saudi Arabia’s political stability and global leverage as a major player in the global oil supply
chain. Moreover, rapid demographic growth pressures the government to provide more social welfare such as education, utilities, housing and employment opportunities within the public sector while receiving fewer revenues from hydrocarbon sales. This double whammy carries the spectre of increasing social instability, whereas incumbent elites are assumed to be less and less able to rely on a rentier bargain to assure political survival.

Addressing pressing climate challenges entails transitioning away from a fossil-fuel-based economy, thus pressure Saudi Arabia – one of the major stakeholders in the current global energy system - to move away from its primary source of domestic and global power. In this vein, one would expect that political and socioeconomic interests would encumber any efforts to facilitate the transition away from fossil fuel. Nonetheless, the state-controlled PIF has been active in building a low-carbon portfolio. The PIF emerges as an effective defence mechanism against external threats while allowing incumbent elites to maintain a ruling political coalition by capitalising on financial gains associated with low-carbon investments. The sovereign fund allows the energy-dependent Saudi Arabia access and influence in the supply chain of inputs for renewables, control, and capture technologies in energy production to position domestic energy firms in new sectors of expertise and generate returns on investment. SWF development to unlock new lucrative sectors and localise green technology 1) fosters FDI attraction and strategic international partnerships to localise industries and technologies, all while creating alternative income sources; and 2) lays the foundation of public-private partnerships and non-oil accumulation pathways for politically networked firms. The PIF’s ‘green turn’ delineates an attempt to reconsider
and redefine the rentier state under pressure of climate adaptation and maintain the legacies of state-society relations.

In 2022, the PIF unveiled its Green Finance Framework, which positions the sovereign fund as the leading financier of Saudi Arabia’s ‘sustainable’ turn. The PIF committed to bankroll 70% of Saudi Arabia’s renewable energy on its road to net zero emissions by 2060 (PIF, 2022b). An essential part of the PIF’s green framework includes considerable electric vehicle (EV) investments. An essential part of PIF’s technology-focused investments is a $1.3 billion investment in Lucid Motor for a 63% stake in the company (Lucid Motors, 2017). By the end of 2022, the investment in the Californian all-electric high-performance luxury vehicle manufacturer was worth $24.5 billion and is the most significant PIF venture in public equity markets. As global decarbonisation efforts propelled the electrification of transport, Saudi Arabia aims to produce and export around 150 000 EVs by 2026. The partnership with Lucid led to the establishment of an EV factory in Saudi Arabia. The King Abdullah Economic City plant is one of only three assembly factories for Lucid cars. Besides, Lucid will train 1 000 Saudis to work in the specialised EV industry (Al Arabiya, 2022; Ferrari, 2022).

Beyond its partnership with Lucid, the Saudi SWF partnered with Taiwan’s Foxconn to create Ceer, its own EV brand. The PIF-owned EV manufacturer will design, produce and sell a range of EVs for consumers in Saudi Arabia and the Middle East. Unveiling the new company, MBS, the crown prince and chairman of the PIF, mentioned that “Saudi Arabia is not just building a new automotive brand, we are igniting a new industry and an
ecosystem that attracts international and local investments, creates job opportunities for local talent, enables the private sector, and contributes to increasing Saudi Arabia’s GDP over the next decade, as part of PIF’s strategy to drive the economic growth in line with Vision 2030” (Mihalascu, 2022). Interlocked with PIF green investments in EV and renewables is an intra-regional competition to carve out a specific niche to attract the much-needed foreign capital and show that Saudi Arabia has reached maturity and prestige consistent with its role conception as a pivotal player in the regional and international systems. In 2022, shortly after the PIF launched Ceer, the UAE-based Al Damami established an EV manufacturing plant expected to build 10,000 vehicles yearly and provide 1000 jobs (Al Fahaam & Saleh, 2022).

Observing the competition among neighboring Gulf countries in alternative energies, Saudi decision-makers are determined to keep up with regional powers like the UAE or fast track them. The Saudi government strive not only to avoid lagging behind but also to take a leading role in harnessing these crucial energy sources (Bahgat, 2013; Zumbrægel, 2022). For instance, Masdar Power is one of the world’s largest alternative energy developers. Abu Dhabi’s Mubadala wholly owns Masdar and is behind renewable projects with a combined value of $19.9 billion across 30 countries. Abu Dhabi has effectively secured the hosting rights for the International Renewable Energy Agency (IRENA) at Masdar City, a Mubadala-bankrolled carbon-zero urban development much like the Saudi NEOM, with support from esteemed organisations such as the World Wide Fund for Nature (WWF). In 2008, Mubadala-owned Masdar also launched the World Future Energy Summit, an annual event known as “Davos of renewable energy”. In addition, Masdar partnered with General
Electric and Siemens and leading research institutions like the Massachusetts Institute of Technology (MIT) (Zumbraegel, 2022). Mubadala and Masdar contributed significantly towards cementing Abu Dhabi’s reputation as a prominent player in sustainable energy.

In its push to develop an international low-carbon portfolio, the PIF also nurtures privately-owned national champions encountered in chapter five. As the previous chapter has shown, business networks, including old merchant families, play a significant role in SWF expansion. In light of state formation in the 20th century, the network of crony capitalists has been the backbone of the private sector and political power in Saudi Arabia. Merchant families remain largely dependent on the state-led allocative system; the Saudi economy is driven by government-created demand and businesses close to the ruling family tend to be granted the most lucrative opportunities (Hemrit & Benlagha, 2018; Hertog, 2018). In this vein, PIF expansion in low-carbon ventures helps maintain the rentier bargain that underpins the Saudi economy. The rentier social pact involves the distribution of rent income derived from hydrocarbons to various targeted socioeconomic groups. By leveraging the PIF to drive a low-carbon transition in tandem with global finance, the government can continue generating revenue streams and supporting economic growth without jeopardizing the core distributive system. PIF-led low-carbon ventures are reproducing ruling coalitions and creating new modes of capital accumulation for prominent business elites.

Most notably, SWF development in the Kingdom propelled ACWA Power to the forefront of Saudi Arabia’s renewable energy programme at home and abroad. In contrast to the
UAE’s Masdar, which is a wholly state-owned entity, ACWA was established in 2004 as a joint venture between the Abunayyan (50% of shares) and Al Muhaidib (50%) groups, two important business families in Saudi Arabia (Hanieh, 2018). By 2018, the PIF made its first direct investment in the company by acquiring a 33.36% stake and increased its share to 50% in 2020 (Reuters, 2021; Sim, 2022). If ACWA has become the primary developer, owner and operator of renewable power and desalinated water in the Kingdom, with 70% of PIF low-carbon projects assigned to the firm, the company is also leading Saudi international renewable energy development (Zumbraegel, 2022). ACWA developed a total of 42 international projects, with 34 located in only five countries: Oman (8), Jordan (8), UAE (6), Morocco (7) and Uzbekistan (5).

The PIF-backed family-owned national champion advances the Kingdom’s already sizeable financial influence over strategic relationships. For instance, the alliance between Saudi Arabia, Morocco and Oman has historically been bolstered by shared concerns about regional turmoil in the aftermath of the 2011 Arab uprisings. In the aftermath of the 2011 protests, Gulf states pledged $5 billion in financial aid and political support to Morocco, even inviting the North African monarchy to join the GCC. In 2015, Saudi Arabia also signed a defence cooperation agreement with Morocco, which has long played a role in providing security in the Gulf, and made a $22 billion investment in Morocco’s military industries (Fakir, 2020; Ghafar & Jacobs, 2019; Mogielnicki, 2019a). In turn, while Saudi Arabia and the UAE sent troops and military support in 2011 to Bahrain to squash widespread protests, Oman received economic modes of intervention and support. A threat to Oman’s regime was interpreted as threatening all Gulf monarchies, as the same scenario
played out violently in Bahrain (K. E. Young, 2023). Similarly, GCC states have agreed to bankroll $5 billion worth of projects in Jordan in the aftermath of 2011 uprisings to support the monarchy, which has been at the centre of political upheavals unfolding in Egypt and Syria, a resurgent civil war in Iraq and the Israeli-Palestinian standstill.

Saudi Arabia recognized Uzbekistan's independence in 1991 and established influence through educational and religious institutions. With the death of long-time authoritarian President Islam Karimov in 2016, Uzbekistan embarked on a transition from a planned economy to a market economy under the guidance of President Shavkat Mirziyoev. In 2018, the Uzbek government unveiled the 2018 Reform Roadmap which outlines economic reform priorities. The roadmap highlights five key areas for economic reform, namely: ensuring macroeconomic steadiness; expediting market transition; reinforcing social welfare initiatives; adapting government functions to cater to a market economy's requirements and demands, and finally the government committed to building a more sustainable economic model (Izvorski, 2022). However, if the Kingdom aims to increase political and economic influence in Central Asia to contain Iranian influence, Turkey's outreach to the region cannot be dismissed as a motivating factor. As part of this growing influence, Turkey aims to become an energy transit hub that ensures neither Russia nor Iran has a monopoly on energy transportation corridors (Sim, 2022; Tanchum, 2022). The Uzbek Reform Roadmap opened up a lucrative opportunity for Saudi Arabia to increase its Central Asian influence. The increasing engagement of the PIF through low-carbon PPP projects in Saudi Arabia's regional domain paves the way for enhanced market and governmental influence. These initiatives promote the Kingdom’s regional hegemonic
strategy while providing new income streams despite fluctuating oil prices and decarbonisation initiatives on a global level.

At the same time, the PIF's push to develop a low-carbon international portfolio creates a new pathway of accumulation for politically networked merchant elites. Unsurprisingly, industrial activities in Saudi Arabia have historically been linked to hydrocarbons' production and circulation. The state-owned Aramco has held absolute dominance in the upstream sector since the nationalisation in 1980. Due to this predominance of state-owned firms, the private sector has been largely excluded from direct participation in hydrocarbon production. Instead, as covered in Chapter 5, business activities have consolidated in downstream sectors such as petrochemical and other domains relying on cheap energy and raw material (Hanieh, 2018). Nonetheless, the rise of the PIF and its strategic approach of nurturing local companies in deploying renewable energy sources provides a gateway for oligarchic families to seize lucrative positions across the renewable energy value chain segments. ACWA controls 40% of Jordan's installed power capacity (Arab News, 2017). With five electricity power plants under its ownership and operation, ACWA plays a central role in the control and ensuring uninterrupted production and supply of electricity in the Hashemite kingdom. Moreover, as Uzbekistan undergoes economic modernisation in its power and energy production sector under the Reform Roadmap, ACWA Power channelled investments amounting to $7.5 billion towards building both conventional and renewable energy projects like wind farms and solar photovoltaic plants alongside electricity power plants. As such, ACWA controls one-fifth (20%) of Uzbekistan's total production capacity (Darasha, 2023; Sim, 2022).
Despite efforts towards economic diversification and technological advancements, the paradoxical development of the PIF’s low-carbon portfolio signifies an attempt to revisit the rentier state and expand Saudi Arabia’s international reach. Decision-making processes within the renewable energy sector are primarily centralized at the governmental level to sustain control over energy production while simultaneously using the PIF as a conduit to expand their international presence with an adapted investment portfolio that fits entrenched institutional settings yet still upholds long-standing patterns of clientelism. Such complexities underline how seemingly positive diversification developments can present contradictory rentier-like outcomes form incumbent elites and politically connected merchant elites.

6.4 Conclusion

The present chapter has focused on the deployment of PIF across international markets. In a first step, the analysis of the geographical structure of the PIF’s international investments indicates that SWF international development serves to secure and leverage external material support for established authority structures. The strategy aims to enhance partnerships with other countries through knowledge transfer and technology acquisition while maintaining pre-existing relationships or establishing new ones to ensure regime persistence under current uncertain political-economic conditions. Beyond the geography of investments, the chapter shows that since 2015, the PIF has deviated from Saudi Arabia’s traditional approach to sovereign wealth management and departed from conventional knowledge pertaining to commodity-based sovereign funds. Instead of
prioritising long-term strategic investments, the PIF now actively pursues elite-based and short-term tactical investment opportunities to generate quick returns. Finally, the chapter illustrates that the growing involvement of the PIF in low-carbon initiatives provides an avenue for more significant market and governmental sway, bolstering Saudi Arabia’s international influence and yielding increased investment gains amid oil price fluctuations and worldwide decarbonization campaigns. Additionally, this fosters new opportunities for politically connected merchant elites to seek lucrative alternative rent-seeking activities.

This view of political dynamics underpinning SWF design and use in the Kingdom yields two main analytical benefits. On the one hand, the preceding analysis demonstrates how beyond a market-based logic, building a global investment portfolio is very much influenced by the inherited institutional settings in which SWFs are created and operate. Building from Chapters 4 and 5, the present chapter points to the PIF as an effective instrument to streamline decision-making and allow incumbents to overcome existing institutional constraints driven by the fragmented state apparatus. Conversely, it enables more sophisticated and nuanced analysis of SWF asset allocation internationally. The chapter delineates how the Saudi leadership leverages PIF international investments to enhance or preserve strategic international alliances. Additionally, the government consciously and conspicuously deployed the PIF across the global financial market to implement counter-cyclical investment policies but also as a nation-building instrument. In the face of mounting pressure on rentier frameworks, sovereign funds can serve both as adaptive strategies to transform and adapt a ruling political coalition against external
challenges stemming from globalisation or climate change while concurrently offering a tool to address immediate socio-economic pressure and provide for regime stability.
Conclusion

This thesis began with two puzzles: Why did the PIF acquire such a ubiquitous role in the Saudi political economy since 2015? Why have Saudi SWFs, traditionally designed for savings and long-term stabilization, been increasingly used as primary instruments for proactive economic diversification in times of fiscal uncertainty? In answering these questions, this study developed an analytical framework for analysing sovereign wealth management within Saudi Arabia’s rentier framework. The framework delineated in Chapter 2 hinges on the distinction of SWFs as instruments of regime stability based on the complex and deeply ingrained distributive system penetrating the Kingdom’s state apparatus and state-society relations. In the context of diminishing oil revenues and the impending post-carbon international political economy, I find that the PIF operates both as an adaptive strategy to sustain structures of political authority and external support while reorganising patterns of state-society ties built on clientelism. This concluding chapter will proceed as follows: I summarise the key findings and contributions to rentier state debate and theories of SWFs emanating from this thesis before sketching the implications of the role of sovereign funds in Saudi Arabia relating to its ‘green turn’ under financial globalisation.

7.1 Introducing a Sociology of Sovereign Wealth Funds

My thesis contributes to existing theories of SWFs by integrating the perspective of economic sociology into the literature on the politics of sovereign funds. Only a few studies
have systematically investigated the effects of state-society relations on SWF choices. One of the main arguments in this nascent scholarship is that business interests are key co-creators along with the state; the interaction between political and socioeconomic actors in different subsystems of the policymaking process has a profound effect on the establishment and type of SWFs (Braunstein, 2019a). While this literature provides rich insights into the political character of SWF creation, how these historical and political relationships structure the governance and allocation of sovereign wealth at home and abroad, the very object of this thesis, tends to drop from focus. Building from the insights of a domestic politics approach focused on state-society linkages, my study developed a micro-oriented approach for a finer-grained analysis of the political facet of sovereign wealth management in a rentier framework.

The underlying premise of this thesis is that SWFs are outcomes of policy decisions, thus the results of socio-political dynamics driving policymaking, themselves interwoven in a distinct path of political relations and institutions. If sovereign funds have long been acknowledged to serve a broad range of macroeconomic objectives, including fiscal stabilisation and curtailing the Dutch disease, my analysis shows that SWF design and use cannot be attributed to explanatory factors such as macroeconomic objectives and diversification challenges alone. While there is little doubt that these factors were instrumental in shaping SWF choices in Saudi Arabia, I have argued that SWF design and use do not emerge in a political vacuum but are best described by a host of political-economic factors emerging from the interplay of politics and economics. Indeed, Saudi state-building has primarily involved allowing ambitious members of the ruling elite to
develop largely independent institutional strongholds as well as the co-optation of socioeconomic actors into a distributive system and patronage networks. (Hertog, 2010c; Kamrava et al., 2016). By upholding the core premise of SWFs as instruments of regime maintenance, I contend that SWF development serves as a means to foster economic growth while reproducing rentier mechanisms of state control and patronage. Moreover, revisited rentier state theory accentuates how an approach disaggregating the concepts of ‘state’ and ‘society’ is most appropriate to unpack the patterns of state-society links in Gulf oil monarchies (al-Sharekh & Freer, 2021; Hertog, 2005; Moritz, 2020a). My thesis thus developed this broader argument of SWFs as instruments of regime maintenance by tracing what I call a sociology of sovereign wealth funds.

Beyond the Saudi case, introducing a sociological perspective into established analytical frames based on domestic politics offers a complementary perspective for comparative and international political economy scholarship. The framework developed in this thesis can help to throw light on the socio-political foundation of sovereign wealth management and its implication for the rise of transnational state capital (Babic, 2021; Babic et al., 2020). Inference about the effect of state-society relations on state investment funds through a focus on generic aggregates such as ‘state’, ‘private sector’ or ‘chambers of commerce’ may lead scholars to underestimate the atomising consequences of political relationships found in many developing countries, which account for the majority of growth in SWFs (Braunstein, 2019a). Rather than being highly institutionalised with multiple access points to the state, state-business ties are often particularistic and personalised (Schneider et al., 1997).
Detailed case study on sovereign development fund sponsoring countries as eclectic as Singapore (Welsh, 2016), Kazakhstan (McMann, 2014), Turkey (Gurakar & Bircan, 2019) or Malaysia (Weiss, 2020) underlines how access to the state in emerging economies is often via informal channels instead of aggregate or public ones. For example, in a detailed analysis, Nowacki and Monk (2019) shows how Malaysia’s SWF Khazanah oscillated between cooptation and balancing existing informal networks of influential actors to develop Iskandar Malaysia. Otherwise, a conceptual distinction between the ‘state’ and ‘private sector’ can be empirically blurred by political clientelist structures within and around the state. For example, if Hertog (2010b) and Welsh (2016) demonstrate that ruling elites in Saudi Arabia and Singapore rely on clientelism and control over the state apparatus to maintain power, Kamrava et al. (2016) accentuate how the superposition of historical family connection on political ties closely shapes state-business relations in Gulf states. In addition, business insiders often hold senior offices in state apparatuses, whereas members of ruling elites operate across various economic domains in a private capacity (Hanieh, 2018; Kamrava et al., 2016). As a result, this thesis introduced a sociological perspective on SWFs, which peels layers of intricate socio-political linkages implied in the expansion of strategic investment funds.

7.2 Between Legitimacy and the Personalisation of Institutional Design

The thesis shows how the PIF's organisational charts mostly follow best institutional design and governance practices advocated by the IFSWF's Santiago Principles. This effort promotes ‘legitimacy by governance’ (Dixon et al., 2022a) and portrays a commitment
from the Saudi government to adopt standards of sovereign wealth management consistent with the expectation of global market participants. Yet, it would be a mistake to assume that just because the PIF appears to embrace best practices for governance structures that institutional design was solely driven by efficiency and legitimacy considerations. Beyond consideration concerning IFSWF best practices, PIF governance structures are key instruments of bureaucratic clientelism; they are the theatre of considerable political influence and the reproduction of established political alliances.

The changes in PIF’s decision-making structures and governing bodies reflect power shifts and coalitions among a small network of princes and technocrats since the rise of MBS. Based on these findings, I argue that PIF governance structures provide an apparatus to negotiate intra-elite power-balancing games by filling top-level positions with close political allies and circumventing institutional fragmentation to advance elite-based interests. Similar dynamics have emerged in the UAE. Since 2004, Muhammad bin Zayed Al-Nahyan (MBZ) has relegated erstwhile influential officials and senior ruling elite members to a peripheral role while consolidating power among his trusted kin or within a select group of technocrats (Davidson, 2021). As part of this centralisation of power, MBZ put senior members of the ruling family, his brothers in this case, in charge of Mubadala and Abu Dhabi Investment Authority (ADIA), approximately worth a combined $1 trillion. Sheikh Tahnoon bin Zayed was named chairman of ADIA, and Sheikh Mansour bin Zayed was elevated to chairman of Mubadala. In addition to ADIA, Tahnoon chairs ADQ, Royal Group, International Holding Company (IHC) and First Abu Dhabi Bank (FAB), all while acting as National Security advisor. In turn, Mansour chairs Mubadala, Emirates
Investment Authority (EIA), Abu Dhabi Fund for Development (ADFD) and the Abu Dhabi Judicial Department in addition to his role of deputy prime minister of the UAE (Global SWF, 2023; Saba, 2023).

These findings echo what Bank et al. (2022, p. 41) call the “resurgence of personalistic rule” in the Middle East. Despite the downfall of most previous personalistic leaders, many authoritarian regimes in the region - republics and monarchies alike - have embraced an increasingly personalised ruling style in the wake of the 2011 Arab uprisings. Bank et al. (2022, p. 41) note that “Egypt under Abd al-Fattah al-Sisi, Syria under Assad, Saudi Arabia under Crown Prince Mohammad bin Salman (MBS), Turkey under Erdogan, and Algeria under Abdelaziz Bouteflika prior to his 2019 deposal […] All qualify as cases of leaders agglomerating for more power and resources into their individual offices than existed before, dismissing executive constraints while eschewing the use of old or new political institutions”. Amidst the resurgence of personalism and the concomitant concentration of authority, findings from the Saudi case underscore how SWFs surface as potent tools for incumbent elites to manipulate or even override established institutions perceived as constraining their desired level of autonomy.

If the PIF emerges as a key instrument to navigate the fragmented institutional landscape, the Saudi government often created new administrative entities to address policy issues and political conflicts (Hertog, 2010c). The Foreign Investment Act (FIA) was

51 For example, the personalistic dictatorships of Zine El Abidine Ben Ali in Tunisia, Hosni Mubarak in Egypt, Muammar Qaddafi in Libya or Ali Abdullah Saleh in Yemen fell under the pressure of mass mobilisation (Bank et al., 2022; Bellin, 2012; Yom & Gause III, 2012).
implemented in 2000 to enhance the investment climate and FDI after a fiscal crisis from the mid-1980s until the late 1990s. Consequently, an independent body, the Saudi Arabian General Investment Authority (SAGIA), responsible for foreign investment policy, was established under FIA regulations. SAGIA functioned similarly to the PIF; it was an insulated agency directed by an institutional client of crown prince Abdullah (king from 2005 to 2015) under a clear reform-oriented agenda. During its initial phase, the FIA was driven forward by Abdullah’s leadership. However, SAGIA encountered stiff opposition from established agencies such as the Ministry of Commerce and Industry (MoCI), the Ministry of Justice (MoJ) and the Ministry of Interior (MoI), who were resistant to political and administrative change. According to Hertog (2010b, p.181-182), “SAGIA was created at a moment when administrative turfs had already been claimed. […] SAGIA had close to zero leverage over the largely autonomous MoI and MoJ”.

The different fates of SAGIA and the PIF in overcoming veto players can be attributed to the concentration of power and the rise of a personalistic ruling style under MBS. During King Abdullah’s reign (2005-2015), political cleavages and state segmentation obstructed SAGIA’s access to the necessary resources and support to succeed (Hertog, 2010c; Kechichian, 2001; Lacey, 2010). However, the age of King Salman is characterised by an unprecedented centralisation of top-level political and economic agencies around crown prince MBS and close political allies. This concentration of authority at the top-level and personalistic ruling style allowed incumbent elites to deploy the PIF’s cross-cutting diversification mandate mostly unconstrained from the cumbersome bureaucratic apparatus. The development of SWFs in rentier states appears to reinforce and feed into
prevailing power hierarchies, which carry significant implications for regime stability and far-reaching implications for political and economic outcomes.

7.3 The Domestic and International Expansion of Saudi Arabia’s PIF: Balancing Diversification, Control and Rent-Seeking

The analysis of the domestic deployment of the PIF reveals the Saudi sovereign development fund is the financial enabler and facilitator of the Kingdom’s diversification efforts. The PIF domestic portfolio exposes the funds overarching strategy to spearhead diversification and long-term growth by crowding in private sector activity and seeding new ecosystems. Indeed, the Saudi SWF channelled considerable investments and established new subsidiaries to fill the financing gap and create new opportunities in emerging sectors like tourism and military equipment, in addition to the various PIF-driven large-scale and multi-purpose projects.

However, this thesis puts forward that a simple reading of the PIF expansion in Saudi Arabia through the diversification lens overlooks how the PIF epitomises a reconfiguration of economic development through the re-articulation of the rentier state’s pivotal role in allocating capital and attending to deep-seated patterns of clientelism. If previous wide-ranging economic reform projects from 1999 to 2009 fell into the pitfalls of interagency disputes and overlapping or competing jurisdictions (Hertog, 2010), the findings demonstrate how the PIF is the sole financier and developer of Saudi Arabia’s cross-cutting diversification efforts. Through SWF expansion, the Saudi government remains the
primary contract allocator for infrastructure and downstream industrial developments, the historical patronage conduits through which the Saudi state has supported targeted merchant elites. By the same token, I have shown that PIF activities in the Kingdom are interwoven in a web of privately-owned conglomerates drawn from prominent business families enjoying privileged access to the state and ruling family. Furthermore, PIF investments consolidate established and lucrative economic activity sites while generating new lucrative accumulation opportunities for established merchant elites.

However, PIF expansion across the Saudi economy also expose shifting dynamics in state-business relations since 2015. Since the first oil boom, the private sector in Saudi Arabia has acquired some level of economic independence from the state, moving beyond simple rentier clientelism. Moreover, the inclusion of business into the policymaking process has been somewhat institutionalised, either through the Chambers of Commerce and Industry or Majlis Ash-Shura (Al-Rasheed, 2010; Kraetzschmar, 2015). As a result, the Saudi private sector evolved with a certain level of autonomy; some cases, like the Business Petition of 1990 or WTO accession in the early 2000s, even involved turf battles between private business and the state over profit-making activities (Hertog, 2008b; Okruhlik, 1999). More recently, the strategic diversification Vision 2030 plan launched by the government in 2016 emphasises an increased role private sector players in driving economic activity. Notably, the Vision 2030 blueprint states that “Building a vibrant and prosperous private sector is a national priority for the Kingdom, and today we are initiating a new era that is more powerful in terms cooperation and partnership between the public and private sector” (Kingdom of Saudi Arabia, 2023). As part of this process of private
sector empowerment, the government accentuates that “the Public Investment Fund will not compete with the private sector, but instead help unlock strategic sectors requiring intensive capital inputs” (Kingdom of Saudi Arabia, 2016b, p. 42).

Nonetheless, under the leadership of MBS the Saudi government increased its control over the commercial and industrial space and the PIF played a crucial role in this process. Since 2015, the PIF has created more than 60 companies in a wide array of sectors, including tourism, entertainment, military equipment and even its own EV brand. This strategy aims to catalyse private sector activity and seed new economic domains to build domestic industrial capacity and employment opportunities. However, the expansion of the PIF also points to the sovereign fund as a key mechanism to tighten control over the economy, cut out intermediaries, repatriate lucrative domains and centralise power. If PIF domestic activities support historically connected merchant families, increased state control over the economy through the sprawling presence of the PIF ultimately weakens the position of established business elites vis-à-vis the ruling elite. The careful power balancing of political and commercial interests through SWFs indicates strategies to reshape and centralise rent-seeking under a new leadership rather than nurturing greater private sector autonomy. Notably, business players associated with the Abdullah faction such as the Bin Laden Group were marginalised while PIF activities primarily target the Al Rahji, Al Zamil or Al Muhaidib Group. The careful power balancing of political and commercial interests through SWFs indicates strategies to reorganise old patronage networks under a new leadership rather than nurturing greater private sector autonomy.
Beyond its role in the Saudi economy, the PIF carries the mandate to invest globally in strategic sectors consistent with national economic development goals. The underlying goal is to lower dependence on fossil fuel exports, attract FDI and create international strategic partnerships to localise industries and technologies across targeted economic sectors. The analysis of PIF international investments shows a focus on renewable energy and technology-focused ventures. The Saudi SWF actively drives the Kingdom’s low-carbon transition through considerable investments in renewable energy or EVs. Furthermore, the PIF created significant partnerships in the video games, sports and entertainment ecosystems in line with aspirations to establish Saudi Arabia as an international hub for tourism and entertainment. This structure is line with Saudi Arabia’s pursuit of economic diversification.

I nuance this analysis by demonstrating how the PIF international investment strategy represents a re-articulation of Saudi Arabia’s sovereign wealth management. Since 2015, the PIF operates under an active investments strategy which demonstrates an inclination for elite-based interests and short-term tactical investments to generate quick returns but also increase the Kingdom’s international reach. This marks a clear break from Saudi Arabia’s five decades of conservative sovereign wealth management strategy built around liquid and low-risk assets under SAMA. The concentration of sovereign wealth management under the PIF’s umbrella, overseen by a tightly knit group of high-level insiders close to MBS, demonstrates an effort to bypass SAMA’s largely autonomous and technocratic body seen as hindering the leadership’s desired levels of autonomy in policymaking. In turn, this allows the Saudi government to implement a short-term and
risk-taking sovereign wealth management strategy to bankroll a top-down socio-economic transformation agenda.

If one considers that the concentration of power in the Saudi political landscape has had a significant effect on governance structures and investment strategy, is the PIF expansion a mere story of leadership? If the rise of MBS shaped the PIF expansion since 2015 more than any other event, this trajectory also appears, however, somewhat contingent in retrospective: there were reported propositions by Prince Alwaleed bin Talal Al Saud to King Abdullah to make the PIF, then merely acting as the MoF’s investment arm, the critical organ for diversification and global investments, which the latter rejected (Hope & Scheck, 2020). Had King Abdullah accepted, the PIF, its governance framework and its investment activities would most likely look much different. Instead, the PIF’s revamp and expansion unfolded under the impetus for the consolidation of power around MBS, when the balance of power within the ruling elite and state-society relationships have changed tremendously.

Nonetheless, the critical role of political agency in the PIF’s transformation is not to the detriment of structural changes in the architecture of the global economy. Contemporary risks such as climate change and disruption to traditional industries engendered by emerging technologies and new business models combined with a long-term structural decline in interest rates have pushed all SWFs to move from passive, long-term investment strategies towards short-term and risk taking approaches with greater focus on venture capital markets and equity markets (Dixon et al., 2022b). Moreover, various uncertainties
including fluctuating oil prices, slow global growth, the COVID-19 pandemic or the eurozone crisis prompted a growing demand on Gulf SWFs to stabilise domestic economies, drive economic development and steer the implementation of industrial policies (Bazoobandi & Rossi, 2023).

SWFs from Saudi Arabia and other Gulf monarchies, however, have been particularly aggressive compared to their peers. Indeed, Gulf-based SWFs have shown a tremendous appetite for opportunities amidst what has been labelled “the new Gulf sovereign wealth fund boom” (England et al., 2023). Five of the ten most active sovereign investors in 2022 are from the Gulf in the Abu Dhabi Investment Authority (ADIA), Abu Dhabi’s Mubadala and ADQ, Saudi Arabia’s PIF and the Qatar Investment Authority (QIA) (Global SWF, 2022a). Gulf SWFs significantly increased capital flows into riskier stocks. In 2022, Qatar Investment Authority (QIA) displayed more activity in venture capital markets than any other sector. Moreover, Abu Dhabi’s Mubadala is recognised as one of the most prominent venture investors among all SWFs, with approximately $16 billion of assets under management (Global SWF, 2022a). If Saudi Arabia’s PIF injected $45 billion into the Vision Fund, Mubadala contributed $15 billion and deployed $30 billion over the 2020 COVID-19-induced economic downturn (Dixon et al., 2022b). Mubadala’s deputy chief executive officer declared: “We’re an active, not passive, long-term investor. That means we have control of when to invest, when to monetise” (Nair et al., 2023).

The evidence presented here suggest that the PIF’s transformation is coherent with economic diversification requirements characteristic of oil-dependent economies
(Divakaran et al., 2022; Gelb et al., 2014). Nonetheless, the PIF revamp defies the conventional wisdom of commodity-based SWFs as outcomes of excess revenues following a resource boom (Aizenman & Glick, 2008; Al-Hassan et al., 2013; Das et al., 2009) as its considerable expansion at home and abroad unfolded in a period of characterized by sustained budget deficits. These challenging fiscal trends are compounded by low levels of foreign investment, demographic pressure and youth unemployment. In this context, PIF expansion and its increasingly aggressive strategy rather appears as an adaptive strategy to maintain the rentier state model while providing incumbents a flexible statecraft instrument to adapt and evolve in order to tackle the challenges globalisation, climate change or societal pressure.

7.4 Sovereign Wealth Funds and Evolving Rentierism

My thesis has employed revisited rentier state theory as an analytical tool to grasp the institutional setting in which the Saudi SWF was created and operate. My study did not try to induce a profound shift in rentier state theory. The findings instead expand, and also update, theoretical notions of the rentier state by revealing how local elites leverage SWF development to accomplish political and economic objectives in the name of regime stability. Indeed, SWFs are the central mechanisms to manage all-important hydrocarbons revenue and diversification efforts in Saudi Arabia and other Gulf monarchies. As such, a comprehensive understanding of how Gulf rentier states deal with the consequences of economic diversification and climate adaptation cannot be achieved without a thorough examination of SWFs. Yet, SWFs are conspicuously absent from rentier state debates and
are seen as instruments to address diversification challenges outside established rentier frameworks (Braunstein, 2019a; Divakaran et al., 2022; Halland et al., 2016). In contrast, this work examined SWF development in Saudi Arabia and demonstrated how the PIF’s expansion is interwoven in the institutional fragmentation and clientelist structures in the Saudi rentier framework. As such, the logic of SWFs as instruments of regime maintenance advanced in this study carries broader theoretical implications related to the economic role of the private sector and the persistence of rentierism.

Early rentier state theorists argued that rentier states tend to focus on creating temporary prosperity to the detriment of long-term sustainability (Abdel-Fadil, 2015; Auty, 1993; Ross, 2013; Sachs & Warner, 1995). Nonetheless, contrary to the assumptions of early rentier state theory, Saudi Arabia and the other Gulf oil monarchies have espoused development strategies in the early 2000s to move toward a knowledge-based and diversified post-oil economy, which are now all driven by SWFs52. In this vein, Gray (2011) suggests it is more fruitful to think of such states through a *late rentier model*, where the new entrepreneurial state capitalist structures “set strategic goals and visions rather than seek to centrally plan or manage the economy; favour tertiary economic sectors and late-late development concepts above heavy industrialization; and set in place the mechanisms for investment attraction and export-led economic growth” (p.32). Working from late rentierism, recent scholarship questions if rentier states have been able, and are now likely, to transcend a rentier economy considering shifts in the global energy mix, demographic

---

pressures and SWF-led structural reforms (e.g., Diwan, 2019; Gross, 2023; Hertog, 2019; Krane, 2019; Yamada, 2020).

Traditional objectives of sovereign development funds include diversification through catalysing investments, seeding new economic sectors and creating spillover effects (Braunstein, 2019a; Divakaran et al., 2022; Halland et al., 2016). All of these macroeconomic objectives certainly apply to the PIF. Nonetheless, this research suggests that the persistence of rentierism in Saudi Arabia and economic diversification away from hydrocarbons are not mutually exclusive processes. I argue that the attempt at diversifying the Kingdom's economy from fossil fuel revenues through SWF development will not provoke the end of rentierism but rather demonstrate an attempt by the regime to revisit and adapt the rentier bargain underpinning regime resilience to continuously changing political and economic conditions.

With the decline in oil prices, global decarbonisation efforts and structural diversification strategies, power elites are assumed to find it increasingly challenging to co-opt all segments of society. From this perspective, it is assumed that economic reforms are an opportunity for the private sector to increase its political autonomy (Luciani, 2007). The basic logics stems from modernisation theory, which posits that higher levels of development create a vibrant middle class less dependent on the state and therefore more capable to press the state for political change (Lipset, 1959). The evidence shows that SWF development fits neatly into increasing calls for greater private sector involvement in rentier states, particularly as a means for governments to create new accumulation channels.
and divide specific distributional responsibilities among actors in the private sector without extending substantial economic authority and political power to these groups. Despite an official narrative of the PIF as a catalyst to enable private sector activity, the careful balancing between the ruling family’s and merchant elites’ interests in SWF development indicates strategies to reinforce, or at least maintain, control over economic development rather than nurture greater private sector autonomy.

Moreover, under the spectre of accelerating decarbonisation efforts and uncertainty over oil markets, all-important oil revenues are likely to dry up or at least become increasingly volatile. In this context, SWFs can provide an alternative source of income for the state and sustain extant political-economic distributive institutions. Indeed, a commodity-based SWF turns a finite natural resource revenue into a financial asset (Dixon et al., 2022a; Grigoryan, 2016; Hatton & Pistor, 2011; Schwartz, 2012). The regime can then assert its authority over wealth-generating assets while leveraging the fund to bankroll industrial upgrading, seed new sectors or deploy investments to attend entrenched patronage structures. Scholars like Luciani (1994) and Karl (1997) develop accounts explaining how oil busts might create the fiscal stress to catalyse regime collapse in rentier state as rent scarcity is likely to exacerbate existing tensions that had been kept under control by oil-based distributive frameworks. Yet, these accounts do leave open what other types of rent (apart from oil rent) may affect regime resilience and in what ways state expenditures (as opposed to state revenues) are adapted and used by regimes as their material basis to create or maintain economically based legitimacy. Thereby, the theoretical lens of SWFs as tools of regime stability expands our understanding of the capacity of social bargains
underpinning authoritarian resilience in rentier states to adapt and respond to continuously changing political and economic conditions; contrary to a static view of rentier states, the persistence of rentier policymaking and economic diversification are not mutually exclusive processes. This analytical framework carries fruitful avenues of reflection regarding the implications of low-carbon transitions for political and economic structures in Saudi Arabia and how climate change is reshaping the rentier states’ place in global capitalism.

7.5 Stability and Sustainability: Sovereign Wealth Funds and Low-Carbon Transition in Rentier States

My study developed a theoretical argument that sovereign funds can be alternative mechanisms to sustain the rentier state. The PIF appears driven by what Dixon et al. (2022a) coin as a stabilising impulse, which can arise when state employs an SWF in "transforming its scale or geographies of intervention to strengthen its sovereignty and/or protect the domestic political order" (p.92). I have argued that incumbent elites may use a sovereign development fund like the PIF to act as a bulwark against externalities related to economic transformation to maintain socioeconomic stability and, ultimately, implement a more flexible social bargain to sustain the extant political order.

If the oil-based rentier system contributed to the stability of rentier states for more than half a century, it poses unique challenges amidst escalating climatic effects. Saudi Arabia and GCC countries are in a difficult position – expected to suffer severe environmental harm
from inaction on climate and economic harm from the world's effort to mitigate climate change by reducing fossil fuel use. The magnitude of adjustments to allocative systems required would be unprecedented, with far-reaching implications for institutions and state-society patterns that have facilitated regime stability. Saudi Arabia has attracted worldwide attention due to its ambitious plans to restructure their carbon-based economies. In October 2021, Saudi Arabia launched its Saudi Green Initiative. The inaugural event hosted some of the biggest names across politics, global finance and business. In his opening remark, crown prince Mohammed bin Salman made the striking announcement that Saudi Arabia will achieve net zero emissions by 2060 (Al-Atrush et al., 2021). The PIF developed a Green Finance Framework to oversee its activities and accelerate Saudi Arabia’s low-carbon transition. Besides, the PIF is an active investor in alternative energy sources and pledged to develop 70% of Saudi Arabia’s renewable energy in its road to net zero emissions by 2060 (PIF, 2022b).

This prompts several questions: What are the implications of transitioning to a low-carbon economy for established political institutions and social coalitions in rentier states? How is climate change reshaping the region’s place in the global political economy? The lens of SWFs as tools of regime maintenance provides a theoretical and empirical basis for understanding low-carbon transitions in rentier states by examining one core mechanism: the turn towards SWFs to re-articulate patterns of economic development. It points to the emergence of SWFs as primary instruments to drive low-carbon transitions as an elaborate effort to revisit and mould the rentier state within the reorganisation of financialised green capitalism.
7.5.1 The Financialisation of Sustainable Development

Financial globalisation set the specific context in which international development is pursued following the 2008 Global Financial Crisis (Braun, 2022a; G. F. Davis & Kim, 2015; Gabor, 2021; van der Zwan, 2014). In contrast to earlier neoliberal reform frameworks based on the privatisation of SOEs, liberalisation of trade and macroeconomic stabilisation, the 2009 World Bank Development Report identified an infrastructure gap as the main bottleneck for developing countries (Schindler et al., 2022). The new development mantra called for ‘infrastructure-led development’ promoted by international organisations such as the OECD, G20 and the World Bank. The UN’s 17 Sustainable Development Goals (SDGs) and the broader 2030 Agenda for Sustainable Development set an ambitious transformational vision based on shared prosperity, sustainable habitats and renewable energy (UN, 2022). Nonetheless, the monumental scale of these transformative development goals brought forward a financing gap, especially relative to the financial capacity of most developing countries (Schindler et al., 2022). The World Bank estimated costs upwards of $4.5 trillion yearly in state spending to achieve the SDGs (World Bank, 2017). Hence, public expenditures must be complemented by the private sector. Organisations such as the G20 and the World Bank called for mobilisation of private investment capital in infrastructure-led development.

In 2017, the World Bank unveiled its Maximising Finance for Development (MFD) approach, which aims to leverage private finance to support sustainable growth objectives. The MFD underlines that “the private sector can play a much bigger role in socially and
environmentally responsible development, both as an investor and as a source of innovation and expertise” (World Bank, 2017). The G20’s *Infrastructure as an Asset Class* identifies “the importance of infrastructure for growth and development and the need to tackle investment shortfalls as a way of lifting growth, job creation, and productivity” (G20, 2018, p. 1). The framework advocates a central role for institutional investors and asset managers in infrastructure financing based on their attractive portfolio diversification opportunities anchored in “time horizons, synthetic inflation hedge, relatively high expected yields and returns that are uncorrelated with business cycles” (G20, 2018, p. 1). Overall, the World Bank advertised $12 trillion in market opportunities in multiple sectors such as health, education, transportation and welfare through investible projects packaged as public-private partnerships (PPP) (World Bank, 2017). The G20 *Infrastructure as an Asset Class* specifies the central role of risk allocation in infrastructure development and instruments to mitigate those risks. In the case of emerging markets, “the viability of infrastructure as an asset class requires that these risks are addressed, mitigated and allocated to relevant stakeholders” (G20, 2018, p. 2). Besides, the G20 underlines the necessity of appropriate regulatory frameworks and capital markets to ensure well-functioning infrastructure financing and attract institutional investors (G20, 2018).

From here, the answer is often to allocate risk to the state in order to create a safety net for institutional investors and asset managers to invest in ‘green’ projects (Gabor, 2021; Schindler et al., 2022). Gabor (2021) refers to these dynamics as the Wall Street Consensus (WSC), a de-risking state paradigm across developing economies in tandem with global finance capital to align sustainable projects with the preferred risk/return profile of
institutional investors. The de-risking paradigm calls for commodified large-scale infrastructure projects organised in tandem between states and private capital to provide countries with the necessary investments to reduce their emission rates while stimulating economic growth. In turn, these practices lead to important structural transformations toward market-based finance to create investible assets aligned with SDGs. Gabor (2021) argues that “development is narrated as a matter of closing funding gaps through partnerships with (global) institutional investors, while development interventions are defined as policies that create risk buffer to render development projects ‘investible’ ” (p.433).

The shift to de-risking is accompanied by the particularly significant role of states as development actors supervising and administering capital (Alami et al., 2021, 2022; Alami & Dixon, 2020). This is embodied in state-led economic diversification and industrial upgrading strategies. Like Saudi Arabia and Vision 2030, states have implemented structural transformation or economic diversification geared towards large-scale infrastructure projects and industrial upgrading (Kanai & Schindler, 2022; Schindler et al., 2022). Implementing these wide-ranging economic transformation strategies is undertaken by 'pilot agencies' like SWFs, that exert power to de-risk projects and act as partners with global finance all while undertaking industrial diversification and overseeing infrastructure construction. These SWFs, or what the World Bank coins as strategic investment funds (Divakaran et al., 2022), operate under explicit economic transformation mandate and often answer directly to the executive branch of government, seeing their authority supersedes other government agencies (Alami et al., 2021; Dixon, 2020b; Dixon et al., 2022a).
deployment of SWFs in de-risking states, therefore, tends towards centralization of authority and, in addition, embraces a growing entrepreneurial role in a market-based manner through its vital role in supervising and allocating capital (Schindler et al., 2022). Since Saudi Arabia’s government markets the PIF as an initiative to diversify its oil-based economy towards sustainable industries and become a global investment powerhouse, it is worthwhile to reflect upon how SWF development within Saudi Arabia’s rentier framework intersects with de-risking dynamics in low-carbon transitions. In the following, I will show how the conceptualisation of SWFs as instruments of regime stability helps to make sense of this complex trajectory in the Kingdom.

7.5.2 The PIF’s Green Finance Framework in the Age of Green Capital

In 2022, the PIF introduced its Green Finance Framework which portrays the sovereign fund as a significant financier towards Saudi Arabia's attempt towards sustainability. The PIF made a commitment to finance around 70% of renewable energy in Saudi Arabia for it to achieve net zero emissions by no later than 2060 (PIF, 2022b). According to its vision statement, the PIF seeks to "become a global investment powerhouse and the world's most impactful investor, enabling the creation of new sectors and opportunities that will shape the future global political economy while driving the economic transformation of the Kingdom" (PIF, 2022b, p. 1). From a broader perspective, Vision 2030 adopts the WSC jargon by emphasising the mobilisation of foreign investment whereas creating fiscal discipline and a competitive regulatory framework in Saudi Arabia are put into sharp relief.
There is a clear emphasis on developing “general legislative frameworks for privatisation and PPP” (Kingdom of Saudi Arabia, 2017, p. 8).

PIF expansion in low-carbon ventures acts as a mechanism to project to institutional investors that Saudi Arabia has achieved the level of sophistication consistent with expected practices or norms of global market actors. The PIF’s Annual Report 2021 presents the PIF as using "a stringent governance and investment methodology" and adopting and practising "a risk management approach centred on diversification, detailed due diligence and downside protection" (PIF, 2022a, p. 52). Saudi Arabia’s PIF, which seeks to achieve the objectives set forth in Vision 2030, represents a blending of financialisation of global development initiatives and state-led industrial upgrading policy that ultimately transform the state’s role in patterns of economic development.

More importantly, however, the pivotal turn to SWFs in national low-carbon transitions demonstrates an elaborate effort to mould and fit the rentier state within the reorganization of global development interventions around market-based green infrastructures in partnership with global finance. The de-risking paradigm is accompanied by a range of mechanisms and at various scales; project-specific arrangements are outlined in public-private partnerships (PPP), while the broader mission of the de-risking state involves an overhaul of domestic financial sectors towards market-based banking (Gabor, 2021). Through this lens, the PIF Green Finance Framework resulted in reforms targeted to further integrate the Saudi economy within the international political economy. One of the key measures is the development of an Environmental, Social, and Governance (ESG) policy
and framework. Through the Framework, the Saudi government underscores how “the Fund [PIF] aspires to become one of the leading SWFs in terms of ESG coverage and integration […] to attract thematic and impact investors by providing external transparency and positioning of advanced practices, enabling thought leadership” (PIF, 2022b, p. 2). The PIF targets a range of initiatives, which primarily include (1) the PIF’s carbon transition plan to drive the Kingdom's pledge of net zero by 2060; (2) developing ESG policy for portfolio companies; (3) attracting investments, including through the issuance of green bonds; and (4) integrate international reporting and disclosure standards (PIF, 2022b).

This shift towards an ESG framework through the PIF acts as a gateway to encourage ‘green’ financialisation (Gabor, 2021). BlackRock played the leading advisory role in developing the PIF’s Green Finance Framework (Martin, 2022), which creates "Green Financing Instruments". These include green bonds, Sukuk and other debt instruments to mobilize private capital and support climate-related projects. The PIF Green Finance Framework enable institutional investors to diversify their portfolios effectively while minimizing risk exposure. The PIF accentuates that ‘sukuk, bonds and any loans entered into under this Framework will be standard recourse-to-the-issuer obligations and investors will not bear the credit risk of the underlying allocated eligible asset exposures’ (PIF, 2022b, p. 7). Under the ESG framework, the PIF raised $8.5 billion from 250 global investors in the first ever green bond issuances by any SWF (Hafiz, 2023; Narayanan, 2022). The capital is earmarked for ‘sustainable’ projects in renewable energy, green buildings, energy efficiency, pollution control, clean transports or infrastructure megaprojects that encompasses most, if not all, eligible venture types (PIF, 2022b). This
made the PIF the second most active issuer of green bonds behind the European Investment Bank. Besides, PIF green bonds are a key holding for several sustainable debt funds. For instance, it is the second largest holding in the BlackRock-managed giant iShares USD green bond exchange-traded fund (ETF) (Richardson & Erlandsson, 2023). Concurrently, the PIF partnered with BlackRock to establish a fund pursuing joint investment opportunities in the Kingdom’s bustling infrastructure sector (Martin, 2022).

When Saudi Arabia embarked on its unprecedented reforms in 2016, a Norton Rose Fulbright report underlined that “although there is clearly senior policy appetite for foreign investment, PPPs and privatisation, the framework for large-scale PPP projects in the Kingdom is yet to be developed” (NRF, 2016). The development of PIF’s Green Finance Framework provides the needed enabling environment and financial instruments to absorb risk and catalyze private investment at scale and fully implement the leadership’s all-important diversification program. Through that lens, the PIF and its Green Finance Framework provides a mechanism for the Saudi government to address the threats of scarce fiscal resources and suffering foreign investments in a context of climate adaptation by mobilising the portfolio glut of global asset managers through ESG practices and market-based finance like green debt instruments.

Low-carbon megaprojects like NEOM, however, encompass large-scale and complex construction processes to deliver infrastructure, buildings and industrial facilities implying large amount of resources and energy consumption. Besides, Environmental Impact Assessment for such large projects tend to fail in thoroughly evaluating actual ecological
impacts underlying such massive ventures (Afreen & Kumar, 2016). This is not, however, to deny the immense investment opportunity represented by PIF-driven low-carbon mega infrastructure projects. In that sense, Braun (2022a) shows that asset managers have systematically engaged in ‘greenwashing’ by portraying investments as more environmentally sustainable than they actually are, while neglecting to enforce ESG principles at their portfolio companies. This point to the PIF’s Green Finance Framework as allowing institutional investors to leverage the ‘green’ or ‘sustainable’ label to project an environmentally responsible image and benefit from the highly lucrative opportunities presented by Saudi Arabia’s diversification efforts while overlooking the actual political impact of environmental sustainability of their investments.

At the same time, this de-risking rentier state facilitates the influx of foreign capital to support the government’s economic diversification agenda creates alternative sources of externally derived income, the outcome being the reproduction of rentier mechanisms of state control and patron-clients relationships. The lens of SWFs as instruments of regime maintenance accentuates how these dynamics have been adapted to fit the local context and maintain rentier structures. The concentration of power is promoted through PIF-driven low-carbon; historically, renewable energy projects were under the umbrella of the Renewable Energy Project Development Office (REPDO) operating within the Ministry of Energy. Yet, REPDO was sidelined by the PIF with the latter being given the mandate to develop 70% of renewable energy projects with 30% allocated to REPDO (PIF, 2022b; Roscoe, 2019). The increasing role played by the PIF to the detriment of REPDO is part of a broader marginalization of the Ministry of Energy from low-carbon projects. This points
to the SWF as an instrument for incumbent elites to manipulate or even override established institutions or intermediary actors perceived as constraining desired levels of autonomy in pursuing elite-based interests.

Decision-making takes place at the highest government levels without much input or coordination with the private sector. If PIF-led low-carbon ventures enhance the dominant role of the state in development inherent to allocative frameworks, it also allows incumbents to exercise tight control over public-private partnerships and create new accumulation pathways for politically connected business elites. In order to develop an international portfolio focused on sustainability, the PIF nurtures selected privately-owned national champions. One example of this is ACWA Power which received significant support from SWF low-carbon development in the Kingdom and now leads Saudi Arabia’s renewable energy program both domestically and abroad. With 44% owned by the PIF, ACWA has grown into the leading investor, developer and operator of renewable energy with more than 60 plants predominantly conducted through multiple PPP packages across 12 countries (covered in more details in Chapter 6). Sim (2023, p. 12) argues that “to shore up his [MBS] internal powerbase, for example, the political and economic influence of oligarchic families was reshuffled and expanded to co-opt newer groups, including Abunayyan and al-Muhaidib, who founded ACWA”. If the growth of renewables fosters some form of private sector participation for politically networked merchant elites, it does not undermine the established patterns of business dependency on the state.
7.5.3 Making Sense of Financialisation and the Rentier State in Saudi Arabia

The domestic low-carbon transition through the PIF has been institutionalised and conducted in a way that does not harm the status quo. The established system of state-society relations is not challenged nor destabilised; de-risking green policies through the SWF have been adapted to maintain the state’s administrative and regulatory oversight over economic development while offering significant advantages to maintain a rentier bargain between state and crony firms under shifting political-economic conditions. The consequential turn to sovereign development funds demonstrates an adaptive mechanism to mould and fit the rentier state within the increasingly financialised global economy. This transformation can be conceptualised as a financialised rentier state. In this emerging paradigm, deepening financialisation of state-society relations through SWF-led development strategies have adapted to fit local institutional settings to maintain deep-seated state control and patronage patterns amidst transformation in the architecture of global capitalism.

Since the early 2000s, the financial sector’s role in generating profit has remarkably grown to the detriment of trade and commodity production (G. F. Davis & Kim, 2015; Epstein, 2005; Krippner, 2011; Perry & Nölke, 2006; van der Zwan, 2014). As part of these developments, non-banking institutions possess half of all financial assets. The term ‘asset manager capitalism’ (Braun, 2022a) refers to the evolving landscape of global capitalism whereby asset management firms have gained significant influence in capital allocation and decision-making. Under such a system there is immense pressure on governments to
shape development policies that comply with institutional investors’ desired risk/return profile and thus erode the governments’ capacity to build autonomous policies (Gabor, 2021). As financialisation was assumed to reduce state autonomy, this perspective implies a zero-sum game where one can only increase at the expense of the other (Karas, 2022). Nonetheless, the analytical framework of SWF as tools of regime maintenance accentuates how this view ignores the political function of financialisation; it is neither *sui generis* or externally imposed and can be a rational strategy for authoritarian state capitalist regimes (Karas, 2022; Schindler et al., 2022).

Authoritarian state capitalist regimes like China, Hungary or Saudi Arabia leverage financialisation as a new mode of statecraft; governments gained access to a range of new tools and methods of governance that enabled them to effectively manage existing or prospective political conflicts. Incumbent elites reacted to existential threats, whether political or fiscal, by carving out financial institutions like sovereign funds as part of emergent political strategies and systems of governance (Karas, 2022; Y. Wang, 2020). SWFs play a pivotal role in reconfiguring transnational state capital and the emergence of financialised forms of management and implementation of state-led industrial policies under asset manager capitalism. The active form of state financialisation embodied in the Saudi PIF aligns with institutional investors’ interests in consolidating the shift towards market-based finance where global capital can access a broader range of development assets within the preferred risk/return profile. In turn, the PIF help the Saudi government to attract the portfolio glut of global asset managers by emulating and applying
the practices of market-based financial actors in terms of investment structures and institutional procedures directly in economic statecraft and state-society relations.

The lens of variegated financialisation (Peck & Theodore, 2007) brings forward how the forms financialisation has taken in a specific country are largely shaped by historical economic and political institutions and their position within the global economy. The financialisation of Saudi Arabia through the PIF is thus embedded in the evolving political economy of rentierism. Epstein (2019) articulates financialisation as a “rentier-led growth” model creating rent income for asset holders through the financial sphere. The rentier nature of value extraction under financialization (Epstein, 2019; Lapavitsas, 2013) is attractive for Saudi Arabia as it enables a financialised form of a rentier bargain. Indeed, the turn toward SWFs as mechanisms of economic development carries inherent rentier characteristics. In its simplest form, a commodity-based SWF converts the revenue generated from finite natural resources into financial assets. In this financialised rentier state, incumbent elites can then maintain oversight and control over wealth-generating assets through strategic domestic or international investments that yield returns or attract foreign investment, which can bankroll state-led industrial transformation, help further integrate the international economy and sustain an allocative social bargain between the state and targeted domestic interest groups.

SWFs are the main instrument for managing and allocating oil wealth or undertake wide-ranging development strategies, therefore are to remain a fundamental feature of the Gulf’s rentier states political economy over the coming decades. If SWFs adhered to the strict
confines of economic theory and resulted solely from the rational decision-making of individuals with perfect knowledge, this thesis would have been much more straightforward. However, as much as this research is about SWF development in Saudi Arabia, it is also about the actors behind sovereign wealth management, the government, firms and individuals, and their interaction. The study underlines how it is crucial to determine the central characteristics of state-society underlying SWF design and use. In Saudi Arabia, state segmentation and historical clientelist structures are the defining components. Moreover, the trajectories of SWF development must be traced to identify the key actors involved and clarify where this process creates mutually reinforcing outcomes or tensions.

The PIF is a central feature of Saudi Arabia's landscapes, leaving a mark on the country's political and economic trajectory but also on the Kingdom's interaction with the global economy. As has been the case throughout history, shifts in the global energy mix bring with them significant political and social changes (Mitchell, 2011). We are amid a period of remarkable transition, driven by a potential shift from the fossil-fuel age to renewable energy. Being the hub of global oil reserves, Gulf countries are key players in this process. Energy resources in Saudi Arabia and the region and how these are managed through SWFs like the PIF have critical significance for the world's environmental, economic, and political future. Thus, the continued expansion of SWFs, their potential decline, or a middle ground between these two futures will be a significant development for Saudi Arabia and Gulf resource-rich countries, with ramifications in the region and beyond.


Al Arabiya. (2022, October 27). *Saudi HR fund, Lucid Motors to train 1,000 Saudis in electric vehicle industry*. Al Arabiya. https://english.alaribiya.net/business/technology/2022/10/27/Saudi-HR-fund-Lucid-Motors-to-train-1-000-Saudis-in-electric-vehicle-industry


Al-Rumayyan, Y. (2022, October 3). *Socrates podcast—With the Governor of the Public Investment Fund* [Radio Eight]. https://www.youtube.com/@thmanyahPodcasts


International Monetary Fund.


International Monetary Fund. (2000). *Debt and Reserves Related Indicators of External Vulnerability* (p. 54). International Monetary Fund.


KAEC. (2022). KAEC. KAEC. https://www.kaec.net/


https://www.theguardian.com/world/2021/oct/16/revealed-newcastle-chairmans-links-to-saudi-anti-corruption-drive
Kumar, K. (2022, December 7). *Saudi construction sector remains the strongest across MENA region*. Al Arabiya. 
*City*, 17(6), 792–805. https://doi.org/10.1080/13604813.2013.853865


PIF. (2021b). *Board Members*. Public Investment Fund.
https://www.arabnews.com/node/2150971/saudi-arabia


Roscoe, A. (2019, January 10). BREAKING: Saudi Arabia sets new 58.7GW renewable energy target for 2030. MEED. https://www.meed.com/saudi-arabia-renewable-energy-target#:~:text=Repdo%20will%20spearhead%20the%20development,previous%20target%20of%20209.5GW.


Sullivan, K. (2015, January 29). *Before he was king, Salman was the disciplinarian who put princes behind bars; Experts say the new king is beloved and feared, but health concerns raise questions about his ability to rule*. The Washington Post. https://www.washingtonpost.com/world/salman-is-known-for-mediating-saudi-royal-disputes/2015/01/22/1bc8dc1a-a2b0-11e4-b146-577832eafcb4_story.html


