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Financialisation in the Gulf States

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ABSTRACT

This paper focuses on financialisation in the six members of the Gulf Cooperation Council (GCC) over the past three decades. The key economic features of the GCC countries relevant for financialisation are outlined. The dimensions of financialisation are drawn to allow investigation of financial developments in the GCC countries. The evolving structures of financial institutions in GCC countries are indicated and compared with their evolution in other countries. Sovereign wealth funds play an important role in the internationalisation of finance in the GCC, as does Islamic finance. Thus, the GCC countries exemplify a variegated financialisation in which both conventional and Islamic finance have expanded at the national and global level.

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Introduction

Financialisation has been a near global phenomenon since circa 1980, though previous periods of financialisation (notably late 19th century to 1930) can be identified (Vercelli 2013 and others). The processes of financialisation have taken many forms, and the term variegated financialisation has been used to indicate that while financialisation has been widespread its forms (and effects) have differed over place and time. The forms which financialisation has taken in a country are strongly conditioned by the nature of the financial system prior to the upsurge of financialisation, the economic and social conditions of the country and its position in the global economy. The central focus of this paper is on financialisation in the Gulf Cooperation Council (GCC) over the past three decades.

The Cooperation Council for the Arab States of the Gulf, or Gulf Cooperation Council (GCC) is a regional intergovernmental political and economic union of six Arab states of the Persian Gulf: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE), all of which are monarchies. The GCC countries formed a customs union in 2003, which became fully operational on 1 January 2015, with attempts to integrate their financial markets in line with the requirements of the common Gulf market. The six countries are among the richest in the world, dependent largely on oil for their wealth. In terms of GDP per capita in 2020, compared with a world average of US$11313, Oman $ 14,485.4, Saudi Arabia $ 20,110.3, Bahrain $ 20,410.0, Kuwait $ 24,811.8, UAE $

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36,284.6 and Qatar $ 50,124.4.[1] They are majority Muslim. Islam, including Sharia law, has strongly influenced the developments of the financial system, including the encouragement of Islamic banks operating according to Sharia law, the development of Sharia-compliant financial products, and the discouragement of traditional household debt.

Section Two is a brief discussion on the nature and dimensions of financialisation around the world. Section Three compares the evolving structures of financial institutions in GCC countries with those in other countries. The specific ways in which finance has been internationalised in the GCC countries is discussed in section Four. Much of the growth of financial institutions in the GCC countries has come from sovereign wealth funds (hereafter SWFs) largely funded from oil revenues. The relationship between SWFs from the GCC countries and the internationalisation of GCC finance, as well as the ways in which SWFs relate to the companies in which they invest are explored in section Five. Section Six shows the significance of Islamic finance in the GCC in the processes of financialisation and of internationalisation. Section Seven concludes.

Remarks on the Processes of Financialisation

Epstein (2005) defines 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). Van der Zwan (2014) identifies three broad approaches to financialisation in the present era: 'financialization as a regime of accumulation', 'the financialization of the modern corporation', and 'the financialization of the everyday'. The growth and evolution of the financial system has been facilitated by deregulation and liberalisation, and the financial sector has often been a key proponent of liberalisation, spurred on by those arguing against 'financial repression' (e.g., McKinnon 1973; Shaw 1973).

The expansion of national financial systems has been (almost) universal over the past four decades or so, but it has taken different forms in different countries, and global financialisation has proceeded rapidly. The term 'variegated financialisation' captures that combination (Peck and Theodore 2007; Aalbers 2017). The features of financialisation[2] include the rapid growth of financial institutions and their assets and liabilities, the growth of financial markets including equity markets and a tendency for markets to grow faster than financial institutions. There is a proliferation of types of financial assets through derivatives and securitisation, and the growth of futures markets in an extended range of items. The formation of financial assets, the value of which is based on a prospective stream of income where that future income can be based on interest payments on loans. The shift from financial assets issued by financial institutions with a fixed rate of interest to financial assets based on a future income stream increases speculative activities — i.e., speculating on price changes. The development of futures markets and derivatives involves trading in financial assets rather than trading in commodities. The increase in corporations engaging in financial investment rather than productive investment is another related aspect of financialisation. The greater involvement of households with the financial sector is reflected in rising household debt.

[1]Source: World Bank database.
[2]This listing follows that of Ashman and Fine (2013) with elaborations.

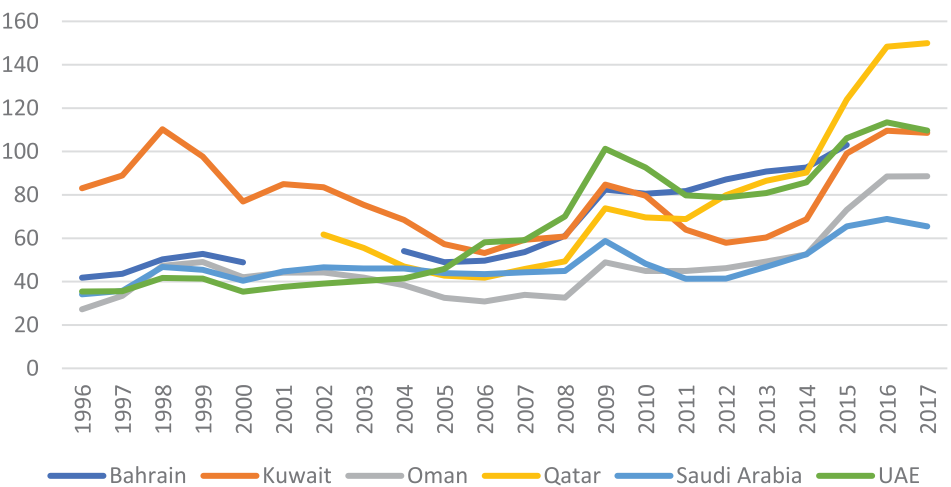

Figure 1. Private bank credits as % GDP. Source: Calculated from Global Financial Development Database.

Structure and Evolution of the Financial Sector of GCC Countries

The growth of the banking sector and stock market in the GCC countries from the 1990s to the 2010s are portrayed in Figures 1 and 2. Private bank credit generally grew relative to GDP. Stock market capitalisation in several GCC countries — like many other countries — rapidly rose relative to GDP in the early to mid-2000s in the run-up to the global financial crisis of 2007–2009. But, in most cases, the figure in 2017 was similar to that in the mid-1990s.

The International Monetary Fund (IMF 2018) argues that 'financial systems in the GCC have developed significantly over the last couple of decades, but there appears to be further room for progress'. It attributes the growth of banking and equity markets to buoyant economic activity, a booming Islamic-finance sector, and financial reforms. It points to a deepening of the region's financial systems and argues that in terms of depth, the GCC 'compares well with emerging markets. However, it still lags advanced economies and, other than for Saudi Arabia, appears to be lower than would be expected given economic fundamentals, such as income levels' (p. 3).

IMF (2018) notes that a 'wave of reforms [in GCC countries] to modernise financial stability policy frameworks and financial safety nets together with improvements in banking supervision also helped improve banking sector resilience and the development of banks' balance sheets. Financial market reforms have focused on strengthening stock market regulation and supervisory frameworks, enhancing corporate governance, and easing restrictions on foreign investment' (p. 4). The regulatory changes comprise those designed to facilitate the growth of financial markets and those which liberalise markets (foreign investment especially). The financial reforms in the GCC do not appear to have led to financial crises or bubbles.[3]

[3]According to the IMF database on banking and financial crises, the only such crisis in the GCC countries was in Kuwait in 1982.

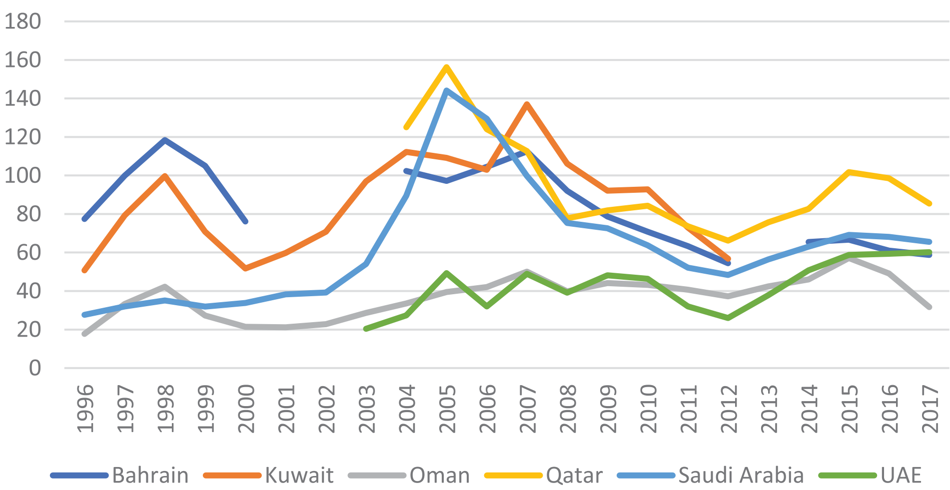

Figure 2. Stock market capitalisation as % of GDP. Source: Calculated from Global Financial Development Database.

IMF (2018) notes that nonbank financial institutions — pension funds, asset-management companies, insurance companies — in GCC countries constitute a relatively small sector but have grown a rapid 10.7 per cent annually, compared with 7.8 per cent for the banking sector, over the preceding decade. Commercial banks' assets accounted for 80 per cent of total financial-institution assets and equalled 156 per cent of GDP in 2017, whereas nonbank financial institutions' assets equalled 39 per cent of GDP. The figures are close to those in large emerging markets (Brazil, China, India, Russia, and South Africa).

The IMF has developed a financial-development index based on measures of depth, access, and efficiency of financial institutions and financial markets, which is combined first into overall indexes for financial institutions and financial markets and then into the overall index (see Svirydzenka 2016). For financial institutions, depth is measured by private sector credit, pension fund assets, mutual fund assets, and insurance premiums (all relative to GDP); access is measured by bank branches and ATMs per one hundred thousand adults; and efficiency is measured by net interest margin, lending deposits spread, ratio of noninterest income to total income, ratio of overhead costs to total assets, return on assets, and return on equity. For financial markets, depth is based on stock market capitalisation, volume of stocks traded, international debt issued by government, total debt issued by financial corporations, and total debt issued by nonfinancial corporations (all relative to GDP); access is measured by total number of debt issuers and market capitalisation outside of the top ten largest companies as per cent of total market capitalisation; and efficiency is measured by the ratio of stock trading volume to stock market capitalisation. Table 1 presents the index scores. It shows that the GCC countries score below advanced markets but above emerging markets. The financial-institution scores are lower than the financial-market scores.

Table 1. Financial development indices.

Financial development		Financial institutions		Financial markets	
Bahrain	0.44	Bahrain	0.35	Bahrain	0.51
Kuwait	0.52	Kuwait	0.51	Kuwait	0.51
Oman	0.42	Oman	0.43	Oman	0.39
Qatar	0.48	Qatar	0.43	Qatar	0.53
Saudi Arabia	0.42	Saudi Arabia	0.34	Saudi Arabia	0.49
United Arab Emirates	0.49	United Arab Emirates	0.40	United Arab Emirates	0.56
Advanced economies	0.71	Advanced economies	0.55	Advanced economies	0.64
Emerging markets	0.46	Emerging markets	0.46	Emerging markets	0.20
Less industrialised countries	0.15	Less industrialised countries	0.26	Less industrialised countries	0.02

Source: Calculated from IMF Financial Development Index data base.

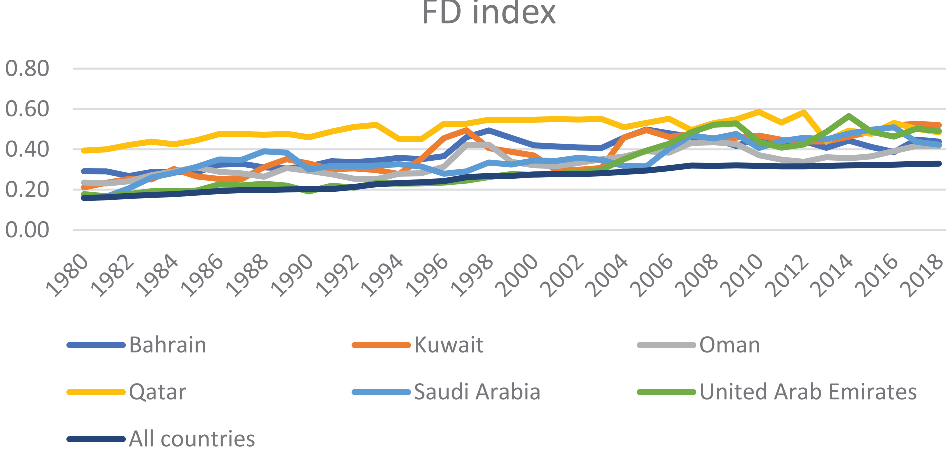

Figure 3. Financial development indices. Source: IMF database.

The financial development index for each of the GCC countries and the index for all countries to enable a comparison for the period 1980–2018 is mapped out in Figure 3. In general, there is an upward trend in the financial development (FD) index until 2008 (around time of global financial crises) and a flattening thereafter. The financial institutions index (FI) is similarly mapped in Figure 4. On this index, the financial institutions of the GCC countries tended to grow over the period, with Saudi Arabia an exception. The financial institutions of the GCC countries did not grow as quickly as the average for all countries, with the FI index for all countries starting below the average for GCC countries in 1980, and ending above the average in 2018. The index for financial markets is mapped in Figure 5. The movements of the index are (not surprisingly as linked with stock market prices) more erratic, and generally peaking around 2008.

The banking sectors in the GCC countries are highly concentrated. The five-firm concentration ratios in 2017 were Saudi Arabia 77.5 per cent, UAE 79.6 per cent, Oman 91 per cent, Qatar 97.1 per cent, Bahrain 97.2 per cent and Kuwait 99.7 per cent figures little changed over the last twenty years.[4]

Hanieh (2016) finds that:

[4]Calculated from Global Financial Development Database.

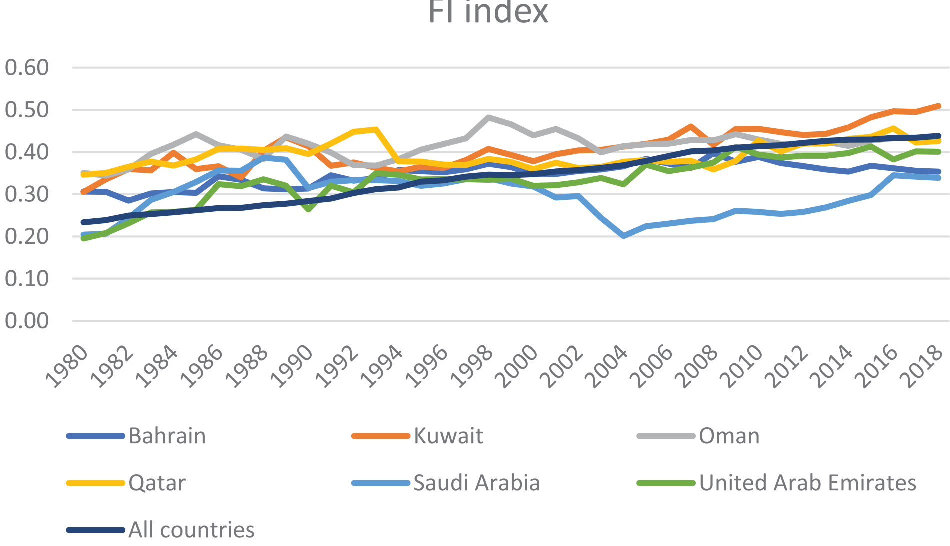

Figure 4. Financial institutions indices. Source: IMF database.

> lending for personal consumption now makes up around 40% of total bank credit to the private sector in Bahrain, Oman, Kuwait. … Placed alongside the recent expansion of household mortgage markets across key Arab states, these figures confirm that individuals and households are increasingly reliant upon financial markets to meet their day-to-day needs, and as a consequence, the lending profiles of Arab banks have been transformed. (p. 1238)

The increased engagement of the public in the financial sector has been one of the hallmarks of financialisation. A rising trend of household debt has been one expression of that. The IMF has data on household debt as per cent of GDP only for two GCC

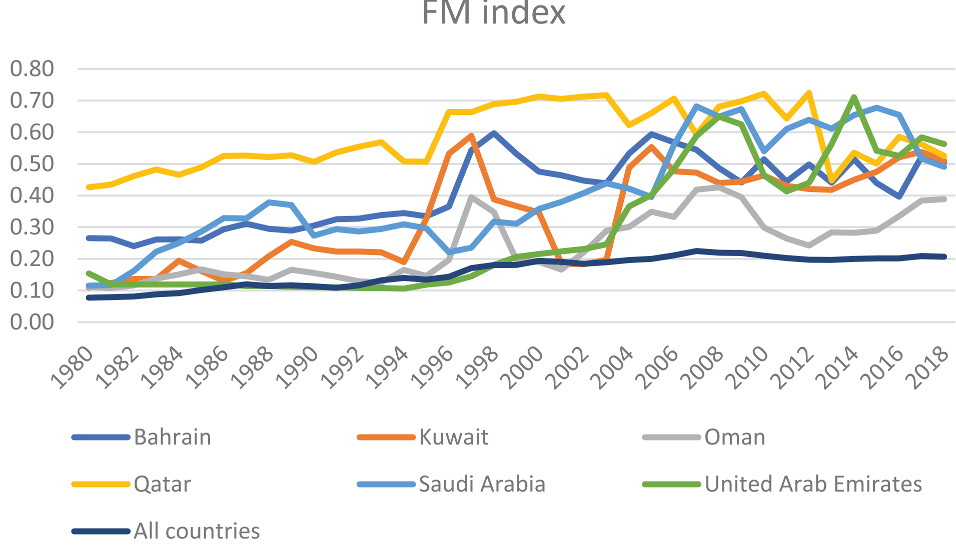

Figure 5. Financial markets indices. Source: IMF database.

countries: Saudi Arabia and the UAE. In the former, the figure for 2018 was 11.48 per cent, after ranging between 7.71 and 13.61 per cent in the previous two decades; in the latter, the figure was 22.84 per cent, after ranging between 19.55 and 30.94 per cent.

Islam highly discourages incurring heavy debt. However, debt incurred in accordance with Sharia is justified. As Zainol, Nizam, and Rashid (2016) explain 'it is the responsibility of the lenders to extend loans to assist those in need. However, Islam has imposed certain limitations and constraints concerning the use of debts for acquisition of luxury goods and maximization of satisfaction' (pp. 303–4).

IMF (2018, p. 18) argues that informal finance plays an important role in GCC countries. It reports that the use of formal finance is particularly low, with around 16 per cent of the population borrowing from financial institutions in 2017; meanwhile, 26 per cent of adults had borrowed informally, compared with 13 per cent in advanced countries. The adult population with bank account in Saudi Arabia was 72 per cent (81 per cent male, 58 per cent female) in 2017 though up from 46 per cent (73 per cent, 15 per cent) in 2011. Corresponding figures for Bahrain 83 per cent, 86 per cent, 75 per cent; Kuwait 80 per cent, 83 per cent, 73 per cent, UAE 88 per cent, 93 per cent, 76 per cent. The figures for Oman and Qatar are available for 2011 only, where 74 per cent and 66 per cent of the total population held a bank account. The percentage of credit card holders among women was around one-third of that among men. Men also borrowed significantly more than women. Meanwhile, only 63 per cent of youth (fifteen to twenty-four years old) had a bank account in 2017 versus 83 per cent of adults (IMF 2018).

The relationships between the State, private capital and the financial sector involves a tight interlocking between 'state' and 'private' capital; privately owned companies will often have public officials (including members of the ruling family) on their boards, and equally, the boards of state-owned companies will include prominent business people. … Further, banks and other financial institutions are tightly connected to the large business conglomerates: 'All of the leading banks in the GCC have representatives of these business conglomerates sitting on their boards and as investors (alongside state capital)'. Hanieh notes that ownership of GCC banks remains generally in national hands and argues, 'in this manner, GCC banks act as a critical nodal point for different fractions of Gulf finance capital and the state, acting to pool and redistribute funds through a variety of markets and economic activities' (Hanieh 2016, p. 1240).

The experiences of financialisation in the GCC countries have similarities with the general experiences of financialisation with some notable differences. Over the period examined, the financial sectors in the GCC countries have generally grown, albeit slower than many other countries. Economic growth and financial deepening have often been viewed as positively related, though more recent evidence suggests that relationship does not hold for relatively high levels of financial deepening (see, for example, Sawyer 2018). The growth of household debt has been relatively slow in the GCC countries by comparison with experiences elsewhere (Dos Santos 2013), and this may be ascribed to the influences of Sharia law in respect to borrowing and to payment of interest.

Internationalisation and Financialisation in the GCC

The processes of financialisation have taken place in the context of globalisation and the increasing engagement of national economies into the international economy. The

processes and effects of financialisation are dependent on the positioning of the economy concerned within the international hierarchy. Largely as a result of their oil wealth, the GCC countries have a long history of current account surpluses with trade in goods in substantial surplus, and trade in services and transfers (workers remittances) in significant deficit. Kuwait with a current account surplus averaging 28 per cent of GDP in the first two decades of this century was by far the largest, followed by Qatar and Saudi Arabia (13 and 12 per cent), with Bahrain and Oman at 4 and 3 per cent respectively.[5]

These current account surpluses have implications for the exchange rates and the status of GCC currencies in the hierarchy of currencies. The GCC countries have been able to maintain a stable exchange rate vis-à-vis the dollar. The current account surpluses have clearly enabled GCC countries to acquire foreign financial and other assets including through their sovereign wealth funds.

Bortz and Kaltenbrunner (2018) state that the international financialisation of developing and emerging economies has 'been characterized by rising involvement of domestic economic actors in international financial markets'. Specifically, they argue that nonfinancial corporations 'have substantially increased their (international) financial exposure, mostly in foreign currency (usually dollars) and through bond issues by offshore affiliates directing part of the borrowed funds to their home company'.

Bahrain held foreign assets equivalent to 358 per cent of its GDP in 2018, and its liabilities amounted to equivalent of 288 per cent of GDP. The corresponding figures for Kuwait were 136 per cent and 57 per cent, and for Saudi Arabia 134 per cent and 53 per cent (figures for the three other GCC countries not available). These figures can be compared with the global figures of over 210 per cent.

The general position on foreign direct investment (FDI) comes from on the one hand inflows of investment largely linked with oil exploration and extraction, and outflows linked with the use of the current account surpluses and the development of sovereign wealth funds (SWF).

Figure 6 provides information on foreign direct investment (FDI) flows. Only in the past few years has outflow exceeded inflow. Inflow surged (relative to world) from the mid-2000s to 2008 and has generally declined since then. FDI outflow has been on a strong upward trend since 2003. The FDI stocks of GCC countries, both inward and outward tended to decline relative to the global total during the 1990s: the inward stock from 0.8 per cent of total to 0.4 per cent, and outward from 0.3 per cent to under 0.2 per cent. During this century, the GCC stocks have tended to rise, and by 2018 had reached over 1.4 per cent for the inward stock and 1.2 per cent for the outward.

The GCC countries have engaged in the international financial system from a position of relative strength because of their large oil revenues and consequent trade and, to a lesser extent, their current account surpluses. The heavy use of migrant labour has led to relatively high outward transfers through worker remittances. The current account surpluses and large stock of foreign reserves have supported a fixed nominal exchange rate with the US dollar even in the face of large fluctuations in the price of oil and consequent fluctuations in oil revenues.

[5]Source of data: World Bank data base. Statistics for UAE not available.

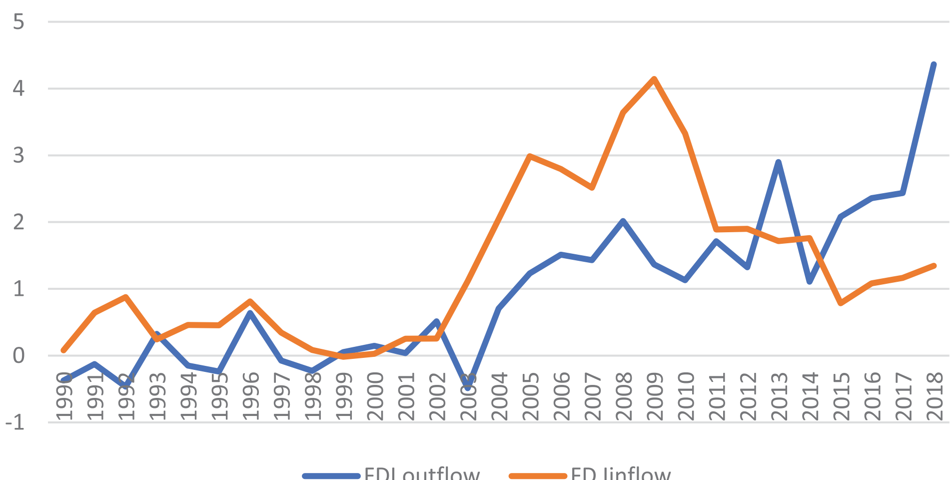

Figure 6. Gulf cooperation council foreign direct investment: inflows and outflows (% GDP). Source: Calculated from United Nations Conference on Trade and Development and International Monetary Fund data.

Sovereign Wealth Funds and Internationalisation

Sovereign wealth funds (SWFs) are funds created by the states to manage the wealth of nations. There are around 100 SWFs globally, which manages 9.5 trillion dollar in assets, according to Sovereign Wealth Funds Institute (SWFI) with the Government Pension Fund in Norway, founded in 2009, as the largest with 1.4 trillion dollar in assets. The oldest SWF is the Kuwait Investment Authority established in 1953, but many SWFs in the GCC were only established in the past twenty years. In 2019, the GCC countries accounted for twelve of the largest ninety-one SWFs and 36.5 per cent of the assets of those 100 SWFs. Four were among the ten largest (Kuwait Investment Authority, Abu Dhabi Invest Authority, SAMA Foreign Holdings, and Public Investment Fund of Saudi Arabia).[6] Touazi (2019) notes that the GCC's SWFs have grown in power over the past decade 'to the point of becoming major players in the global economy'. He then argues that these SWFs

> have proved their influence on the international monetary and financial system. Their role was decisive in rescuing the international financial system, particularly during the 2007 financial crisis, by injecting several tens of billions into the capital of financial institutions. These measures not only helped to support financial institutions by avoiding any systemic crisis, but also helped to support the dollar.

The assets of SWFs in GCC represent a large share of their local GDP. With 386 per cent in Kuwait, 299 per cent in UAE and 158 per cent in Qatar, as they have small population

[6]These figures come from the Sovereign Wealth Fund Institute (SWFI, https://www.swfinstitute.org/fund-rankings/sovereign-wealth-fund).

compared to Saudi Arabia for example Oman at 43 per cent, Bahrain at 46 per cent and Kuwait at 102 per cent.[7]

The SWFs serve to diversify away from dependence on oil, and to invest for the future. The SWFs serve to link economies to international financial markets (Bazoobandi and Nugent 2017). According to Young, GCC SWFs have used the proceeds of oil and gas to be engaged in the global financial market as an active investor in the name of their citizens. 'Sovereign wealth funds, as the mechanism to transform oil and gas wealth into financial assets, deployed globally in the equity markets of New York and London. In assets of real estate and private equity investments in new technology firms in Silicon Valley, become measurable and quantifiable and can be evaluated by the metrics of an investor — a citizen investor' (Young 2020, p. 106).

SWFs have become major players in the global financial market, especially since the 2008 global financial crisis. The GCC's SWFs play a role in financialisation, as they have become major allocators of funds, both domestically and, more importantly, internationally. How their funds are allocated is strongly influenced by how they operate. The SWFs have access to substantial funds that are often based on natural resources and state owned. Given that SWFs in the GCC focus on foreign markets rather than domestic markets, they tend to invest in large foreign financial firms rather than the domestic real sector (Bernstein, Lerner, and Schoar 2013).

Amar, Carpantier, and Lecourt (2018) study the merger-and-acquisitions deals made by GCC SWFs from 2006 to 2015. They show that those SWFs tended to take large stakes in acquired firms, with an average share of greater than 19 per cent every year. During the global financial crisis (2008–2009), SWFs made more investments, but they have reduced their stakes since then. This is linked with the SWFs' many investments in financial institutions, such as the Qatar Investment Authority's investment in Barclays Bank and the Abu Dhabi Investment Authority's investment in Citigroup. After the crisis, acquisitions decreased in number but not in value. After 2013 the average post-acquisition share was higher than 30 per cent. Amar, Carpantier, and Lecourt (2018, Table 3) indicate that of 124 deals made by GCC SWFs from 2006 to 2015, 77 were in Europe, 16 in North America, 13 in East or Southeast Asia, and 18 in the rest of the world. Thirty were in the energy sector, fourteen in finance, nineteen in industry, eighteen in luxury goods, and forty-three in other sectors. Instead of investing in infrastructure or productive activities (for example, health care or education), the SWFs are transferring huge amounts of money to developed economies' financial markets.

The portfolio composition of the major SWFs from GCC countries in 2021 is given in Table 2. It shows that the large majority of their investment goes to stock market and alternative investment that represents more risky behaviour in recent years.

In recent years, the GCC SWFs have moved away from investing in US Treasury bonds and other safe, liquid assets. Touazi (2019) writes that they 'have diversified their investments in more profitable assets such as private equity, infrastructure, listed shares, etc. and, for some of them, by actively contributing to local economic and industrial development, thereby accelerating the diversification process of the region's economies. They thus participate in the process of innovation and access to knowledge through strategic investments in research or education' (p. 4). And 'financial institutions have

[7]Authors calculation from World Bank data and SWFI (2019).

Table 2. Sovereign wealth funds' portfolio compositions.

Country	Sovereign wealth fund name(s)	Fixed income %	Equity %	Alternative investment %
Kuwait	Kuwait Investment Authority	33	58	9
Abu Dhabi (UAE)	Abu Dhabi Investment Authority	26	52	22
Saudi Arabia	Public Investment Fund	33	33	33
Saudi Arabia	SAMA Foreign Holdings	40	55	5
Qatar	Qatar Investment Authority	20	60	20
Daubi (UAE)	Investment Corporation of Dubai (ICD)	0	54	46
Abu Dhabi (UAE)	Mubadala Investment Company	0	25	75
Bahrain	Bahrain Mumtalakat Holding Company (Mumtalakat)	0	15	85
Oman	Oman Investment Authority	20	30	50

Source: SWFI (2021).

long been among the priorities of SWFs. This is evidenced by the investments made since the end of 2007 in banks, asset managers, brokers and stock exchanges' (p. 7). However, SWFs have diversified into technology. In 2011, 'SWFs' investments in technology were close to $600 million. By 2014, they had reached $3 billion' (p. 8).

The *Economist* (2019) remarks that 'in decades past this [SWFs] was a dull business. The Saudi central bank parked the nation's oil wealth in Treasury bonds and other low-risk, low-return assets'. But this no longer applies, as all six Gulf sovereign-wealth funds are growing more adventurous. A few act like venture capitalists. Others use their billions to cement political alliances. For instance, Saudia Arabia's SWF is described as a 'pet project of the crown prince', Its managed assets have grown from $84 billion to $320 billion in five years (*Economist* 2019). It has extensive investments in Silicon Valley with stakes in Tesla, Lucid Motors, Virgin Galactic, and Magic Leap; also $45 billion in high-tech fund managed by SoftBank, a Japanese conglomerate. The *Economist* continues, 'Qatar, by contrast, seems to use its funds as an adjunct to diplomacy'. Its initial investments include the department store Harrods, other London properties, and Paris's Saint-Germain football club. The *Economist* adds, 'Lately its investments have taken on a political tinge. Last year it secured a 19 per cent stake in Rosneft, a Russian energy giant'.

SWFs represent a major growth of international financial institutions, and part of the processes of financialisation. Most of the GCC SWFs have become important government partners by acting as government investment agencies and strategic investment funds, holding financial interests in many national and private companies, and actively participating in the economic diversification plan Vision 2030 (including Saudi Arabia and Qatar). In the view of some of them, by actively contributing to local economic and industrial development, they are accelerating the diversification of their economies. They thus contribute to innovation and access to knowledge by making strategic investments in research and education. The 'pursuit of shareholder value' has often been seen (cf. Van der Zwan 2014) as a key element of financialisation, and the rise of private equity companies is a good illustration of this. The SWFs of the GCC countries are an important element of financialisation through active investment deployment in the global finance. They are active participants in the internationalisation of finance dimension of global financialisation. Finally, being more involved in risky behaviour and being dependent on oil price, which is very volatile, adds to global financial instability.

Islamic Finance and Financialisation

Islamic finance (IF) and Sharia have significant implications for the forms which financialisation takes. Islamic finance, which bans interest payments and pure monetary speculation and can only be used to invest in sharia-compliant assets or portfolios, has been on the rise for many years across markets in the Middle East, Southeast Asia, Africa and Europe. It remains a fragmented industry with uneven rules and regulations. Insofar as financialisation is viewed in terms of a rise in rentier income (Hanieh 2020), this would not appear justifiable under Sharia. Giving the risk-sharing principal in IF, and link of borrowing to real assets, unsecured household borrowing is also discouraged by Sharia. 'An Islamic bank is a financial institution whose status, rules and procedures expressly state its commitment to the principle of Islamic Shariah and to the banning of the receipt and payment of interest on any of its operations' (Ali and Sarkar 1995, pp. 20–25).

The principle of Islamic Shariah of prohibition of interest was originally not based on economic theory but on religion, which considered charging of interest as an act of injustice. Early Muslim scholars considered money as a medium of exchange, a standard of value and a unit of account but rejected its function as a store of value. Lending upon interest was prohibited because it was an act of ungratefulness and considered to be unjust since money was not created to be sought to be itself but for other objects (Mirakhor 1995).

The concept of profit sharing is a built-in development promoter since it establishes a direct relationship between the bank's return on investment and the successful operation of the business by the entrepreneurs. An important objective of Islamic banking is to ensure equitable distribution of income and resources among the participating parties: the bank, the depositors and the entrepreneurs. Therefore, in Islam is that there should not be any reward without taking a risk. This principle is applicable to both labour and capital. As no payment is allowed for labour, unless it is applied to work, there is no reward for capital unless it is exposed to business risk (Ausaf 1995, p. 17).

Thus, profit and loss sharing (PLS) is a major feature, ensuring justice and equity in the economy. That is why Islamic banks are often known as PLS-banks.

IF has been growing over the past two decades and extending from Muslim regions such as the Middle East, GCC countries, Turkey, Indonesia, and Malaysia to non-Muslim countries, such as the UK, Canada, and Japan. IF is founded upon the principle of a 'just, fair, and equitable distribution of income and wealth during the production cycle',[8] and it is thus 'highly aligned with the spirit of the [Sustainable Development Goals]'.[9] IF continues to promote market-based solutions to poverty and encourage individual subjectivities that align with broader neoliberal precepts. IMF and World Bank reports have enthusiastically endorsed the global expansion of IF and regarded it as an important alternative financial structure and as a means of financing infrastructure and public-private partnerships, increasing financial inclusion, and making progress towards the Sustainable Development Goals (IMF 2015; World Bank 2016, 2017; ISRA 2018).

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[8]World Bank, *Islamic Finance Newsletter*, p. xi.
[9]UNDP, https://www.undp.org/content/undp/en/home/news-centre/speeches/2018/-the-role-ofislamic-finance.htm.

The share of Islamic bank assets in the Gulf Cooperation Council in 2020, by country (as a per cent of total banking assets) (Statista 2022): Saudi Arabia 50.6 per cent, Kuwait 42.5 per cent, Qatar, 26.6 per cent, UAE 18.9 per cent, Bahrain, 15.2 per cent, Oman 14.3 per cent.

Given this growth and geographical diversification, IF is becoming an important form of finance outside the core advanced economies (Pollard and Samers 2007; Bassens, Derudder, and Witlox 2010). It is increasingly mediating globalisation and financial integration between world regions.

Most IF proponents emphasise that IF is an 'ethical alternative' to mainstream finance in which a socially responsible investment strategy is paired with the religiously allowable goal of making money (Agha 2009; Abdullah and Chee 2010). Some critics of IF have doubted these partial perspectives and have demonstrated the compatibility of IF with conventional finance (Hamoudi 2008; Chong and Liu 2009). Even though IF is not radically distinct from conventional finance, it still represents, at least superficially, a different kind of finance and provides investment opportunities that attract different types of financial institutions and global investors. Thus, it is important to view the growth of IF as endogenous to the global finance dominance. Hence, IF has provided a strong form of financialisation, as an alternative to attract majority of Muslims who were not involved in traditional finance for religious reasons (such as prohibition of interest rate). Therefore, it could be considered a form of increasing financial inclusion, not only at the GCC level but at the global level as well.

Given that Islamic banking constitutes the largest part of the Islamic financial sector, we focus on the Islamic debt instrument known as sukuk.[10] GCC banks have been notably absent in larger comparative surveys of financialisation and financial-market development (Karwowski and Stockhammer 2017).

The GCC's Islamic banks and other IF institutions are among the largest and most influential of their kind in the world. As of 2018, approximately 44.9 per cent of the global assets of Islamic banks are in the GCC countries, but the weight of IF in the Gulf is growing significantly and is mentioned in national plans and Vision documents as a key priority of development policies (Hanieh 2020). Consequently, financial markets in the Gulf are closely interwoven with the accumulation of Islamic banks, the influence of which extends across a wide range of economic activities. Gulf governments also highlight IF as an essential strategic element in the region's evolving linkages with other international markets (particularly in Southeast Asia, the Middle East, and Africa). In this manner, IF in the Gulf not only illuminates the variegated nature of financialised capitalism outside of the core, but also has important implications for the future pattern of South-South relations (Hanieh 2018).

The basic Sharia tenets in relation to IF, as part of negative screening, include not engaging in interest-related transactions, not financing non-Sharia-compliant businesses, and not investing in non-Sharia-compliant companies. On the flipside, IF promotes profit-sharing and risk-sharing business models by prohibiting speculative and

[10]Sukuk are financial certificates commonly referred to as 'sharia compliant' bonds. They are defined by the Accounting and Auditing Organization for Islamic Financial Institutions as 'securities of equal denomination representing individual ownership interests in a portfolio of eligible existing or future assets'.

non-asset-based transactions. Despite their contrasting philosophies, Islamic banks and conventional banks are arguably similar in their operational mechanism (Beck, Demirguc-Kunt, and Merrouche 2013), except for Sharia compliance, have no significant advantages in efficiency and stability, procyclical, having profit rate higher than the conventional rates and compete in the same market as other conventional banking, since Islamic banking products are basically replications of conventional products but in compliance with Sharia.

IF services in the GCC are offered by both conventional banks through non-interest-bearing accounts and wholly Islamic banks which specialise solely in Sharia-compliant financing. According to the World Islamic Banking Competitiveness Report 2016 (Ernst & Young 2016), in 2014 Sharia-compliant loans and deposits accounted for almost 54 per cent of the total deposits in Saudi Arabia, 33 per cent in Bahrain, 54 per cent in Kuwait, and 25 per cent in Qatar and amounted to $100 billion in the UAE.

One important aspect of the global growth of IF in the GCC is the internationalisation of Islamic banks and other financial groups, as these Gulf-based institutions have enlarged their international reach and come to play a significant role in the IF sectors of numerous countries outside of core Western financial markets. The Gulf has attempted to recast its role in global financial markets through IF.

The Islamic Finance Development Index:

> provides rankings and profiles for different Islamic finance markets … drawing on instrumental factors grouped into five broad areas of development that are considered the main indicators. The indicator does not just focus on the overall size and growth of Islamic finance sectors in different countries: it instead evaluates the strength of the overall ecosystem that assists in the development of the industry based on 55 different metrics.

The six GCC countries are all ranked within the top eleven globally on the Islamic Finance Development Index.

The scale of internationalisation by Islamic GCC banks exceeds that of conventional banks: of the 414 Gulf bank subsidiaries located outside of the GCC, just under 60 per cent are affiliated with Islamic banks — a markedly greater number than those controlled by conventional Gulf banks (even though there are more conventional banks than Islamic institutions). Table 3 provides information on the overseas involvement of GCC banks and the importance of Islamic banking relative to conventional banking.

The majority (53 per cent) of all GCC bank subsidiaries are located in North America, the European Union, or offshore financial centres. The numbers of Islamic and conventional bank subsidiaries in Western markets are roughly equal, but Islamic banks control a much greater share of bank subsidiaries in offshore financial centres (65 per cent). El-Galfy and Khiyar (2012) state that unlike ‘financial capitalism or financialization, Islamic financing is purely a real-life, real goods financing. No financing can find its way to the Islamic system without passing through production and/or exchange of real goods and services’. Thus, the principal reason for the higher density of Islamic bank subsidiaries in offshore jurisdictions is that Islamic banks need to hold property (land or other fixed assets) in special-purpose vehicles in order to issue sukuk. These special-purpose vehicles are most often set up in areas such as the Cayman Islands which not only

Table 3. Geographical distribution of Gulf Cooperation Council bank subsidiaries outside the Gulf, 2018.

Location	Total GCC bank subsidiaries	Number of Islamic bank subsidiaries	Share of Islamic bank subsidiaries in total bank subsidiaries (%)
Offshore financial centres	144	94	65
EU and North America	76	41	54
Middle east and North Africa	109	52	48
South Asia	28	14	50
Southeast/east Asia	29	17	59
Sub-Saharan Africa	14	12	86
Asia Pacific	4	4	100
Balkans	4	4	100
Central Asia	6	6	100
Total	414	244	59

Source: Hanieh (2020), BankScope Database.

offer high levels of confidentiality but also operate trust structures based on English common law that allow banks to comply with Sharia. At the same time, IF has been highlighted as a complementary avenue for financing public-private partnerships, with numerous governments now seeking to diversify their funding sources through issuing sukuk.

Islamic banking entities now operate in more than sixty countries and were recognised as 'systematically important in Asia and the Middle East' by a recent IMF study (IMF 2017). The GCC's share of global IF is 44 per cent. Similarly, 35 per cent of global outstanding sukuk was held in the GCC in 2017, up from just 29 per cent in 2012. When all forms of Islamic financial assets are considered (that is, those held by banks, sukuk, takaful, and Islamic funds), the GCC's global share rose from 34 to 42 per cent between 2012 and 2017.

Qatar International Islamic Bank (QIIB) — Qatar's third-largest Islamic bank — was the first to enter the Moroccan market, through a joint venture in which QIIB would hold 40 per cent of assets. The GCC has become pivotal to Indonesia's issuance of sukuk. This geographical orientation of Islamic bank internationalisation aligns considerably with a concurrent tilt in the Gulf's political and economic linkages, in which the Gulf seeks to present itself as a key bridge between the East and other emerging markets in the issuance and arrangement of global sukuk. These debt instruments come in many forms and can be issued by governments (sovereign sukuk) or corporations. They differ from conventional bonds in that the certificates purchased by lenders represent a proportionate ownership in underlying assets or other activities that generate cash flow. As oil prices began to decline in mid-2014, GCC governments sought to meet their funding requirements through offering both conventional bonds and sukuk. Between 2015 and 2017, the value of GCC sukuk issuance increased by over 160 per cent, and in 2017, 46 per cent of all sukuk issued globally came from the GCC.

A major milestone occurred in April 2017, with a $9 billion sovereign-sukuk issuance by Saudi Arabia — the largest dollar-denominated international sukuk in history. This was followed by Saudi Arabia's issuance of Islamic bonds on the domestic market in late July 2017 (worth $4.5 billion) after a new government plan to regularly issue domestic sukuk was announced in mid-2017. In May 2017, Oman also debuted its

first-ever sukuk, a $2 billion seven-year issuance that was oversubscribed nearly three times over and formed an important part of the country's strategic turn towards IF. Qatar, the UAE, and Bahrain have also all been active sukuk issuers over the past five years. This recent spurt of GCC sukuk issues has played an essential role in reinforcing the growth of Islamic banking in the Gulf. Most significantly, GCC sukuk have helped strengthen the asset base of GCC Islamic banks because, given a lack of religiously appropriate investment options, Islamic banks tend to hold more low-yield cash on their balance sheets compared with conventional banks. With higher-yield sukuk now increasingly available, Islamic debt issuance diversifies these banks' investment options. Greater quantities of sovereign sukuk also help to create a benchmark for the issuance of corporate sukuk, and over the past five years the number of Gulf corporations offering such debt has increased considerably. Islamic banks themselves have also been prolific issuers of sukuk, in part to meet new Tier I capital requirements under Basel III. Dubai's attempt to treat IF as a strategy to distinguish itself from other financial zones — using its perceived comparative advantage as a Muslim country with highly developed financial markets — appears to have been successful: in 2015 it became the world's largest location for sukuk listings, surpassing the three other main global players (Malaysia, Dublin, and London).

In all of these ways, the development of global Islamic circuits constitutes an important bridge for the expansion of Gulf capitalism more broadly. Once again, this should not be seen as contradicting conventional banking or standard financial practices; rather, IF forms a complementary pathway through which the influence of Gulf capital is extended.

Concluding Comments

The experiences of the oil-rich GCC countries provide more examples of variegated financialisation. Financialisation has proceeded with the expansion of the banking system and financial markets. However, there are suggestions that the GCC's financial systems are not as large or important as those of countries with comparable income levels, though larger than those in emerging economies. Nonbank financial institutions such as insurance companies and pension funds remain relatively small. The range of financial instruments has been more limited compared with that in advanced economies and has been somewhat constrained by Sharia, which may have led to relatively low levels of household debt. The legal frameworks within which financial institutions operate have changed in ways which seek to encourage financial development, and they do not appear to have led to the rapid credit growth and financial instability which has often been experienced following financial liberalisation.

The GCC countries have entered the international arena in positions of financial strength based on their oil revenues. The large current account surpluses have led to relatively strong currencies (stable in nominal terms and featuring low interest rates) and investments overseas.

Financialisation has involved the growth and internationalisation of finance. There are two specific elements of the financial systems of the GCC countries which have expanded rapidly, particularly in the last decades, and which are heavily involved in the internationalisation of finance. There is, firstly, the growth of Sovereign Wealth Funds funded by oil revenues and controlled by the rulers of the GCC countries. The SWFs

have, in general, actively managed their investment portfolios and diversified into a wide range of overseas activities.

Secondly, Islamic banking and finance have shown strong growth in the GCC countries, and become major parts of the financial sector. The GCC Islamic banks have expanded on an international scale.

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