The Limits of Gulf Arab Aid: Energy Markets and Foreign Policy

Karen E. Young

Abstract

The Arab Gulf States (AGS), or the member states of the Gulf Cooperation Council (Saudi Arabia, Kuwait, Oman, Bahrain, Qatar and the United Arab Emirates), have historically used foreign aid and humanitarian aid as a quiet tool of their respective foreign policies within the wider Middle East. More recently, however, we have seen targeted financial aid and military assistance by these states, particularly Saudi Arabia, Qatar and the United Arab Emirates, towards neighbours in crisis. The UAE, Saudi Arabia and Qatar have used financial and military aid to jockey for influence within Egypt’s evolving political leadership, to attempt to remove Syria’s Assad from power, to counter the growth of Islamic State movement in Iraq, to influence political battles in Libya, and even in newly democratic Tunisia. Windfalls in wealth generated from the rapid ascent of oil and gas prices between 2009 and 2014 allowed budgets to expand for both military expenditure and financial aid. The dramatic fall in oil prices in late 2014 raises questions about the ability of these states to continue their generosity and the exercise of economic statecraft in the MENA region. The article tracks the expansion of Arab Gulf State aid in the wider region after 2011, with attempts to correlate the movement of oil prices with financial aid and more interventionist foreign policy historically since the 1970s. From this it engages with theoretical debates about how effective aid can be as a foreign policy tool. We would expect as Gulf aid is dependent on the ability of states to earn income from natural resources, the price of carbon energy should have some effect on aid allocations. The evidence presented here reflects a more nuanced relationship between energy markets and Gulf Arab state aid. The politics of Gulf Arab state aid is, above all else, strategic. Political goals can override economic prudence.
Introduction

An interesting shift has been underway in the development assistance world. So-called “emerging donors” are replacing, or at least challenging the logic and conditionality of foreign aid from Western donors since the 1960s.¹ The Development Assistance Committee, or DAC, formed in the 1960s to coordinate and promote aid from donor states of the Organization for Economic Co-operation and Development. DAC is a community of shared values, in that its members largely problematize development as appropriate relationships between state and market in the liberal democratic tradition.² Gulf Arab states are not “emerging”, but rather diverging from the DAC norm, as their targets of aid and their practice of giving differ from the pro-capitalist, pro-democracy conditional aid from prominent Western donors.³ Nor are Gulf states new donors; rather, Gulf Arab states have been active donors in waves since the discovery of oil and state foundation in the 1960s and 1970s.

The Gulf Arab States, also member states of the Gulf Cooperation Council (Saudi Arabia, Kuwait, Oman, Bahrain, Qatar and the United Arab Emirates), have historically used foreign aid and humanitarian aid as a quiet tool of their respective foreign policies within the wider Middle East.⁴ The UAE, Saudi Arabia and Qatar have used financial and military aid to jockey for influence within Egypt’s evolving political leadership, to attempt to remove Syria’s Assad from power, to counter the movement of Islamic State in Iraq, to influence political battles in Libya, and even newly democratic Tunisia. Windfalls in wealth generated from the rapid ascent of oil and gas prices between 2009 and 2014 allowed budgets to expand for military expenditure and financial aid. While the dramatic fall in oil prices from late 2014 (falling from a year peak of $107 per barrel in June 2014 to a low of $50 per barrel in January 2015) should affect the ability of these states to continue their generosity and the exercise of economic statecraft in the

³ In this paper, I conceptualize aid in a very broad sense, including foreign aid, development aid and targeted investment, from both private and public sources. Gulf states’ political economy merges state and private funds through ownership structures blending ruling family and government institutions. Cash, in-kind oil and gas, and directed aid in foreign direct investment are all part of the Gulf Arab states “aid” portfolio and foreign policy tools.
The MENA region, the short-term aid decision-making suggests a different logic and strategy in play. The debate on how long Gulf Arab oil producing states can bear the fiscal pressure is mixed, given their massive reserves. This article tracks the expansion of Gulf Arab state aid in the wider region after 2011, correlating the movement of oil prices with aid since the 1970s. Both oil resources and foreign aid are “sovereign rents”, so there should be some commonality in the experiences of states that earn these rents and use them to facilitate an economic development agenda. It may now be relevant to explore how states that both accrue these rents and disperse them as aid make choices about foreign aid recipients and mechanisms of assistance. Scholars have argued that Gulf states prefer some recipients over others on cultural and religious bases of support. Gulf Arab states, particularly since 2011, have generated novel aid mechanisms, including non-restricted cash grants, injections to central banks, and in-kind oil and gas deliveries. Aid, understood here, includes these mechanisms as well as facilitations of foreign investment from both state and private sectors in the Gulf. Furthermore, we would expect the price of carbon energy to affect aid allocations. The evidence here reflects a more nuanced relationship between energy markets and Gulf Arab state aid.

**Oil Price and Gulf Arab Foreign Aid: Not Always Closely Linked**

There is a positive correlation between oil price and Gulf Arab state aid, but it is not always so closely linked. There are episodes in which oil prices rise without a respective increase in Gulf foreign aid. There are also very recent examples of Gulf states extending regional development aid at a moment in which oil prices are at historical lows and the fiscal budgets of Gulf states themselves are facing deficits. The politics of Gulf Arab state aid is, above all else, strategic. Political goals can override economic prudence. The reverberation of this shift challenges both norms and foundational institutions of North-South interactions. Before the recent investor conference in Sharm al Sheikh in March 2015 (at which Egypt received new offers of Gulf aid), the

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Egyptian minister of investment, Ashaf Salman acknowledged receipt of at least $23 billion in combined direct funds from Saudi Arabia, Kuwait and the UAE since General Sisi came to power in late summer 2013. Gulf states are targeting aid in the region in increasingly large tranches, with little strings attached. Gulf state aid to Egypt exemplifies this trend. (See chart 1.)

The growing trend is that Gulf Arab states are willing to export their own political economy models, as a challenge to Western advice and hegemony, in their strategic efforts to limit political competition, especially political space that is tolerant to activist religious political organization, or political Islam. General El-Sisi, in his address to potential investors at Sharm el Sheikh, called Egypt “the first line of defence” against regional terrorism, and therefore, in his view, a good place to invest. The use of oil and gas products as aid in kind; the targeting of construction and real estate as both investment vehicles (for state and private sector firms) and employment strategies; and the manipulation of central banks as quick fixes to a depreciating currency, all of these strategies relate to Gulf practices in economic governance. Gulf Arab states regularly use the availability of oil and gas products, at steeply subsidized prices, to stimulate otherwise inefficient manufacturing and construction industries, while at the consumer level, provide a cost of living rebate.

Gulf economies are highly concentrated in provisions of investment vehicles, mostly in construction and real estate because these sectors facilitate Sharia compliant investment, while they also work in line with government spending cycles. Most of the Gulf Cooperation Council states have restricted monetary policies tied in some form to the US dollar. They are not experienced with extreme currency volatility (or hyperinflation). It may be that donor expectations are that a hard currency deposit in a central bank should stabilize an economy. The cash deposits could in fact exacerbate the inflation problem, as monetary policy becomes reliant on the external source of hard currency to maintain a target exchange rate. There is evidence that aid volatility and windfalls, particularly in cash deposits, create incentives for receiving governments to increase consumption and fiscal spending. This, in turn, creates volatility in the exchange rate (inflation), which is also linked to lower growth.

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Chart 1: (Select) Gulf Arab State Aid to Egypt, 2011-2015

Sources: UAE Ministry of Foreign Affairs, African Development Bank Group, KSA Ministry of Foreign Affairs, Qatar Ministry of Foreign Affairs.

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<td>UAE</td>
<td>$3 billion (of which $1.5bn Khalifa bin Zayed fund for housing and SME support) Private reported aid: $22.8m</td>
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<td>A grant of $1 billion and a further $2 billion deposit Central Bank of Egypt. In kind (petroleum and gas) $225m.</td>
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<td>$4 billion aid package committed to Egypt: $2 bn Central Bank of Egypt, and $2 bn project finance</td>
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<td>KSA</td>
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<td>A total of $5 billion aid package: $1bn cash grant, $2bn in kind (petroleum and gas), $2 bn deposit Central Bank of Egypt</td>
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<td>$1bn pledge CBE; ($3bn investment pledge)</td>
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<td>Qatar</td>
<td>$500m cash grant, $2bn deposit Central Bank of Egypt.</td>
<td>$1 bn cash grant; approx. $4 bn CBE deposits</td>
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<td>Kuwait</td>
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<td>$1bn cash grant; $2bn deposit CBE.</td>
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<td>($4bn investment pledge)</td>
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14 The investment pledges are thought to combine public and private enterprise, though they are unspecified in media accounts and not included in official ministry announcements. See as an example, Al Arabiya, Gulf States Offer $12.5 bn in Aid to Egypt, 13 March 2015. http://english.alarabiya.net/en/business/economy/2015/03/12/Gulf-states-offer-12-5bn-in-aid-to-Egypt.html
Historically, the Gulf Arab states have increased aid for political goals related to shifts in the international political economy. After the 1973 oil embargo, petro-dollars rapidly accumulated in international banks, creating the lending boom to developing countries. OPEC surpluses in 1974–76 were close to $142 billion, while developing country deficits reached around $80 billion. Gulf Arab foreign aid was an average of 12.48 per cent of gross national product (GNP) at the height of the oil boom in 1973. Andre Simmons has argued that Gulf aid was targeted to developing countries (through multilateral and bilateral institutions) to lessen the sting of post-embargo wealth among developing economy peers. The 1980s through the 1990s, Gulf Arab state donors exercised more restraint as oil revenues decreased, on average 2.38 per cent of GNP by 1985. After the Iraqi invasion of Kuwait in 1991, Gulf Arab states prioritized security over development aid and a more interventionist or public display of foreign policy goals. There was a brief spike in Gulf aid in the reconstruction effort in Kuwait, which quickly diminished by the mid-1990s.

As Momani and Ennis demonstrate, Gulf Arab foreign assistance reduced by half in the late 1990s ($1.3 billion) compared to 1990-1994 ($2.6 billion), in itself a period of restraint. The period following the second Gulf war and American invasion of Iraq in 2003 had a profound effect on Gulf Arab state donor practices. Under intense scrutiny by Western governments for their support of Taliban Afghanistan before 2001, Gulf states recalibrated aid targets and, in some cases, made more efforts to present their aid practices as global poverty reduction programs. The Dubai Cares model, created by Sheikh Mohamed bin Rashid (ruler of Dubai), is a case in point, in which donors shifted from traditional Arab or Muslim country recipients to those in most need. The second oil boom of 2003-2008 created an aid dilemma for Gulf Arab states, in that the largesse of the early 1970s was not to be repeated, either because state priorities (and constituent demands) for domestic spending had increased, or because the states saw little reward in the exercise of aid to gain prominence in international institutions or to acquire allies in other developing states. GCC

15 Momani and Ennis, 2013, p. 608.
20 Momani and Ennis, 2013, p. 609. Momani and Ennis rely on data adapted from MEES, a subscription oil and gas industry service (www.mees.com).
official reserves increased from $53.5 billion in 2003 to $514.3 billion in 2008, yet foreign aid increased only modestly, back to levels of the late 1980s. (Momani and Ennis estimate Gulf Arab foreign aid between 1985-1990 as $3.1 billion.) The charts below tracks Gulf Arab state aid from the 1970s to the present, using ODA data from the OECD. The data itself is politicized, as we have a limited view of official government aid from Gulf Arab donors, while private donations (often sourced from members of the respective ruling families of Gulf monarchies) go unreported. Gulf Arab states have made efforts to streamline reporting of official aid in the last few years. The UAE made its first foreign aid report in 2013 and has since created an institutional framework to track and coordinate state aid efforts. Kuwait has perhaps the most long-standing transparent aid framework of the Gulf Arab states, at least in its channelling of aid through one institution, the Kuwait Fund for Development. The Kuwait Fund regularly reports its projects and contributions, exhibiting a wide regional disbursement pattern. Kuwaiti individual donations, however, continue to be a source of concern to many Western governments. Qatar has also begun to report their foreign aid and to attempt to track private charity within the sheikhdom. Saudi Arabia makes the least effort to publicly account for its donor activity, though (like the UAE and Kuwait) it has managed a formal institution, or fund, for state directed development aid. Villanger stresses the historical Emirati, Saudi and Kuwaiti preference for bilateral aid via funds, rather than via multilaterals (OPEC fund, IMF, Arab Monetary Fund, etc.) contributing to the divergence in norms between Gulf Arab aid and DAC donors. There is also significant divergence among Gulf Arab donors, particularly after 2001 in their aid practices, donation amounts, and in their reporting of aid. The charts below illustrate these differences.

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24 The Foreign Aid Coordination Office (FACO) of the UAE Ministry of Foreign Affairs, created in 2014, signals a public commitment to its aid and intervention strategy in the region and beyond. [http://www.mofa.gov.ae/mofa_english/portal/gedde88a-4b7e-46d8-ae9e-6e/188c4b8d9.aspx](http://www.mofa.gov.ae/mofa_english/portal/gedde88a-4b7e-46d8-ae9e-6e/188c4b8d9.aspx)
26 Evren Tok, Rachael Calleja and Hanaa El-Ghaish, Arab Development Aid and the New Dynamics of Multilateralism: Towards Better Governance? *European Scientific Journal* Vol 1, Special Issue, 2014, pp. 591-604. Tok et al. give special attention to the evolution of Qatari donations, including the establishment of the Qatar Charitable Society in 1992, meant to streamline private donations going outside the country. The Qatar Development Fund is one mechanism of aid disbursement, along with the Ministry of Foreign Affairs, Qatar Foundation (state education and charity institution) and Qatar Investment Authority (a sovereign wealth fund). There has been one foreign aid report released by the government in 2012.
Chart 2a, b, c: Gulf Arab Aid (KSA, UAE, Kuwait) and Oil Prices (Brent crude), 1970-2014

Sources: ODA from OECD.stat and Brent crude prices from BP Review of World Energy 2014.

Chart 2a: Saudi Arabia (KSA) Official Development Aid and Oil Prices, 1970-2013

Chart 2b: Kuwait Official Development Aid and Oil Prices, 1970-2013
Theoretical and Practical Implications of Gulf Arab Foreign Aid

Foreign aid is clearly a priority of Gulf Arab state foreign policy; aid creates alliances and seeks to uphold friendly regimes. However, foreign aid's track record for efficacy, at least in the comparative experience of Western donors to developing countries, is questionable. The literature and empirical evidence, both in qualitative studies and large-N surveys, reveals foreign aid is no panacea. Like a resource curse, aid can act as an exogenous shock to developing political economies, entrenching problems in governance and financial volatility, even as it seeks to alleviate human suffering.\(^{28}\)

Governments seeking to promote strategic goals have had little success in also creating incentives for liberal economic reform agendas in aid destinations.\(^{29}\) Aid creates allies, or it might propel reform and economic growth, but not usually at the same time.\(^{30}\)

Scholars know that foreign aid can extend the tenure of inept and corrupt rulers and governments.\(^{31}\) In fact, work by Faisal Ahmed demonstrates that sources of resource rents (including remittances and foreign aid) can

\(^{28}\) There is some debate on how foreign aid can help or hinder a country at risk of civil war, depending on the timing of the aid allocation and if it allows governments to continue fiscal expenditure to stave off crisis, particularly in agricultural/primary product economies. See Bucur Savun and Daniel C. Tirone, Exogenous Shocks, Foreign Aid and Civil War, International Organization Vol 66, No 3, 2012, pp. 363-393; also, Paul Collier and Anke Hoeffler, Aid, Policy and Peace: Reducing the Risks of Civil Conflict, Defence and Peace Economics Vol 13, No 6, 2002, pp.435-450.


prolong a government’s rule if used towards rewarding elites, even while worsening aggregate welfare. Gulf states are also balancing demands for domestic spending, including welfare benefits and infrastructure investment, at moments of incremental public concern for fiscal deficits and lower oil revenue. Gulf Arab states are engaging a long debate on the efficacy of aid with their own set of norms and priorities, which are not necessarily cohesive within the sub-region. Most of the critiques of foreign aid concentrate on the problem of governance and how aid does little to change the behaviour of corrupt or inefficient regimes.

Gulf Arab states are probably in a good position to create foreign aid projects with novel approaches to job creation and public-private partnerships. The UAE investment in Egypt and proposal to build a new capital city is one example. Qatar’s investments in food security in sub-Saharan Africa are others. However, that success depends on the strategic goals of Gulf Arab states in their aid portfolios. If security is their primary concern, we should not expect to see great economic miracles (or political openings) unfolding across North Africa. Potential obstacles to increased or prolonged aid are more likely to be domestic pressures in the Gulf states themselves, based on fiscal concern, and blowback or policy reverberation in the form of domestic threats to state security.

**Conclusion**

Findings here suggest that the objectives of Gulf Arab state aid, though enabled by resource wealth, are not strictly tied to volatility of these commodity prices. There are instances of rising oil prices in which aid did not increase on par with increased state resource revenue. Furthermore, we are currently in a climate in which oil revenues are decreasing, while the promise of Gulf aid (mostly from activist GCC members Saudi Arabia, Qatar and the United Arab Emirates) is increasing, at least to states identified as strategic partners in Gulf security. Contrary to public statements and prevailing analysis of the motivations of Gulf Arab aid based in cultural and religious traditions of charity, I have argued that since the Gulf states have had the financial ability to give, they have directed aid at political goals. It is perhaps the Gulf cultural aversion to public discussion of economic statecraft that reinforces preferences for bilateral, flexible (or, uncoordinated) foreign aid, and further encourages private donations with myriad political effects.

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**About the author**

Dr Karen E. Young is Research Fellow at the Middle East Centre at the London School of Economics and Political Science. She was Assistant Professor of Political Science at the American University of Sharjah, UAE from 2009 to 2014. Her book, *The Political Economy of Energy, Finance and Security in the United Arab Emirates: Between the Majilis and the Market* was published by Palgrave in 2014.

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