



Sovereign wealth funds as catalysts for economic transformation: Kuwait and Qatar divergent pathways (2020–2025)

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Abstract

Objectives: This study investigates how sovereign wealth funds (SWFs) influence economic transformation in Kuwait and Qatar between 2020 and 2025. It aims to explain why the Kuwait Investment Authority (KIA) and the Qatar Investment Authority (QIA) have generated different diversification outcomes despite comparable hydrocarbon-based economic structures. **Method:** The research draws on institutional economics and innovation systems theory. It employs a comparative case study methodology using a mixed-methods approach with official data from the International Monetary Fund, World Bank, World Intellectual Property Organization, and national statistical agencies to assess the strategic deployment of SWFs and the institutional conditions shaping their effectiveness.

Results: The study finds that Qatar's use of its SWF as an active development instrument—supported by coherent institutional frameworks and Environmental, Social, and Governance (ESG) -integrated investment strategies—produced stronger innovation capacity, fiscal resilience, and non-hydrocarbon sector growth. Qatar registered 3.4% annual non-hydrocarbon GDP expansion and ranked 48th in the 2025 Global Innovation Index. Kuwait, by contrast, maintained a conservative wealth-preservation approach, experienced economic contraction, and fell to 73rd position. **Conclusion:** The findings show that institutional quality, political-economy dynamics, and SWF governance structures critically shape diversification out-

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comes in rentier states, offering valuable policy insights for hydrocarbon-dependent economies pursuing sustainable transition pathways.

Keywords: sovereign wealth funds, economic diversification, Kuwait Investment Authority, Qatar Investment Authority, institutional economics

الصناديق السيادية كمحفّزات للتحوّل الاقتصادي: تحليل مقارن لمساري الكويت وقطر نحو اقتصاديات ما بعد الهيدروكربونات (2020-2025)

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ملخص

الأهداف: تفحص هذه الدراسة كيف تؤثر الصناديق السيادية في مسارات التحوّل الاقتصادي في الكويت وقطر خلال الفترة بين 2020 و2025. ويهدف إلى تفسير سبب تحقيق الهيئة العامة للاستثمار الكويتية (KIA) وجهاز قطر للاستثمار (QIA) نتائج متفاوتة في جهود التنوع الاقتصادي، على الرغم من التشابه الكبير في البنى الاقتصادية المعتمدة على الهيدروكربونات. المنهج: تستند الدراسة إلى الاقتصاد المؤسسي ونظرية أنظمة الابتكار. ويعتمد تحليلاً مقارناً يستند إلى بيانات رسمية من صندوق النقد الدولي، البنك الدولي، المنظمة العالمية للملكية الفكرية، والجهات الإحصائية الوطنية، لتقييم كيفية توظيف الصناديق السيادية والظروف المؤسسية التي تشكل فعاليتها. النتائج: تُظهر الدراسة أن قطر استخدمت صندوقها السيادي كأداة تنمية نشطة، مدعومة بأطر مؤسسية متماسكة وإستراتيجيات استثمارية مدمجة بمعايير البيئة والحكومة والمسؤولية الاجتماعية (ESG)؛ مما أسهم في تعزيز القدرة الابتكارية، والصلابة المالية، ونمو القطاعات غير الهيدروكربونية. سجّلت قطر نمواً سنوياً بنسبة 3.4% في الناتج المحلي غير الهيدروكربوني واحتلت المرتبة 48 في مؤشر الابتكار العالمي لعام 2025. أما الكويت؛ فواصلت نهجاً محافظاً يركز على الحفاظ على الثروة، وشهد اقتصادها انكماشاً وتراجعت إلى المرتبة 73 في المؤشر ذاته. الخاتمة: تؤكد النتائج أن جودة المؤسسات والديناميكيات السياسية-الاقتصادية وهياكل حوكمة الصناديق السيادية عوامل حاسمة في تحديد نتائج التنوع في الدول الريعانية، وتوفّر دروساً مهمة للدول المعتمدة على الهيدروكربونات الساعية إلى مسارات انتقالية مستدامة..

الكلمات المفتاحية: الصناديق السيادية، التنوع الاقتصادي، الهيئة العامة للاستثمار الكويتية، جهاز قطر للاستثمار، الاقتصاد المؤسسي.

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Introduction

The Gulf Cooperation Council (GCC) states confront an existential imperative to transition from hydrocarbon-dependent rentier economies to diversified, knowledge-based economic systems. This transformation assumes heightened urgency amid volatile energy markets, global decarbonization commitments, and technological disruption reshaping competitive advantages (International Monetary Fund [IMF], 2024a; World Bank, 2025). Sovereign wealth funds, accounting for over \$3.5 trillion in assets across Saudi Arabia, Abu Dhabi, and Qatar, have emerged as potentially transformative instruments for catalyzing this economic metamorphosis (Sovereign Wealth Fund Institute, 2024). However, scholarly understanding of how SWF deployment strategies interact with institutional frameworks to generate differential diversification outcomes remains nascent.

This study addresses this knowledge gap through a rigorous comparative analysis of Kuwait and Qatar—two hydrocarbon-rich GCC states with mature SWFs yet markedly divergent economic trajectories during 2020–2025. The Kuwait Investment Authority, established in 1953 as the world’s oldest SWF with \$1,029 billion in assets, maintains a predominantly passive wealth-preservation mandate (Kuwait Investment Authority, 2025). Conversely, the Qatar Investment Authority (QIA), managing approximately \$475 billion in assets, has evolved into an active economic-development catalyst aligned with the Third National Development Strategy 2024–2030 (Oxford Business Group, 2025; IMF, 2025a).

Despite comparable hydrocarbon endowments and per capita incomes, these nations exhibit striking performance disparities. Qatar achieved 6.1% real GDP growth in Q4 2024, with non-hydrocarbon sectors contributing 64% of total output, while Kuwait experienced a 2.8% contraction in 2024, with oil comprising over 50% of GDP

(Qatar Planning and Statistics Authority, 2025; IMF, 2024b). This divergence crystallized during 2023–2024, when Kuwait’s Global Innovation Index ranking declined from 71st to 73rd, while Qatar improved from 49th to 48th, despite both economies underperforming relative to their income levels (World Intellectual Property Organization [WIPO], 2024, 2025).

Research Questions and Hypotheses

RQ1: How do institutional frameworks and political economy dynamics shape SWF deployment strategies in Kuwait versus Qatar?

H1: Higher institutional quality—measured by political stability, regulatory coherence, and inter-agency coordination—enables more active developmental deployment of SWF resources, generating superior diversification outcomes.

RQ2: To what extent have ESG integration and green finance strategies contributed to differential outcomes in innovation capacity and sectoral transformation?

H2: Greater ESG integration in SWF portfolios correlates positively with innovation performance and non-hydrocarbon sector growth through technology transfer and governance improvements.

RQ3: What are the policy implications of these comparative experiences for hydrocarbon-dependent economies?

H3: Successful economic transformation requires comprehensive, coordinated institutional reforms that extend beyond SWF strategy optimization alone.

Theoretical Framework and Conceptual Linkages

This analysis synthesizes three complementary theoretical traditions. Institutional economics (North, 1990) posits that the quality

of formal and informal institutions mediates economic performance. Applied to SWFs, this implies that institutional quality determines whether sovereign wealth functions as a developmental catalyst or a financial repository. High-quality institutions reduce transaction costs and enable coordinated policy implementation, thereby enhancing SWF effectiveness (Acemoglu et al., 2001). Institutional quality is operationalized in this study through measures of political gridlock frequency, inter-agency coordination capacity, and policy implementation coherence.

Innovation systems theory (Nelson, 1993) emphasizes that national innovation performance depends on complex interactions among firms, research institutions, government policies, and financial systems. SWFs can catalyze innovation through (1) direct R&D infrastructure investment; (2) financing of knowledge-intensive sectors; (3) technology transfer via international acquisitions; and (4) signaling effects that crowd in private innovation investment.

SWF development theory (Fotak & Megginson, 2021; Bortolotti, 2024) highlights SWFs' potential to overcome coordination failures in resource-dependent economies through patient capital and strategic sectoral investment. Al-Sarraf (2024) argues that these funds function as “tools of regime stability,” a political economy dimension that complements our institutional framework.

The integrated analytical model posits the following relationship: Institutional Quality → SWF Governance Structure → Investment Strategy (including ESG depth) → National Innovation System Interactions → Development Outcomes. ESG integration serves as an intermediate variable linking SWF strategies to innovation outcomes—directly through green technology investments and indirectly through institutional quality improvements within SWF governance itself.

Contribution and Structure

This research contributes three principal advances. Empirically, it provides the first systematic comparative analysis of KIA and QIA deployment strategies during 2020–2025 with explicit hypothesis testing. Theoretically, it advances understanding of the institutional mechanisms through which SWFs either enable or constrain transformation, integrating institutional economics with innovation systems theory. Practically, it generates policy-relevant insights on optimal SWF governance architectures, ESG integration strategies, and coordination mechanisms for diversification programs.

Literature Review and Contextual Analysis

Sovereign Wealth Funds and Economic Development

The academic literature on SWFs has evolved from early preoccupation with global financial stability implications (Truman, 2010) toward recognition of their developmental potential. Monk (2009) argued that SWF effectiveness depends critically on governance quality and strategic mandates—a proposition directly motivating this study’s comparative design. Fotak and Megginson (2021) demonstrate that SWF investments generate positive performance effects for target firms, suggesting home-economy spillover benefits, though their analysis focuses on international investments rather than domestic developmental impacts—a gap this study specifically addresses.

A scholarship documents how Gulf-based SWFs have transitioned from passive portfolio investors to active economic actors (Fotak & Megginson, 2021; Sovereign Wealth Fund Institute, 2024). Al-Sarraf (2024) argues that these funds function as “tools of regime stability” in Gulf rentier states, enabling incumbents to maintain patronage networks while pursuing diversification through ESG-compliant investments. While Al-Sarraf’s framework emphasizes regime

maintenance, this study extends it by demonstrating how institutional quality shapes the developmental effectiveness of that same strategic function—a dimension underexplored in political economy accounts.

Critical gaps exist in the current literature. First, comparative analyses of SWF effectiveness across similar resource-dependent contexts remain scarce, with most studies examining individual funds in isolation. Second, the mechanisms linking SWF strategies to innovation outcomes through national innovation systems require deeper investigation. Third, the role of institutional quality in mediating SWF developmental impact demands systematic examination. This study addresses all three gaps.

Economic Diversification in Kuwait and Qatar

Both Kuwait and Qatar have articulated ambitious diversification visions—Kuwait Vision 2035 and Qatar National Vision 2030—yet implementation trajectories diverge markedly. Qatar’s Third National Development Strategy (NDS3), launched in January 2024, explicitly calls for transitioning from a “state-driven growth model to a private sector-led one” (IMF, 2025a, p. 6). The strategy targets 3.4% annual non-hydrocarbon GDP growth and the attraction of \$100 billion in FDI attraction by 2030 (Ministry of Commerce and Industry Qatar, 2024).

Kuwait’s diversification efforts have encountered persistent political gridlock between the government and parliament, stalling fiscal and structural reforms (IMF, 2024b). The Oxford Business Group (2024) documents Kuwait’s political gridlock as the primary diversification impediment, consistent with H1, yet without a systematic comparison to successful cases. Our study diverges from descriptive approaches by demonstrating precisely how governance fragmentation operates as a causal mechanism inhibiting SWF developmental effectiveness—a causal chain that the descriptive literature leaves unspecified.

ESG Integration and Green Finance in Gulf SWFs

ESG considerations have emerged as central to Gulf SWF strategies, driven by international investment norms and the recognition that sustainable practices enhance long-term returns (Invesco Asset Management, 2023). The Kuwait Investment Authority announced in January 2022 its intention to transition toward ESG-compliant portfolios (Al Ghunaiman, 2022; Widdershoven, 2022), while QIA has pursued more aggressive integration, exemplified by its \$2.4 billion 2023 investment in RWE AG (a leading German renewable energy company focused on offshore wind and green power generation) and \$6.8 billion in healthcare and energy sectors aligned with the United Nations Sustainable Development Goals (Transition Investment Lab, 2024).

Bortolotti (2024) documents that 90% of Middle Eastern state-owned funds have embraced ESG policies, though only one-third calculate portfolio carbon footprints. Our study extends this work by demonstrating that implementation depth—not mere policy adoption—determines developmental outcomes. This diverges from existing literature that treats ESG adoption as a binary variable and provides empirical support for treating ESG integration as a continuous, multidimensional construct.

Innovation Systems and Economic Complexity

The Global Innovation Index (WIPO, 2024) assesses innovation capacity across seven pillars. Gulf economies persistently underperform relative to income levels; Kuwait (73rd) and Qatar (48th) are both classified as innovation underperformers in 2025 (WIPO, 2025). Kuwait's innovation score declined from 29.94 to 28.1 points against a global average of 31.57 (TheGlobalEconomy.com, 2024). The Economic Diversification Index (Dubai Multi Commodities Centre, 2024) reveals that the UAE and Bahrain achieved higher

scores among GCC states, while Saudi Arabia and Oman gained over 10 points between 2000 and 2020–2022.

Most GII analyses describe Gulf underperformance without explaining its causes or identifying SWF roles as potential drivers. This study provides novel empirical evidence linking SWF strategic orientation and ESG integration depth to innovation performance differences—a contribution absent in both the SWF and innovation systems literatures when applied to Gulf rentier contexts.

Methodology and Data Sources

Research Design

This study employs a structured comparative case study methodology, analyzing Kuwait and Qatar as paired comparisons following Mill's Method of Difference (Gerring, 2007): the cases share key background characteristics—hydrocarbon wealth, rentier economic structures, GCC membership, and similar per capita income levels—but differ in the causal variables of interest (institutional quality and SWF strategies) and exhibit markedly different outcomes. This design controls for regional, cultural, and historical factors while enabling systematic examination of how institutional variations and policy choices generate differential trajectories.

The analysis synthesizes quantitative performance indicators with qualitative assessments of institutional frameworks, policy documents, and SWF governance structures, following an established mixed-methods tradition in comparative political economy (Gerring, 2007).

Mixed-Methods Approach

The quantitative component consists of Comparative trend analysis of economic indicators (real GDP growth rates, non-hydrocarbon GDP share and CAGR, fiscal balances as a percentage

of GDP); innovation metrics (GII rankings and seven-pillar component scores); FDI flows as a percentage of GDP; and economic diversification index scores. Statistical analysis relies on year-on-year percentage change calculations, compound annual growth rates (CAGR), and benchmarking against GCC and global averages as reference populations.

The qualitative component includes content analysis of policy documents (Kuwait Vision 2035, Qatar NDS3, SWF mandates, ESG reports); institutional analysis using governance indicators (political stability, regulatory coherence and inter-agency coordination capacity); and process tracing of specific policy episodes to identify causal mechanisms linking institutional quality to SWF effectiveness.

Four-Stage Analytical Framework

Stage 1: Institutional Context Mapping

Characterize political economy structures and governance frameworks. Techniques: qualitative comparative analysis of constitutional structures and implementation capacity. Indicators: frequency of government reshuffles, years elapsed for key legislation, IMF governance assessments.

Stage 2: SWF Strategy Analysis

Compare KIA and QIA mandates, governance, investment approaches, and ESG integration. Techniques: content analysis of official statements and disclosures; portfolio coding by sector, geography, and ESG classification. Indicators: Santiago Principles compliance scores, ESG disclosure depth index (carbon footprint reporting, SDG alignment), and domestic versus international investment allocation ratios.

Stage 3: Performance Assessment

Evaluate outcomes across fiscal sustainability, GDP composition, innovation, and FDI. Techniques: descriptive statistics, trend analysis with CAGR, and international benchmarking. Indicators: non-hydrocarbon GDP share change (percentage points, 2020–2025), GII rank change and component score trajectories, and FDI net flows as a percentage of GDP.

Stage 4: Causal Mechanism Identification

Synthesize findings through process tracing and pattern matching to validate or refine H1, H2, and H3.

Analytical Rigor and Systematic Comparison

Rigor is ensured through (1) the application of an identical four-stage analytical template to both cases; (2) the use of a consistent time period (2020–2025) for all comparative indicators; (3) the application of the same performance metrics applied to both countries; (4) triangulation across at least three independent data sources per key claim; and (5) explicit hypothesis testing against pre-specified criteria. To address outlier years, 2020 COVID-affected figures are treated with appropriate caveats, and medium-term averages (2022–2024) are used for structural assessment wherever single-year data may be distorted.

Statistical Methods and Analytical Techniques

The study applies the following analytical techniques to ensure methodological transparency:

Trend Analysis. Year-on-year (YoY) percentage changes are calculated for key macroeconomic variables (real GDP, non-hydrocarbon GDP, fiscal balance) to identify structural trajectories beyond cyclical fluctuations. Where five-year data series are available, com-

pound annual growth rates (CAGR) are computed using the formula: $\text{CAGR} = (\text{End Value} / \text{Beginning Value})^{1/n} - 1$, where n represents the number of years.

Benchmarking. Individual country indicators are systematically benchmarked against (a) GCC regional averages, (b) global averages for equivalent income-group countries, and (c) WIPO innovation performance expected scores given income levels. This three-tier benchmarking enables identification of relative over- or underperformance while controlling for structural and income factors.

Index Score Decomposition. For GII rankings, both overall scores and individual pillar scores are analyzed to distinguish between structural innovation capacity (institutions, human capital, infrastructure) and output metrics (knowledge outputs, creative outputs), providing a more nuanced assessment than rankings alone.

Comparative Performance Scoring. A standardized performance matrix (see Table 5, Section 5.4) aggregates outcomes across six dimensions using directional indicators (improving/declining/stable) to enable systematic cross-case comparison. This matrix approach, adapted from structured focused comparison methodology (Gerring, 2007), ensures consistency across qualitatively different outcome dimensions.

Limitations of Statistical Approach. The analysis is primarily descriptive-comparative rather than inferential. Without panel data spanning sufficient years and multiple comparable cases, multivariable regression techniques cannot be reliably applied. Consequently, causal claims are advanced as “strong evidence” rather than statistically confirmed causation, consistent with case study methodology. Future research employing quantitative cross-country panel datasets would strengthen causal claims.

Data Sources and Quality

Quantitative data are derived from (1) IMF Article IV Consultation Reports for Kuwait (2024) and Qatar (2024–2025) [high quality]; (2) World Bank Macro Poverty Outlook reports (2025) [high quality]; (3) WIPO Global Innovation Index 2024 and 2025 [high quality]; (4) Qatar Planning and Statistics Authority and Kuwait Central Statistical Bureau (2024–2025) [medium-high quality]; and (5) Global SWF database and Sovereign Wealth Fund Institute reports [medium quality]. All data represent the most recent available information as of November 2025, with primary reliance on 2023–2024 figures for economic indicators.

Comparative Institutional Analysis

Political Economy and Governance Structures

Kuwait operates as a constitutional monarchy with the oldest directly elected parliament among Gulf Arab states, creating formal checks on executive authority (Oxford Business Group, 2024). This institutional structure has generated persistent gridlock between the government and the National Assembly, particularly regarding fiscal reforms and development initiatives. The nine-year delay in the passage of the Public Debt—finally approved in 2024, unlocking KD30 billion (\$98 billion) in borrowing capacity—exemplifies how institutional dysfunction creates a policy vacuum even amid resource abundance (Global SWF, 2025a; IMF, 2024b). The IMF (2024b) warns that “continued delays in fiscal and structural reforms due to political gridlock could give rise to procyclical fiscal policy and undermine investor confidence” (p. 2). Kuwait’s dysfunction operates through three primary mechanisms: policy discontinuity from frequent government reshuffles; fragmented authority across ministries lacking coordination mandates; and legislative bottlenecks enabling issue-specific blocking without constructive alternatives.

Qatar's governance structure, while similarly monarchical, features more concentrated executive authority enabling decisive policy implementation. The launch of Qatar's Third National Development Strategy in January 2024 exemplified coordinated reform capacity, with NDS3 articulating transformation objectives backed by specific implementation mechanisms and interministerial coordination structures (IMF, 2025a). The alignment between QIA investment strategies, Ministry of Commerce and Industry initiatives, and Qatar Central Bank policies creates synergistic policy coherence, which is largely absent in Kuwait's fragmented institutional landscape (Oxford Business Group, 2025).

Testing H1. The institutional divergence strongly supports Hypothesis 1. Qatar's institutional quality—measured by policy coherence, coordination capacity, and implementation effectiveness—enables the QIA to function as an active development catalyst. Kuwait's governance fragmentation constrains the KIA despite its larger asset base and longer operational history, providing evidence that institutional quality mediates SWF effectiveness more powerfully than resource availability or fund size.

SWF Governance and Mandates

The Kuwait Investment Authority operates under the 1982 law establishing strict confidentiality provisions prohibiting public disclosure of asset sizes, allocations, and performance metrics (United States Department of State, 2025). KIA manages two primary portfolios: the Kuwait General Reserve Fund (liquidity and stabilization) and the Kuwait Future Generations Fund, which receives 15% of annual oil revenues for intergenerational wealth preservation. The latter's mandate explicitly prioritizes capital preservation over active developmental interventions. KIA investment income remains

legally segregated from the central government budget—a structural feature reinforcing the fund’s role as a financial buffer rather than a development instrument.

The Qatar Investment Authority, established in 2005, has evolved toward a more developmental mandate aligned with NDS3 objectives. QIA’s strategy emphasizes strategic investments in renewable energy (\$2.4 billion in RWE AG), healthcare and energy sectors aligned with the UN SDGs (\$6.8 billion in 2023), and technology-intensive industries (Transition Investment Lab, 2024). QIA demonstrates greater transparency, participating in international SWF networks and adopting the Santiago Principles for responsible sovereign wealth management (see Table1).

Table 1

SWF Governance and Strategies in Kuwait and Qatar

Dimension	Kuwait (KIA)	Qatar (QIA)
Mandate Orientation	Passive wealth preservation	Active development catalyst
Transparency Level	Strict confidentiality; minimal public disclosure	Moderate; Santiago Principles adoption
Domestic Investment Role	Limited; legally segregated from development policy	Strategic; explicitly aligned with NDS3 priorities
ESG Integration Depth	Rhetorical adoption; limited implementation	Substantive; SDG-aligned portfolio construction
Inter-agency Coordination	Fragmented; minimal alignment with development ministries	Coordinated; embedded in national strategy architecture

ESG Integration and Green Finance Strategies

The Kuwait Investment Authority announced in January 2022 its intention to transition toward ESG-compliant portfolios (Widdershoven, 2022). However, implementation has proceeded incrementally: KIA maintains limited disclosure of ESG metrics and carbon

footprints (United States Department of State, 2025), and Kuwait remained the only GCC state without a net-zero commitment as of early 2022—reflecting broader institutional hesitancy that constrains aggressive climate action. In the absence of complementary national climate policy, KIA’s ESG commitment lacks the institutional reinforcement necessary for substantive portfolio transformation.

Qatar has pursued more aggressive ESG integration aligned with its National Environment and Climate Change Strategy. QIA’s investments in RWE AG and other renewable energy firms, combined with \$6.8 billion in SDG-aligned sectors (Transition Investment Lab, 2024), position it among the leading Gulf SWFs in sustainable finance. Qatar calculates and discloses portfolio carbon footprints, coordinating ESG strategy with national climate commitments and infrastructure investments to create policy synergies absent in Kuwait (see Table 2).

Table 2
ESG and Green Investment Comparison: KIA vs. QIA

Dimension	Kuwait (KIA)	Qatar (QIA)	Implication
ESG Policy Adoption	2022 (rhetorical)	2021 onward (substantive)	Qatar first-mover advantage in implementation
Carbon Footprint Disclosure	No	Yes	Transparency gap with governance implications
Green Investment Scale	Minimal public evidence	\$2.4B+ in renewables; \$6.8B SDG-aligned	Magnitude difference signals strategic commitment
National Climate Policy Coherence	Delayed NetZero; no integrated strategy	Integrated National Climate Strategy	Institutional complementarity in Qatar’s case
Innovation Outcome (GII 2025)	73rd, declining	48th, improving	ESG-innovation correlation requires further testing

Performance Outcomes and Comparative Analysis

Economic Growth and Structural Transformation

Kuwait experienced economic contraction, with real GDP declining 3.6% in 2023 and a further 2.8% in 2024, driven primarily by OPEC+ production cuts reducing oil sector output (IMF, 2024b). Non-oil GDP growth remained at 2.0%—substantially below the 3.6% GCC average (IMF, 2024c)—despite representing a recovery from 0.8% in 2022. Oil sector dominance persists, comprising over 50% of GDP and nearly 90% of government revenue (Oxford Business Group, 2024; United States Department of State, 2025).

Qatar demonstrated markedly superior performance: real GDP growth reached 6.1% year-on-year in Q4 2024, with non-hydrocarbon sectors contributing 64% of total output, up from 63% in 2023 (Qatar Planning and Statistics Authority, 2025). Sectoral highlights: accommodation and restaurants grew 14.7%; financial activities expanded 11.1%; wholesale/retail trade grew 9%. These figures reflect successful leveraging of FIFA 2022 World Cup infrastructure to catalyze sustained non-oil expansion (see Table 3).

Table 3

Growth and Economic Transformation Indicators: Kuwait and Qatar (2024-2027)

Indicator	Kuwait	Qatar	Gap / Interpretation
Real GDP Growth 2024	-2.8%	+6.1% (Q4 2024)	8.9 pp difference; directional opposite
Non-HC GDP Growth 2024	2.0% (below GCC average of 3.6%).	~3.4% (on NDS3 target)	Qatar on trajectory; Kuwait below regional norm
Projected Avg. Growth 2025–2027 (IMF)	2.6%	4.75%	Qatar nearly double Kuwait’s medium-term path
Primary Growth Drivers	Oil price recovery (external, cyclical)	NDS3, North Field LNG, diversification (structural)	Qatar’s drivers more endogenous and sustainable

Fiscal Sustainability and Resource Dependency

Kuwait's fiscal balance deteriorated sharply, swinging from a surplus of 11.8% of GDP in FY2022/23 to a deficit of 3.1% in FY2023/24, with projections indicating further widening to 6.6% in FY2024/25 in the absence of consolidation measures (IMF, 2024b). This deterioration reflects both declining oil revenues and rising expenditures, compounded by political gridlock preventing fiscal reforms.

The broader general government balance—incorporating estimated SWF returns and state-owned enterprise profits—registered 26.1% of GDP surplus in FY2023/24 (IMF, 2024b). This accounting distinction is analytically significant: KIA's substantial returns are structurally segregated from development financing, supporting our characterization of the fund as a financial buffer rather than an active development instrument. The legal segregation of SWF investment income from budgetary accounts is not merely a technical accounting feature; it reflects and reinforces a fundamental strategic choice to separate wealth preservation from transformation financing.

Qatar maintained fiscal discipline while deploying space to support post-World Cup growth normalization. The fiscal surplus narrowed from 10.5% of GDP (2022) to 5.6% (2023), declining further as hydrocarbon prices moderated (IMF, 2025a). Qatar's extension of medium-term budgeting to five-year frameworks and progress in program-based budgeting demonstrate measurable institutional capacity improvements (IMF, 2025b). Both economies maintain strong current account positions—Kuwait recorded a 31.4% of GDP surplus in 2023, driven predominantly by oil exports, while Qatar recorded 15.6% in Q1 2025 underpinned by a more diversified mix of hydrocarbon revenues, tourism, and transportation services (IMF, 2024b; World Bank, 2025). The composition difference is structurally significant: Qatar's surplus rests on a more diversified revenue base, reducing vulnerability to hydrocarbon price cycles.

Innovation Capacity and Economic Complexity

Kuwait’s Global Innovation Index ranking declined from 71st (2024) to 73rd (2025), with its score falling from 29.94 to 28.1 points against a global average of 31.57 (WIPO, 2024, 2025; TheGlobalEconomy.com, 2024). This deterioration reflects persistent weaknesses in business sophistication, knowledge and technology outputs, and creative outputs. Critically, Kuwait has zero clusters in the top 100 global science and technology clusters (WIPO, 2024)—a stark indicator of absent innovation ecosystem development despite decades of substantial sovereign wealth accumulation.

While also classified as an innovation underperformer relative to its income level, Qatar demonstrated improving performance, moving from 49th (2024) to 48th (2025) (WIPO, 2024, 2025). Qatar leads in tertiary inbound mobility and ICT use, reflecting investments in educational infrastructure and digital transformation. Qatar’s competitive advantage in energy cost and reliability positions it for attracting data centers and AI ecosystems—opportunities actively pursued under NDS3 (IMF, 2025a) (see Table 4).

Table 4

Innovation and knowledge Economy: Kuwait vs. Qatar

Metric			Kuwait	Qatar	Global Average
GII Overall Rank (2025)			73rd (declining)	48th (improving)	—
GII Score (2024)			28.1 (−1.84 from 2023)	~33.5 (improving)	31.57
Top 100 S&T Clusters			0	0 (building foundation)	—
ICT Use Pillar			Below GCC average	Above GCC average	—
Non-HC GDP Share			~50%	64%	—

Foreign Direct Investment and Private Sector Development

Qatar's NDS3 explicitly targets \$100 billion in cumulative FDI by 2030, supported by regulatory reforms including updated business laws and enhanced governance frameworks (Oxford Business Group, 2025). FDI stock declined modestly from \$27.6 billion (2022) to \$27.1 billion (2023) following World Cup construction project completion, but structural reforms position Qatar for recovery (IMF, 2025a). Kuwait's FDI performance remains subdued, with net FDI outflows increasing to 4.7% of GDP in Q1 2025 from 1.2% one year earlier (World Bank, 2025), reflecting persistent regulatory opacity, political unpredictability, and limited private sector space. The belated easing of property ownership rules for investor-licensed entities in early 2025 exemplifies incremental reform insufficient to overcome accumulated institutional deficits (see Table 5).

Table 5

Economic and Investment Performance: Kuwait vs. Qatar

Outcome Dimension	Kuwait	Qatar	Divergence Magnitude
Real GDP Growth (2024)	-2.8%	+6.1% (Q4)	8.9 percentage points
Non-Hydrocarbon GDP Share	~50%	64%	14 percentage points
GII Rank (2025)	73rd (declining)	48th (improving)	25 positions; trajectories diverging
Fiscal Balance (2024)	-3.1% GDP (budget)	+5.6% GDP	8.7 percentage points
FDI Net Flows (Q1 2025)	-4.7% GDP (outflows)	Recovering; reform-supported	Directional opposite
Non-HC GDP Growth Target	Unstated	3.4% annually (NDS3)	Qatar explicit; Kuwait strategy absent

Discussion: Causal Mechanisms and Policy Implications

Institutional Quality as Mediating Factor (Testing H1)

The comparative analysis reveals institutional quality as the critical variable mediating SWF developmental effectiveness, strongly supporting Hypothesis 1. Qatar's cohesive governance enables coordinated deployment of QIA resources toward strategic economic objectives, creating synergies between SWF investments, fiscal policy, regulatory reforms, and innovation initiatives. Kuwait's political gridlock fundamentally constrains KIA's capacity to function as active development catalyst. The nine-year delay in Public Debt Law passage exemplifies how institutional dysfunction prevents optimal resource mobilization even when the resources themselves are substantial (Global SWF, 2025a).

Convergence with prior literature. This finding confirms North's (1990) core institutional economics proposition that institutional quality determines economic outcomes and extends Acemoglu et al.'s (2001) framework by demonstrating specific SWF mechanisms: institutional quality determines whether sovereign wealth functions as development catalyst or financial repository. It also aligns with Al-Sarraf (2024) in recognizing political economy constraints on SWF effectiveness.

Divergence from prior literature. Our findings challenge technocratic SWF literature (Truman, 2010) that emphasizes fund-level governance variables (transparency indices, investment process quality) as primary effectiveness determinants. Our evidence demonstrates that domestic institutional quality supersedes fund-level technical governance: KIA possesses investment expertise and a long institutional track record, yet operates within a dysfunctional system that neutralizes these advantages. This suggests that SWF ef-

fectiveness research should prioritize domestic institutional context over fund-internal governance factors—a significant reorientation of the field’s analytical focus.

ESG Integration and Innovation Linkages (Testing H2)

Qatar’s aggressive ESG integration correlates with superior innovation outcomes through multiple channels: (1) Technology Transfer—QIA’s stake in RWE AG facilitates offshore wind expertise acquisition; (2) Institutional Quality Enhancement—ESG frameworks improve SWF governance through transparency requirements and long-term orientation; (3) Signaling—ESG credibility attracts international partners in knowledge-intensive sectors. Kuwait’s rhetorical ESG adoption without institutional reinforcement yields minimal transformation, providing a natural control condition supporting H2.

Convergence with prior literature. These findings align with Arab Gulf States Institute in Washington (2025), which identifies Gulf SWFs as critical actors for energy transition investment with domestic spillover potential, and with Invesco Asset Management’s (2023) analysis showing ESG-committed SWFs outperform peers on long-term risk-adjusted returns.

Divergence from prior literature. Our findings diverge from Bortolotti (2024) in one important respect: his analysis treats ESG adoption as primarily driven by international norm diffusion, implying convergence over time across Gulf SWFs. Our evidence suggests that institutional quality is a stronger predictor of ESG implementation depth than norm diffusion alone—Kuwait has been exposed to identical international norms but implemented ESG substantively less than Qatar, suggesting that institutional foundations determine the effectiveness of norm adoption rather than exposure alone. This implies that norm diffusion approaches to promoting green finance in

developing economies will achieve limited results in the absence of institutional quality improvements.

The Role of Mega-Events and Strategic Timing

Qatar's FIFA 2022 World Cup hosting provides instructive lessons. The IMF (2024) analysis demonstrates that Qatar's infrastructure investment program from 2011–2022 contributed 5–6 percentage points annually to non-hydrocarbon real GDP growth. Stadium costs represented merely 5% of total infrastructure expenditure; the bulk targeted ports, roads, metro systems, and airports generating lasting economic benefits. Qatar successfully sustained post-event momentum: visitor arrivals in 2023 nearly doubled pre-pandemic levels, and 2024 tourism surpassed 2023 figures (IMF, 2025b).

Convergence with event-driven development literature. Qatar's success aligns with the theoretical case for “catalytic events” (Fotak & Megginson, 2021) that mobilize coordinated resource deployment. The World Cup served precisely this function—it provided political legitimacy and implementation urgency for infrastructure investments that might otherwise have been delayed by coordination problems.

Divergence from mega-event literature. Most scholarship on sports mega-events documents post-event economic contractions (so-called “white elephant” effects). Qatar's sustained post-2022 growth directly contradicts this dominant finding, suggesting that institutional quality and strategic planning capacity determine whether mega-events generate lasting legacies or temporary spikes. Countries with weaker institutional quality replicate the “white elephant” pattern; Qatar's institutional capacity enabled conversion of temporary mobilization into sustained structural advantage. This extends the mega-event literature by identifying institutional quality as the critical moderating variable determining event legacy outcomes.

Kuwait lacks comparable catalytic projects. Vision 2035 initiatives—Northern Gateway and Five Islands projects envision over \$400 billion in investment—remain largely aspirational in the absence of institutional reforms enabling coordinated execution (United States Department of State, 2025).

Policy Recommendations

- 1 - Institutional Reform as Prerequisite.** SWF strategy optimization cannot substitute for foundational governance reform. For Kuwait specifically, constitutional or political reforms addressing executive-legislative gridlock and establishing independent development implementation authority with cross-ministry coordination mandates are prerequisite conditions. Without addressing institutional dysfunction, even the world's largest SWF cannot generate transformation.
- 2 - Active and Dual-Mandate SWF Architecture.** Passive wealth preservation mandates are appropriate for intergenerational savings functions but must be complemented by development-oriented vehicles with explicit mandates for catalyzing structural transformation. Kuwait should consider establishing a dedicated development window within KIA, with transparent accountability mechanisms linking investment decisions to NDS-aligned outcomes, while maintaining segregated preservation portfolios for intergenerational equity.
- 3 - Substantive ESG Integration with Domestic Linkage.** ESG should be approached as strategic investment framework rather than reputational exercise. Priority actions include carbon footprint calculation and disclosure, SDG-aligned portfolio targets, and explicit orientation of ESG investments toward sectors with domestic technology transfer potential (renew-

able energy, advanced manufacturing, digital infrastructure). Kuwait's absence of a national climate commitment must be rectified to create institutional complementarity enabling SWF ESG effectiveness.

4 - Innovation Ecosystem as Long-Term Investment. Sovereign wealth can catalyze innovation through targeted investment in research infrastructure, university-industry partnerships, and knowledge-intensive sectors. Kuwait's zero representation in global top-100 S&T clusters demands urgent, coordinated SWF-academic-industry initiative with specific cluster development targets.

5 - Fiscal Discipline with Countercyclical Capacity. Kuwait's recent budgetary deficits, despite record sovereign wealth, underscore vulnerability in the absence of fiscal consolidation. Medium-term fiscal frameworks with explicit SWF contribution and withdrawal rules enable countercyclical deployment while maintaining intergenerational equity commitments.

6 - Private Sector Enabling Environment. SWF investments generate maximum transformation when combined with regulatory reforms, reducing barriers to private enterprise. State capital should crowd in rather than substitute for private investment. Kuwait's isolated regulatory adjustments (e.g., property ownership rules) will not shift investor perceptions absent comprehensive institutional reform.

Limitations and Future Research

This study acknowledges four primary limitations. First, the 2020–2025 timeframe is relatively short for assessing structural transformation; extended longitudinal analysis would strengthen causal

claims. Second, KIA's strict confidentiality necessitates reliance on publicly available data, potentially missing nuanced portfolio details. Third, isolating SWF effects from confounding variables (oil price cycles, COVID-19 pandemic, OPEC+ decisions) remains challenging despite comparative design. Fourth, the N=2 case structure limits generalizability, warranting validation across broader samples.

Future research should (1) examine micro-level mechanisms linking specific SWF investments to innovation outcomes; (2) extend comparison to Norway, Singapore, UAE, Kazakhstan, and Azerbaijan for cross-regional pattern validation; (3) investigate conditions enabling institutional reform in rentier contexts; (4) assess long-term ESG investment impacts over 10+ year horizons; and (5) develop quantitative panel models controlling for confounders to provide more robust causal estimates.

Conclusion

This study set out to explain why the Kuwait Investment Authority and the Qatar Investment Authority—two sovereign wealth funds operating in structurally similar hydrocarbon-dependent economies within the same regional bloc—have generated such markedly different development outcomes during 2020–2025. The answer, supported consistently across institutional analysis, fiscal data, innovation metrics, and FDI indicators, is not primarily a story of resource endowments, fund size, or investment expertise; it is a story of institutions.

Synthesis of Hypothesis Testing Results

Table 6

Results of Hypothesis Testing

Hypothesis	Proposition	Evidence	Verdict
H1	Higher institutional quality enables more active developmental SWF deployment	Qatar’s policy coherence enables QIA developmental role; Kuwait’s gridlock constrains KIA despite \$1T+ in assets. Nine-year legislative delay vs. NDS3 coordinated launch.	Strongly Supported
H2	Greater ESG integration correlates positively with innovation performance	Qatar (substantive ESG, GII 48th improving) vs. Kuwait (rhetorical ESG, GII 73rd declining). Technology transfer, governance, and signaling channels identified.	Supported (with institutional quality as moderator)
H3	Transformation requires coordinated institutional reforms beyond SWF optimization alone	Qatar’s NDS3 integration of SWF, fiscal, regulatory, and innovation policies vs. Kuwait’s isolated, fragmented interventions. ESG alone insufficient without institutional foundations.	Strongly Supported

Three principal findings define this study’s contribution. First, institutional quality is the dominant mediating variable in SWF developmental effectiveness—more consequential than fund size, asset levels, or even investment sophistication. Qatar’s institutional capacity for coherent, coordinated policy implementation transforms QIA into a genuine economic catalyst. Kuwait’s governance fragmentation reduces KIA—the world’s oldest sovereign wealth fund, managing over one trillion dollars—to a passive financial repository, its transformative potential locked behind institutional barriers it cannot itself remove. This finding extends institutional economics theory to SWF contexts by specifying the precise mechanism: institutional quality

determines whether the governance architecture surrounding a SWF enables strategic alignment or produces fragmented inefficacy.

Second, ESG integration, when pursued substantively rather than rhetorically, functions as an amplifier of transformation capacity rather than a standalone driver. Qatar's \$2.4 billion investments in RWE AG and \$6.8 billion in SDG-aligned sectors have facilitated technology transfer, improved SWF governance quality, and signaled international credibility, all of which feed back into superior innovation outcomes. Kuwait's nominal ESG commitment, absent from institutional reinforcement and disconnected from a national climate strategy, has produced negligible transformation benefits. This finding advances ESG literature by demonstrating that implementation depth, not adoption, and institutional complementarity, not declaration, determine whether ESG integration delivers development returns. It also diverges meaningfully from Bortolotti's (2024) norm-diffusion account: international norms reach both countries equally; institutional quality determines whether those norms are internalized substantively or symbolically.

Third, successful diversification is irreducibly systemic. Qatar's NDS3 integrates SWF deployment, fiscal discipline, regulatory reform, innovation ecosystem development, and private sector enabling policies into a coherent whole. No single element—not the SWF, not the World Cup infrastructure, not ESG commitments—would have generated Qatar's outcomes in isolation. Kuwait's repeated experience with individually well-designed but institutionally isolated initiatives confirms the counterfactual: piecemeal intervention in the absence of coordinating institutional architecture produces at best incremental results, and at worst, wasted resources amid fiscal deterioration.

The implications reach well beyond Kuwait and Qatar. GCC states collectively manage over \$3.5 trillion in sovereign wealth (Sovereign Wealth Fund Institute, 2024)—the most concentrated pool of public capital in the world. Whether this unprecedented resource becomes a catalyst for knowledge-based economic transformation or a buffer preserving hydrocarbon-dependent status quo depends far less on portfolio construction choices than on the institutional architectures within which these funds operate. As global decarbonization accelerates, competitive advantages derived from hydrocarbon endowments will compress. The window for transformation is narrowing, and the opportunity cost of institutional inaction compounds annually.

Beyond the GCC, the Kuwait–Qatar comparison holds lessons for any resource-dependent economy contemplating sovereign wealth as a diversification instrument—from Norway’s Government Pension Fund Global (whose institutional quality enables its developmental effectiveness) to Azerbaijan’s SOFAZ, Kazakhstan’s Samruk-Kazyna, and Trinidad and Tobago’s Heritage and Stabilisation Fund. In each case, the key question is not “how large is the fund?” but “how capable is the institutional system through which it operates?”

For Kuwait, the findings carry an urgent message. The country possesses every financial prerequisite for successful transformation: the world’s oldest SWF, over \$1 trillion in accumulated assets, a strategic geographic position, and a well-educated citizenry. What it lacks—and what no level of sovereign wealth can substitute for—are the institutional foundations that convert resources into strategic intent, and strategic intent into sustained structural change. The evidence from this study suggests that Kuwait’s diversification imperative is ultimately a governance reform imperative. Addressing institutional dysfunction is not a precondition to transformation; it is transformation.

As Kuwait and Qatar navigate the decisive decade ahead, their divergent experiences offer the scholarly community a rare natural experiment in the political economy of sovereign wealth. The discipline now faces a clear research agenda: moving beyond fund-level governance analysis toward systematic investigation of how domestic institutional quality, political economy constraints, and ESG implementation depth interact to determine whether sovereign wealth funds become catalysts for sustainable economic futures—or remain, as John Maynard Keynes might have framed it, a machine for accumulating treasure without the institutional compass to deploy it wisely.

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