THE RISE OF SOVEREIGN WEALTH INFLUENCE

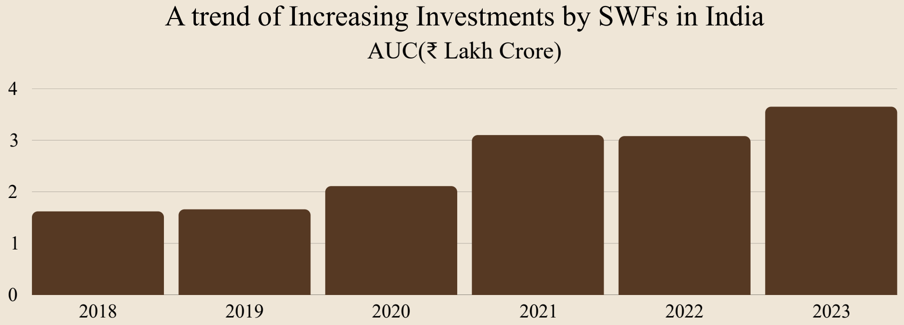
How Gulf Investments Are Reshaping Indian Equities?

It was 2020, and a not-so-quiet deal was taking place between Abu Dhabi Investment Authority(ADIA) and the Indian giant, Reliance Industries, hinting at something bigger than just capital flow between 2 nations. It marked a shift in the financial gravity of India. For decades, India looked at the Gulf for oil. Now, the Gulf was looking at us for an opportunity. In fact, the cumulative FDI flow into India from Gulf countries has risen to $24.54 bn in the last 12 years.

But these aren't just mere numbers. Behind them lies a strategy of diversification, diplomacy, and a bet on India's long-term growth story. The past decade has indeed seen an immense strategic shift in finance at a global level, particularly from the Gulf Cooperation Council(GCC), which can actually mean a lot for us if we understand the change and its impact on various stakeholders. For that, we need to understand what SWFs are in the first place.

I. Introduction

Sovereign Wealth Funds (SWFs) are essentially the state-owned investment funds established to manage surplus generated in the national wealth, usually derived from exports or fiscal surpluses, with the dual aim of stabilizing the economy and securing long-term financial prosperity. In recent years, India has seen a trend of increasing investments through SWFs, with a CAGR of 18%.



At the global level, there are major SWFs like Saudi Arabia's Public Investment Fund (PIF), Abu Dhabi Investment Authority (ADIA), and the Kuwait Investment Authority (KIA), which manage trillions of dollars generated by years of sales of oil and gas. According to some estimates, the GCC SWFs, which include ADIA, KIA, PIF, and Qatar Investment Authority (QIA), manage nearly $4.9 trillion in total, and there are projections that estimate it to further exceed $5 trillion by early 2025.

According to the International Monetary Fund(IMF), the Gulf may deplete its oil savings in the next 10 years. This largely explains the reason why Gulf is interested in diversified investments across the world. This can be evidently noticed in the recent targets of these SWFs, like PIF's Vision 2030. Under this, Saudi aims to make 50% of its portfolio non-oil. Here is where India comes into the picture as a perfect economy to invest in.

Under these strategic diversifications, significant capital is directed towards emerging markets with a scope of high profit, particularly Asia, which is seen as a fast-growing and stable market. India has now come under the central focus of many investors, since it now ranks as the **second-most popular** destination for SWF investments globally, after the USA. These investments are also supported by the political relationship that India and the Gulf share currently, marked by high-level, frequent visits. Unlike other Asian emerging countries like China, where investing laws are much stricter, and there are many quotas and capital restrictions that limit investments like Gulf SWFs, India invites them. Their large pool of financial resources and long-term vision place them among the most potent global investors, and thus make them very valuable for countries like India, which seek Foreign Investment for development. These funds are now moving away from traditional conservative investments (e.g., US Treasury bonds) toward high-risk, profitable, and strategic options to diversify their economies and decrease their oil dependency, which is very crucial as their oil reserves are continuously decreasing.

II. Why India?

Historically, the Gulf and India have been closely related. As a matter of fact, until 1966, the Reserve Bank of India used to print the Gulf Rupee, which was in use there. Still to this day, the Gulf remains a hotspot of employment for the Indian population. But, more than that, it has always had substantial interest in our capital markets, earning considerable gains from both debt and equity funds. The appeal of the Indian market is multifaceted and very much compelling for them as:

- **Economic Resilience and Growth:** According to various reputable reports, India is projected to be the fastest-growing G20 economy. This provides an attractive backdrop for large-scale, long-term capital deployment. Thus, India's economy is often viewed positively in this regard due to its improved political stability compared to our neighbours like Pakistan and Bangladesh, favorable demographics with high demand, and consistent efforts from central authorities for digitalisation.
- **Financial Alignment:** Recently, India has surpassed China as the most attractive emerging market for investing in debt. Like this, India's inclusion in major indices across the world, such as the increase in its weightage in the MSCI Global Standard (Emerging Markets) index to a record 18.2% in February 2024, shows strong market performance and thus attracts foreign investment.
- **Regulatory Incentives:** The Indian government has actively tried to invite SWF investments in our country through lucrative policies. These include the grant of 100% income tax exemption on income arising from SWF investments from dividends, interest, and long-term capital gain in some specific infrastructure sectors. Initially, they allowed this benefit only until March 31, 2024, but it was later extended till March 31, 2025. Furthermore, in India, SWFs are classified as Category I Foreign Portfolio Investors (FPIs), which puts them under the low-risk options category, thus easing their functioning in our country's regulatory landscape, which often proves to be extremely bureaucratic.

Apart from these factors, India and the Gulf also share a strong trade relationship. They have a bilateral trade(between India and the Gulf) that exceeds $178 billion in FY 2024-25. Both share various Memorandums of Understanding (MOUs), Free Trade Agreements (FTAs), Comprehensive Economic Partnership Agreement (CEPA), and other agreements over Maritime security, the Energy sector, etc. All this gives the Gulf all the more reasons to invest in our country. It gives them a chance to be long-term owners of our assets, like Ports, logistics parks, etc. This also shifts Gulf from being external portfolio investors to essentially becoming co-architects of India's growth, giving them durable economic stakes.

III. Gulf Activity in the Indian Equity Market

The Gulf investments in India are substantial and accelerating in numbers. Gulf SWFs invested approximately **$35 billion to $40 billion** into India in the decade prior to 2015. More recently, the investments have risen as well, with GCC wealth funds investing **$8.08 billion** in India between 2021 and 2022 alone, surpassing the total of $5.01 billion invested in the preceding seven years, i.e., 2014 - 2020.

Figure 1: Total Investments Made by GCC Sovereign Wealth Funds in India

Period	Total Amount of Funding	Total Number of Deals
2014-2020	$5.01 Billion	14
2021-2022	$8.08 Billion	13
Total (2014-2022)	**$13.09 Billion**	**27**

Source: YourStory Research

The total investment by SWFs through the FPI in India has shown consistent exponential growth in the past years, rising from INR 1.62 trillion in FY 2018 to **INR 3.65 trillion** as of August 2023. Notably enough, the ADIA recorded a massive **400% increase** in its investments to INR 28 billion (as of June 2023). Another noteworthy detail is that Gulf SWFs are investing their capital into these specific sectors that align with India's long-term economic objectives, which essentially also possess the capacity to reshape the profile of the Indian equity landscape completely:

- **Digital Infrastructure and Technology:** In 2020, PIF invested about $1.5 billion in Jio Platforms, basically the digital wing of Reliance Industries, to capitalise on India's growing digital economy that was at its nascent stage then. Similarly, in 2022, Qatar Investment Authority (QIA) invested around the same sum, ie, $1.5 billion, in the "Bodhi Tree", which is an investment platform that usually deals in media and consumer technology in India. ADIA had also acquired a 1.16% stake in Jio Platforms.

- **Retail and Consumer:** Recently, QIA purchased 1% stake in Reliance Retail Ventures Limited (RRVL) for INR 82.8 billion, which is, in a way, a symbol of its confidence in India's growing consumption economy that will surely bring it profits.
- **Green Energy and Infrastructure:** Gulf-based SWFs are also one of the leading investors in the global renewable energy sector. Particularly, ADIA, along with BlackRock, ie, a renowned investment company, invested about $525 million in Tata Power Renewables in 2022. This supports India's green energy targets and specifically the 2030 net-zero goals. We can also say that SWF participation in green infrastructure is crucial for filling in our infrastructural gaps that hinder our development.
- **Healthcare and Financial Services:** Mubadala, ie, a Gulf-based investment Company, plans to significantly increase its investments in the Indian healthcare and financial services sectors. For example, Mubadala has recently invested in India's Manipal Health Enterprises. Similarly, ADIA also has stakes in IIFL Home Finance and Aditya Birla Health Insurance.

The following graph shows the sectoral growth of the Technology and Healthcare Industries along with the SWF investments in India. We can see that there is a positive relation between them. It also shows the returns and value creation from the investment of SWF capital, coupled with many other factors as well.

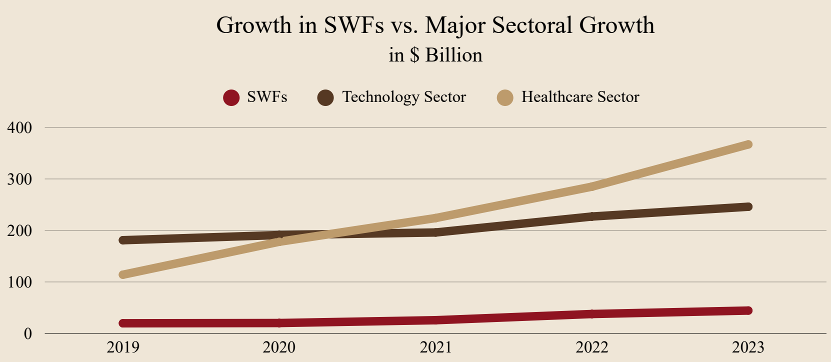


Figure 1: Total Investments Made by GCC Sovereign Wealth Funds in India

FY (Ending March 31)	2018	2019	2020	2021	2022	2023 (Aug)
AUC (₹ lakh cr)	1.62	1.66	2.11	3.1	3.08	3.65

Source: NSDL

The continuous growth in AUC, even after the pandemic hit years, shows the stability and long-term confidence of SWF investors in Indian markets.

IV. Possible Impacts on India

The inflow of GCC SWF capital essentially has a multifaceted impact on India, which we will discuss in detail here. Firstly, it can reshape the structure of Indian equities through three broadly classified critical mechanisms:

A. Stabilising Market

GCC SWFs, unlike many other Foreign Institutional Investors (FIIs) who usually prioritize short-term liquidity and profits, go for true long-term shareholding due to their lack of explicit liabilities and strategic planning. This capital, in a way, can be termed "patient," as they are done with very long investment horizons in mind, functioning somewhat like Singapore's GIC, which targets 20-year horizons.

Thus, this capital also contributes to stabilizing Indian equities. When such large sums are invested, particularly in private equity(PE) and infrastructure, it mitigates risk for other private investors and supports multi-year development projects necessary for economic growth, fulfilling one of our main objectives. This reduces market volatility, essentially altering the risk profile of Indian infrastructure and development stocks.

B. Targeted Development

The investment patterns show a clear intent to support structural growth, targeting the pillars of India's future economy. While global SWF deals during the pandemic period favored technology and infrastructure, the post-pandemic period, ie, Jan 2022-Mar 2023, saw a substantial increase in the inflow of capital in sectors like Industries, Real Estate, Financials, and Healthcare. This suggests that Gulf capital is increasingly being invested in core services that are crucial for India's economic growth, rather than just cyclical gains.

By focusing on healthcare (eg, Manipal Health), renewable energy (eg, Tata Power Renewables), and financial services (eg, IIFL Home Finance), Gulf SWFs are in a way putting confidence in sectors crucial for India's long-term sustainability and social needs

C. Regulatory Support and De-risking

Essentially, the high volume of investment is not solely driven by market opportunity but is significantly supported by the eased regulatory environment developed by India specifically to attract these sovereign funds. India's strategic provision of **tax exemptions** and the "low-risk" **Category I FPI status** act as powerful tools, acting somewhat like a magnet, reducing the regulatory friction associated with cross-border investments from state-owned entities. This regulatory change shows a clear governmental preference and stability for these investors. It ensures Gulf SWFs can deploy capital quickly and easily without hassles. For example, the establishment of dedicated funds in tax-neutral hubs like GIFT City (ADIA's $4-5 billion fund).

Though these are the possible implications of this change on Indian equities, it can also have other repercussions. India's strategy of giving preferential treatment to SWFs can possibly invite several risks, mainly due to the low-risk classification and lack of extensive scrutiny. India offers these funds a 100% income tax exemption on specific gains and further goes on to catagorise them as Category 1 investors. This can create a "carte blanche", i.e., unconditional benefits due to lack of caution, and considering a massive capital inflow as such, that is in hundreds of billions, it definitely becomes concerning as well. This can also pose reliance and sovereignty risks that we should be mindful of, as, at the end of the day, these SWFs are ultimately held by the governments of these Middle Eastern states. They sit at an intersection of finance and politics, thus, there is a possibility that these large investments may be driven by strategic or political objectives rather than purely commercial returns, potentially leading to political leverage risks or increased foreign control in our most crucial sectors, like infrastructure or technology. Also, the lack of transparency around SWFs means that rapid withdrawal of funding, or exit risks, could pose financial destabilization risks in Indian markets.

Something very similar took place in the 1980s in the United States. At that time, Japanese capital, mainly private firms and institutional investors backed by a huge current account surplus, bought high-profile U.S. real estate, equities, and corporate stakes, gaining ownership of these assets without changing U.S. control over economic policy. This generated political anxiety in the U.S. about "selling the country,".This showcases how foreign capital can alter who owns productive and symbolic assets, even when legal control and regulation remain domestic. Now, unlike then, Japan, where capital outflows were mostly private, Gulf SWFs are explicitly owned by the state, which means their holdings can give them access to board-level confidential information about our critical sectors like energy, data infrastructure, etc.

Thus, there needs to be a system of proper checks and balances to avoid these contingencies.

V. Conclusion

Gulf Sovereign Wealth Funds are not passive but active players in India's equity market. Their investments, totaling billions of dollars (including $35-$40 billion in the past decade alone, according to CNBC), are concentrated strategically in high-impact sectors like green energy, digital infrastructure, and core services, providing the patient, large-scale capital required for long-term national development.

The GCC's diversification strategy and India's robust, politically stable, and reform-driven economy together are essentially the recipe for a powerful investment corridor. As India continues its journey towards becoming a $5 trillion economy by 2027, and a developed economy by 2047, and with Gulf SWFs continuously directed towards India for innovation and supply chain controls, we can say it's a mutualist relationship. And, the influence of Gulf investments in Indian equities is only expected to grow further due to this. But at the same time, we must also take steps cautiously to prevent over-dependency on state-owned funds in order to sustain our sovereignty.

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