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# Promoting UAE Investments into India: The Role of the Indian Embassy

TALMIZ AHMAD
*Ambassador to Saudi Arabia (Riyadh)*
*Ambassador to Oman (2003-04) and UAE (2007-10)*

The oil boom of the 1970s fundamentally transformed the economic, social and cultural environment of the six countries of the Gulf Cooperation Council (GCC) – Saudi Arabia, Kuwait, Bahrain, Qatar, UAE and Oman. At one stroke, these counties, that till then had a mere subsistence existence, now acquired the financial resources to significantly upgrade their infrastructure, put in place a welfare system for their nationals and enable their hydrocarbon and petrochemical sectors to attain world standards. In short, from mere suppliers of cheap oil to fuel the economic growth of the West, these oil producing countries were now able to ensure that substantial oil revenues were ploughed back into their own economies.

Now, nearly 40 years later, the impact of these oil revenues is obvious: the extensive desert wastes of the Arabian Peninsula are dotted with glittering modern cities supported by infrastructure of international standard and a welfare system that would be the envy of the most affluent countries in the world. Multi-billion dollar projects in the refinery and petrochemical sectors, as also in the non-oil sectors, have ensured that these countries are not just exporting crude oil but are also obtaining value-added benefits.

The present value of oil and gas reserves of the GCC is estimated at US$18.3tr, larger than the 2008 gross domestic product (GDP) of the US. Till recently, most of the surplus resources generated in the GCC countries were maintained in Western banks and financial institutions. From time to time, the international media used to carry reports of spectacular purchases of luxury hotels and prestigious properties by these 'Arab' funds.

Now the Gulf situation is once again poised for another dramatic change. A few years ago, the price of oil had been extremely volatile. It went up from US$40 per barrel in 2004 to US$75 in 2006; it crossed US$100 in February 2008, and by the middle of the year it had touched US$140 per barrel. However, soon after that, it was affected by the global economic downturn and, in early 2009 it reached a bottom of US$30 per barrel; after that it started moving upwards and for most of 2009 it stabilised at US$75 per barrel.

The last six years have generated oil revenues that have no precedent in global economic history: it is estimated that as a result of these price increases, before the economic downturn there was an *additional* transfer of US$3tr to oil producers, the largest wealth transfer on record. The GCC states earned US$364bn from oil in 2007 and were projected to earn close to US$1.36tr in oil revenue in 2008 and 2009 (US$636bn in 2008 and US$657bn in 2009). The combined oil income of the GCC countries is expected to reach US$1tr annually by 2030 at current oil prices.

During the period of high oil prices, there was unprecedented activity in regard to purchases of economic assets globally by the 'sovereign wealth funds' of the Gulf countries. Foreign assets purchased by the GCC over six years till 2006, were valued at US$400bn. High profile deals that made news about once or twice a year earlier were then taking place on a weekly basis, so much so that in some quarters alarm bells rang about non-transparent character of these funds and the possible 'strategic' character of the investments being made by the governments of the Gulf countries. The total foreign assets of the GCC countries were estimated at US$2tr in 2008, up 11 percent to from US$1.8tr in 2007, on the back of record oil revenues and economic growth.

The global economic downturn, which commenced in the West from September 2008 onwards, had reverberations across the world, including the UAE. The most dramatic impact was felt in Dubai which was then in the process of developing a world class infrastructure to realise its aspirations to become a global financial centre and a world-standard services provider. A large number of high profile projects have been put on hold, with a good number of professionals and blue-collar workers losing their jobs. The impact in Abu Dhabi was less drastic and, very quickly, the stabilisation of oil prices at US$70-75 per barrel ensured healthy revenues which funded its high profile infrastructure, energy and cultural projects.

There is every expectation in the Gulf that the green shoots of economic recovery will emerge from early 2011, and even Dubai will come out of the present crisis by 2012 and reassert its claims as a global financial centre.

## India's Economic Growth

Alongside these changes in the Gulf, the Indian economy too has witnessed some dramatic transformations over the last few years. After a steady low-key growth of about four percent per annum till the early 1990s, India, from the late 1990s, started generating growth rates of about nine percent per annum, primarily due to high growth in the services sector. Indeed, certain sectors of the Indian economy saw growth rates of over 10-12 percent. The Indian economy was also affected by the global downturn, but recovery was swift and growth rates of over six percent were recorded amidst global gloom. Higher growth rates of well over eight percent have been obtained in 2010.

Today, the Indian government is committed to maintaining growth rates of 8-10 percent every year till 2032 through liberalised policies pursued in tandem with robust governmental intervention in support of the weaker strata of the population. Such an approach is seen as the only way to pull millions of people out of the poverty trap, and, year upon year, expand the middle class base so that the Indian potential is fully harnessed and India is able to play its rightful role in the regional and world affairs.

In order to ensure that the projected growth targets are realised, the government has identified two principal areas where significant development is required and ambitious targets have to be met: energy security and infrastructure development. Both of these sectors require substantial investments from abroad. Thus, promotion of investments into India is critical to ensuring the growth rates to which India is committed so that its economic, social and political ambitions are realised.

In regard to energy security, it is clear that to sustain high growth rates year upon year, India will see a massive increase in its energy consumption, with 80-85 percent of its oil requirements being met from foreign sources, even as every effort is made (through import of technology and participation of foreign companies) to develop the domestic potential.

Specifically, Indian's energy security is critically dependent on the development of its power sector: the Planning Commission has proposed that the power capacity of the country, at present estimated at 160,000 MW, should increase 7-8 times by 2032. This will be achieved through a robust effort at national, regional and global levels that will include setting up of multi-billion dollar power projects at home, development of clean coal technologies, new oil and gas exploration and development activity onshore and offshore, and, above all, pursuit of major transnational projects, such as gas pipelines, power transmission lines and long-term LNG contracts that will provide India with the fuel required for its power sector.

With regard to infrastructure requirements, the Planning Commission of India has set out a fairly detailed wish-list. It is envisaged that investment of over US$500bn is required over the next five years for India's infrastructure development, covering railways, roadways, port development, airports, etc. More than half of these investments will have to be met from external sources.

It is in this context that the Indian Embassy in Abu Dhabi identified the UAE, with its large investible surplus of over US$1tr, as a major partner in sustaining India's growth rates through investments in the Indian economy, particularly in the energy and infrastructure sectors. At this time, the UAE too, is looking at diversifying its investment eastwards to the principal countries of Asia, such as India, China, Malaysia and Indonesia. In line with this approach, a number of major UAE corporations in the construction, infrastructure and industrial sectors are already active in India and other Asian countries.

## Role of the Indian Embassy

The UAE has a large number of financial institutions and corporations that are in a position to invest in India. Principal among these are: the Abu Dhabi Investment Authority (ADIA), the Abu Dhabi Investment Council (ADIC), the International

Petroleum Investment Company (IPIC), and a host of other private investment bodies. ADIA, with assets of over half a trillion dollars, is the world's largest institutional investor, while IPIC focuses on hydrocarbon and petrochemical projects.

Having invested US$60bn in Asia during the period 2002-2006, the Gulf countries have already signaled their intention to diversify their investments and move towards Asia. About 11 percent of FDI from the Gulf has gone to Asia so far. However, it is expected that by 2020 it could nearly double to 20 percent, while the share of West Asian capital flowing to the West would fall to about 50 percent of the total, from the current share of about 75 percent. ADIA aims to have 8-12 percent of its estimated US$500bn-plus fund invested in the emerging market stocks, with Asia a key destination.

Investments in India can take place in two ways: (i) direct investments in projects through equity participation; and (ii) investment in 'funds', usually mutual funds, that will in turn invest in a broad range of economic activity. The UAE has organisations that are capable of meeting both these requirements, though, as of now, they would prefer to invest in funds.

The Embassy's approach with regard to investment promotion consisted of the following steps. The first step has been to expand the Embassy's knowledge-base in regard to Emirati institutions, financial and corporate, that could be approached with specific proposals. This includes acquiring knowledge of the structure of the organisation and identification of principal senior executives, with their contact details (telephone and e-mail), and their specific areas of interest.

The second step has been the establishment of personal contact with these Emirati organisations at different levels: this is particularly important because business activity in the Gulf is primarily based on personal contact rather than through impersonal correspondence. These personal interactions are utilised to convey India's principal achievements, important success stories and the main areas of interest for future investment.

The Embassy has also befriended organisations and individuals who are investment advisers: since multi-million dollar investments are involved, such advisers play an important role in guiding the Indian company seeking investment with regard to strengths (and weaknesses) of its proposal, how the proposal could be improved, and above all, the organisations and individuals who are likely to be interested in the proposal. The latter is particularly important because the UAE has a large number of 'high net-worth' individuals who are active in the investments field but prefer anonymity for themselves and depend on investment advisers to take care of their investment portfolios.

After this, Indian organisations have been encouraged to visit the UAE with specific proposals either in the shape of projects or funds. Before the visit, a brief note on the proposal is circulated by the Embassy to the organisations identified and appointments are made for the visiting Indian teams.

After the Indian team comes to the UAE, it is provided a detailed briefing by the Ambassador on the economic and investment scenario and informed about the organisations/ individuals that it would be meeting.

It is our experience that UAE organisations prefer to deal with specific proposals which they can evaluate to decide whether they are interested in supporting them or not. The Indian side is told very clearly that it should not expect deals to be finalised after one meeting: since these are major investment proposals going into several hundred millions of dollars, the investing organisations do need time to conduct their own due diligence in respect of the proposal itself as also the parties backing it.

We also emphasise to Indian companies that in their interactions with the Emirati side they should be open and transparent and not indulge in unnecessary hype in respect of their proposals. Since the UAE due diligence is quite intense, transparency in all aspects of the proposal is particularly important. They should also recognise that a large number of organisations from across the world are seeking to interact with these Emirati companies and there is fierce competition for the attention of the senior executives concerned. Hence, the more detailed the proposal and more transparent the approach, the greater is the likelihood of success. It should also be kept in mind that many of these Emirati organisations are relative new-comers when it comes to investing in India and other parts of Asia and, hence, they may have a certain knowledge-gap and an initial caution that would need to be effectively addressed.

In order to complete the investment picture, it is important to note its 'political' dimension. Multi-million dollar investments by companies of one country into projects in another country have an obvious strategic value in that they bind the countries together on long-term basis, giving each side a direct vested interest in the success and prosperity of the other. The strategic value of such investments is further enhanced when they are made in sectors of national importance, such as energy and infrastructure, since they commit the investing country to the long-term national interest of the recipient country. A multiplicity of such investments constitutes the sinews of a 'strategic partnership' which qualitatively transforms the bilateral relationship.

This strategic aspect of bilateral investments has to be kept in mind and, indeed, supported by the Embassy. Multi-million dollar investments do require high-level governmental approval and support, and it is important that the political value of the investment is understood and appreciated at the political level of the country's leadership. This requires that the Ambassador engage closely with ministers and senior officials in the economic ministries and the Foreign Office of his country of accreditation.

Again, the importance of Ministerial-level engagements cannot be over-emphasised. Our various economic ministers and the External Affairs Minister must regularly engage with their counterparts in order to affirm their mutual commitment to the nascent 'strategic partnership'. Such Ministerial engagements should, from time to time, be buttressed by interaction at head-of-state or head-of-government level.

## Three Case Studies

Over the last two years, the Embassy has been actively involved in supporting certain specific investment proposals. Three of these are discussed briefly in the following paragraphs as case studies.

The Embassy was approached by a major Indian company which was seeking UAE investment in two multi-billion dollar energy-related projects, a power and a refinery project. The first visit of the officials of the Indian company was exploratory in character. The Embassy arranged appointments for this team over three days in Abu Dhabi and Dubai. The organisations visited by the Indian team were of two types:

- possible investors; and
- investment advisors who conveyed to the Indian team a sense of the prevailing market, evaluated the proposals and also suggested names of certain firms (besides those recommended by the Embassy) which would be interested in two projects.

As a result of this first interaction, the Indian company obtained a fairly good knowledge of the investment scenario in the UAE and was able to review its own proposals to enhance their attractiveness to the UAE side. This prepared the ground for a follow-up visit by the company's representatives to meet some of the parties which had shown special interest as also to engage with certain new parties which had come to the Embassy's attention since the last visit.

The second proposal supported by the Embassy was setting up of a mutual fund proposing to invest in commercial real estate. The organisations that this team met were principally investment organisations, though some corporations in the construction area also showed interest. The team met investment advisers as well, who guided the team on how the proposal could be improved to meet UAE expectations.

The third case study is noted here primarily on account of its novelty; this was a proposal to set up an 'India Art Fund' by a prominent Indian art house. The value of the proposed art fund is fairly modest, just US$250mn, but it was intriguing to the investors whom the team met since it is the first of its kind. The Embassy arranged a number of meetings for the promoters of the fund both in Abu Dhabi and Dubai. These first encounters were a learning experience for both sides: the Indian side educated itself about the investment scenario in the UAE, while the UAE organisations learnt about the functioning of such a fund and, above all, the returns it would generate. We found that, after some early skepticism and caution, the idea of participating in a fund that would open doors not only to a rich culture but also to rich returns was found quite exciting! It would be a rare financier, indeed, who would not be excited by the prospect of participating in the development of an art house, a museum, a film centre and the funding of films and other art-related initiatives.

Besides supporting the teams pursuing specific proposals, the Embassy has ensured that the 'strategic' aspect of the India-UAE connection has not lost sight of. This has been achieved through the visits to the UAE of the Indian Commerce and Industry Minister and the External Affairs Minister. In their interactions with the senior UAE leadership, the Indian ministers had a substantial exchange of views on political and economic issues; both sides identified ways to expand dialogue and understanding and affirmed the commitment of the two countries to give concrete shaping to a 'strategic partnership'.

From the UAE side, besides the visit of Foreign Minister Shaikh Abdullah bin Zayed Al Nahyan, the Embassy facilitated the visit of delegations from two premier Emirati financial institutions directly concerned with investments, i.e. the Dubai International Financial Centre (DIFC) and the ADIA.

Both DIFC and ADIA delegations had extensive interaction with India's financial and business leaders. The ADIA delegation also had high-level dialogue with senior leaders such as Montek Singh Ahluwalia, Deputy Chairman, Planning Commission of India; Jyotiraditya Scindia, Minister of State for Commerce & Industry; Sam Pitroda, Adviser to the Prime Minister on Public Information, Infrastructure and Innovation; and, Sachin Pilot, Minister of State for Communication & Information Technology. The visit of the ADIA delegation is particularly significant since, in early 2009, ADIA invested over US$1bn in the Indian equity market, raising its total investment in India to nearly US$4bn, a move that is recognised as a powerful vote of confidence in India's economy and its medium and long-term prospects.

While the scope for UAE investment in India is very large, the general concern that investing organisations have with regard to the dearth of good investment opportunities in general should not be ignored. The principal interest of investment institutions is in productivity, risk mitigation and returns rather than in prestige. Given the highly competitive environment, it is very important to ensure that the confidence of investment organisations is retained when the project is being implemented. While investment organisations know that problems could emerge from time to time in executing projects and sustaining partnerships, they would be very deeply concerned if a number of investment projects were to go awry on account of local difficulties that had either not been anticipated or which the investors had not been told about earlier. Sustaining long-term relationships with investors is a responsibility that cannot be taken for granted since even a few high profile failures can harm the image of a country as an investment destination.

The active and focussed promotion of investment by the UAE in sectors that are critical for India's economic development is a new and exciting challenge for the Embassy, particularly because we see ourselves as role players in directly contributing to the national interest of our country and promoting a long-term, multi-faceted and mutually beneficial 'strategic partnership' with a country that is very important to India.