

## GCC-India synergies going tech

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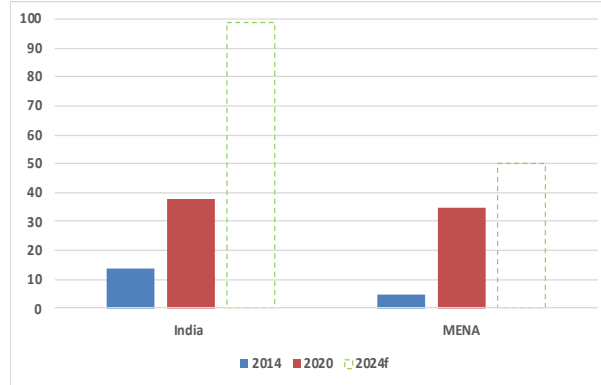
- Opportunities for bilateral growth between India and the MENA region are constantly evolving. We are witnessing growing interest in Indian technology start-ups from GCC investors, a development which will see increased Indian economic activity in the region.
- The UAE is set to capitalise on India's regional potential. Alongside growth-friendly reforms, Dubai Expo 2020 should help further enhance its competitiveness and attract Indian start-ups.
- As diversification becomes a key priority, GCC sovereign investments in India's private sector are set to surge, with tech-related sectors among the key recipients.

## Old friends, new visions

India is emerging as an attractive investment partner for the MENA region, particularly as it rapidly advances its digital and technology sectors. These advances, when combined with India's large market size and low overhead costs, are expected to encourage the GCC to capitalise on new investment opportunities, supporting diversification.

- India, like the rest of the world, has seen its digital economic activity skyrocket on the back of the COVID-19 pandemic. Yet despite its digital economy having grown impressively since even before the pandemic took hold, there is still room for growth.
  - As of 2020, India's digital economy had a market value of USD 85B and is estimated to reach USD 800B by 2030. In addition, both the FinTech and B2C e-commerce markets are exhibiting signs of growing dominance.
  - For instance, over the last six years, the average annual growth rate of capital inflow in FinTech start-ups reached 45% with a value of around USD 31B.
- With internet penetration forecast to reach 45% of the Indian population over the next four years (around 900M users, a 30% YoY growth from current levels), we expect e-commerce to gain a stronger footing in the coming quarters.
  - This is an important development for MENA countries, particularly those in the GCC, as they seek to sell goods and services online. This is because the MENA region has also enjoyed exponential growth in its e-commerce penetration.
  - The e-commerce sector throughout the MENA region was already expanding before the pandemic. Revenue in 2019 was at USD 27B, before surging significantly to USD 48.6B in 2020.
    - Saudi Arabia and the UAE are particularly important players. The total value of e-commerce YTD reached USD 17B, USD 5.5B of which was generated in Saudi Arabia, and USD 4.5B in the UAE.
- Given that opportunities are increasing in the digital field in both India and the MENA region, we expect this upward trend to continue. More importantly, we anticipate that this movement will accelerate knowledge exchange.
  - In April, India's giant online shopping store, Flipkart, acquired the Dubai-based online travel company, Cleartrip. This comes as India initiates plans to extend its digital services and customer base

Figure 1 - E-commerce Market Size (USD, B)<sup>1</sup>



throughout the MENA region. Although the details of the deal were not disclosed, its value is reported to be approximately USD 40M.

- Growing interest from the MENA region with regard to India's technology market can be traced to an increase in FDI in recent years.
  - In FY 2020/21, India recorded its highest total FDI inflows at USD 82B, constituting a 10% YoY increase.
  - Of the total FDI inflows in 2020, the MENA region accounted for 13%, with the UAE and Saudi Arabia dominating total inflows.
    - Nearly 25% of total inflows accounted for computer software and technology sectors.
- Saudi Arabia is a driving force behind the increase in FDI inflows to India.
  - The kingdom invested around USD 2.8B in 2020, a significant surge from the USD 90M in 2019. We expect more to come, especially as the USD 100B investment pledged in 2019 by Saudi Arabia's Crown Prince Mohammed bin Salman begins to unfold.
- Meanwhile, the UAE continues to lead the regional field, with its FDI outflow to India reaching USD 4B in 2020. India's services sector, inclusive of digital-based services, received the largest contribution, benefiting around 16% of total FDI inflow from the UAE.
- Going forward, bilateral cooperation in terms of higher FDI inflows is set to deepen, especially with the revival of the Free Trade Agreement (FTA) between India and the GCC, which has been stalled since 2008.

**India has recently received considerable attention from GCC sovereign wealth funds (SWFs). Now more than ever, we expect an acceleration in sovereign investments to satisfy diversification visions, to mitigate the risks of uncertainty and to expand on international investment portfolios.**

- Of the USD 5.5T assets held by global SWFs today, around 40% (USD 2.2B) is estimated to come from the Gulf. This signals how GCC SWFs are emerging as key players among global investors.
  - Around 68% of the GCC SWF direct investments are in developed economies, mostly US and European securities. With the remaining proportion, GCC SWFs focus on emerging markets, in line with other global funds, to capture higher yields.
- India is growing as a common long-term investment destination across the GCC, with sovereign investments mostly focused in financial services, energy and infrastructure.
  - The country received around USD 14.8B in FDI inflows from SWFs, accounting for around 5.5% of its total FDI inflows in 2020.

<sup>1</sup> Arabia Monitor; Zawya.

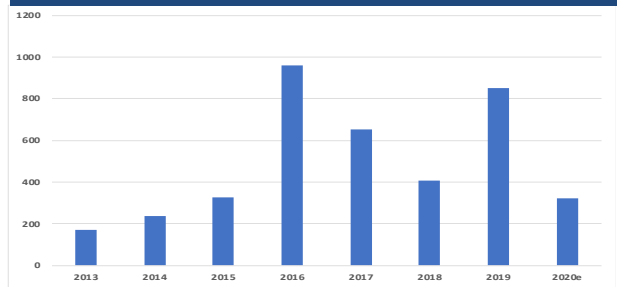
- The Abu Dhabi Investment Authority (ADIA), Saudi Arabia's Public Investment Fund (PIF), the Qatar Investment Authority (QIA) and the Kuwait Investment Authority (KIA) accounted for over 50% of the total amount.
- The PIF invested a total of USD 2.8B in 2020, about 19% of India's total FDI inflows from SWFs. In addition, 13% of total SWF inflows to India were driven by ADIA and the Mubadala Investment Company, with USD 0.75B and USD 1.2B invested, respectively.

### Start-ups igniting fresh economic ties

Indian entrepreneurs are also building on existing trade relations with the GCC, resulting in a significant increase in the presence of Indian start-ups. Given historical trade ties, we expect the UAE to take the lead in this synergy going forward, particularly with Expo 2020 Dubai set to open doors for more innovative investments.

- Indian start-ups raised a total of USD 12B in H1 2021, surpassing last year's figure of USD 11B. In recent years, MENA investors in particular have been eyeing investments in these start-ups. While this pattern is not new, it is growing rapidly.
  - Investments can be traced back to 2014 when the Bahrain Economic Development Board opened offices in both New Delhi and Mumbai to attract Indian FinTech firms to Bahrain FinTech Bay.
  - Similarly, India's National Association of Software and Service Companies signed a partnership agreement in 2018 with the innovation and technology hub Dubai Internet City to encourage Indian start-ups throughout the emirate.
  - The following year, Saudi Arabia's Ministry of Investment signed 11 MoUs to attract Indian start-ups to the kingdom.
- More recently in February, LAFFAZ, an Indian entrepreneurship platform, launched an 'Indo-MENA Corridor' to link tech start-ups with possible financiers and advisors in both regions through a bidding process, as well as virtual events for knowledge sharing.
  - The results are already visible; several Indian start-ups including BigBasket, Ola and Zomato gained investments from the MENA-based VC firms, including Investcorp, the Mubadala Investment Company and Vy.
- To date, seven Indian unicorns valued at more than USD 14B have entered the GCC market. While we are witnessing higher levels of engagement from Saudi Arabia and Qatar, the UAE continues to dominate in terms of collaborative expansion and multidirectional investments.
  - For example, Oyo Rooms, an Indian hospitality chain, entered the UAE market in 2019 with the aim of offering 12K rooms in 150 hotels across the Emirates.
    - Additionally, Oyo has signed an MoU with the Saudi Arabian General Investment Authority to invest USD 1B in the kingdom's growing hospitality industry.
  - In 2019, the Qatar Investment Authority invested USD 150M in BYJU, an Indian educational technology start-up, to encourage its expansion into international markets. More recently in June 2021, Abu Dhabi Developmental Holding Company (ADQ) invested in BYJU's latest USD 350M funding round.
  - Last year, the Mubadala Investment Company, the Abu Dhabi Investment Authority and Saudi Arabia's Public Investment Fund invested USD 3.4B in Reliance Jio, an

Figure 2 - UAE FDI Outflows to India (USD, M)<sup>2</sup>



Indian telecommunications company and a key player in the country's digital economy.

- UAE-based VC firms have also been growing their investments beyond Indian unicorns, focusing on high-growth potential Indian start-ups valued at less than USD 1B. This, in addition to both the UAE and India working to become regional technology hubs, suggests vast opportunities lie ahead.
  - In 2018, the MoU signed between the UAE's Ministry for Artificial Intelligence and Invest India is estimated to generate up to USD 20B in investments by 2028.
  - During the same year, VentureSouq, a GCC-based VC firm, invested USD 40M in India's Zoomcar, a self-drive car rental company. The investment underscores growing alliances in tech-related developments.
  - A Dubai-based family fund, Diverse Middle East FZE, participated in the latest funding round in 2019 for the New Delhi-based health technology company MedTrail, which raised USD 854K.
  - In 2019, Capital Investment LLC, a unit of Abu Dhabi Capital Group (ADCG), invested USD 10M in an Indian online grocery start-up, FreshToHome.
    - Last year, the Indian start-up raised a further USD 121M in its latest funding round piloted by the Investment Corporation of Dubai, among other investors.
    - These partnerships aim to expand the UAE's domestic agricultural production capacity to reduce its dependency on food imports, while opening fresh opportunities for investments with Indian agriculture technology companies.
- A further encouraging initiative involves a partnership between Dubai Startup Hub, Startup India and Mumbai Fintech Hub, which launched the Dubai Tech Tour in 2020.
  - The Dubai Tech Tour will involve 15 Indian fintech and health technology start-ups joining a virtual trade mission with potential UAE investors to explore and enhance the UAE-India investment partnership, particularly in new and innovative sectors.
  - These partnerships are already bearing fruit, with India-based fintech firms scaling up their presence in the UAE.
    - In 2020, M2P Solutions, an Indian fintech start-up, announced that it will establish its Abu Dhabi office as its regional headquarters.
- With Expo 2020 Dubai set to open in three months' time, we expect the investment relationship between the UAE and India to yield further promising returns.
  - Throughout Expo 2020, the USD 68M Indian Pavilion is set to showcase India's 5Ts: talent, trade, tradition, tourism and technology.
- Importantly, the roll-out of several growth-friendly reforms in 2020, along with the elimination of a law that requires a majority Emirati ownership, should boost FDI inflows from India going forward.

<sup>2</sup> Arabia Monitor; UNCTAD.

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