

# SOVEREIGN FUND DIPLOMACY TO SUPPORT THE GLOBAL ECONOMY

**RDIF’S MAIN PARTNERS IN RUSSIAN PROJECTS ARE THE SOVEREIGN WEALTH FUNDS. UNTIL RECENTLY, THESE FINANCIAL GIANTS INVESTED VERY CONSERVATIVELY — THEIR SWITCH TO MORE ACTIVE STRATEGIES MARKS THE SHIFT FOR THE WHOLE GLOBAL ECONOMY.** IGOR PETUKHOV

Sovereign funds—state organizations created to manage surplus profits from mineral resources or other savings—have begun to play an increasingly significant role in the world as they turn from the passive management of their assets to shaping global investment and foreign policy trends.

Successful experiences in several countries show that sovereign funds are an efficient tool for driving qualitative change in a country's own economy as well as reaching the state's strategic goals on the global stage.

Anyone who has ever been to the United Arab Emirates can see an example of surplus oil profits being put to intelligent use to transform the country into a transport and logistics hub, a modern finance center and an attractive place to live for wealthy individuals from around the world.

Nevertheless, only a few years ago, most sovereign funds preferred conservative strategies, directing state finances to low-risk, low-profit assets like bonds from developed countries or shares in major established companies listed on the leading international stock markets.

The aim for this type of asset management was to preserve financial resources for future generations. It The funds were often used to acquire foreign assets for diversification, since the managers believed that domestic investments were prone to the same risks as commodities that form the bulk of exports.

Today, the key trends in sovereign fund practice are active asset management, the growth of direct investment, creation of global alliances for cooperative investment and coordination of state support programs for priority industries.

At the same time, sovereign funds control enormous assets, and, according to an estimate by consultants PWC, the volume of these assets will reach USD 15 trillion by 2020—16% of global GDP for this year. Experts expect the growth of sovereign fund assets to continue.

The major part of the USD 40 billion of foreign capital raised by RDIF for joint funds investing in the Russian economy has come from international sovereign funds.

With their size advantage, sovereign funds remain the largest investors in infrastructure construction and the driving force behind very large cross-border projects like the Chinese "One belt and one road" initiative. This initiative involves the extension of modern transportation infrastructure between Europe and Asia and is expected to drastically change the nature of global trade in the near future.

Recently, sovereign funds became prominent players in the venture capital market. They have begun to investigate startups in the search for a new Amazon or Facebook and to invest in technological innovation.

Most sovereign funds have managed to raise their project analysis and selection expertise to a degree sufficient to compete with private funds for the best projects, prepare projects for investment and manage projects with attractive profitability levels. This way, sovereign funds have helped reduce the shortage of high-quality, well-planned investment projects in the world economy.

One of the most remarkable examples of this transformation in recent years is the work of Saudi Arabia's Public Investment Fund (PIF), which, as part of the Vision

2030 program, is playing a major role in the largest economic reforms in the country's history.

The Vision 2030 plan proposed by Mohammad bin Salman, the kingdom's vigorous and beloved crown prince, suggests large-scale industry and high-tech investment in various countries across the world, including Russia. In the next two years, PIF plans to double the volume of assets in its control to USD 400 billion, aiming to become the world's largest and most active fund in terms of investment. The fund's development program includes the increase of Saudi Arabian industrial exports from 16% to 50% of GDP by 2030.

To reach this objective, the fund is financing a number of industrial sectors: petrochemistry, military equipment, the entertainment industry and the construction of NEOM, the "city of the future" planned for an area of 25 square kilometers on the Red Sea coast.

To achieve its goals, the fund has formed international alliances with other global players. For example, PIF funds projects overseen by Softbank, a major Japanese technological investor which plans to build the world's largest solar power station in the kingdom.

In 2015 PIF declared its plans to invest USD 10 billion in the Russian economy via its partnership with Russian Direct Investment Fund (RDIF). The first Saudi investments in Russia were channeled through this partnership. As of today RDIF and PIF have invested and approved investments of USD 1.5 billion for 10 projects, while another 23 projects totaling USD 2.0 billion are under review.

However, the most important outcome since negotiations

started in 2015 between RDIF and PIF was the historical rapprochement of two major oil manufacturers, Russia and Saudi Arabia, whose joint efforts managed to stabilize the world oil market and provide the necessary conditions to reestablish global economic growth.

The agreement generated an additional 2,5 trillion roubles for the Russian budget through oil price growth. It has served as a prominent example of an investment collaboration between two states transforming into global and mutually beneficial long-term agreements that are profitable for countries across the world.

Today the innovative model of co-investment invented by RDIF is being used by countries like France, Turkey and Italy.

Sovereign funds are increasingly developing joint investment strategies and trust their partners to select appropriate projects in their country. As an example, a number of RDIF partners automatically invest in Russian projects if they are approved by the fund. Today the total amount of the co-investment programme has exceeded 3,7 bln.

The programme's participants demonstrate a significant confidence in RDIF's expertise. For example, the sovereign wealth fund of Kuwait in 2015 increased its total participation in the program two-fold and automatic co-investments in every deal four-fold.

Sovereign fund alliances capable of spending billions of dollars on ambitious cross-border projects will be able to reach goals previously insurmountable for entire states or state unions. In the near future, the creation and development of such alliances will be one of the most important trends in global economics. ■

**RDIF CEO KIRILL DMITRIEV AND THE MINISTER OF TRADE AND INVESTMENTS FOR THE KINGDOM OF SAUDI ARABIA, DR. MAJID BIN ABDALLAH AL-QASABI**

